

10 Pricing policies and practices

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Introduction

10.1. In this chapter, we examine the main influences (relevant to our inquiries) on the pricing of each of the four reference brown goods—televisions, VCRs, hi-fi systems and camcorders. We begin, in paragraphs 10.4 to 10.58, by explaining how suppliers' RRPs are determined or established (including any input by retailers), the nature of such RRPs, and any associated supplier practices which may influence the extent to which retailers follow or adhere to such RRPs when setting their own prices. Following this, the pricing policies of retailers (other than mail order companies) and the extent of adherence to RRPs are addressed in paragraphs 10.59 to 10.79, while practices by retailers bringing pressure to bear on suppliers in relation to RRPs are discussed in paragraphs 10.80 to 10.84. Pricing practices of mail order companies and their

suppliers are described in paragraphs 10.85 to 10.104. Discounts granted by suppliers to retailers, which determine retailers' buying prices and gross profit margins, are considered in paragraphs 10.105 to 10.146.

10.2. In paragraphs 10.147 and 10.148 we describe the approach we have taken towards observations by dealers on suppliers' practices in relation to the recommending or suggesting of retail prices. Finally, in paragraphs 10.149 to 10.167, we consider international pricing comparisons and patterns of retailing.

10.3. Material included in other chapters in this report is also relevant to the pricing of reference goods. The main features of the relevant markets, including the nature of consumer demand and structural characteristics in both supply and retailing, are considered in Chapter 7. Our analysis of the relationship between retail prices and RRP for each of the reference goods is dealt with in Chapter 11, and the views of suppliers, retailers and other parties are included in Chapters 13, 14 and 15 respectively.

RRP practices: suppliers and retailers other than mail order companies

10.4. In our inquiries on the four reference brown goods, we sought information on, and examined, various suppliers' practices in relation to both the pricing of their products and their relationships and terms of trade with dealers, most particularly those with retailers. The main focus of our investigations was the suppliers' practice of issuing, or otherwise establishing, RRP or variants thereof (see paragraphs 10.12 to 10.58), together with any associated policies and practices.

10.5. Much of the evidence was provided by suppliers, largely in the form of their responses to a questionnaire which we sent to all the larger suppliers, supplemented by oral evidence at hearings and subsequent correspondence. There may sometimes be differences in pricing policy between brands offered by a particular supplier, especially where these are run as separate subsidiaries; where applicable, we describe any material points. Evidence also came from retailers; in some cases, as already indicated, the information reflected observations by retailers about suppliers' behaviour (see Appendix 10.15).

10.6. When considering each of the main practices, we have (a) concentrated mainly on the top four to six suppliers and brands (in each of the four markets, the top four suppliers account for more than 45 per cent of sales in the UK, and more than 65 per cent in the case of hi-fi systems and camcorders-see Tables 7.2 to 7.5); and (b) considered the evidence on all four reference goods taken together. However, reflecting the fact that four separate references were made to us we explain where necessary any relevant features which are peculiar to a particular market (for example, Canon supplies camcorders only, and Kenwood supplies hi-fi systems only). Also, though more generally, we explain the extent to which other, smaller suppliers and brands follow similar policies to those of the major suppliers and brands.

10.7. The evidence from multiple retailers is derived from responses to a questionnaire that we sent to all retailers of any of the four reference brown goods (and the four reference white goods which are the subject of our concurrent inquiries) that had five or more retail outlets,¹ oral evidence given by 12 of the larger retailers of the reference brown goods, and written submissions from several retailers.

10.8. In analysing the responses to the multiple retailers' questionnaire (supplemented by the sources referred to above) we have generally weighted them by the responding retailers' sales of the relevant reference goods for 1995. These weighted results (see Table 10.1 for an example) for each of the four goods are based on complete replies received to our questionnaire as follows:

- (a) 29 complete replies from multiple retailers of televisions, covering about 3,660 outlets and 55 per cent of total sales² by value of televisions in 1995;³

¹The questionnaire was sent to multiple retailers of any of the reference brown goods as well as to five mail order companies. We estimate (on the basis of numbers of outlets for those multiple retailers which did not provide any data on their sales) that the response rate for multiple retailers weighted by sales in 1995 was around 90 per cent for each of the reference brown goods.

²Based on total sales figures (including VAT) for the UK provided by retailers and GfK. (However, sales figures for one retailer exclude Northern Ireland.)

³Figures for one retailer are based on sales in the year ending 30 June 1995.

- (b) 28 complete replies from multiple retailers of VCRs, covering about 3,640 outlets and 52 per cent of total sales by value of VCRs in 1995;¹
- (c) 29 complete replies from multiple retailers of hi-fi systems, covering about 3,560 outlets and 61 per cent of total sales by value of hi-fi systems in 1995;¹ and
- (d) 27 complete replies from multiple retailers of camcorders, covering about 3,150 outlets and 64 per cent of total sales by value of camcorders in 1995.¹

10.9. As part of our examination of the responses to the questionnaire, we summarized the replies to particular questions by ascribing for each of the multiple retailers 'Yes' or 'No' to a small number of key questions (see Appendix 10.1). In order to ensure that respondents agreed with our interpretation, we put back to each large retailer which responded (as part of the issues letters-see Appendix 6.1, Annex A) its reply to the key questions.

10.10. The responses to our multiple retailers questionnaire and the answers to key questions have been analysed separately for televisions, VCRs, hi-fi systems and camcorders. However, the results of these analyses have been presented together where they are the same for two or more of the reference goods.

10.11. The evidence from small retailers is largely derived from the analysis of the survey of small retailers (see Appendix 9.1), and fact-finding visits we made to small businesses (ie those with four outlets or fewer).

The practice by suppliers of setting RRP

10.12. The practice of establishing or otherwise issuing RRP for each individual model is widespread in each of the four markets. Virtually all suppliers and brands set RRP in one form or another, including leading brands such as Sony, JVC, Panasonic and Toshiba (see paragraph 10.14), as well as secondary brands such as Alba/Bush and Amstrad. Aiwa, the largest supplier of hi-fi-systems (see Table 7.4), also recommended retail prices for much of the period of our inquiries, but explained to us, in a letter dated 10 April 1997, that 'With effect from 1st April 1997, Aiwa (UK) Ltd ceased use of RRP on all products. We have published a trade price only and the retail price is set by the retailer and distributors. This is expected to be a permanent change.'

10.13. According to the evidence we received, RRP appear to serve two broad functions in the UK markets for the reference goods. First, suppliers told us that they provide, for both retailers and consumers, a model-specific bench-mark for the level of retail prices. In that context, suppliers argued, RRP provide a basis for evaluating the value for money of different models offering different technical features. Canon also contended that, with regard to camcorders, RRP help to correct consumers' sometimes erroneous perceptions of product prices. Second, RRP generally act as a basis for determining the discounts granted by suppliers to retailers, which themselves determine retailers' buying prices and gross margins (to the extent that the retailer sells at RRP). That is, such discounts, margins and buying prices are virtually always established in a 'top-down' fashion, working back from the RRP, as we explain in more detail in paragraphs 10.105 to 10.120. Most suppliers (excluding Sanyo) issue lists of trade prices, but these do not accurately reflect (and in fact overstate) retailers' net buying prices. In practice, individual retailers receive extra discounts off the RRP and often get other allowances (see paragraphs 10.115 to 10.117). Trade prices as such, therefore, are not generally used by suppliers-apart from Panasonic and Philips, we were told-directly to determine retailers' net buying prices for the majority of the sales/purchases involved.

10.14. Extracts from price lists (prices for non-reference goods have been deleted) which specify RRP and which were issued to retailers and dealers by four of the largest suppliers-Sony, JVC, Panasonic and Toshiba-for February/March 1995 (which was the period covered by our pricing analysis-see Chapter 11) are at Appendix 10.2. Sony issues trade price lists to retailers stating both trade prices and RRP. However, it also provides retail price lists (available from retailers and Sony) for use by consumers stating only the RRP (see Appendix 10.3). Both are issued twice a year, usually in September and April. Sony also sends a quarterly 'update' to retailers giving information about changes to RRP (including promotional reductions), the company, and its latest product ranges (an example is shown in Appendix 10.4(A)).

10.15. Similarly, JVC promulgates trade price lists twice yearly and promotional 'updates' every month (see Appendices 10.2(B) and 10.4(B) respectively). Both of these give details of changes to RRPs, including promotional reductions (accompanied by 'sales out' allowances to retailers-see paragraphs 10.20 and 10.22), and information about new models. In addition, JVC told us that it occasionally issues personalized product catalogues (which give RRPs) to individual dealers as advertising material to be inserted into local newspapers, in order to help small retailers compete against the larger retailers. At Christmas time, JVC told us, it is not unusual for it to print millions of copies of such catalogues (it referred to 8 million), all of which are identical (including RRPs) save for the name of the retailer; about 80 to 100 of its retailers were covered. Likewise, Panasonic produces price lists every three months which give trade prices and RRPs for its model ranges (an example is at Appendix 10.2(C)), and it also periodically provides promotional material to retailers which includes RRPs.

10.16. A further example among the larger suppliers is Toshiba, which issues price lists every month stating its RRPs and trade prices (see Appendix 10.2(D)), and also promotional bulletins (or 'updates') giving details of changes to RRPs, promotional offers and 'sales-out' allowances (see Appendix 10.4(C)). Other smaller brands and suppliers appear to operate in much the same way. In addition, CIH and the local groups that act as suppliers (see paragraph 8.96) pass on to the retailers they supply the RRPs notified to them by their suppliers. We were told by CIH that when its suppliers did not notify an RRP, it would decide on one itself and issue it to retailers. CIH said that it directly notified its retailers of RRPs and did not transmit that information through local groups. CIH also told us that it organized national campaigns for some of the goods it bought on behalf of the retailer members of its local groups. These campaigns gave prominence to the RRPs, but CIH said that retailers were free to charge other prices and that some did so.

10.17. These price lists (save for the Sony list and the JVC catalogues mentioned in paragraphs 10.14 and 10.15 respectively) are generally for the use of retailers and other dealers, and are not normally available to consumers, either from retailers or suppliers. Some of the larger suppliers (for example, Sony, JVC and Panasonic) told us that it is common for consumers to contact them requesting information on the level of RRPs for particular models. As an example, Panasonic said that it had received 983 pre-sales enquiries in March 1996, of which just over one-half included price enquiries; about 20 per cent of these enquiries were solely about RRPs. We note that in the 1995 Sony consumer survey mentioned earlier (see paragraph 7.17), when asked 'How did you initially find out about models and prices before purchasing?', less than 1 per cent of respondents said that they had contacted the manufacturer directly. Sony also drew our attention to the survey finding that 34 per cent of respondents said that they would consider contacting the manufacturer to find out about its products and RRPs, though 64 per cent said that they would not consider doing so. In addition, Sony emphasized the finding that when asked 'Is it useful to have a bench-mark price recommended by the manufacturer?', some 88 per cent of respondents said 'Yes'. We note that respondents to the Sony survey may not have been fully aware of the extent to which suppliers set temporary 'promotional' prices-see paragraphs 10.19 to 10.26.

10.18. Suppliers often use different terms to describe their RRPs, for example 'SRP' (suggested retail price) or 'MRP' (manufacturer's recommended price). We use the term RRP to mean the retail selling price effectively recommended or suggested by suppliers at any given time. Most suppliers from time to time state promotional RRPs, and virtually all of them set separate MORPs, which we consider in more detail in paragraphs 10.85 to 10.104. RRPs are intended, we were told, to be the supplier's recommendation of what it sees as an appropriate or 'realistic' market price. Suppliers often issue promotional price lists monthly; examples for Sony (issued periodically rather than monthly), JVC and Toshiba are at Appendix 10.4.

10.19. Suppliers told us that the RRP may be reduced on a permanent basis during the life of the product in order to reposition the product within the relevant price range, and thereby increase its price competitiveness (see Chapter 11 for examples). More commonly, however, a reduced RRP is likely to be a supplier 'promotional' price or temporary (often for a month or so) special offer price aimed at promoting sales or to clear stocks of a slow-moving or obsolescent model. In most instances, RRPs and supplier-initiated promotional prices are promulgated by means of price lists (see above), but sometimes retailers are informed separately, for example by the suppliers' sales representatives. When suppliers reduce RRPs (for whatever reason), retailers' net buying prices are also usually lowered more or less pro rata, with the effect that retailers' percentage gross margins are maintained (see paragraph 10.134).

10.20. Suppliers' temporary special offer prices are commonly known and referred to, by both suppliers and retailers, as 'sales-out' promotions. In these promotions, suppliers undertake to give to retailers a rebate of a given sum (usually paid retrospectively on future invoices, though JVC told us that it issues credit notes to retailers) for each unit sold within a given period (often a month or so). In most cases, suppliers simultaneously reduce the RRP by an amount which leaves the retailer's percentage gross margin more or less unchanged. In some supplier-initiated promotions, the retailers may be offered a similar rebate to finance other forms of promotional activity (for example, extra interest-free credit); indeed suppliers sometimes stipulate that the rebate should be used in this way. Chapter 11 includes specific examples of 'sales-out' promotions relating to the Toshiba 2939DB television (see paragraph 11.65) and the JVC GR-AX60 EK camcorder (see paragraph 11.133). In both cases, the RRP was reduced by the supplier and retailers were given a 'sales-out' allowance on each unit sold.

10.21. There are various means by which such promotions are promulgated to retailers. The Toshiba February 1995 promotional bulletin (see Appendix 10.4(C)) shows one approach, with examples of 'sales-out' promotions of televisions, and one case of a promotion of a television/VCR package. In the bulletin, the retailer is told of the specific models of television included in the promotion, both the normal and reduced RRP ('reflected RRP'), the time period (February) and the amount of the 'sales-out' allowance (ie the rebate to the retailer). Toshiba told us that the provision of other information is not necessary because retailers are fully familiar with such promotions and with Toshiba's rebate procedures. By way of example, the RRP for the Toshiba 2535DB television is shown as having been reduced by £100 (to £599.99) in this promotion. The retailer's 'sales-out' allowance was £60, which would allow the retailer to maintain its percentage gross margin when selling this model at the reduced RRP. In the case of the television/VCR package, the retailer is merely informed of the RRP for the two products together, and the combined trade price, both presumably below the sum of the relevant prices when the goods are sold separately.

10.22. An alternative procedure is illustrated by Sony and JVC promotional material. The JVC promotional update for February 1995 (see Appendix 10.4(B)) shows two examples of 'sales-out' promotions, one of a television and the other of a VCR. This material informs the retailer of the specific models included in the promotion, the reduction in the RRP, and the time period; retailers are also told that they are required to claim a rebate on each unit sold on a 'sales-out' basis (using a JVC claim form, an example of which is in Appendix 10.5(A)). The amount of the rebate is not mentioned. JVC told us that it was not necessary to specify the rebate because its retailers were fully familiar with such promotions, and with JVC's reimbursement procedures, and also because the rebate varied from dealer to dealer-since the amount was calculated to maintain each dealer's percentage gross margin. By way of example, the RRP for the AV-25S4EK television is shown in this promotion as being reduced by £30 (to £499.99); the retailer is advised to claim for rebate on a 'sales-out' basis, but the rebate is not specified. In practice, the retailer would be entitled to a rebate from JVC of about £18 on each unit sold during the promotion period, which would allow the retailer to maintain its percentage gross margin when selling at the reduced RRP.

10.23. The Sony promotional update (in Appendix 10.4A) shows examples of 'sales-out' promotions (which Sony calls dealer cash-backs) applying to each of the four reference goods in the period 26 December 1995 to 24 February 1996. The update informs the retailer of the specific models included in the promotion, the reduction in RRP, and the time period; retailers are also advised that they are required to claim a rebate on each unit sold (using a Sony claim form which specifies the amount of the rebate, an example of which is shown in Appendix 10.5(B)). By way of example, the RRP for the CCDTR330 camcorder in this promotion is shown as being reduced by £50 (to £549.99). The retailer's claims for rebate had to be received by 3 March 1996. The retailer was entitled to a rebate from Sony of £30 on each unit sold during the promotion period, which allowed the retailer to maintain its percentage gross margin when selling at the reduced RRP. We note that the update also provides details of sales incentives-SPIVS (see paragraph 8.113)-on offer from Sony during the period.

10.24. Increasingly rather less common are consumer cash-back promotion schemes. Under these promotions, the RRP at the retail point of sale is not reduced directly, but purchasers are given a form which, if completed and returned to the supplier concerned, enables the buyer to claim back a given cash sum (for example, £25 or £50). In effect, therefore, the RRP is reduced by the amount of the cash-back when the claim form is redeemed, but retailers' point-of-sale prices, net buying prices and gross margins are unaffected. An example (concerning a Sony television) is described in paragraph 11.57. Some suppliers (and also GfK) told us that by no means all such cash-back claim forms are returned or redeemed by consumers (for whatever reason), though the greater the amount of the cash-back (above, say, £30), the higher the proportion of claims

that are likely to be submitted. They also told us that such promotions were increasingly seen as somewhat bureaucratic and costly to administer. In this context we note that Sony's last consumer cash-back offer was in mid-1994. Since then it has been offering 'dealer' cash-backs which other suppliers normally call a 'sales-out' promotion; see the Sony dealer cash-back form at Appendix 10.5(B).

10.25. The above examples illustrate how suppliers often initiate, promulgate and fund temporary price promotions. Many multiple retailers stated that they participated in such supplier-initiated promotions (see also paragraphs 10.75 to 10.77). Moreover, the practical effect of such promotions is that RRP's may in some cases be adjusted, either up or down, several times during the year, with the timing of downward changes often coinciding with retailers' traditional sales periods of January and July (see, for example, the Sony update at Appendix 10.4(A)). In our pricing analysis (see Chapter 11), we examine the price histories of specific models of each of the reference goods which provide examples and evidence of the scale and frequency of changes in RRP's. Sales-out and cash-back promotions are also mentioned, where applicable.

10.26. We consider suppliers' discounts and promotional and other allowances to retailers in paragraphs 10.108 to 10.146. In total, retailers' gross margins are typically around [*] per cent of the RRP, equivalent to a mark-up on purchase costs of about [*] per cent. The evidence from both our analysis of model price histories of each of the reference goods and our detailed examination of suppliers' discounts suggests that retailers' gross margins (as a percentage of RRP) are usually held broadly constant throughout the model life, notwithstanding any adjustments made by suppliers to their RRP's, though the cash value of such margins may change.

Retailers' input to the setting of RRP's by suppliers

10.27. Prior to the setting of the initial RRP for a new model (the RRP determined at product 'launch'), it is common practice for the major suppliers to discuss the appropriate level of the RRP with major retailers (for example, Dixons, Comet and other large multiple retailers) and CIH. One supplier told us that major retailers are in a position to 'play off' one supplier against another and it pays careful attention to its dealers' views. It added that this dialogue leads to 'consumers being offered appropriate models at attractive prices'. Similarly, Panasonic said that it holds a series of bilateral discussions with major retailers in order to assess the likely level of demand for the products (from retailers) and the maximum trade price at which they would be likely to place substantial orders. Most of the other larger suppliers also discuss RRP's with major retailers, though B&O (in relation to televisions, VCRs and hi-fi systems) and Canon (for camcorders only) told us that they did not consult with retailers before or in the process of setting RRP's for new models.

10.28. Sony stated that discussions with retailers typically start about three months before the product launch, but that retailers' views do not, other than exceptionally, influence the RRP. It added, however, that if, at initial presentations to national multiple retailers, provisional orders for a product based on the proposed trade price were not placed, or were lower than expected, then it would take this reaction into account. It might, as a result, decide either to reduce the level of proposed production, or to cut the price (though the latter, it added, would be unusual and only applied to under 1 per cent of its total product range).

10.29. All the principal suppliers told us that they negotiated with major retailers about the levels of net buying prices, ie discounts to retailers and their gross margins, which, as mentioned earlier, are generally determined as percentages of the RRP's. Such negotiations are commonly on an annual basis with a view to agreeing buying prices for the year ahead, any special discounts, and other terms and conditions (including retailers' sales targets). In some instances, the largest suppliers and retailers develop a jointly-agreed 'business plan' for particular models or ranges. Such business plans may set out sales targets, and details of the timing, content and funding arrangements of promotional campaigns (retailers' advertising efforts may be wholly or partly funded by suppliers-see paragraphs 10.75 to 10.77). Some business plans include strategies for handling models which are either exclusive to the retailer, or semi-exclusive (ie where the model is restricted to a few retailers only), or where the product is widely available, but the retailer concerned accounts for a substantial proportion of total sales (ie more than 25 per cent).

10.30. These annual plans are usually reviewed periodically during the year concerned, and possibly modified to reflect changes in market conditions (for example, actual sales being lower than expected).

*Figures omitted. See note on page ii.

Typically, the larger suppliers deal directly, and at a relatively senior management level, with the major retailers and CIH. In addition to meetings and discussions concerned with these annual plans, the larger suppliers and retailers maintain regular bilateral contacts, often on a weekly basis. Smaller retailers, on the other hand, are more often dealt with by suppliers' area sales representatives. These sales representatives are in direct and often personal contact with such retailers, through the regular visits they make to individual stores.

10.31. As previously mentioned (see paragraph 10.19), suppliers sometimes use their sales representatives as one of the means of making known and communicating changes in RRP's, and the corresponding changes to buying prices for retailers, though the extent to which they do so varies between suppliers and brands. About three-quarters of respondents to the survey of small retailers, in respect of each of the four reference goods, told us that they were in monthly contact with suppliers' sales representatives; about 12 per cent said that they had weekly contact (see Table 46, Appendix 9.1).

10.32. In their responses to the multiple retailers questionnaire, the larger retailers told us about regular discussions they had with suppliers. The majority of multiple retailers of each of the four reference goods said that they had discussions with suppliers about the advertising, marketing and promotion of products. For many retailers, these discussions tended to take place regularly, at intervals ranging up to six months, though for others such discussions tended to be informal and their timing more *ad hoc*. Multiple retailers were asked more specifically to explain the nature, frequency and timing of discussions that they hold with suppliers about retail prices they set in their outlets. A summary of the responses, distinguishing between the four reference goods, is set out in Table 10.1.

TABLE 10.1 Multiple retailers' comments about discussions they have with suppliers

	<i>per cent of respondents' sales</i>			
	<i>Televisions</i>	<i>VCRs</i>	<i>Hi-fi systems</i>	<i>Camcorders</i>
Regular discussions on pricing/retail prices form key part of contacts	67	71	71	76
Discussions (prices not mentioned) are held	18	16	19	12
No discussions	2	2	2	1
No reply or unclear response	<u>13</u>	<u>12</u>	<u>9</u>	<u>10</u>
Total*	100	100	100	100

Source: Multiple retailers and GfK (for weighting purposes).

*Percentages may not add to 100 due to rounding.

Pressure by suppliers on retailers' prices

10.33. For each of the reference goods, most suppliers told us (as previously mentioned) that RRP's were used as 'guide prices' by dealers and consumers. They also commonly stated that it was ultimately for retailers to determine the prices at which the goods would be sold to consumers. Some suppliers added that nevertheless they considered it desirable for retailers to sell at the RRP. Mitsubishi stated, for example, that although it did not insist that retailers sold at RRP, it would always encourage them to do so. It added that, were retailers to price Mitsubishi reference goods below RRP's, their prices might conflict with Mitsubishi's national advertising campaigns. Similarly Sanyo stated that it would point out to the retailer that the inevitable consequence of pricing below the RRP was reduced margin for that retailer.

10.34. In its guidelines to sales staff (see Appendix 10.6) Sanyo stated 'To assist Sanyo in identifying market trends you should inform the person to whom you report of any retailer who discounts Sanyo products so that proper consideration can be given to the issue by management'. It also said that display, demonstration and after-sales service were an integral part of its offering to consumers, and Sanyo did not encourage retailers 'to sell its products at such low prices that it encourages consumers to waive these key elements of its offering'. The guidance also stated:

You should try to persuade the retailer that it is not in its, the consumer's, or Sanyo's interest to discount products heavily. ...

It is permissible to point out to the retailer, if necessary in vigorous terms, that Sanyo does not consider it to be a desirable practice.

You can try and persuade the retailer to change its mind. You should bear in mind that it is not permissible to threaten sanctions against a retailer who insists upon discounting.

10.35. Sony commented that 'We seek through these discussions with retailers to influence them to set their displayed and advertised prices at or near the RRP but we do not generally discuss retailers' transaction prices'. And JVC told us that, during the course of some 10,000 meetings a year between its sales representatives and dealers—each lasting about an hour on average—at times its sales representatives might put pressure on retailers to sell at the RRP to a degree which might 'over step the line of what they are supposed to do'. It also noted, however, that complaints by dealers about its sales representatives on this point, in our survey of small retailers, were negligible.

10.36. In addition to issuing price lists, some suppliers also provide point-of-sale material to retailers (typically the smaller retailers, in some cases on request), for in-store promotional use, which specifies current RRPs. Panasonic told us that it provided promotional point-of-sale material which often referred to promotional reductions in the RRP or to interest-free credit offers. Sony, JVC, Mitsubishi, Toshiba and Pioneer also told us that they provide point-of-sale material stating RRPs, but some of the other leading suppliers said otherwise. Philips, for example, told us that the point-of-sale material which it provides to retailers does not specify RRPs, but usually provides details either of 'free gift' promotions or of recent reviews in the specialist press.

10.37. Dixons, Comet, some other multiple retailers and department stores, for example JLP, stated that they commonly use their own point-of-sale material rather than that made available by suppliers. They generally added that such material did not refer to RRPs, but instead showed their own retail prices (for example, 'Dixons price' or 'Comet price'). Nonetheless, both Dixons and Comet confirmed that their prices were often the same as suppliers' RRPs (see also the price analysis in Chapter 11).

10.38. Multiple retailers responsible for about three-quarters of respondents' sales of each of the reference goods indicated that they had experience of suppliers monitoring whether the prices at which they sell were below the RRP (see Table 10.2). Replies accounting for 14 per cent or more of respondents' sales of each of the four reference goods suggest that they had no experience of suppliers monitoring selling prices.

TABLE 10.2 Do suppliers monitor whether prices are below RRPs?

	<i>per cent respondents' sales</i>			
	<i>Televisions</i>	<i>VCRs</i>	<i>Hi-fi systems</i>	<i>Camcorders</i>
Yes	75	76	72	78
No	20	19	25	14
No reply or unclear response	6	5	3	8
Total*	100	100	100	100

Source: Multiple retailers and GfK (for weighting purposes).

*Percentages may not add to 100 due to rounding.

10.39. At our request, Sanyo provided us with a particular example of suppliers monitoring retail prices. In a letter to Comet of 22 October 1993 (at Appendix 10.7) Sanyo's Sales Director referred to Sanyo checking Comet's and Clydesdale's prices of a Sanyo television (the CBP 2180) in a number of Comet and Clydesdale branches.

10.40. Most respondents to the survey of small retailers who told us that they had sold reference goods below RRP said that they had not received any comments from suppliers about such discounting (Table 35, Appendix 9.1). Respondents who alleged that suppliers had commented were asked which suppliers and reference goods had been involved, and for an account of what the supplier had said. A summary, indicating the broad categories into which comments fell, appears in Table 36 of the survey analysis at Appendix 9.1. All such responses were followed up (see Appendix 10.15). Cases in which we accepted the retailers' accounts of events are marked with an asterisk.

10.41. We saw a BBC television programme, *Panorama*, broadcast in December 1996. This included an interview between an Area Sales Manager of Pioneer and a small retailer, Sonics Hi-Fi, of Windsor, who purported to be seeking supply of Pioneer televisions and hi-fi systems. (A copy of the transcript of the broadcast programme is at Appendix 10.10.) In the recording, the Area Sales Manager said that discounting would force the retailer's competitors to undercut their prices, and that this would mean lower margins for all. He also said that Pioneer would then lose support from its existing dealer network, that 'discounting really is not the way ahead' ... and that 'it [discounting] causes a lot of hassle and ... we want peace'. The Area Sales Manager said he would 'ask the dealer to control his prices ... most of the dealers have done that'.

10.42. Pioneer said that its Area Sales Manager had not had the authority to make these statements; they were his own views and, as such, the statements constituted hearsay. They were contrary to Pioneer's stated company policy. Pioneer said that in January and February 1997 it had held seminars for its management and sales representatives to reinforce its compliance policy. Updated compliance manuals had been issued, the contents of which had been explained by its lawyers; a question and answer session had followed to ensure that all Pioneer's employees fully understood the importance that Pioneer attached to compliance with the law.

10.43. On 4 April 1997 we received from *The Sunday Times* some tape recordings that had provided the basis for articles in that newspaper on 30 March 1997. Each tape recorded an hour-long discussion between, on the one hand, representatives of each of eight suppliers of one or more of the reference brown goods, and on the other hand journalists purporting to represent a nascent electrical goods retail consortium that was planning to establish initially 15 retail outlets in the UK. At the time, the suppliers' representatives did not know the discussions were being recorded. The journalists *inter alia* sought to establish each supplier's views on the consortium's proposal to sell its goods at prices below RRP. Some of these views were reported in the articles in *The Sunday Times*. (We noted that the electrical retail journal *ERT*, reporting this incident, said 'The Sunday Times has pulled an elaborate hoax ... merely to reveal what retailers know already-most suppliers discourage long-term discounting'.)

10.44. With regard to prices advertised by retailers, none of the suppliers appear currently to prohibit or otherwise restrain retailers from using POA-type advertising. Sony, however, told us that it had done so previously in a case where Sony considered that the advertisement implied that Sony was seeking to prevent the retailer from advertising low prices. It added that such advertising could lead to 'switch selling' (where customers attracted by POA offers on a particular brand or model find that the offer is no longer available, and are then diverted by shop staff to buy other brands or models), which Sony considered to be contrary to consumers' best interests. Indeed, Sony further commented that 'the retailer typically has no intention of making the offer available and POA is simply used to attract customers to the store to purchase other goods'.

10.45. Some of the major suppliers appear actively to discourage retailers from advertising prices of their models at prices below the RRP. For example, Toshiba advised us that it had on occasion contacted retailers offering discounted prices or special offers below the RRP to express its concern about possible reactions by other retailers and any possible resulting loss of business to Toshiba. We were told by Comet that, in December 1993, Sanyo had said that it wanted to see Comet's advertisements for televisions before contributing to the advertising cost (see Appendix 10.15¹) although Sanyo told us that it would object only if the advertisement actually harmed the brand name in some way. Savacentre told us that, in 1993 and again in 1994, Hitachi had spoken to it about its advertising of televisions at promotional prices (see Appendix 10.15²).

10.46. Multiple retailers representing roughly three-quarters of sales each of televisions, VCRs and hi-fi systems and a little more of camcorders indicated that their response was 'No' to the key question 'Have

¹Case A16.

²Case A6.

suppliers stopped or controlled retailers from advertising prices at below RRPs, or tried to do so?' A small number of multiple retailers accounting for under one-fifth of respondents' sales each of televisions, VCRs and hi-fi systems confirmed that their response was 'Yes' to this question; the equivalent figure for camcorders was 14 per cent (see Table 10.3). We analysed further the replies of those multiple retailers who said 'No' with reference to a different question, which related to the extent of adherence to RRPs (see paragraph 10.62). This showed that of those retailers who said 'No', about one-tenth (weighted) for televisions, VCRs and camcorders and one-sixth for hi-fi systems stated that they adhered to RRPs. Similar proportions of retailers of VCRs and camcorders and one-eighth for televisions and hi-fi systems said that they adhered to RRPs when not subject to competition. Around 60 per cent of weighted responses for televisions, VCRs and hi-fi systems and over 70 per cent for camcorders said that they did not adhere to RRPs but that their prices and RRPs often coincided. Some 6 per cent or less for all reference goods indicated that RRPs had some influence on prices. Between 5 and 10 per cent of (weighted) respondents stated that they did not adhere to RRPs.

TABLE 10.3 **Have suppliers stopped or controlled multiple retailers from advertising prices at below RRPs, or tried to do so?**
per cent respondents' sales

	Televisions	VCRs	Hi-fi systems	Camcorders
Yes	19	18	19	14
No	75	76	77	80
No response or unclear	6	6	4	6
Total*	100	100	100	100

Source: Multiple retailers and GfK (for weighting purposes).

*Percentages may not add to 100 due to rounding.

10.47. Sony told us that it did not encourage dealers to use Sony goods as promotional inducements where it considered that to do so might harm its brand image. This comment was made following an observation made to us by Comet that Sony had requested Comet to limit the value of financial inducements on a television to 10 per cent of its value (see Appendix 10.15¹).

10.48. About one-half of respondents to the survey of small retailers said that when their prices were lower than the RRP they did not advertise the fact. Some went on to allege that their suppliers would not like them to do so (ie advertise discounted prices; see Table 32, Appendix 9.1). In one case (relating to all four reference goods) we accepted the retailer's account of events (see cases A9, B4, C8 and D4) at Appendix 10.15. We were told that, on occasion, sales representatives would advise retailers that advertising discounted prices would not be in the retailer's best interests because of likely repercussions from larger competitors. Most respondents making such allegations were unwilling to name the suppliers concerned, for fear of damaging their relationships with the suppliers or causing problems for the local sales representative.

10.49. The majority of multiple retailers of the four reference goods (the answers were much the same for all four) indicated that suppliers had not stopped them providing 'price-matching' guarantees to customers. The remaining responses were unclear. Most respondents to the survey of small retailers who said they advertised the fact that they were willing to bargain or match a price said that suppliers had not objected (Table 33, Appendix 9.1).

10.50. Several of the suppliers, including Philips, Canon and Sanyo, appear to discourage price-cutting of the reference goods that they supply, on the grounds that it may damage their 'brand image'. Canon told us that it would normally withhold any advertising or promotional allowance on evidence of advertising or other practices which in its judgment would affect its reputation. Similarly Sanyo's dealership agreement states that 'You must not sell any Sanyo product as a loss leader or otherwise at such a low price that it is not consistent with the brand and marketing position for Sanyo products'. Sanyo also commented in its guidance to its sales staff on recommending retail prices-see Appendix 10.6-that 'A loss leader is where a retailer sells at such a low price as to attract business for other products and not for the purpose of selling Sanyo products at a profit. It is permissible to refuse to supply loss leaders'. Sanyo further stated that it sells its products under the Sanyo trade mark which 'acts as a badge of recognition and a badge of quality'. Sanyo's guidance to sales staff

¹Case A18.

added that 'Heavy discounting of Sanyo products will tend to confuse consumers as this can impact adversely on the reputation of the Sanyo brand'.

10.51. Most of the larger suppliers also told us that, for each of the reference goods they supply, it was not uncommon for them to receive complaints from retailers about other local retailers who were claimed to be cutting prices to an unreasonable degree, together with requests for action to be taken against such retailers. Such complaints might often be accompanied by requests for margin support (see paragraph 10.134).

10.52. We asked suppliers about how they responded to such complaints and requests from retailers, and more generally how they had reacted to price-cutting; more particularly, whether they had withdrawn supplies, reduced the gross margins available to 'discounters', or withdrawn advertising and promotion support, and what action they took or had taken in recent years. Mitsubishi told us that it regarded the information from complaints as useful in the context of considering the viability and margin requirements of the complaining dealer's business. Similarly, Hitachi stated that it would expect its area sales representatives to respond to complaints about price-cutters by 'talking it through' with both dealers. It would also expect the sales representatives to compensate the complaining retailer 'for the commercial loss suffered by giving him some benefit, eg extra supply, cash, a bottle of wine or a meal', and also to ask the price-cutting retailer to increase his prices. Most suppliers, however, said that they told complainants that they were not legally permitted or able to control the prices set by retailers, and took no further action. They frequently added that they might sometimes contact the price-cutting retailer to check if a pricing 'error' had been made, which might result in a costly loss of gross margin.

10.53. Over one-half of the respondents to the survey of small retailers told us that they had complained to their suppliers if they found that a local competitor had been undercutting them (see Table 41 and supporting text, Appendix 9.1). Some said that they would ask for margin support in such circumstances. In one example, a retailer told us that a new Comet store had opened nearby offering Mitsubishi televisions at a price lower than the price he had paid Mitsubishi for the same models. Mitsubishi had compensated him with an advertising allowance which enabled him to match Comet's price. Mitsubishi told us that, in this instance, Comet had offered a highly competitive promotional offer to support its new opening. Mitsubishi had decided, therefore, to provide additional support to the small retailer. Mitsubishi said that it had applied no pressure on the retailer as to what he did with the extra allowance (see Appendix 10.15¹).

10.54. Nearly all multiple retailers of each of the four reference goods which responded said that they had received discretionary support from suppliers in the form of advertising, staff incentives, margin support or incentives for customers (for example, free gifts). When asked whether the availability of discretionary support was conditional on, or sometimes affected by, the retailer selling at RRP, Comet said 'Yes' and the remaining respondents said 'No' or were unclear.

10.55. Comet provided two examples to back up its reply. The first began with a fax of 21 October 1993 from Sanyo to Comet in relation to a VCR which Comet had advertised in the press at a price reduced by £30 (on production of a voucher) to £399.99, at a time, it appears, of keen price competition on certain Sanyo televisions (and VCRs) between Dixons and Comet. In the fax, Sanyo stated that it was concerned about Comet's action commenting that 'earlier this week we had strongly attempted to convince you that *any* retaliatory "tit-for-tat" action would only serve to continue the problem with Dixons Store Group'. The fax continued 'I must advise that should this activity continue again we will withdraw the £15 IFC [interest-free credit] sales allowance on the CBP 2180 [a television model which had been the subject of discounting by Dixons and Comet] for October/November/December, as previously agreed.' In its reply of the same day, Comet stated that it did not agree with the 'tone or the content' of Sanyo's fax. Sanyo then wrote on 22 October 1993 to Comet; the letter stated, 'I would be most grateful to receive confirmation from you, that these activities will cease as of Monday 28 October, and that we will not get a repeat of this "tit for tat" strategy'. Following a hearing with Sanyo at which we raised this correspondence, Sanyo wrote to us on 24 June 1996 explaining its position. It stated that (a) 'significant price discounting has serious commercial implications for the Sanyo Group ...'; (b) 'retailers expect us, indeed require us, to take prompt and responsive action'; and (c) 'tit for tat action by retailers can easily extend to other Sanyo products thereby adversely affecting Sanyo's perception in the eyes of other approved dealers'. Sanyo said that it had to appear to take a firm stance with large retailers, an approach it would not use with small dealers. Despite the forceful

¹Case A8.

nature of its fax, no action had been taken against Comet. Sanyo added that it was now more aware of the permissible limits of commercial behaviour than it had been in 1993. The full texts of this correspondence are at Appendix 10.7.

10.56. The second example involved a television. In a fax to Comet of 8 December 1993, Sanyo stated that it could not approve advertising without seeing actual copy artwork, including prices. The proposed layout of the solus advertisement submitted to Sanyo by Comet had not mentioned prices. Therefore (the text of the fax implied), Sanyo could not agree to contribute £20,000 towards the advertisement. The observation made to us by Comet, and Sanyo's response, is in paragraph A16 of Appendix 10.15.

10.57. Respondents to the survey of small retailers were asked 'Do your suppliers offer you any incentives, eg increased discounts or margins, if you adhere to their suggested prices?' In respect of each of the reference goods, 94 per cent replied 'No' and 6 per cent said 'Yes'. 'Increased discounts' was the benefit most commonly cited (see Table 25, Appendix 9.1).

10.58. When asked whether suppliers encouraged it to adhere to RRP's, Argos told us that it was 'not so much a question of encouragement as ... the way the market operates, and this is the aspect of orderly marketing'. It added that Argos's primary concern, as a catalogue retailer, was the risk of not getting sufficient stock to satisfy demand if sales were stimulated by significant price reductions. As at October 1995, Argos said that it felt less vulnerable to threats of withdrawal of supply than it had in the past, since it now offered appropriate information via the catalogue, together with a full repair, after-sales and delivery service, if required.

Retailers' pricing policies and adherence to RRP's

10.59. In describing their competitive strategy in retailing the four reference goods, the majority of responding multiple retailers referred to price, stating that their policy was to price their products competitively, to match competitors' prices or to price products lower than their competitors. Dixons, in particular, emphasized the important role that it considered was played by price promises and price-matching in retail competition.

10.60. Virtually all multiple retailers indicated that their pricing strategies for each of the four reference brown goods as well as retail ticket prices were set by relevant head offices. Retailers of televisions and VCRs accounting for about one-fifth of sales by respondents said that ticket prices for a specific model or model variant were always the same throughout stores in the group. The corresponding figure for retailers of hi-fi systems was 27 per cent and for retailers of camcorders 14 per cent. Nearly all remaining respondents said that ticket prices were generally the same throughout their stores; those who elaborated said that ticket prices might vary for short-term promotions, or in response to local competition. Price competition between retailers is evidently affected by the availability of particular brands or models in the various retail outlets. Paragraphs 9.95 to 9.99 suggest that retailers often stock models different from those selected by their competitors.

10.61. We received evidence suggesting that some of the CIH local groups sought to co-ordinate or control the retail prices of their retailer members. As this is a matter which, if true, would fall within the scope of the RTPA, we are precluded by the FTA from taking account of it. We have, however, passed on the evidence we have obtained to the OFT.

***Retailers' adherence to RRP*s**

10.62. Multiple retailers were asked to indicate the extent to which they adhered to RRP

s in setting retail ticket prices. An analysis of the responses to this question is set out in Table 10.4. Multiple retailers representing 28 per cent of television sales by respondents (weighted by value of retail sales in 1995) indicated that prices in their outlets adhered to RRPs. Some multiple retailers (10 per cent of weighted replies) stated that they adhered to RRPs with respect to televisions not subject to discounting by competitors or subject to competition, while 7 per cent of weighted replies indicated that RRPs were used as a guide in setting prices. Dixons (37 per cent) and other multiple retailers (8 per cent) said that they set their retail ticket prices without reference to RRPs although their prices and suppliers' RRPs often coincided. Retailers representing 10 per cent of weighted replies gave responses which were unclear, or indicated that they did not adhere to RRPs in setting retail ticket prices. The parallel figures for VCRs, hi-fi systems and camcorders are set out in Table 10.4.

TABLE 10.4 Multiple retailers' adherence to RRP

s in setting ticket prices for the reference brown goods

	<i>per cent respondents' sales</i>			
	<i>Televisions</i>	<i>VCRs</i>	<i>Hi-fi systems</i>	<i>Camcorders</i>
Adheres to RRPs	28	28	33	20
Adheres to RRPs when not subject to competition	10	8	10	13
Prices not set equal to RRPs but may coincide:				
-Dixons	37*	43*	36*	54*
-Others	8	7	9	5
RRPs have some influence on price	7	6	6	3
RRPs have no influence on price or unclear response	<u>10</u>	<u>8</u>	<u>5</u>	<u>4</u>
Total respondents [†]	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

Source: Multiple retailers and GfK (for weighting purposes).

*This is Dixons' share of respondents' sales; its share of the market for each reference good is presented in Table 7.7.

[†]Percentages may not add to 100 due to rounding.

10.63. Argos told us that, with the exception of end-of-line items and products promoted through vouchers, it sold all primary and most secondary brands at RRP

s. 'Hence', it stated, 'we are not undercut on those lines.' Argos stated it was unlikely that it sold more than 10 per cent of reference goods at less than RRPs. It also said that its pricing survey indicated that high street shops sold or seemed to sell at RRPs.

10.64. Respondents to the survey of small retailers were asked 'Do you take account of RRP

s or suppliers' suggested prices in setting your prices?' (Table 24, Appendix 9.1). Over 90 per cent of respondents selling each of the reference brown goods replied 'Yes'. Less than 10 per cent said 'No'. When asked if they had ever charged prices higher than either RRPs or suppliers' suggested prices, almost 80 per cent said that they had not. About 23 per cent said that they had¹ (see Table 26, Appendix 9.1). To the question 'Do you ever charge prices lower than either RRPs or suppliers' suggested (or promotional) prices?' over 90 per cent of respondents answered 'Yes'. Less than 10 per cent said 'No' (see Table 27, Appendix 9.1). Respondents were not asked how frequently they charged prices either higher or lower than RRPs.

¹The figure varied slightly between retailers of each of the reference goods.

Retail price competition

10.65. Though managers of individual outlets of multiple retailers were generally stated to have little control over ticket prices, nearly all appeared to have discretion to offer discounts to individual customers in certain circumstances. In so far as replies elaborated, the factor most commonly cited (by multiple retailers representing 44 per cent of respondents' sales of televisions: the parallel figure is 40 per cent for VCRs, 44 per cent for hi-fi systems and 30 per cent for camcorders) was the ability to match prices of competitors. Retailers accounting for about 12 per cent of respondent sales each of televisions and VCRs allowed managers some discretion to discount on discontinued, damaged or ex-display items. The corresponding figure for hi-fi systems was 17 per cent and for camcorders 9 per cent. Other circumstances in which discounts could be given (2 per cent or less of respondents' sales of each reference brown good) were sales for cash and for multiple purchases. Virtually all multiple retailers which responded put limits on the discounts which store managers could offer to customers for current, non-display, undamaged items. These discounts usually took the form of a specified percentage of the value of store sales (1 to 2.5 per cent for the multiple retailers which provided data) or of the value of an individual transaction (a limit of up to 5, 10 or 15 per cent for the six multiple retailers which elaborated).

10.66. Some multiple retailers provided data about actual discounts (as a percentage of sales or as a percentage of all transactions). Taking the four reference brown goods together Dixons told us that the value of all discounts amounted to 2.2 per cent of turnover and covered 10 to 20 per cent of transactions. Dixons stated that 'The manager of each individual Dixons store has discretion within an overall budget to offer a discount to an intending customer in order to close a sale. The amount represented by "haggles" is not quantifiable but will be contained within managers' discretionary discounts, which represent about 1 per cent of total sales' (by value). Comet said that 25 per cent of its transactions were at discounted prices and the average value of discounts on these was 9 per cent-implying that discounts again amounted to about 2.2 per cent of turnover. Northern Electric Retail Limited said that discounts were about 1 per cent of its sales by value. Three other RECs provided data about the proportion of transactions on which they gave price discounts-these were NORWEB (10 per cent); Powerhouse (15 per cent); and SHE (3 per cent).

10.67. Dixons, Comet and other retailers sometimes selectively adjust prices either locally (special offers in individual shops) or in particular regions. Voucher promotions may also be undertaken nationally; they typically run for limited periods, for example, bank holiday weekends. The price reduction is sometimes implemented by the customer exchanging vouchers (or coupons) cut out from press advertisements (sometimes they can also be collected on entering the store), for a lump sum reduction from the ticket price. The purpose is often to clear stocks of particular goods or to match competitors' prices. Voucher schemes may be partly or wholly supplier funded. We were told by Dixons that, in comparison with reductions in displayed prices, the use of vouchers reduced pressure on its margins as only those purchasers who presented a voucher would qualify for the reduction.

10.68. Comet told us that throughout most of its stores retail prices were set and amended centrally. Nevertheless, Comet adhered to its price pledge that it would always match or beat the lowest local price for such products, although prices in-store would not be amended on a local basis. Store managers had the authority to match or beat the lowest prices for identical products available in their area. Comet estimated that at any given time its local prices varied from its national and advertised prices in respect of between 5 and 8 per cent of its product range. Comet also told us that it sold most products at the RRP, because to sell at lower prices would leave it with inadequate margins, though its prices would never be identified by reference to RRPs.

10.69. About two-thirds of respondents to the survey of small retailers told us that they met local competition by cutting prices; about one-third said that they did not (see Table 6, Appendix 9.1). Over one-half of all those interviewed told us that they showed both prices on their price tickets when they discounted below RRPs; 36 per cent said that they did not (see Table 28, Appendix 9.1).

10.70. We went on to ask respondents to the survey whether they would go below their ticket prices for customers who wanted to bargain or asked them to match a price, and if so to what extent. Over 90 per cent told us that they would be prepared to bargain or price-match, most commonly by between 6 and 10 per cent (Table 29, Appendix 9.1). Over three-quarters of respondents said that they would quote their own prices over the telephone (see Table 30, Appendix 9.1).

10.71. About one-half of respondents to the survey of small retailers said that they did not advertise the fact when offering prices below the RRP. Just under one-half said that they did advertise price reductions-see Table 32, Appendix 9.1. (The question excluded reductions offered by suppliers.) Most respondents expressed reservations about advertising the fact that they were prepared to match a price or bargain. About 70 per cent said that they would not do so (see Table 33, Appendix 9.1). Many of these told us that to do so would attract time-wasters.

10.72. Multiple retailers were asked how far they took retailing competitors' prices into account when setting their own prices. Comments made by a large majority of respondents suggest that they monitor competitors' prices, though in some cases they stated that they did so in order to control the price promise claims made by customers. Multiple retailers representing about one-half of respondents' sales of televisions, VCRs and hi-fi systems and over 60 per cent of camcorders indicated that competitors' prices were taken into consideration when they were setting prices in their outlets.

10.73. When asked what means they had for responding to changes in competitors' prices, multiple retailers representing almost 90 per cent of respondents' sales indicated that they adjusted their prices; for three-quarters of those the adjustment took place on the day or within a week, whilst for the remainder prices are adjusted monthly. Dixons told us that it was common for 10 to 12 national price changes, and two to three dozen local changes, to be made each week.

10.74. Multiple retailers were asked 'For each reference good, to what extent does your company believe that competing retailers of those goods mostly advertise them at RRPs and also set retail prices at RRPs?' A total of 16 respondents (about 45 per cent) selling each good out of a total of 39 for televisions and 38 each for VCRs, hi-fi systems and camcorders indicated that in their view other retailers advertised at RRPs, priced at RRPs or priced and advertised at RRP. A further seven respondents for televisions and six respondents each for VCRs, hi-fi systems and camcorders said that this behaviour was the practice among a certain category of retailers, for example national retailers or small retailers. Four respondents for each reference good said that other retailers did not price or advertise at RRPs. The remaining respondents were unclear or stated that they were unable to comment.

Supplier-initiated promotions

10.75. Multiple retailers were asked about the extent to which suppliers took part in or provided funding for promotional offers. Multiple retailers which accounted for over 80 per cent of respondents' sales of each of the reference brown goods indicated that suppliers were involved in funding or supporting promotions (see Table 10.5).

TABLE 10.5 **The extent to which suppliers are involved in or provide support funding during promotional offers**

	<i>per cent respondents' sales</i>			
	<i>Televisions</i>	<i>VCRs</i>	<i>Hi-fi systems</i>	<i>Camcorders</i>
Suppliers fund/support promotions/price reductions	80	83	84	85
Suppliers rarely or never involved	9	8	9	5
No reply or unclear response	10	8	9	10
Total*	100	100	100	100

Source: Multiple retailers and GfK (for weighting purposes).

*Percentages may not add to 100 due to rounding.

10.76. We analysed press advertisements by Dixons involving price reductions on three reference brown goods, televisions, VCRs and hi-fi systems (drawing upon information supplied by Dixons) to check on the extent to which these advertisements involved passing on supplier-initiated price cuts. The advertisements, listing price cuts of between £5 and £200 for individual models, often on presentation of a voucher and sometimes accompanied by a gift or interest-free credit, appeared in the *Daily Mirror* of 26 and 27 October 1995 and *The Sun* of 3 November 1995 (see Appendix 10.8). The analysis¹ showed that suppliers had

¹Offers which were exactly the same in two or more advertisements were counted once only.

financed the advertised reductions for roughly one-fifth of the televisions and of the VCRs, nearly one-third of the television/VCR packages and one-half of the hi-fi systems included. In the majority of supplier-financed advertisements these promotions were also available to other retailers. Of the price reductions financed by Dixons, a high proportion (nearly two-fifths of televisions, two-thirds of VCRs, one-fifth of television/VCR packages and one-half of hi-fi systems) concerned Dixons' own-brand, Matsui, or other models exclusive to Dixons. For televisions, over one-quarter of the models advertised were the Grundig brand, which accounts for only a small share of the UK market.

10.77. The suppliers which financed promotions featured in the advertisements described in paragraph 10.76 are set out in Table 10.6; the notes to the table indicate the extent to which such supplier-financed promotions were confined to Dixons. Sony (one model of television, two models of VCRs, two television/VCR packages and one model of hi-fi system) was responsible for financing the largest number of promotions. With the exception of one model of VCR, all of these promotions were available to other retailers. Sony was followed by JVC which financed promotions for three models of hi-fi systems, one of which was retailer-initiated and not available to other retailers.

TABLE 10.6 Suppliers involved in initiating and financing price cuts: Dixons' advertisements in the *Daily Mirror* and *The Sun*, October/November 1995

	Televisions	VCRs	Television/VCR package	Hi-fi systems
Akai	0	1*	0	0
JVC	0	0	0	3†
Panasonic	1	0	1	0
Sharp	0	0	0	1
Sony	1	2†	2	1
Toshiba	2†	0	0	0
Total	4†	3‡	3	5†
Matsui (Dixons' own label)	6	7	2	5
Total models with advertised price cut	18	14	10	10

Source: Dixons-see Appendix 10.8.

*Promotion financed by the supplier but initiated by Dixons.

†Includes one model the promotion of which was financed by the supplier but initiated by Dixons.

‡Includes two models the promotions of which were financed by suppliers but initiated by Dixons.

10.78. Almost one-third of respondents to the survey of small retailers said that they never undertook special promotions (excluding those sponsored by suppliers) (Table 9, Appendix 9.1). Respondents who did engage in promotional activity were asked what form it took (Table 10, Appendix 9.1). Less than one-half said that they gave price reductions. Other incentives included favourable credit terms and free gifts.

10.79. In a letter to the MMC of 12 June 1996, Verdict, a market research company, commented on electrical goods retailing generally. It stated that although price appeared to be the most important factor in marketing in the sector there was nonetheless almost total price uniformity. It said that there was substantial investment in marketing, all of which was geared to promoting a low-cost image. In response to the proposition that ticket prices in electrical stores often meant little because bargaining was widespread, Verdict stated that in its experience (based on feedback from its teams of fieldworkers in stores throughout the country each week) this happened on such a small scale as to be irrelevant. What was more common, it said, was price-matching by retailers in response to a local competitor which might have taken an initiative in cutting the price of a particular item.

Pressure by retailers on suppliers

10.80. Multiple retailers accounting for over 80 per cent each of respondents' sales of televisions, VCRs and hi-fi systems told us that they had contacted their suppliers to notify them, to complain or to ask for margin support when a competitor had charged prices below RRP; the comparable figure for camcorders was 93 per cent. One respondent said that it considered it seriously misleading to amalgamate the answers for separate activities of this sort.

10.81. Commenting on promotional prices offered in its advertisements of the three reference brown goods referred to in paragraph 10.76, Dixons said that where it had initiated and financed the price cuts, either because of poor sales performance or because of competitor activity, this would undoubtedly become a factor in future discussions with suppliers. More particularly, in many instances it would renegotiate future prices with or seek margin support from relevant suppliers to take account of the price reductions previously borne by Dixons. During a visit to Dixons headquarters we had the opportunity of observing Dixons' management deciding on such a course in the face of competitive pressure. (For further discussion of margin support and related issues, see paragraphs 10.134 to 10.146.)

10.82. We have also seen a letter of 10 March 1995 from Dixons' Group Merchandising Director to Mitsubishi's General Sales Manager-Multiples (see Appendix 10.9). In that letter Dixons stated that it wished to draw attention to a local advertising campaign which it was running in response to 'an extraordinary level of local competition' (in the light of Mitsubishi's reply-also at Appendix 10.9-competition from Comet) in four stores. Dixons commented that it was doing no more than matching discounts exactly, but where extended warranty was offered it was extending the discount by 5 per cent in response to a free two-year warranty and 10 per cent in response to a free five-year warranty.

10.83. The letter then went on to say 'You will appreciate that the effect on our profitability, should this activity continue on your products, will be extremely damaging. To this end I would appreciate your advice on how we restore the normal levels of margin to our business, whilst maintaining a competitive proposition on your products.' Mitsubishi, in its reply, stated that Comet's promotion was not financed by Mitsubishi and that 'retail prices charged by or offered by your company or by Comet are beyond Mitsubishi's control'.

10.84. Almost 60 per cent of respondents to the survey of small retailers said that they had complained to their suppliers about competitors' prices (see Table 41, Appendix 9.1); over 20 per cent alleged that local retailers had complained (either directly or to a supplier) about the prices they themselves had charged. (See Table 40, Appendix 9.1.)

RRP practices of mail order companies and their suppliers

10.85. In the course of our inquiries we became aware that prices recommended by suppliers for mail order sales might be different from those provided to high street retailers. Supplementary questionnaires asking for more information were sent therefore to the five main mail order companies (see paragraph 9.64) and to major suppliers. All of these returned a completed questionnaire. Some suppliers also provided examples of contracts and forms sent by mail order companies to them seeking information on specific products. An analysis of the responses to the questionnaires and the material in the agreements and contracts is set out in paragraphs 10.94 to 10.99.

10.86. Questionnaire responses from mail order retailers have been weighted by the value of sales of the relevant reference brown goods in 1995. In that year the five mail order companies accounted for 7.1 per cent of all retail sales of televisions; 10.2 per cent of sales of VCRs; 12.9 per cent of sales of hi-fi systems; and 9.6 per cent of sales of camcorders (see Table 7.7).

10.87. All five mail order companies said that suppliers recommended mail order selling prices for the reference goods and each respondent then listed these suppliers. They ranged from nine reference brown goods suppliers named by Littlewoods and Freemans to 21 reference brown goods suppliers named by Empire. Altogether 28 reference brown goods suppliers were referred to by at least one company. One supplier told us originally that it did not set MORPs but subsequently accepted that it did so. Three others-Canon, Panasonic and Sharp-reported that they did not set MORPs though mail order companies had listed them as doing so. Panasonic stated that it 'provided the same recommended selling price to mail order companies as to any other retailer'. Canon stated that its policy was that no RRP's should be established for mail order customers and that 'this policy' had 'been in force for several years'. It then went on to explain that a member of its staff who had joined Canon from another brown goods supplier in March 1996 had indicated MORPs for camcorders to facilitate bargaining with mail order companies. This was 'a product of the manner in which he negotiated when at [named company]'. Canon added 'he has been instructed not to create notional or hypothetical adjusted RRP's in future bargaining with mail order companies'. Aiwa recommended MORPs throughout most of our inquiries, but ceased to do so with effect from 1 April 1997.

10.88. The mail order companies were asked to provide an estimate of the percentage of their sales made at MORPs and at various points above and below these. The replies (see Table 10.7) indicate that 85 per cent of sales (by value) of televisions by the mail order companies in 1995 were at MORPs, 84 per cent of sales of VCRs, 86 per cent of sales of hi-fi systems and 83 per cent of sales of camcorders. For each of the four reference brown goods, around 2 per cent of sales were at prices above MORPs, 7 to 9 per cent of sales were at prices up to 5 per cent below MORPs and 5 to 7 per cent of sales were at prices 5 to 10 per cent below MORPs.

TABLE 10.7 Sales of reference brown goods at MORPs by mail order companies*

	<i>per cent of respondents' sales</i>			
	<i>Televisions</i>	<i>VCRs</i>	<i>Hi-fi systems</i>	<i>Camcorders</i>
Sales (by value) at prices:				
Above MORPs	2	2	2	2
Equal to MORPs	85	84	86	83
Up to 5% below MORPs	7	8	7	9
5% to 10% below MORPs	6	6	5	7
Total sales†	100	100	100	100

Source: Mail order companies and GfK (for weighting purposes).

*Empire, Freemans, GUS, Grattan and Littlewoods.

†Percentages may not add to 100 due to rounding.

10.89. Though all respondents said that they sometimes sold goods at prices below MORPs, when asked whether they displayed MORPs alongside their own lower price the five mail order companies said that they never did so.

10.90. When asked whether suppliers discussed with them proposed MORPs before deciding what prices to recommend or suggest, two respondents (Grattan and Littlewoods) said that suppliers did while one respondent (GUS) said that suppliers occasionally asked for its buyers' views when introducing a new type of product. Each of these three mail order companies gave a list of suppliers involved, with numbers of suppliers ranging from 9 to 21. Three suppliers of reference brown goods, Aiwa, Mitsubishi and Sanyo, indicated that they discussed 'mail order' suggested or recommended prices with all five mail order companies. (But as we have noted in paragraph 10.87, Aiwa ceased recommending MORPs from 1 April 1997.) Samsung told us that it discussed MORPs with four of the mail order companies (GUS, Freemans, Empire and Littlewoods) and Toshiba said that it discussed MORPs with GUS, Grattan and Freemans.

10.91. Four mail order companies said that suppliers normally communicated MORPs through individual notices; 22 examples of such notices were made available to us. One respondent (Grattan) said that price information was communicated orally and indicated on the quotation.

10.92. Though all respondents stated that models in their catalogues were typically on sale in high street shops, three mail order companies (GUS, Freemans and Littlewoods) said that there were some models which were available only from mail order catalogues and not from the high street. All companies, with the exception of Empire, stated that they carried models in their catalogues which were exclusive to them.

10.93. Respondents were asked what the typical percentage difference was between the price of a model in their catalogue and the advertised high street price for the same model. The replies indicated that catalogue prices can sometimes be as much as 20 per cent higher than their high street equivalents. GUS referred to a range up to 20 per cent higher, Empire 10 to 20 per cent higher, Grattan 10 to 15 per cent higher and Freemans 7 to 8 per cent; Littlewoods put the difference at + 15 per cent. Freemans cited the margin requirements of the business as the reason for the higher catalogue prices, whilst the remaining respondents referred to agents' commission,¹ delivery and installation costs and credit as factors explaining the differences; GUS also mentioned its home approval policy.

¹Agents' commission is typically 10 per cent of the value of purchases-see paragraph 9.63.

Contracts

10.94. We invited suppliers to send us copies of their contracts with mail order retailers. Six suppliers of reference brown goods provided us with 14 examples of contracts or of documents sent out by mail order companies seeking information about products which were being considered for their catalogues.

10.95. Forms sent to suppliers by three of the companies, GUS, Grattan and Empire, ask whether the products under consideration are supplied exclusively to particular channels of distribution; in the case of Empire they also ask about competitors' prices. These questions are described below as well as the extent to which they have been responded to by suppliers.

10.96. In Empire's contract form, Question 18 asks whether the product is exclusive to Empire stores; Question 19 asks which other mail order companies will be selling the item, and Question 20 asks at what price competitors will sell the product. Of the four reference brown goods suppliers which provided examples of Empire's contract, three answered Question 18 while Mitsubishi answered all three.

10.97. Empire told us that the purpose of these questions was to ensure that it did not include false claims about prices in its catalogue. If it wished to say that its prices were lower than those of its competitors, it said that it had to check with suppliers that this was in fact the case, as the long lead times involved in printing catalogues precluded it from waiting until its competitors' prices had been published. Empire said that for some three-quarters of its lines of reference goods, the supplier did not reply to the questions it asked about prices and exclusivity. It argued that as its catalogue prices were not in practice set by reference to what suppliers told it about its competitors' prices, asking for this information was not anti-competitive. Nevertheless, as a 'gesture of goodwill', Empire told us that it would cease to ask suppliers about competitors' prices with effect from 30 September 1997.

10.98. GUS, in its 'Merchandise Corporation Specification Form', asks whether the item is being supplied exclusively to GUS and, if not, to tick either 'mail order', 'wholesale' or 'retail'. One of the three reference brown goods suppliers (Philips) which provided a copy of this form answered all the questions.

10.99. Grattan's merchandise specification form asks manufacturers/producers to enter a recommended selling price (including VAT) where 'this is the only price recommended by you to all your customers'. This question had been completed by Panasonic for a VCR whilst it had been left blank in three other examples which we received from suppliers. Grattan also asks, under the heading 'Production Supply and Maintenance', whether the article is exclusive either to Grattan or to mail order, or is not exclusive. All four suppliers which gave us examples of Grattan's form replied to the question on exclusives stating that the products were not exclusive to mail order.

Catalogue price comparisons

10.100. We compared mail order prices for each of the four reference brown goods. The analysis was based on the autumn and winter 1995/96 catalogues of mail order companies owned by GUS, Grattan, Empire, Littlewoods and Freemans, and referred to models offered by two or more mail order retailers. We examined catalogues entitled *Littlewoods* produced by Littlewoods and *Great Universal* produced by GUS. Though Littlewoods and GUS each produce more than one title, both companies told us that prices were identical in each of their titles. For Freemans the catalogue examined was *Freemans Homes*; for Grattan, *Grattan-Looking Great*; and for Empire, the *Empire* catalogue.

10.101. In the case of televisions the analysis revealed that, of the 153 different models identified, 113 appeared in only one catalogue whilst 40 were sold by two or more of the five companies. When prices of these 40 models were compared, 20 (50 per cent) were the same¹ in all catalogues in which they appeared. Some brands of televisions showed greater degrees of price uniformity than others. All seven Sony models were offered throughout at uniform prices, although Sony stated that similarity of catalogue prices was

¹For the purpose of this exercise a price is described as uniform or 'the same' when the difference between the highest and lowest price for a model in two or more catalogues was 50p or less.

accompanied by a wide range of non-price competition among mail order companies and by price discounts offered, for instance, through 'flyers'. In the case of Toshiba, prices were the same for 8 out of 11 models listed in the catalogues; the parallel numbers for Hitachi were 5 out of 10 models. There was no price uniformity for models which appeared in the catalogues for Sanyo (two appearances), Mitsubishi (two appearances), Sharp (three appearances) and Philips (five appearances). The results for televisions are at Appendix 10.11.

10.102. Of the 62 different models of VCRs identified in the analysis 24 were sold by two or more of the companies, and 38 by one company only. When prices of these 24 models were compared 16 (67 per cent) were priced the same in all the catalogues in which they were listed. Of these 16, four were Toshiba models, three were Hitachi models, and there were two models each by Aiwa and JVC. The remaining five models which featured in the catalogues at uniform prices were supplied by five different companies (Mitsubishi, Orion, Samsung, Sanyo and Akai). The analysis is at Appendix 10.12.

10.103. In all, 147 different models of hi-fi systems were identified in the analysis; 47 of these were sold by two or more mail order companies. For 32 of the 47 models prices were the same in all the catalogues in which they appeared. Some suppliers' models showed a greater degree of price uniformity than others. Aiwa models were the most widely offered, with 13 listings, 10 at uniform prices. For three suppliers (Sanyo, four models; Bush, three models; and Amstrad, one model) there was complete price uniformity throughout. For a further five suppliers there was some price uniformity-Kenwood (four models out of ten), Pioneer (three models out of four), JVC (two models out of four), and Samsung (two models out of three). The results are at Appendix 10.13.

10.104. In the case of camcorders, of the 35 different models identified, 14 were sold by two or more mail order companies and 21 by one company only. When prices of these 14 models were compared, eight (57 per cent) were on offer at a uniform price in all catalogues in which they appeared. The suppliers involved were Hitachi, Samsung and Sanyo (two models); and Canon and Panasonic (one model each). Appendix 10.14 presents the results.

Discounts and gross margins

10.105. As mentioned earlier (see paragraph 10.13), retailers' buying prices in this industry are calculated by working downwards from the RRP. The only exceptions to this among the major suppliers of brown goods of which we are aware are Canon, and Aiwa-see paragraph 10.12-which we presume is now adopting a different approach.

10.106. Suppliers may distinguish between different groups of products, different product ranges and even, occasionally, between different models as to the discounts that will apply. Where a supplier owns more than one brand there will generally be separate discount terms for each brand. Buying terms are usually agreed for a period of one year.

10.107. The manner in which net buying prices of the reference brown goods are typically determined from RRP's and the way in which the principal discounts (which are explained further below) fit into the structure may be schematically represented as follows:

In practice some variations do occur. For instance, Sanyo does not identify or publish standard trade prices or discounts.

Discounts

10.108. Discounts can broadly be divided between those that are fixed (for the period of the agreement), those that are conditional and those that are discretionary. Other things being equal, the greater a retailer's bargaining power the greater the fixed element of discount is likely to be, since a fixed discount is given automatically and generally immediately. Conditional discounts, as the term implies, depend upon certain conditions being met. However, suppliers told us that they viewed the payment of such discounts once earned to be contractually binding, given the agreements they had entered into with retailers. Finally, some discounts may be purely discretionary. We consider below which discounts fit into which category and then describe the discounts given by the major suppliers as well as the relevant rates.

Trade discounts

10.109. Trade discounts are fixed. They are generally calculated as a percentage of RRP (excluding VAT) and often applied at a common rate across different models, ranges of models or products in compiling trade price lists, although not all suppliers may produce such lists.

Dealer discounts

10.110. Dealer discounts (often referred to as off-invoice discounts) are fixed in advance by individual negotiation between suppliers and retailers and are given in the form of a lower invoice price. They are usually expressed as a percentage of trade price. Retailers with higher volumes will tend to receive higher levels of dealer discount. In some cases the rates may be more formally related to expected volumes.

Settlement discounts

10.111. Settlement discounts are conditional and are given as a percentage reduction on the invoice price for prompt settlement of invoice. They are generally calculated by the supplier as a percentage of the invoice price and are shown on the face of the invoice so that the retailer can (if appropriate) pay only the net amount when settling the invoice. Settlement discounts can be stepped (for example, involving two or more deadlines) or they may vary with different types of payment (for example, direct debit).

10.112. Settlement discounts are generally much more generous than would be implied by the cost of borrowing money (indeed in the case of mail order companies it is traditional for them to be as high as 8 or 9 per cent for payment within one month). It is therefore particularly advantageous for retailers to make sure that they meet invoices by the deadlines. Prompt settlements, however, also help suppliers. They are likely to reduce the amount of time and expense devoted to credit control. Furthermore if a retailer fails to pay on time, when it is so clearly to its advantage, it could well be an early indication of cash-flow problems, representing an increased credit risk for the supplier.

Retrospective discounts

10.113. Most suppliers give retrospective volume discounts (also known as 'retros' or 'overrides'). This discount is conditional, depending on the level of sales of all (or selected) products and models from a supplier in a given period. There are usually several predetermined turnover thresholds, including a minimum. The higher thresholds attract a higher discount, which is applied to all sales in the period. The discount is calculated as a percentage of turnover at invoice price, usually over six months or a year, although bonuses might accumulate over a longer period. Payment would be made retrospectively after the end of the relevant period by means of a credit note against current or future purchases.

10.114. Retrospective volume discounts can arguably provide a significant incentive for retailers to promote a particular brand at another's expense. If this were to happen, it would seem most relevant just prior to the year end and when the likelihood of achieving a particular turnover threshold is finely balanced.

10.115. Most suppliers also give retailers a retrospective allowance or discount to reimburse them for expenditure incurred on advertising and promotion activity for the brand in question. Such advertising support could be fixed, conditional (that is, volume-related) or discretionary, depending on the precise terms agreed. However, suppliers may take a fairly close interest in how the advertising support is spent and on the contents of advertisements, if only, we were told, to ensure that intellectual property rights are not infringed. Suppliers may also stipulate that advertising support should be matched (for example, 50:50) by the retailer.

10.116. Suppliers may allow advertising and promotion support to be spent on a wide range of types of promotion, such as interest-free credit, 'buy now, pay later' arrangements, free gifts with purchases and money-off vouchers, or on merchandising (for example, providing display material and promotional literature).

Other discounts

10.117. There are other discounts occurring less frequently which suppliers may give retailers. These are briefly summarized below, together with an indication of where they might commonly be placed in the price structure:

- *Quantity discount*-a fixed discount based on invoice price and given on large orders meeting a specific value or volume criterion, for example a full container load.
- *No return discount*-a fixed discount based on invoice price. In return the retailer agrees not to return (faulty) goods to the supplier. Such a discount is commonly included in contracts with mail order companies which may receive returns of goods from consumers even if they are not faulty.
- *Display discount*-a fixed discount on goods bought by a retailer for display purposes to compensate for their lower eventual sale price (commonly 10 per cent of invoice price).
- *Range-stocking discount*-a fixed discount based on invoice price paid to retailers who agree to stock a specified range of products from one supplier.
- *Bought-out guarantee discount*-a fixed discount which can be given as a percentage of RRP (excluding VAT) or of invoice price. In return the retailer agrees to take on the costs arising from suppliers' guarantees on products sold.
- *Growth/target discount*-a conditional discount (based on invoice price) and dependent on achieving a certain level of growth year on year or a target level of sales. This discount closely resembles the retrospective volume discount (see above).

Discounts given by the major suppliers

10.118. We asked suppliers of the reference brown goods to set out and explain the full structure and range of discounts and allowances offered to their retailers in the UK and the rate or rates involved. Table 10.9 sets out the different discounts given by the major suppliers of the reference brown goods and the approximate range of rates involved.

10.119. It should be emphasized that no conclusions can be drawn from the table as to the overall level of discounts offered to any one retailer. This is because any particular retailer will almost certainly not receive all the discounts shown and certainly not at their maximum value. This is especially true of trade discounts as they sometimes apply only to particular groups of retailers (for example, small retailers or single purchase customers). They are invariably supplemented by negotiated dealer discounts for those retailers which purchase in significant quantities.

10.120. Table 10.9 gives an indication of the different discounts offered by suppliers of the reference brown goods to retailers and their relative importance. In the following paragraphs first we consider comments by multiple retailers on suppliers' discounts and then we consider retailers' average gross margins from RRP's taking into account all discounts.

Comments by multiple retailers on suppliers' discounts

10.121. We asked multiple retailers of the reference brown goods the following question:

To what extent does your company consider the structure of purchase terms, discounts, etc offered by each supplier of each of the reference goods to be fair and reasonable? Are there any such terms which you consider to be:

- (a) not related to the underlying structure of costs;
- (b) discriminatory in favour of any particular group or class of retailers;
- (c) unfairly beneficial to the supplier; or
- (d) anti-competitive in any respect?

TABLE 10.9 Types and rates of discounts given by the major suppliers of the reference brown goods*

		<i>Type of, and base price for, discount</i>											<i>per cent</i>
		<i>Trade discount</i>	<i>Dealer discount</i>	<i>Settlement discount</i>	<i>Retrospective volume discount</i>	<i>Advertising support</i>	<i>Quantity discount</i>	<i>No return discount</i>	<i>Display discount</i>	<i>Range-stocking discount</i>	<i>Bought-out guarantee discount</i>	<i>Growth/target discount</i>	
<i>Reference goods supplied</i>	<i>RRP (excl VAT)</i>	<i>Trade price†</i>	<i>Invoice price</i>	<i>Invoice price</i>	<i>Invoice price</i>	<i>Invoice price</i>	<i>Invoice price</i>	<i>Invoice price</i>	<i>Invoice price</i>	<i>Invoice price</i>	<i>Invoice price</i>	<i>Invoice price</i>	
Sony	All	[
Panasonic	All												
JVC	All												
Toshiba	Televisions and VCRs												
Philips	Not camcorders												
Hitachi	All												
Mitsubishi	Televisions and VCRs												
Thomson	Not hi-fi systems												
Sanyo	All												
Sharp	All												
Aiwa	VCRs and hi-fi systems												
Kenwood	Hi-fi systems												
Canon	Camcorders]	

Figures omitted. See note on page ii.

Source: Brown goods suppliers.

*The discounts in the table should not be cumulated in an attempt to arrive at a total margin (see paragraph 10.119).

†Or RRP (excluding VAT) if there is no trade price.

[*Details omitted.*

See note on

page ii.

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10.122. Most of the retailers which responded stated that they considered their buying terms to be fair and reasonable. Four respondents expressed the view that discounts discriminated in one of the following ways: in favour of high-volume and high-cost retailers; in favour of small retailers; in favour of large retailers; and against retailers which provided an enhanced service to customers.

Gross margins from RRP

10.123. We asked suppliers of the reference brown goods to indicate the average gross margin from RRP (excluding VAT) represented by their net selling price (after all discounts) on their total sales to retailers of each of the reference brown goods for their latest financial year (1994/95). The information obtained is set out in Table 10.10.

TABLE 10.10 **Reference brown goods suppliers: average gross margin from RRP (excluding VAT) on sales to retailers in 1994/95**

	<i>per cent</i>			
	<i>Televisions</i>	<i>VCRs</i>	<i>Hi-fi systems</i>	<i>Camcorders</i>
Sony*	[
Panasonic:	<i>Figures omitted. See note on page ii.</i>			
Panasonic]
Technics	†	†	[‡]	†
JVC	[<i>Figures omitted. See note on page ii.</i>]
Toshiba	[‡]		†	†
Philips	[‡]	†
Hitachi	[<i>Figures omitted. See note on page ii.</i>]
Mitsubishi	[‡]		†	†
Thomson	[‡]		†	[‡]
Sanyo	[<i>Figures omitted. See note on page ii.</i>		
Sharp]
Aiwa	†	[‡]		†
Kenwood	†	†	[‡]	†
Canon	†	†	†	[‡]

Source: Suppliers.

*Sony's figures are based on the first RRP applying in the year regardless of subsequent changes in RRP.

†Reference good not supplied.

10.124. Table 10.10 and the analysis of margins for different channels of trade which follows in Tables 10.11 to 10.14 have been drawn up on the assumption that retailers adhere to RRP. If actual selling prices were generally lower than RRP, then (other things being equal) actual gross margins would correspondingly be lower than those shown in Table 10.10.

10.125. On that assumption, Table 10.10 indicates that average gross margins from RRP (excluding VAT) are concentrated around the [‡] to [‡] per cent range. This would represent a mark-up on the buying price of between [‡] and [‡] per cent.

Gross margins for different channels of trade

10.126. We also asked suppliers of the reference brown goods to indicate the gross margin from RRP (excluding VAT) represented by their net selling price (after all discounts) on their sales of each of their two best-selling models in their latest financial year (1994/95) to various different groups of retailers namely:

- Dixons and Comet;
- other multiples (five or more outlets);
- small retailers (fewer than five outlets);

- department stores; and
- mail order companies.

10.127. The suppliers responded to this question in a variety of ways. In some cases the comparisons related to all sales of the product or group of products concerned rather than to any particular model. This divergence is not considered significant since suppliers tend to have common terms across different products.

10.128. However, two of the major suppliers (Philips and Hitachi) were unable to provide an analysis of retailers close enough to our predefined channels of trade to make any meaningful comparisons. Additionally Philips, Sharp and Kenwood were unable to provide a proper statistical analysis, giving information on individual retailers instead. This could result in misleading comparisons being drawn. For these reasons Hitachi, Kenwood, Philips and Sharp have been omitted from our analysis.

10.129. The outcome of this exercise, for the remaining major suppliers of the reference brown goods, is set out in Tables 10.11 to 10.14. These tables show, by channel of trade, the differential in percentage points from the average gross margin from RRP (excluding VAT) provided in Table 10.10 (ie a positive figure implies a higher than average level of margin, and a negative figure, denoted by brackets, a lower than average level of margin). Unless stated otherwise the figures relate to the best-selling model.

TABLE 10.11 **Best-selling televisions: gross margin from RRP (excluding VAT) in 1994/95 for different types of retailer expressed as the differential in percentage points from the average gross margin from RRP on all television sales of that brand**

	<i>Dixons and Comet</i>	<i>Other multiples</i>	<i>Small retailers</i>	<i>Department stores</i>	<i>Mail order</i>
Sony*	[
Panasonic (all sales)					
JVC					
Toshiba (all sales)					
Mitsubishi (all sales)§					
Thomson					
Sanyo (all sales)]

Figures omitted. See note on page ii.

Source: Suppliers.

*Sony's figures are based on the first RRP applying in the year regardless of subsequent changes in RRP.

[*Details omitted.*
See note on page ii.]
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Details omitted. See note on page ii.

TABLE 10.12 **Best-selling VCRs: gross margin from RRP (excluding VAT) in 1994/95 for different types of retailer expressed as the differential in percentage points from the average gross margin from RRP on all VCR sales of that brand**

	<i>Dixons and Comet</i>	<i>Other multiples</i>	<i>Small retailers</i>	<i>Department stores</i>	<i>Mail order</i>
Sony*	[
Panasonic (all sales)					
JVC					
Toshiba (all sales)					
Mitsubishi (all sales)§					
Thomson					
Sanyo (all sales)					
Aiwa (all sales)]

Figures omitted. See note on page ii.

Source: Suppliers.

*Sony's figures are based on the first RRP applying in the year regardless of subsequent changes in RRP.

[*Details omitted.*
See note on page ii.]
 §

Details omitted. See note on page ii.

TABLE 10.13 **Best-selling hi-fi systems: gross margin from RRP (excluding VAT) in 1994/95 for different types of retailer expressed as the differential in percentage points from the average gross margin from RRP on all hi-fi system sales of that brand**

	<i>Dixons and Comet</i>	<i>Other multiples</i>	<i>Small retailers</i>	<i>Department stores</i>	<i>Mail order</i>
Sony*	[
Panasonic:					
Panasonic (all sales)					
Technics (all sales)					
JVC					
Sanyo (all sales)					
Aiwa (all sales)]

Source: Suppliers.

*Sony's figures are based on the first RRP applying in the year regardless of subsequent changes in RRP.

[*Details omitted. See note on page ii.*]
 [*Details omitted.*
See note on page ii.]

TABLE 10.14 **Best-selling camcorders: gross margin from RRP (excluding VAT) in 1994/95 for different types of retailer expressed as the differential in percentage points from the average gross margin from RRP on all camcorder sales of that brand**

	<i>Dixons and Comet</i>	<i>Other multiples</i>	<i>Small retailers</i>	<i>Department stores</i>	<i>Mail order</i>
Sony*	[
Panasonic (all sales)					
JVC					
Thomson					
Sanyo (all sales)					
Canon (top two models)]

Source: Suppliers.

*Sony's figures are based on the first RRP applying in the year regardless of subsequent changes in RRP.

[*Details omitted.*
See note on page ii.]
 [*Details omitted. See note on page ii.*]

10.130. Tables 10.11 to 10.13 tend to confirm that for televisions, VCRs and hi-fi systems Dixons and Comet generally achieve the best buying terms and small retailers the least favourable. In many cases, however, the divergence between different types of retailer is not especially large. The tables appear to indicate that Sony supplies all the listed trade channels at an above average gross margin, which would seem impossible. Sony told us that this had come about because the price of the best-selling model in each category of reference good had tended to fall over the year by more than average, making the margin on that model by reference to its initial RRP appear to be greater than average.

10.131. With respect to Table 10.14 (relating to camcorders) a number of points should be noted:

- (a) Thomson marketed only two models of camcorder through a limited number of outlets during the year in question. The best-selling model had a somewhat lower gross margin than the other model.
- (b) In the case of Sanyo, in 1994/95 some 60 per cent of its supplies to Dixons were of exclusive models. Sanyo told us that its exclusive models were generally sold by the approved dealer at a total margin at least as high as the basic margin for its standard model line.
- (c) Canon gave us details of its top two best-selling models combined (different models for different channels of trade). One of the models was exclusive to Dixons and (as a result) had a lower than average gross margin. Another model was an end-of-line product which was heavily discounted and sold through Rumbelows (included in other multiples).

Margin maintenance

10.132. As discussed earlier, suppliers may adjust RRPs. The change may be temporary, in order to effect a promotion for a specified period (for example, the summer and winter sales), or to clear stocks of a slow-moving or obsolescent model; or it may be a permanent change to reposition a model which has become uncompetitive. However, since model lives are fairly short (sometimes only one year), it is relatively uncommon for RRPs to be adjusted because a model has become uncompetitive over time. If the RRP were altered, the structure of discounts applying would mean that retailers' gross margins would be broadly maintained in percentage, although not in cash, terms.

10.133. For most of the period of our inquiries, Dixons' standard terms and conditions of purchase from suppliers contained the following clause 1:

In the case of UK orders it is a condition that if the supplier's recommended retail price is reduced within 98 days from the date of delivery, the full monetary difference based on the supplier's new cost price, and using the buying formula agreed in this order, will be immediately credited to Dixons.

However, Dixons told us that it could not recall any instance of clause 1 being invoked. Subsequently we were informed by Dixons that the clause had been deleted from its terms and conditions at the end of June 1996.

Margin support

10.134. Where there is downward pressure on retail prices and margins, but RRPs remain unaltered, retailers may well request margin support from their suppliers. We have defined margin support to mean 'financial assistance given by a supplier to a retailer *at the latter's request* in order to prevent or mitigate the reduction in the retailer's gross margin which a fall in the retail price would otherwise bring about'. In the industry the term margin support is often used more widely so that it also covers what we call margin maintenance which, as discussed above, is initiated by suppliers. Whereas margin maintenance is a widespread feature of the brown goods industry, margin support is less common. We discuss below *ad hoc* and contractual margin support and stock compensation.

Ad hoc margin support

10.135. The opportunity for *ad hoc* margin support typically arises when, as a result of local price competition amongst retailers, a price cut by one (or more) retailers is followed by another retailer. A demand for margin support may then be made by the retailer who has followed the price downwards. The request will generally relate to a specific model, and the supplier has to decide whether to agree to it or not. The request is likely to be supported by the contention that other retailers must have been supplied more cheaply in the first place for them to be able to afford to cut their prices.

10.136. We asked suppliers of the reference brown goods the following question: 'Does your company offer, or agree to provide, any financial assistance (by way of discounts or otherwise) to any retailer to help meet any price competition he faces from competing retailers of the reference brown goods? **If yes**, what is the form and the extent of such assistance, and under what conditions or provisos is it given?' The responses to this question by the major suppliers of the reference brown goods are set out in Table 10.15.

TABLE 10.15 Major reference brown goods suppliers: provision of *ad hoc* margin support

<i>Supplier</i>	<i>How often and in what circumstances is margin support provided?</i>
Sony	Does not provide margin support
Panasonic	Exceptionally where a retailer is competing against another manufacturer's product for a sale to a large volume end user
JVC	Not to a particular retailer to help him meet price competition from another specific retailer
Toshiba	By negotiation
Philips	Not in principle
Hitachi	Sometimes depending on the merits of the case
Mitsubishi	Extremely rarely
Thomson	From time to time
Sanyo	By contractual agreement with three retailers
Sharp	Not specifically
Aiwa	Occasionally small amounts
Kenwood	Question not directly answered
Canon	Not offered

Source: Suppliers.

10.137. Although suppliers generally indicated that they do not regularly engage in *ad hoc* margin support, several retailers informed us that they had made requests for *ad hoc* margin support, which had been satisfied, and we have been told that demands for margin support by retailers are commonplace (although some suppliers said that in the majority of cases they are not successful). Indeed we have ourselves witnessed the management of Dixons deciding to put such demands to suppliers.

Contractual margin support

10.138. Sanyo told us of formal agreements with Dixons, Colorvision and [*] to provide margin support. The agreements with Dixons and Colorvision had been entered into at the retailers' instigation to provide margin support. They provided that, where a competing retailer was heavily promoting Sanyo goods at less than RRP, Sanyo would provide financial assistance to make up the shortfall in price if the disruption continued for stated periods of time. Sanyo told us that to date no payment had been made to either dealer under these agreements.

10.139. Sanyo added that it had offered margin support terms to [*] in order to retain the custom of what it regarded as a leading retailer [*] and key to its business in that region. The agreement was not in writing. In 1995 an amount of £5000 had been paid out in margin support to [*].

10.140. In addition we noted that Dixons' standard trading terms included clause 13 as follows: 'Dixons reserves the right to re-negotiate prices and delivery dates in the event that disorderly market forces are allowed by the supplier to prevail which are to the detriment of Dixons' profitability or sales rate. If this condition is not met, Dixons reserves the right of cancellation.'

10.141. Dixons told us that it traded with suppliers on a partnership basis and that its terms and conditions were no more than a fallback in the rare event of that relationship breaking down. It could not recall clause 13 being invoked. However, Sony provided us with a copy of a letter dated 5 July 1994 to Dixons in which Sony objected to clause 13 in the following terms: 'We are very concerned about this clause [13] as we believe it to be an inference to an anti-competitive practice and we would suggest that this [be] deleted in its entirety.'

10.142. Dixons wrote back refusing to delete the clause. Subsequently Dixons informed us that clause 13 (like clause 1-see paragraph 10.133) had been deleted from its terms and conditions at the end of June 1996. None of the other major suppliers we consulted took the view that clause 13 was in itself material to their relationship with Dixons.

10.143. Nonetheless, it was clear that Dixons did expect suppliers to share the risks arising from retailing electrical goods. In its submission to us Dixons stated that:

*Details omitted. See note on page ii.

If, having made a commitment to stock a product, Dixons finds it cannot achieve the level of sales performance anticipated during negotiations, neither Dixons nor the supplier can afford not to address the issue. Stocks of electrical products have relatively short shelf lives because of the continuous technological development in the sector, and slow moving product can quickly become obsolete and unsaleable.

Instead Dixons will either reduce prices from those originally planned or increase the level of promotional activity. If this action significantly alters the anticipated product profitability, Dixons will seek margin support from the supplier in question. This may be in the form of, for example, credit notes or discounts on future orders. Arrangements for margin support are not necessarily agreed in advance. In the context of an on-going business relationship, this sharing of risks is entirely natural and reasonable.

10.144. Further evidence of Dixons' attitude towards margin support is given in the correspondence between Dixons and Mitsubishi, shown in Appendix 10.9. This is discussed in paragraphs 10.82 and 10.83.

Stock compensation

10.145. We were told that stock compensation was given in order to avoid discouraging dealers from holding stock rather than to protect their margins, involving the provision by suppliers to retailers of financial assistance in order to compensate retailers for the reduced potential value of stocks already held by them where a fall in retail price has occurred or is desired. It might be given in order to compensate retailers where a product's RRP has been reduced by the supplier, or as an incentive to help sell end-of-line or slow-moving stock.

10.146. We asked suppliers of the reference brown goods in what circumstances, if any, they would give a retailer financial help to sell stock at reduced prices. The replies of the major suppliers of the reference brown goods are summarized in Table 10.16.

TABLE 10.16 **Major reference brown goods suppliers: provision of stock compensation**

<i>Supplier</i>	<i>In what circumstances is financial help made available to retailers to sell stock at reduced prices?</i>
Sony	Where a dealer has slow moving or unsaleable stock
Panasonic	If trade prices are lowered to clear stock of old models
JVC	When the RRP is permanently reduced
Toshiba	To encourage retailers to generate sales of particular models
Philips	In respect of old models on an <i>ad hoc</i> basis
Hitachi	To help sell existing stock when new models are promoted
Mitsubishi	May be given where there are large stocks of old models
Thomson (Ferguson)	Ferguson does not operate a stock compensation scheme
Sanyo	Via promotional allowances or cash-back schemes if successfully demanded by retailers following a reduction in a product's RRP
Sharp	At Sharp's discretion if trade prices are reduced
Aiwa	If necessary to help clear old stock on the introduction of new models
Kenwood	Via targeted promotions if models become uncompetitive
Canon	If the trade price of a product line is reduced

Source: Suppliers.

Observations on suppliers' behaviour

10.147. Some of the evidence we received on suppliers' behaviour and dealers' experiences relating to the recommending or suggesting of prices to be charged by dealers has been described earlier in this chapter. We have also referred to observations made by retailers, set out in Appendix 10.15. In all we received 355 observations from dealers and others in respect of one or more of the reference brown goods. We judged that 296 of these lacked sufficient detailed evidence for us to pursue them further, or were not within our terms of reference (see paragraph 6.6).

10.148. Fifty-five of the remaining observations and suppliers' comments on them are at Appendix 10.15. We accepted the dealer's account of events in 16 of these cases; they are denoted by an asterisk against the name of the dealer. In addition, we accepted two observations: one in respect of televisions and hi-fi systems, and another in respect of televisions and VCRs. These cases are described in paragraphs 10.41 and 10.42, and 10.55, respectively. In 18 cases there was a conflict of evidence between the accounts given by the dealer and the supplier which we were unable to resolve. In a further 21 cases we were unable to reach a judgment because the retailer had asked to remain anonymous and the supplier declined to respond without being given more information. These cases together with those in which there was an irreconcilable conflict of evidence remain unmarked in Appendix 10.15 and we have not relied upon them in reaching our conclusions.

International comparisons

10.149. We asked major suppliers and multiple retailers in what ways they thought the patterns of retailing for each of the reference goods in the UK differed from other countries, and whether there were notable differences between the UK market, other comparable EU countries, the USA and Japan. We received little specific information about prices although some suppliers told us that prices for the reference goods were lower in the UK than elsewhere in the EU.

10.150. At an early stage in our inquiries we explored with GfK the data it had available and the feasibility of undertaking international price comparisons for models of the reference goods. It told us that to do so presented considerable difficulties. It referred us to the problems of comparing 'like-for-like' products because of varying standards and technical specifications, differences in consumer preferences, local economic situations, variations in the cost of living from country to country, and differing retail structures. Additionally, EPOS systems in some countries were far less developed than in the UK; data had to be collected using manual systems.

10.151. However, in July 1996 GfK sent us an analysis of certain features of the international electrical goods markets which it had undertaken at the request of Dixons. The analysis included data on the prices of VCRs in eight European countries¹ covering a 52-week period to December 1995. The figures indicated that the prices of VCRs were higher in most of the other countries than in Great Britain. The highest prices shown were in Austria and Belgium. Prices in Italy and Spain were below those in Great Britain.

10.152. GfK did not specify the methods it used to collect the data it used in the analysis. In its report it acknowledged the difficulties outlined in paragraph 10.150 but concluded that 'wherever any comparison can be made, either at product or product group level, other countries maintain, in most cases, a higher price than the UK'.

10.153. Sony provided us with a copy of the GfK Summer Newsletter 1995 which carried an article stating that the average prices for stereo televisions and VCRs were substantially higher in Germany, France and Spain than the UK.

10.154. Sanyo and Philips sent us a report prepared by Lexecon showing price comparisons for 'key' models of televisions, VCRs and hi-fi systems between the UK, France, Germany and Holland. Lexecon compared what it described as '1995, GfK industry average prices, excluding VAT'. Prices were converted to sterling using 1995 average exchange rates. The prices of all the models of VCR were lower in the UK than the other countries, as were almost all the televisions and hi-fi systems. We note that average prices incorporate and reflect differences in product mix among the countries covered (see paragraph 7.55). We found a similar difficulty in our price analysis of UK models (see Chapter 11).

10.155. Panasonic drew our attention to a report by Employment Conditions Abroad Ltd that average prices of televisions in March 1995 in seven EU member states were in some cases as much as 50 per cent higher than in the UK, and those in Japan were almost double. On the other hand, average prices in Greece were a little below those of the UK, and US prices were only about two-thirds of the UK level.

¹Austria, Belgium, Germany, Great Britain, Spain, France, Italy and the Netherlands.

10.156. Philips told us that it was recognized that price levels of the reference brown goods in the UK were, in general, lower than those in other EU countries. In the USA, economies of scale kept the prices below those in the UK. Philips said that 10 per cent of retailers in the USA represented 85 per cent of sales. Any attempts by suppliers to limit distribution or prevent discounting would fail. There was also a trend for dealers to use the Internet to sell within the USA, and even internationally. Hitachi told us that at the discount end of the US market it believed retail margins were low which was reflected in 'a lower value offer to the customer'.

10.157. Mitsubishi said that UK retailers provided a greater variety of promotional offers than retailers in Japan, the USA or European countries. It commented, too, that consumer magazines had a stronger impact on consumer buying decisions in the UK and USA compared with other countries.

10.158. Exchange rate fluctuations and differing indirect taxes add to the problems of international comparisons. GUS and Littlewoods commented on the difficulties of comparing prices in the UK with those in the USA because of the differences from state to state in local taxes. Littlewoods said that local taxes in the USA were not included in the headline prices. And the quality of television pictures in the USA was inferior and consequently televisions were cheaper. GUS said that the design and specification of reference goods sold outside the UK varied greatly, especially in the USA and Japan. Index said that product warranties were typically only 90 days in the USA and the specifications were not as high as in the UK-therefore prices were lower.

10.159. Dixons told us that its experience in the USA had taught it that the characteristics of retailing there were similar to those in the UK. Retail prices were, on the face of it, lower in the USA. But Dixons believed there were complicating factors in comparing US prices with those in the UK. These included:

- (a) sales tax differences (far lower taxes in the USA although they varied from state to state);
- (b) import duties, which in the UK could be up to 14 per cent and in the USA up to 4.9 per cent;
- (c) higher electrical standards in the UK which made products more expensive. In particular the 240-volt system used in the UK needed more heavily insulated components than the 110-volt system adopted in the USA;
- (d) the technical specifications of televisions, VCRs and camcorders were more complex and more expensive to manufacture for the UK-PAL broadcast system as opposed to the NTSC broadcast system in the USA;
- (e) UK products carried 12-month warranties, whereas in the USA a three-month carry-back guarantee¹ was the norm; and
- (f) UK products were designed to have a seven-year service life, reflected in BREMA's Code of Practice.² No equivalent code of practice existed in the USA.

10.160. We wrote to the competition authorities in France, Germany, the USA, Canada and Australia asking whether, within the areas of their authority, they were aware of recent studies of retail price distribution of any of the reference goods; any other published information relevant to competition in any of the goods; and any evidence that suppliers of the reference goods set or issue RRP's. We received replies from the USA, Germany and Canada.

10.161. The US Department of Justice told us that, under US antitrust legislation, any agreement to fix prices was illegal.

¹A carry-back guarantee requires the consumer to return the merchandise to the store in order to take advantage of the guarantee.

²BREMA's Advice to its members states that (in respect of all four reference brown goods) spare parts should be available for not less than seven years after production ends.

10.162. The German competition authority, the Bundeskartellamt, told us that in Germany suppliers were not permitted to recommend binding prices to dealers, or to consumers. Violation of the relevant legislation was an administrative offence punishable by a fine and, in addition, could give rise to an injunction or civil actions for damages by injured parties. However, non-binding price recommendations were permitted if certain conditions were met: the recommendations had to be expressly designated as non-binding; and suppliers were not permitted to exert any pressure to enforce them. The Bundeskartellamt monitored the effects of such recommendations, which, it said, were prevalent among suppliers of electrical goods. Subject to certain conditions, there was an exemption from the general ban on issuing recommendations on pricing specifically for small and medium-sized businesses. Small and medium-sized electrical goods businesses had therefore formed so-called 'business circles' for the purposes of jointly engaging in advertising, servicing and promotional activity. So far the Bundeskartellamt had tolerated the participation of manufacturers in such business circles only if specific narrow conditions were met. The Bundeskartellamt told us that it believed there was a danger that these joint activities might circumvent the prohibition of RPM.

10.163. The Canadian Competition Bureau told us that it was not aware of any suppliers enforcing suggested retail prices in contravention of the RPM provisions of the Canadian Competition Act. There had been no recent prosecutions with respect to reference goods under these provisions.

Retailing patterns

10.164. Some suppliers told us that there was not much difference between the retailing of reference goods in the UK and the rest of Europe. Others said that the UK was distinct in that the market was dominated by national multiples which, it was claimed, gave them stronger buying power. Philips said that multiple retailers' own-label brands had higher market shares in the UK than their counterparts in other parts of Europe, and Mitsubishi said that the strength of own-label brands was evidence of the buying power wielded by the UK multiples. Hitachi commented that suppliers needed to sell to the growing concentration of multiple retailers to achieve volume sales in the UK. Philips commented on the 'respectable market share' of the rental business in the UK compared with the rest of the EU where supply by rental was 'negligible'.

10.165. Some suppliers told us that the influence of traditional small retailers was still far more evident elsewhere in Europe. Philips said, however, that there were now signs of increasing pressure from large multiple retailers in some countries from hypermarket chains which were selling reference goods at the lower end of the market. Hitachi told us that buying groups of small retailers were preponderant in Germany; and that in France, where hypermarkets dominated the market, the only significant multiple was Darty. Hitachi said that hypermarkets were important in Spain, too, together with one large department store; and the Italian retail market largely comprised small independent retailers (although drop-out rates were high).

10.166. Sharp commented that, in the USA, there were two markets-city centre stores selling at full price and out-of-town discount sheds. Hitachi said that in the USA bulk merchandisers had strong market power. Several suppliers told us that, in Japan, there was a high degree of vertical integration, for example manufacturer-owned shops, tied distribution channels and supplier involvement in after-sales service.

10.167. Dixons told us that it believed the preponderance of small retailers in parts of Europe led to their markets being less competitive than in the UK. HoF shared that view. But it believed the UK market to be much more competitive on credit offers.