

15 Other views

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Consumers' Association

15.1. CA is an independent non-profit consumer organization with about 800,000 members. It publishes *Which?* and other consumer magazines.

15.2. CA drew our attention to its own study of resale prices in the domestic electrical goods markets, prepared shortly before our references were made. It was published in the May 1995 issue of *Which?*. CA staff had carried out a telephone survey to ascertain the prices at which retailers would sell certain products. The published report covered six popular models, comprising two washing machines (one of which was a washer-drier), two televisions, and two hi-fi systems. For each of them ten retailers were approached, drawn from a structured sample. For the three pairs of products the same retailer was in some but not all cases asked to quote for both. CA found that prices were closely aligned, normally at RRP, with very few exceptions. The pricing of four other products had been investigated similarly in an earlier exercise. The results had not been published, as they were considered out of date, but the message had been much the same. CA noted that in its product test reports the guide prices for electrical goods which it quoted would normally be the RRP. It told us that it had found no indications that prices were becoming less clustered during the course of our inquiries.

15.3. In a parallel exercise, covering vacuum cleaners as well as the products mentioned above, a CA interviewer had asked retailers for a price and then for a discount; the conversations had been transcribed. Several of the sales assistants spoken to had said that suppliers would threaten to withdraw supplies if discounted prices were advertised, but some suggested that deals could be struck by negotiation in the shop. One REC said that a good price might be available if the customer also bought an extended warranty.

15.4. CA had therefore formed the view that suppliers and the larger retailers were able to keep prices at or near the RRP, and that this prevented the market from working properly. In an earlier study of car tyres, a market which it considered to be highly competitive, it had found considerable price dispersion. As a further strand to the exercise it had written to 19 electrical suppliers in the guise of a member of the public for their comments on the lack of price dispersion. The tenor of the replies had been that RRPs were not regulated by suppliers and were provided as guide prices only; the suppliers also commented that prices lower than RRP gave retailers inadequate profit margins.

15.5. CA had been aware of the OFT's interest in these topics and had passed on its results.

15.6. CA commented to us that consumer durables for which prices were more divergent (such as beds) often had long shelf-lives. Retailers might be stocking and selling models long after they had gone

out of production. Products such as personal computers had wide price ranges for the opposite reason—models were becoming obsolescent too fast for RRPs to be relevant. Mail order suppliers offered lower prices for computers in the specialist magazines than were to be found in the shops. Individual computers were offered with varying packages of specifications, software and accessories so that exact price comparisons could not be made. There was to some extent a parallel problem with the reference goods when different retailers or categories of retailers held similar but not identical models, so that prices could not be directly compared. Some products such as camcorders were probably made with features customers did not need in order to justify higher prices.

15.7. CA thought that the high level of national advertising tended to reinforce adherence to RRPs for electrical goods. Where there were promotional prices, they were often instigated by suppliers and not retailers. Retailers were more ready to offer discounts to individuals than to reduce ticket prices because so few British customers were persistent in trying to achieve a lower purchase price. The general adherence to RRPs, together with margin support from suppliers, probably helped small retailers remain in business in competition with multiples, but it also made entry difficult for newcomers wishing to establish themselves by a low price policy. CA's studies had shown that retailers were ready to complain to suppliers about discounted prices charged by competitors, though it had no evidence about any subsequent action taken by the suppliers.

15.8. CA saw the market for reference goods as relatively mature. Prices could therefore be expected to fall in real terms; the fact that they were doing so was not evidence of a market working competitively. We asked CA whether competition might in fact have forced prices down to the lowest stable level. It said that this could only be established by comparison with markets in other countries such as the USA, and it had not looked into this. Lack of profitability did not necessarily show that the market was working competitively.

15.9. Some retailers had suggested that features such as interest-free credit and extended warranties should be examined alongside price in assessing value for money (and the perception of this by consumers). CA said that a specialist marketing organization would be best equipped to make such an assessment, but it felt that the analysis had chiefly to be based on the price and value for money of the main product. The availability of cheap finance and extended warranties could benefit consumers, and extended warranties in particular were now enormously important to the viability of retailers. But the way they were sold in the shop was in fact to the disadvantage of the public and damaging to consumer choice. Other bodies were now offering better value extended warranties than the retailers. Commissions to retail staff were another practice which had perhaps got out of hand. CA was cautiously optimistic about the effects of a Code of Practice introduced by the British Retail Consortium, and recently reinforced by the OFT. But the net result of this code, if successful, would be to enforce a clear separation between the sale of the product and the sale of the warranty.

15.10. Turning to possible remedies, CA welcomed our proposed recommendation which would prohibit suppliers from taking any action to compel, influence or encourage dealers to resell reference goods at a specified price. A code of practice might be needed to explain what was forbidden. A simple prohibition of RRPs would not necessarily increase competition. Covert price indications might still be given.

15.11. There would not necessarily be a detriment to consumers if some prices rose, provided that they could find the deal that best suited them from a range of innovative offers. Nor would there be a detriment if the result were to be a fall in the number of outlets. There could well be over-capacity at present, and in populated areas consumers should still not have to travel far to make these relatively infrequent purchases. There was scope for more telephone shopping and direct delivery. The survival of the industry could not be under threat at the present level of consumer demand.

15.12. As indicated earlier, CA thought that relatively few customers attempted to obtain better prices by haggling and/or succeeded if they tried. It did not wish the practice to spread, as inarticulate consumers would be at a disadvantage. Markets should be transparent. One of the arguments for retaining RRPs was that the existence of discounts could be seen more easily.

15.13. CA did not favour selective distribution arrangements which maintained a uniform level of service. It did not attach great importance to retailer ambience or to levels of pre-sales service.

Customers could obtain information from a range of sources. It did not see a need for the use of selectivity to enhance a brand except perhaps at the extreme luxury end of the market. The warehouse club concept should form part of a spectrum of outlets; it was not necessarily the future pattern of shopping for all consumers.

15.14. CA approved the idea of reasons being given for refusal to supply; an independent appeal system would also be beneficial. Codified compliance rules for supplier sales staff would be helpful, and to avoid over-enthusiasm by individual sales personnel a designated compliance officer should be appointed in each company. Proper enforcement would require the OFT to carry out spot checks.

British Radio and Electronic Equipment Manufacturers' Association

15.15. BREMA is a trade association representing companies manufacturing consumer electronic products in the UK. It covers televisions, VCRs, hi-fi systems and camcorders.

15.16. BREMA said that the UK was an ideal manufacturing location for exports to the rest of Europe by virtue of its skilled labour force, flexible terms of employment and open consumer electronics market. Inward investors were increasing their commitment to UK research and design on account of the innovative UK broadcasting and software sectors. BREMA noted that the UK was responsible for 30 per cent of all televisions manufactured in Europe. The opening up of the former Communist countries presented further export opportunities, but BREMA warned that suppliers would also have incentives to manufacture in these territories.

15.17. BREMA saw the UK consumer electronics industry as probably the most competitive in Europe. The market power of chains such as Comet and Dixons had led to the adoption of low-cost sources of supply, marketed as own-label brands. In televisions, VCRs and hi-fi systems, more than 100 brands were available in the market, so that the brand leaders could not achieve a market share of much over 10 per cent. Prices were the lowest in Europe, having fallen by 5 per cent in money terms over the past 12 years, and by half when adjusted for general inflation, despite the addition of new features, advanced technology and increased quality and reliability in the product.

15.18. BREMA pointed out that the UK had a significant independent retail sector, with a high degree of commitment and product knowledge. These retailers and the rental companies were mainly responsible for the fast take-up of new technology by UK consumers. The multiple retailers did not normally stock the full range of any one supplier's products; consumer choice was enhanced by the existence of specialist independent retailers stocking more comprehensive ranges of fewer brands. They offered a higher level of service than the declining number of specialist high street shops in other sectors. BREMA considered that any comparable decline in the number of independent electronics dealers would be detrimental to the industry and to the consumer. In the 15 months to June 1995 700 outlets, including several multiples, had been lost. Closures left customers without service support for equipment they had bought. Consumer confidence (and hence spending) was currently low, and this led to increased competition and more failures.

15.19. In commenting on our proposed remedies, BREMA said that it would be wrong to single out a competitive and innovative industry, whose prices were falling and whose profitability was low, for measures such as those suggested. RRP's were in use in nearly all consumer product areas and were generally regarded as helpful to the consumer. Various of the remedies were already dealt with by existing UK and EC law, and it was inappropriate for the MMC to intervene where existing legal remedies were available. To include these recommendations in our report would be seriously damaging to the good image and reputation of the industry.

15.20. To impose a statement in terms and conditions that dealers were free to resell at any price, to require publication of criteria for selective distribution, and to require suppliers to set up an independent appeals mechanism against refusals to supply, would introduce an unreasonable bureaucracy without clear benefits to the consumer.

15.21. BREMA thought that the MMC had not clearly appreciated the benefit to consumers of pre- and post-sales support, and that the remedies were targeted particularly on smaller retailers providing

more specialized services. It could not believe that the demise of more high street stores was in the interests of consumers or that it would form part of the policies of any government.

British Retail Consortium

15.22. The British Retail Consortium (BRC) said that it was a trade association representing the interests of 90 per cent of the UK retail industry across all sectors.

15.23. It considered the domestic electronic and electrical product market to be fiercely competitive, which was to the advantage of consumers. This was indicated by the scale of advertising and by the various failures and disposals of businesses during the course of our inquiries. The failures were already limiting consumers' choice.

15.24. The BRC said that the market for electrical goods should not be compared with simplistic self-service markets. Electrical goods required costly support in terms of informed staff, back-up for guarantees and after-sales service extending for many years after the sale. It hoped that the MMC would consider the long-term as well as the short-term interests of consumers.

15.25. It expressed concern about the burden the inquiry was placing on the industry, and wondered whether this was justified in cost/benefit terms.

Radio, Electrical and Television Retailers Association

15.26. RETRA was established (under a different name) in 1942. It told us that it had 1,400 members (with about 5,500 outlets) including Granada and Thorn but not Dixons, Comet or the RECs. Almost all its members sold brown goods and about one-third of them white goods. The overall size of the sector was not known, but the trade press was circulated to about 8,000 separate businesses. As well as representational tasks, RETRA concerned itself with training and operated a payment clearing system for members and suppliers. A RETRA code of practice for selling and service had been approved by the OFT and was one of the first of its kind in the UK.

15.27. RETRA said that it had no complaints from members that manufacturers had forced them to sell at prices higher than they would otherwise have chosen. It emphasized that the prices of reference goods were generally falling. The presence of competition was shown by withdrawals from the sector and losses made by certain companies. It saw the British distribution industry as one of the most efficient in the world. Electrical retailers were working on margins little better than those for food, and yet faced far greater commitments in terms of staff skills and service.

15.28. The convergence of prices was no surprise to RETRA, since there was no scope for reducing them further. Price-matching also encouraged convergence. Price-fixing at an artificially high level was unlikely, not only because of competition among retailers and among suppliers, but also because of competition with other goods and services offered to consumers.

15.29. RETRA had established an informal Retailer Forum to discuss matters of common interest to the electrical goods industry, bringing together its own members and the major electrical retailers who were outside RETRA. One area of concern that had been tackled was inadequate reimbursement by brown goods suppliers when retailers carried out repairs under guarantee. (This applied to labour costs; the manufacturers provided parts free of charge.) They were also pressing for better terms for bought-out guarantees so that retailers were not out of pocket in accepting this responsibility.

15.30. RETRA stated that over the last 20 years, mark-ups had fallen from around 43-50 per cent to about 25 per cent. RETRA did not think that its members took retrospective discounts into account when setting prices, because of the uncertainty. It pointed out that such discounts were calculated on amounts invoiced, so that the retail selling price was not relevant to them.

15.31. RETRA saw wholesalers as a dying breed, but they were still needed when a customer wanted

a product that the retailer did not normally stock. Members belonging to CIH could in such cases sometimes take advantage of CIH's warehouse service.

15.32. Warehouse clubs had attempted to convince consumers that they were badly served by existing traders. They claimed the planning advantage of not being a retailer (resulting in lower rent and rates), and yet expected suppliers to treat them as retailers. The reluctance of suppliers to deal with them was understandable, given the lack of service.

15.33. RETRA said that there were too many outlets chasing the available electrical business. There were at present no product innovations significant enough to create a new market.

15.34. A development which had alarmed RETRA was the establishment of telephone selling companies undertaking to beat prices quoted by retailers. This was a grossly unfair business strategy and placed high street businesses which had invested in showrooms, stock and staff training at risk. RETRA had persuaded a major credit card issuer to give up promoting this approach to selling electrical goods on the grounds that it placed the issuer's own high street credit card business at risk.

15.35. RETRA thought our proposed remedies would have a devastating effect on hundreds of small businesses. Consumers would be driven to a handful of powerful retailers. The remedies might deliver short-term benefits to consumers, but in the long term they would be disadvantaged by the dismantling of a satisfactory distribution system.

Ellis and Buckle

15.36. Ellis and Buckle is a firm of loss adjusters. It told us that it maintained a database including retail prices of domestic brown goods, designed as a reference guide for its staff dealing with claims relating to those goods. Ellis and Buckle said that the database was of limited value in providing insurers with information about low-cost sources of replacement products, since there was no significant variation between the major high street retailers' prices.

Mr Bill O'Brien JP MP

15.37. Mr Bill O'Brien, MP for Normanton, told us that his contacts with UK manufacturers of white and brown electrical goods gave him no reason to believe that they were trying to restrict or distort competition. The market was strongly competitive. He hoped that no recommendations by the MMC would adversely affect employment in electrical goods manufacturers in his constituency or impair their ability to export.

Members of the public

15.38. Four members of the public wrote to the OFT when the reference was first made, all commenting on the rigidity of RRP's. One described an experience of trying to invoke a price promise. The main concern of the retailer approached seemed to be to identify the discounter so that the supplier could be notified. Another member of the public writing much later suggested that ticket prices for electrical goods were inflated by the cost of 'interest-free' credit, to the disadvantage of consumers wishing to pay cash. This effect could be distorting the RPI.