

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 white goods (washing machines, tumble driers, dishwashers and CFS products). We begin, in paragraphs 10.4 to 10.48, by explaining how suppliers' RRP's are determined or established (including any input by retailers), the nature of such RRP's, and any associated supplier practices which may influence the extent to which retailers follow or adhere to such RRP's when setting their own prices. Following this, the pricing policies of retailers (other than mail order companies) and the extent of adherence to RRP's are addressed in paragraphs 10.49 to 10.67, while practices by retailers bringing pressure to bear on suppliers in relation to RRP's are discussed in paragraphs 10.68 to 10.72.

Pricing practices of mail order companies and their suppliers are described in paragraphs 10.73 to 10.92. Discounts granted by suppliers to retailers, which determine retailers' buying prices and gross profit margins, are considered in paragraphs 10.93 to 10.133.

10.2. In paragraphs 10.134 and 10.135 we briefly 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 10.136 to 10.164, 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 transaction prices and RRP for each of the reference white 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 white goods, we sought information on, and examined, various suppliers' practices in relation to both the pricing of their products and their relationships and terms and conditions of trade with dealers, most particularly those with retailers. The main focus of our investigations was the suppliers' practice of issuing, or otherwise establishing, recommended or suggested RRP or variants thereof (see paragraphs 10.12 to 10.18), 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 several cases, as already indicated, the information reflected observations by retailers about suppliers' behaviour (see Appendix 10.10).

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 60 per cent of sales in the UK-see Chapter 7); 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, Crosslee, with minor exceptions, supplies tumble driers only, and Lec is a specialist supplier of CFS products); and also, though more generally, 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 white goods (and the four reference brown goods which are the subject of our concurrent inquiries) that had five or more retail outlets, and also to five mail order companies.¹ We also drew on oral evidence given by 12 of the larger retailers and other written submissions.

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

¹We estimate (on the basis of numbers of outlets for those multiple retailers which did not provide data on their sales) that the response rate for multiple retailers weighted by sales of the relevant white good in 1995 was 86 per cent for washing machines, 91 per cent for tumble driers, 89 per cent for dishwashers and 95 per cent for CFS equipment.

- (a) 24 complete replies from multiple retailers of washing machines, covering about 3,340 outlets and 61 per cent of total sales¹ by value of washing machines in 1995;²
- (b) 24 complete replies from multiple retailers of tumble driers, covering about 3,210 outlets and 60 per cent of total sales by value of tumble driers in 1995;¹
- (c) 23 complete replies from multiple retailers of dishwashers, covering about 3,275 outlets and 61 per cent of total sales by value of dishwashers in 1995;¹ and
- (d) 25 complete replies from multiple retailers of CFS equipment, covering about 3,250 outlets and 66 per cent of total sales by value of CFS equipment 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 eleven 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 washing machines, tumble driers, dishwashers and CFS equipment. However, the results of these analyses have been presented together where they are the same for two or more reference goods.

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

10.13. According to the evidence we received RRP appear to serve two broad functions in the UK markets for the reference white goods. First, suppliers told us that they provide, for both retailers and consumers, a model-specific bench-mark for the level of retail prices. Second, they 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 10.93 to 10.95. Emaco told us that its AEG brand had switched to this method as a result of pressure from retailers. Indeed, for the majority of their sales, most suppliers appear not to issue lists of trade prices which are applicable or used in practice for determining retailers' net buying prices .

10.14. Extracts (prices for non-reference products have been deleted) from price lists which specified RRP and were issued to retailers and dealers by three of the largest suppliers, GDA (Hotpoint brand), Emaco (Zanussi) and BSDA (Bosch), for February/March 1995 (which was the period covered by our pricing analysis-see Chapter 11) are at Appendix 10.2. GDA (Hotpoint) issues price lists to retailers every six months, but also puts out monthly 'updates' which include any adjustments to RRP or 'promotional' prices (see paragraph 10.18). Emaco (Zanussi) similarly issues both monthly price lists and periodic 'updates'. These price lists are for the use of retailers and other dealers, and are not normally available to consumers, either from retailers or suppliers. In addition, CIH and the local groups that act as suppliers (see paragraph 8.56) pass on to the retailers they supply the RRP notified to

¹Based on total sales figures (including VAT) for the UK provided by retailers and GfK. (However, sales figures for one or two individual retailers exclude Northern Ireland.)

²A small number of retailers' figures are based on sales in the year ending 30 June 1995.

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 retailers of RRP and did not transmit that information through its 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 RRP, but CIH said that retailers were free to charge other prices and that some did so.

10.15. Some of the larger suppliers told us that it was not common for consumers to contact them requesting information on the level of RRP. Whirlpool told us that less than 1 per cent of the many calls that it received from consumers were about prices. GDA, on the other hand, stated that Hotpoint had set up a special telephone hotline to deal with the large number of queries it received from consumers. Of some 200,000 calls from consumers and dealers received in 1996, about 65,000 had been consumer enquiries about prices. We noted when we visited GDA that consumers who called its hotline to ask about prices were told the manufacturer's recommended price, ie the 'nominal' RRP, as well as GDA's current 'promotional' price, ie the 'effective' RRP (see paragraphs 10.16 and 10.17, and also paragraphs 10.19 and 10.20 concerning consumer attitudes towards RRP).

10.16. Suppliers often use different terms to describe their RRP, for example 'SRP' (suggested retail price) or 'MRP' (manufacturer's recommended price), and most suppliers set both what we term 'nominal' and 'effective' RRP, as well as separate MORP, which we consider in more detail in paragraphs 10.73 to 10.81. What we have termed 'nominal' RRP appear to be commonly used by both suppliers and retailers as a promotional device. That is, nominal RRP, which also carry different descriptions (for example BSDA simply refers to 'manufacturers RRP') rarely equate to, and may be considerably above, the prices actually charged by retailers; they are used primarily as a bench-mark from which to show 'discounts' and 'customer savings', as illustrated in the suppliers' lists of RRP at Appendix 10.2. The 'effective' RRP is intended as the supplier's recommendation of what it sees as a 'realistic market price'. In subsequent discussion of RRP, we indicate whenever we are referring specifically to nominal RRP. All the larger suppliers, as well as most of the smaller suppliers and brands, set effective RRP for each of their models (but see also paragraph 10.17). Whirlpool told us, towards the end of our inquiries, that its future trade price lists would show only a single RRP, in our terminology the effective, but not the nominal, RRP.

10.17. MDA told us that it set RRP for its Ariston and Scholtès brands, but for its Indesit products it set only an initial nominal RRP (albeit that this might also be adjusted on occasion during the life of the model) and that it did not set effective RRP. When we asked Comet about Indesit RRP, however, it told us that 'whilst Indesit do not have recommended retail prices, they do provide a printed format of their view on the retail price of each product'. Similarly, Allders told us that it considered 'Indesit's approach to providing letters to retailers which specify RRP to be much the same as for other white goods suppliers'.

10.18. It is common practice in each of the four markets for the effective RRP to be a supplier's 'promotional' price¹ or a temporary, 'special offer price', including 'trade-in' offers (ie where buyers receive a lump sum discount in exchange for their old appliance). This exemplifies the widespread supplier practice of changing effective RRP during the life of the model (which is usually several years for each of the reference white goods). In practice, RRP may 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. In our pricing analyses (see Chapter 11), we examine the 'price histories' of specific models of each of the reference white goods, which provide evidence of the scale and frequency of changes in RRP.

10.19. In the latter stages of our inquiries, GDA submitted a consumer survey which it had commissioned from the Harris Research Center (Harris), which it said 'indicates a general consumer awareness of RRP and desire to have them available.' The Harris survey was based on about 900 face-to-face interviews in respondents' homes during the period 16-22 January 1997. When asked 'How helpful are MRRP in distinguishing between brands/models?', about 65 per cent said that they were quite helpful or very helpful, about 18 per cent said that MRRP were not very helpful, and about 12 per cent said

¹Such 'promotional' prices may in some instances be shown on price lists issued to dealers as a reduced RRP. In other cases, the price list itself is not amended, but retailers are informed separately of price promotions, for example by the suppliers' sales representatives.

that they were not at all helpful (3 per cent said that they did not know). When asked 'Would it be more difficult to know if a store price was reasonable if MRRPs were not available?', 66 per cent agreed with the proposition, 27 per cent that it would not be more difficult and 7 per cent did not know. In response to the question 'Is showing MRRPs a useful measure of how much discount is offered by stores?', 78 per cent agreed with the proposition, about 19 per cent said that MRRPs were not a useful measure and 3 per cent did not know. When asked 'Would you prefer to see MRRPs abolished or continue to be used?', some 84 per cent said that they would prefer MRRPs to be continued to be used, compared with 9 per cent in favour of abolition and 7 per cent who did not know.

10.20. When asked 'Would the absence of MRRPs make deciding on a product more or less difficult?', 40 per cent said that it would be more difficult, just over 45 per cent said that it would be neither more nor less difficult, and about 12 per cent said that it would be less difficult. When confronted with the statement 'When choosing products and comparing the prices in different stores, MRRPs are ...', just over one-half said that MRRPs were a useful guide, about 35 per cent said that they were useful but not essential, and about 11 per cent said that they were not useful.

10.21. As mentioned in paragraph 10.1, we consider suppliers' discounts and promotional and other allowances to retailers, which are frequently rather complex in structure, in paragraphs 10.93 to 10.110. Suppliers' discounts and allowances often differ in scale between retailers, reflecting differences in retailers' sales volumes, and the outcomes of negotiations between suppliers and retailers. As also explained above, it is common practice in these four markets for both retailers' discounts, as well as the gross margins which they determine, to be expressed as percentages of the RRP (excluding VAT). In total, retailers' gross margins so calculated are typically in the range [*] to [*] per cent, which is equivalent to a mark-up on costs of [*] to [*] per cent. In addition, the evidence from both our analyses of model price histories of each of the four reference white 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, though the cash value of such margins may change.

Retailers' input to the setting of RRP by suppliers

10.22. 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 dealers (for example, Dixons, Comet, other large multiple retailers and CIH). GDA told us, for example, that its RRP for new models were heavily influenced by the views of retailers because of their first-hand knowledge of the retail environment and of other suppliers' products. It said that to ignore such views would be commercial folly. Similarly, Emaco said that it consulted important retailers on the appropriate RRP for new models because they were a key source of information on prevailing market conditions. Hoover, GDA, and MDA, in respect of Ariston, also discussed RRP. However, some of the other larger suppliers, including BSDA and Whirlpool (in relation to each of the four reference white goods), Crosslee (for tumble driers only) and Lec (for CFS equipment only), stated that they did not consult with retailers when setting the RRP for new models.

10.23. All the main suppliers told us that they held discussions and negotiations with major retailers about the levels of net buying prices, discounts to retailers and their gross margins, which, as explained above, are often determined as percentages of the RRP. Such discussions are commonly on an annual basis with a view to agreeing trade prices for the year ahead, as well as any special discounts, and other terms and conditions, including retailers' sales 'targets'. The expected price that models will fetch in the market lies at the heart of these discussions. We were told that, throughout this process, major retailers almost invariably argued for lower rather than higher RRP than suppliers initially proposed. In some instances, the largest suppliers and retailers may develop a jointly agreed 'business plan' for particular models or ranges, which sets out sales targets, for example, and details of the timing, content, and funding arrangements of promotional campaigns (retailers' advertising efforts may be wholly or partly funded by suppliers-see paragraph 10.103). Some of these business plans may concern models which are either exclusive to a particular major retailer or semi-exclusive (ie where the model is available to a few

*Figures omitted. See note on page iv.

retailers only-see Chapter 9), or where the product is widely available, but the retailer concerned accounts for a substantial proportion of sales (ie more than 25 per cent).

10.24. 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). 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 usually personal contact with such retailers, through the regular visits they make to individual stores. Suppliers may 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 to retailers, though the extent to which they do so varies between suppliers and brands. About 70 per cent of respondents to the survey of small retailers, in respect of each of the four reference white goods, told us that they were in monthly contact with suppliers' sales representatives; 12 per cent said that they had weekly contact (see Table 46, Appendix 9.1).

10.25. 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 reference goods said that they had discussions with suppliers about 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 were informal and their timing more *ad hoc*. Multiple retailers were asked more specifically to explain the nature, frequency and timing of discussions that they held with suppliers about retail prices they set in their outlets. A summary of the responses, distinguishing between the four reference white goods, is set out in Table 10.1.

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

	<i>per cent respondents' sales</i>			
	<i>Washing machines</i>	<i>Tumble driers</i>	<i>Dish-washers</i>	<i>CFS equipment</i>
Regular discussions on pricing/retail prices form key part of contacts	64	64	59	67
Discussions (price not mentioned) are held	26	27	17	21
No discussions are held	1	1	12	3
No reply or unclear response	<u>9</u>	<u>9</u>	<u>14</u>	<u>9</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

10.26. For each of the four reference white goods, most suppliers told us that RRP's (whether nominal or effective) were used as 'guide prices' by dealers and consumers, and that they did not actively encourage retailers to adhere to RRP's. However, GDA told us that in 1993 it had unilaterally altered the terms (for its Hotpoint brand) of three retailers which had been promoting models at prices below those that had been discussed when the terms had been originally agreed; but the net result of this episode was that GDA had lost one valued customer and, in order to recover the lost floor space, had had to concede improved terms (see the case of Comet in paragraph 10.38). In the light of that experience, GDA said that it would no longer adopt the same approach. The cost to Hotpoint had been very substantial; no supplier, it added, could gain by threatening a major retailer.

10.27. But in November 1995, we visited a retailer who told us that he would lose his retrospective margin support from Hotpoint were he to sell Hotpoint reference goods below RRP's. We asked what the authority was for his statement, and when the retailer said that this was no more than his understanding, we invited him to establish firmly what the position was. The retailer therefore spoke to his local Hotpoint Business Development Manager, who told him that Hotpoint 'would feel that if he were to discount, he would no longer need his margin support'. But later the same day, the Business Development Manager spoke to him again, withdrawing his earlier advice, and asked the retailer to raise any further questions with Hotpoint's legal adviser. This retailer, and another, told us that GDA had

threatened to reduce their retrospective discounts if they sold reference goods below RRP (see Appendix 10.10).¹ GDA told us that these were isolated instances where its staff went beyond their instructions, but in the main they were quickly corrected. Under its compliance rules, sales staff were under strict instructions that they should not under any circumstances discuss a retailer's selling prices—see also paragraphs 10.40 and 10.43.

10.28. In addition to price lists, some suppliers also provide point-of-sale material to retailers (typically the smaller retailers), for in-store promotional use, which shows current RRP. GDA, Emaco, CDA, Hoover and Miele told us that they followed this practice. Emaco told us that it showed a pre-printed price on point-of-sale material which it distributed to retailers accounting for about 20 per cent of its sales. Hotpoint's regular marketing brief sent to small retailers reminds them: 'Please remember that the advertising material we provide for Sale and Promotional Activity relies on the use of our published Maximum Prices'. The statement appears in a box headed 'Price Displays' and 'Bargain Offer' Legislation.²

10.29. Some of the other leading suppliers, including MDA (except for its Scholtès brand), BSDA, Whirlpool, Crosslee and Lec, said that they did not include prices on the point-of-sale material they provided to retailers. Whirlpool told us that its material would contain no RRP and would only talk about generic features of products. AEG stated that, in its price lists, it advised retailers 'that AEG's "guide prices" are for trade guidance only and may not be used for comparative price advertising in any form'. Dixons, Comet, multiple retailers and department stores such as JLP stated that they commonly used their own point-of-sale material rather than that made available by suppliers. They generally added that such material did not refer to RRP but instead showed their own retail prices (for example, 'Currys price' or 'Comet price'). Nonetheless, both Dixons and Comet confirmed that their prices were often the same as suppliers' RRP (see also the price analyses in Chapter 11).

10.30. Multiple retailers responsible for about 70 per cent of respondents' sales each of washing machines and tumble driers, and nearly two-thirds of respondents' sales of dishwashers and CFS equipment, indicated that they had experience of suppliers monitoring whether prices at which they sold were below RRP (see Table 10.2). Replies accounting for between one-sixth and just over one-quarter of respondent sales of each of the reference white goods suggested that they had no experience of suppliers monitoring selling prices.

TABLE 10.2 Do suppliers monitor whether prices are below RRP?

	<i>per cent respondents' sales</i>			
	<i>Washing machines</i>	<i>Tumble driers</i>	<i>Dish-washers</i>	<i>CFS equipment</i>
Yes	68	70	65	61
No	21	21	16	28
No reply or unclear response	<u>11</u>	<u>9</u>	<u>19</u>	<u>11</u>
Total*	100	100	100	100

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

*Percentages may not add to 100 due to rounding.

10.31. Most respondents to the survey of small retailers who told us that they had sold reference white goods below RRP said that they had not received any comments from suppliers about such discounting (see 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 10.10). Cases in which we accepted the retailers' accounts of events are marked, in that appendix, with an asterisk.

¹Cases A16, A17 (washing machines); B15, B16 (tumble driers); C15, C16 (dishwashers); D19, D20 (CFS equipment).

²The reference is primarily to the Code of Practice for Traders on Price Indications, a Schedule to SI 1988 No 2078.

10.32. With regard to prices advertised by retailers, none of the suppliers told us that they prohibited or otherwise restrained retailers from using price on application advertising (though in practice such advertising is not common for the reference goods). However, one retailer told us that Zanussi had objected to him inserting 'ASK' in an advertisement for all four reference white goods. The retailer said that Zanussi had offered to meet the full cost of cancelling the advertisement. Zanussi said that it did not have any recollection of having had any conversation of the type alleged (see Appendix 10.10).¹

10.33. Some of the major suppliers appear to discourage retailers from advertising the prices of their models below the RRP. Emaco stated that it would not normally choose to fund advertising that expressly featured prices below levels currently suggested by it. Emaco added that it negotiated an annual advertising and promotions allowance with some retailers and would not necessarily know how this money was spent. Hoover commented that it would do everything it believed to be legal to ensure that retailers advertised and adhered to RRP. Miele told us that it would encourage dealers to include RRP in advertisements of its models. Phrases such as 'toeing the line', 'not rocking the boat' and 'playing the game' recurred in retailers' comments on suppliers' conditions. However, multiple retailers representing around 80 per cent of sales of the reference white goods said 'No' to the key question 'Have suppliers stopped or controlled retailers from advertising prices at below RRP, or tried to do so?'. A small number of multiple retailers accounting for almost one-fifth of respondents' sales of each of the reference white goods confirmed that their response was 'Yes' to this question (see Table 10.3).

TABLE 10.3 **Have suppliers stopped or controlled multiple retailers from advertising prices at below RRP, or tried to do so?**

	<i>per cent respondent's sales</i>			
	<i>Washing machines</i>	<i>Tumble driers</i>	<i>Dish-washers</i>	<i>CFS equipment</i>
Yes	19	20	19	21
No	80	78	80	78
No response or unclear	<u>1</u>	<u>1</u>	<u>3</u>	<u>1</u>
Total*	100	100	100	100

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

*Percentages may not add to 100 due to rounding.

10.34. The replies of those retailers who said 'No' were further analysed with respect to a different question, which related to the extent of adherence to RRP (see paragraph 10.50). Of these, 21 per cent (weighted) for washing machines, rather fewer for tumble driers and dishwashers and 29 per cent for CFS equipment stated that they adhered to RRP. A further 10 per cent or so said that they adhered to RRP, when not subject to competition. About one-half of the retailers (weighted) for each product said that they did not adhere to RRP, but that their prices and RRP often coincided. The remaining responses were unclear or stated that they did not adhere to RRP.

10.35. 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). Cases in which we accepted the retailers' accounts of events are marked with an asterisk at Appendix 10.10.² We were told that, sales representatives sometimes advised retailers that advertising discounted prices would not be in their 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.

¹Cases A9, B10, C9 and D12.

²Cases A4, A6, A8, A9, A15, A25 (washing machines); B6, B8, B10, B11 (tumble driers); C5, C7, C9, C14, C22 (dishwashers); D2, D6, D9, D10, D12, D19 (CFS equipment).

10.36. The majority of multiple retailers of the four reference white 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 (see Table 33, Appendix 9.1).

10.37. Some suppliers appear to prohibit price-cutting on the grounds that it may damage their 'brand image'. We were also told that sales representatives sometimes discouraged retailers from setting prices below RRP. BSDA told us that in the past it had suggested to a retailer that the way it advertised was not commensurate with Bosch's high-class image. A department store told us that Miele's local representative had complained when it sold Miele washing machines and dishwashers below RRP because it did not want the 'image' of the products to suffer nor to promote a spiral of price undercutting (see Appendix 10.10¹). Miele said that it encouraged retailers to maximize the profit they made on its products, so that they would refrain from demanding a higher margin.

10.38. We were told, in addition, that suppliers' sales representatives normally kept their retailer customers abreast of the suppliers' thinking on RRP, though it was emphasized by suppliers that their sales representatives were not permitted to put pressure on retailers to adhere to RRP.

10.39. Many of the larger suppliers told us that it was not uncommon for them to receive complaints from retailers about competitors who were cutting prices together with requests for action to be taken against such retailers. Such complaints might often be accompanied by requests for margin support (see paragraph 10.124).

10.40. We asked suppliers how they responded to such complaints and requests from retailers; whether there was other evidence of price-cutting; what actions they took, or had taken in recent years, such as withdrawing supplies, or reducing gross margins, or withdrawing advertising and promotion support. In response, GDA told us that it negotiated

the retailer's margin requirements on the assumption that the product was promoted at or near the Promoted Price² so that if a retailer engaged in sustained promotion at substantially less than the Promoted Price that might indicate that the margin requirements that the retailer could actually justify were lower than those indicated when the retailer and Hotpoint or Creda originally negotiated the terms.

It added that in such a situation, GDA '... at the next annual terms negotiation would take a harder line ...' (see also paragraphs 10.27, 10.43 and 10.44).

10.41. Most suppliers told us, however, that they usually explained to the complainant that they were not legally permitted or able to control the prices set by retailers, and that they took no further action. They frequently added, however, that they might sometimes contact the complainant's competitor to check if a pricing 'error' had been made, which might result in a costly loss of gross margin.

10.42. Nearly all multiple retailers of each of the four reference white goods which responded said that they had received discretionary promotional support from suppliers in the form of contributions towards advertising expenditure, SPIVS, margin support, or the funding of non-price offers to customers. When asked whether the discretionary support was ever conditional on the retailer selling at RRP, Comet said 'Yes' and the remaining respondents said 'No' or were unclear.

10.43. Comet provided, as examples, letters from Hotpoint to support its reply (see Appendix 10.3). The first letter from Hotpoint of 19 April 1993 stated:

Your current activity of selling Hotpoint Appliance at 1 per cent Apr adds a significant incremental cost to your sales of Hotpoint Appliance, and leads us to believe that you no longer have the requirement for additional margin support. We have therefore decided to withdraw our off invoice and monthly margin support with immediate effect.

¹Cases A26 (washing machines); C22 (dishwashers).

²In our terminology, the effective RRP-see paragraph 10.16.

The second letter from Hotpoint to Comet of 27 April 1993 said:

Due to your company reinstating mutually agreed future promotional activity which enables Comet to promote our products at the maximum promoted prices featured in our monthly Marketing Brief at a margin that is satisfactory Hotpoint will in return reinstate your off invoice and monthly margin support as from the 1st May 1993.

10.44. We also explored with GDA the meaning of a clause included in the terms notified to some retailers to the effect that the arrangements set out would be reviewed: 'if at any time your margin needs on Hotpoint change, then the level of Promotional Support and/or Additional Margin Support required to support our jointly agreed plan may be subject to change'. GDA told us that there was no intention of conveying an improper threat. To avoid the possibility of misinterpretation, the wording no longer appeared in GDA's most recent communications on terms and would not be used in future.

10.45. 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', 6 per cent 'Yes'. 'Increased discounts' was the benefit most commonly cited (see Table 25, Appendix 9.1).

10.46. We asked multiple retailers whether they had formal dealer agreements with their suppliers, and if so, to what extent such agreements exerted influence over their retailing of the reference white goods. IKEA told us that it had a written supply agreement with Zanussi and added that the 'only other agreement is that IKEA must sell at Zanussi's RRP'. We asked IKEA to elaborate on its statement, and Emaco to comment. IKEA told us that Zanussi had 'not been happy' when IKEA had sold Zanussi reference goods at £5 or £10 below the RRP. IKEA went on to say, 'Zanussi generally dictated that RRP's must be adhered to, and IKEA accepted this in order to maintain a good relationship with the supplier. No pressures had been applied'. IKEA had responded to Zanussi's comments by realigning its prices to match the RRP.

10.47. Emaco told us that it had been approached by other retailers with stores in IKEA's catchment area who had become aware of IKEA's prices. Some retailers had indicated that they might reconsider their policies on stocking Zanussi goods. Zanussi had, therefore, asked IKEA why it had felt it necessary to sell at below Zanussi's suggested retail price. Zanussi had made it clear that IKEA was free to sell Zanussi products at whatever price it chose. IKEA told us, however, that 'it was highly recommended that we return to SRP and in no circumstances was it ever suggested that we could retail at any price we wanted'. A full account of IKEA's observation, and Emaco's response, is at Appendix 10.10.¹

10.48. We explored whether suppliers discouraged retail price competition to protect their own selling prices and hence their margins from erosion under retailer pressure. Suppliers replied that even if this had been their strategy, they had been unsuccessful since retailers had managed to depress the prices at which they bought from suppliers despite increases in manufacturers' raw material costs. Suppliers also argued that if a major retailer failed to achieve its desired retail price, and hence profitability for a model, it would inevitably seek to recover some of its lost margin by pressing the supplier for better terms. If such improved terms were not forthcoming, we were told, the retailer had the freedom to pursue its own profitability objectives by selecting other products to display which would provide the required margin.

Retailers' pricing policies and adherence to RRP's

10.49. In describing their competitive strategy in retailing the four reference white 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.

¹Cases A7, B9, C8, D11.

10.50. Virtually all multiple retailers indicated that their pricing strategies for each of the four reference white goods as well as retail ticket prices were set by relevant head offices. Retailers of washing machines, tumble driers and CFS equipment which accounted for about one-quarter 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 dishwashers was about one-third. Nearly all remaining respondents said that ticket prices were generally the same throughout their stores. Those respondents 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. In paragraphs 9.74, 11.41, 11.42, 11.60, 11.77 and 11.96 and elsewhere we suggest that retailers often select models to stock which are different from those chosen by their competitors, thus avoiding head-to-head competition and making it difficult for customers to compare prices.

10.51. 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

10.52. Multiple retailers were asked to indicate the extent to which they adhered to RRP in setting retail ticket prices. An analysis of the responses to this question is set out in Table 10.4. Multiple retailers representing 34 per cent of washing machine sales by respondents (weighted by value of retail sales in 1995) indicated that prices in their outlets adhered to RRP. Some multiple retailers (12 per cent of weighted replies) stated that they adhered to RRP with respect to washing machines not subject to discounting by competitors, or subject to competition while 4 per cent of weighted replies indicated that RRP were used as a guide in setting prices. Dixons (30 per cent) and other retailers (10 per cent) said that they set their retail ticket prices without reference to RRP but that their prices and suppliers' RRP often coincided. Retailers representing 10 per cent¹ of weighted replies gave responses which were unclear, or indicated that they did not adhere to RRP in setting retail ticket prices. In the case of MFI this was because the goods 'do not come with an RRP as most tend to be made exclusively for MFI'. The parallel figures for tumble driers, dishwashers and CFS equipment are set out in Table 10.4.

TABLE 10.4 **Multiple retailers' adherence to RRP in setting ticket prices for the reference white goods**

	<i>per cent of respondents' sales</i>			
	<i>Washing machines</i>	<i>Tumble driers</i>	<i>Dish-washers</i>	<i>CFS equipment</i>
Adheres to RRP	34	32	28	42
Adheres to RRP when not subject to competition	12	11	8	9
Prices not set equal to RRP but may coincide:				
Dixons	30*	32*	30*	25*
Other retailers	10	12	7	9
RRP have some influence on price	4	3	5	3
RRP have no influence on price or unclear response	<u>10</u>	<u>10</u>	<u>22</u>	<u>11</u>
Total respondents#	100	100	100	100

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.

10.53. Respondents to the survey of small retailers were asked 'Do you take account of RRP or suppliers' suggested prices in setting your prices?' (see Table 24, Appendix 9.1). 90 per cent of respondents selling each of the reference white goods replied 'Yes'; 10 per cent replied 'No'. When asked if they had ever charged prices higher than either RRP or suppliers' suggested prices, about 25 per cent said that they had and 75 per cent that they had not (see Table 26, Appendix 9.1). To the

¹Throughout the analysis percentages may not add to 100 due to rounding.

question 'Do you ever charge prices lower than either RRP's or suppliers' suggested (or promotional) prices?', 94 per cent of respondents said 'Yes' and 6 per cent 'No' (see Table 27, Appendix 9.1). Respondents were not asked how frequently they charged prices either higher or lower than RRP's.

Retail price competition

10.54. 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 was the ability to match prices of competitors. Multiple retailers representing just over one-half of respondents' sales of washing machines and tumble driers made this point; the parallel figure for dishwashers was about two-fifths and for CFS equipment just over one-half. Retailers accounting for about one-fifth of respondent sales of washing machines and CFS, about one-sixth of tumble driers and about one-quarter of dishwashers allowed managers some discretion to discount on discontinued, ex-display or damaged items. Other circumstances in which discounts could be made (2 per cent or less of respondents' sales of each reference white 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 stock. 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 seven multiple retailers which elaborated).

10.55. 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 therefore 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 RRP's.

10.56. Some multiple retailers provided data about actual discounts (as a percentage of sales or as a percentage of all transactions). Taking all four reference white goods together Dixons told us that the value of all discounts amounted to 2.2 per cent of sales values and covered 10 to 20 per cent of transactions. Dixons stated that 'the manager of each individual Dixons store has discretion within overall budget to offer a discount to an intending customer in order to close a sale. The amount represented by 'haggling' is not quantifiable but will be contained within the manager's discretionary discounts, which represent about 1 per cent of total sales'. Comet said that 25 per cent of 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 said that discounts were about 1 per cent of its sales by value. Three RECs provided data about the percentage of transactions on which they gave price discounts-these were NORWEB (10 per cent); Powerhouse (15 per cent); and SHE (3 per cent).

10.57. Dixons, Comet and other retailers sometimes selectively adjust prices either locally (special offers in individual shops) or in particular regions, for example on opening new stores, through so-called private sales or in response to local competition. The price reduction is sometimes implemented by means of a 'voucher' promotion (which may involve 'trade-in' offers-see paragraph 10.18); in exchange for vouchers (or coupons) cut out from press advertisements (sometimes they can also be collected on entering the store), purchasers claim a lump sum off the ticket price. Voucher promotions may also be undertaken nationally; they typically run for limited periods, for example bank holiday weekends. 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.

10.58. About two-thirds of respondents to the survey of small retailers told us that they met local competition by cutting prices; 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 RRP's; about one-third said that they did not (see Table 28, Appendix 9.1). We went

on to ask whether respondents 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 (see Table 29, Appendix 9.1). About 90 per cent of respondents told us that they would be prepared to bargain or price-match, most commonly by between 6 and 10 per cent. Over 80 per cent of respondents said that they would quote their own prices over the telephone (see Table 30, Appendix 9.1).

10.59. 54 per cent of respondents to the survey of small retailers said that they did not advertise the fact when offering prices below the RRP. 42 per cent 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. Over 70 per cent said that they would not do so (see Table 33, Appendix 9.1). Many told us that to do so would attract time-wasters.

10.60. Multiple retailers were asked how far they took competitors' prices into account when setting their own prices. Comments made by a large majority of respondents suggested that they monitor competitors' prices, though in some cases they stated that this was in order to control the price promise claims made by customers. Multiple retailers representing about 40 per cent of respondents' sales of washing machines and tumble driers and about one-third of dishwashers and CFS equipment indicated that competitors' prices were taken into consideration when they were setting prices in their outlets.

10.61. When asked what means they used for responding to changes in competitors' prices, multiple retailers representing above 85 per cent of respondents' sales of each reference good indicated that they adjusted their prices; for the majority of these the adjustment took place on the day or within a week, whilst a few adjusted their prices 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.

10.62. 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 14 respondents (about 45 per cent) selling each good out of a total of 32 respondents for washing machines, 30 for dishwashers and 31 each for tumble driers and CFS equipment indicated that in their view other retailers advertised at RRPs, priced at RRPs or priced and advertised at RRP. A further four respondents for washing machines, tumble driers and CFS equipment, and three respondents for dishwashers said that this happened in a certain segment of the market, for example among small retailers. Four respondents for each good said that other retailers did not price or advertise at RRP. The remaining respondents were unclear or stated that they were unable to comment.

Supplier-initiated promotions

10.63. Multiple retailers were asked about the extent to which suppliers took part in or provided funding for promotional price offers. Multiple retailers accounting for over 80 per cent of respondents' sales of washing machines and tumble driers indicated that suppliers were involved in funding or supporting promotions. The parallel figure was 73 per cent for retailers of dishwashers and 72 per cent for CFS equipment (see Table 10.5).

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

	<i>per cent respondents' sales</i>			
	<i>Washing machines</i>	<i>Tumble driers</i>	<i>Dish-washers</i>	<i>CFS equipment</i>
Suppliers fund/support promotions/ price reductions	82	81	73	72
Suppliers rarely or never involved	12	12	19	12
No reply or unclear response	<u>5</u>	<u>6</u>	<u>6</u>	<u>16</u>
Total*	100	100	100	100

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

*Percentages may not add to 100 due to rounding.

10.64. We analysed advertisements by Dixons involving price reductions on the four reference white goods (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 £10 and £150 for individual models (sometimes on presentation of a voucher or subject to trading in a similar product, and sometimes accompanied by a gift or interest-free credit) appeared in the *Daily Mirror* of 20 October 1995, the *Sun* of 27 October 1995 and the *Daily Mail* of 3 November 1995 (see Appendix 10.4). The analysis¹ showed that suppliers had initiated and financed the advertised reductions for nearly two-thirds of the washing machines, 43 per cent each of the tumble driers and dishwashers and 45 per cent of models of CFS equipment. With the exception of one model of dishwasher these promotions were also available to other retailers. Some of the models on which Dixons had instigated and financed offers were own-label or other brands exclusive to Dixons. These accounted for about 20 per cent of all washing machine and CFS equipment appearances analysed and about 30 per cent of tumble drier appearances.

10.65. Details of the five suppliers which initiated promotions featured in the advertisements are set out in Table 10.6. Hoover (eight models of washing machine and three models of tumble driers) was responsible for initiating the largest number of promotions. This was followed by Electrolux (seven models of CFS equipment) and Hotpoint (three models of washing machine, one dishwasher model and one model of CFS equipment).

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

Brand	Numbers			
	Washing machines	Tumble driers	Dish-washers	CFS equipment
Bosch	1	0	1	0
Electrolux	0	0	0	7
Hoover	8	3	0	0
Hotpoint	3	0	1	1
Zanussi	<u>1</u>	<u>0</u>	<u>1*</u>	<u>1</u>
Total	13	3	3#	9
Dixons' own label	0	0	0	1
Total models with advertised price cuts	20	7	7	20

Source: Dixons-see Appendix 10.4.

*The supplier financed price reduction on this model was not available to other retailers.

#The offer on one model was not available to other retailers.

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

10.67. In a report published in April 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. We asked Verdict to comment on the proposition that ticket prices in electrical stores often meant little because bargaining was widespread. It told us (in a letter dated 12 June 1996) that in its experience (based on feedback from its teams of field-workers 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.

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

Pressure by retailers on suppliers

10.68. Multiple retailers accounting for about 85 per cent of respondents' sales of washing machines and tumble driers 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 RRPs. For responding multiple retailers of the other reference white goods the corresponding figures were: 79 per cent for dishwashers; and 76 per cent for CFS equipment.

10.69. Whirlpool told us that it had never been asked expressly to withhold supplies from price-cutters, but retailers had often threatened to cease buying its products. It expected to receive an average of five complaints in a week from retailers complaining about the prices at which Whirlpool's products were being advertised by other dealers. 'They usually ask "what are you going to do about it?" and sometimes they threaten to withdraw their business.' Whirlpool said that it sometimes agreed to speak to the retailer who was advertising the discounted prices to make it known that Whirlpool had received a complaint, but it always made clear to complainants that it was unable to influence retail prices.

10.70. Commenting on promotional prices offered in those of its advertisements of the four reference white goods referred to in paragraph 10.64, Dixons said that where it had initiated and financed the cost of 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 and/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 10.124 to 10.133.)

10.71. We received from Dixons some documents and correspondence involving Zanussi-see Appendix 10.5. An official from Dixons' buying department attended an 'awayday' with Zanussi early in March 1996 and recorded the action points which he understood to have been agreed, without reference to Zanussi. One of these action points states, 'Zanussi to be more pro-active in terms of our [Dixons'] retail competitor offers on their product while also making sure we [Dixons] are not causing problems'. This was followed up on 15 March by a fax from Dixons to Zanussi about a dishwasher, which included the words, 'I would appreciate any ideas you may have with regard to the situation so that DSG's particular losses are minimised'.

10.72. About one-half of the respondents to the survey of small retailers said that they had complained to their suppliers about competitors' prices (see Table 41, Appendix 9.1). One respondent told us that he had complained to Miele about the discounted price of a dishwasher being offered by a competitor and that Miele's sales representative had undertaken to speak to the competitor about it. Miele told us that it had not sought to influence the transaction price. But it encouraged its dealers to maximize the profit they made on Miele products so that they refrained from demanding more margin from Miele. In this respect, Miele would have expected its representative to speak to the competitor concerned (see Appendix 10.10¹). About one-sixth of respondents said 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

10.73. 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 9.60) 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 10.82 to 10.87.

¹Case C24.

10.74. Questionnaire responses from mail order retailers have been weighted by the value of sales of the relevant reference white goods in 1995. In that year the five mail order companies accounted for 8 per cent of all retail sales of washing machines; 10.9 per cent of sales of tumble driers; 3.2 per cent of sales of dishwashers; and 4.7 per cent of sales of CFS equipment.

10.75. All five mail order companies said that suppliers recommended MORPs for the reference goods and each respondent then listed these suppliers. These ranged from four reference white goods suppliers named by Littlewoods to 27 reference white goods suppliers by Grattan. Altogether 45 reference white goods suppliers were referred to by at least one company. Five suppliers, listed by mail order companies as setting MORPs, said that they did not do so. Of these, BSDA and Lec said that they quoted their normal RRP and allowed mail order companies bigger discounts. Servis said that it negotiated a price rather than setting a MORP in advance and then negotiating a discount. MDA said that in practice the price that it suggested in the course of negotiations as the catalogue price was merely the price at which the product was sold to the customer by MDA plus the customer's intended margin but it denied that that was 'a generally applicable mail order price'. However, MDA also stated 'the customer's desired margin need not necessarily be (but in the case of mail order customers will tend to be) the same as that of other customers'. Emaco stated that it did not 'publish suggested or recommended resale prices specifically for mail order houses'. However, it accepted 'that [its] bilateral discussions with individual mail order houses do tend to involve discussions about the prices at which models might be featured in the catalogues'. It added that 'target catalogue prices are not manufacturer's recommended resale prices as Emaco understands that term; they are not prices at which Emaco is recommending that the products should be sold (by that mail order retailer or by retailers generally) once the catalogues are issued'.

10.76. 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 84 per cent of sales (by value) of washing machines by the mail order companies in 1995 were at MORPs, 85 per cent of sales of tumble driers, 82 per cent of sales of dishwashers and 84 per cent of sales of CFS equipment. For each of the four reference white goods, around 2 per cent of sales were at prices above MORPs, 7 to 8 per cent of sales were at prices up to 5 per cent below MORPs and 5 to 8 per cent of sales were at prices 5 to 10 per cent below MORPs.

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

	<i>per cent</i>			
	<i>Washing machines</i>	<i>Tumble driers</i>	<i>Dish-washers</i>	<i>CFS equipment</i>
<i>Sales (by value) at prices:</i>				
Above MORPs	2	2	2	2
Equal to MORPs	84	85	82	84
Up to 5% below MORPs	8	7	9	8
5% to 10% below MORPs	<u>6</u>	<u>6</u>	<u>7</u>	<u>7</u>
Total sales#	100	100	100	100

Source: Mail order companies and GfK.

*Empire, Freemans, GUS, Grattan and Littlewoods.

#Percentages may not add to 100 due to rounding.

10.77. Though all respondents said that they sometimes sold goods at prices below MORPs, when asked whether they displayed MORPs alongside their own lower price four respondents said that they never did so while one company (Freemans) said that it did this occasionally.

10.78. When asked whether suppliers discussed proposed MORPs with them 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 4 to 27. Four reference white goods suppliers-Creda, Candy, Hoover and Hotpoint-indicated that they discussed 'mail order' suggested or recommended prices with mail order companies before deciding what price to suggest.

10.79. 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.

10.80. Though all respondents stated that models in their catalogues were typically on sale in high street shops, two mail order companies (Freemans and Littlewoods) said that there were some models which were available only from mail order catalogues and not from the high street. Three companies (Freemans, Littlewoods and Grattan) stated that they carried models in their catalogues which were exclusive to them.

10.81. 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 are up to 20 per cent higher than their high street equivalents. GUS referred to a range from high street level to 20 per cent above, Empire 10 to 20 per cent higher, Grattan 10 to 15 per cent higher, and Freemans 7 to 8 per cent higher. Littlewoods put the difference at 15 per cent higher. Freemans cited the margin requirements of the business as the reason for the higher catalogue prices, while the remaining respondents referred to agents' commission,¹ delivery and installation costs and credit as factors explaining differences; GUS also mentioned its home approval policy.

Contracts

10.82. We invited suppliers to send us copies of their contracts with mail order retailers. Six suppliers of reference white goods provided us with 18 examples of contracts or of documents sent out by mail order companies seeking information about products which were being considered for their catalogues.

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

10.84. 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 five reference white goods suppliers which provided examples of Empire's contract, all had answered Question 18 while Crosslee, Creda and Whirlpool answered Question 19 and two suppliers, Creda and Whirlpool, answered Question 20.²

10.85. 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 white 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.

10.86. 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 reference white goods supplier which provided a copy of this form-MDA-answered all the questions; others did not.

10.87. 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'. Neither of the suppliers (MDA and Emaco (Zanussi)) which provided examples

¹ Agents' commission is typically 10 per cent of the value of purchases-see paragraph 9.59.

² GDA told us that Creda would merely have stated its suggested price.

answered this question. 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. The three suppliers which gave us examples of Grattan's form all replied to the question on exclusives. The reply by MDA indicated that the washing machine on which Grattan was seeking details was exclusive to mail order.

Catalogue price comparison

10.88. We compared mail order prices for each of the four reference white 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.

10.89. In the case of washing machines the analysis revealed that, of the 94 different models identified, 59 appeared in only one catalogue whilst 35 were sold by two or more of the five companies. When prices of these 35 models were compared, 28 (80 per cent) were the same¹ in all catalogues in which they appeared. Some brands of washing machine showed greater degrees of price uniformity than others; Hoover, Servis, Whirlpool and Zanussi were offered throughout at uniform prices. In the case of Hotpoint prices were the same for seven out of nine models listed in the catalogues; the parallel numbers for Indesit were five out of eight models. The results for washing machines are at Appendix 10.6.

10.90. Of the 31 different models of tumble driers identified in the analysis, 12 were sold by two or more of the companies and 19 by one company only. When prices of these 12 models were compared, eight (67 per cent) were priced the same in all the catalogues in which they appeared. Of these eight, four were Crosslee models, three were Hotpoint models and one was a Servis model. The analysis is at Appendix 10.7.

10.91. In all, 16 different models of dishwashers were identified in the analysis and seven of these were sold by two or more mail order companies. Five of the seven models (two Hotpoint, one Bosch, one Servis and one Whirlpool) were priced the same in all of the catalogues in which they appeared. The results are at Appendix 10.8.

10.92. In the case of CFS equipment, of the 90 different models identified, 29 were sold by two or more mail order companies and 61 by one company only. When prices of these 29 models were compared, 18 (62 per cent) had a uniform price in all catalogues in which they were listed. Some suppliers' models showed a greater degree of price uniformity than others. No supplier had complete price uniformity throughout its range (apart from Servis and Whirlpool, but in the case of these suppliers there was only one model which qualified for the price comparison exercise). For two suppliers, Norfrost (two appearances), and Lec (one appearance), there was no price uniformity. Hotpoint models were the most widely offered with ten appearances, eight of them with uniform prices. Tricity Bendix (Emaco) and Indesit (Merloni) each had three models on offer in at least two catalogues; for both of these price was uniform for one of these models. Zanussi (Emaco) and Beko both made four appearances. Zanussi had a uniform price on three occasions against Beko's two. Appendix 10.9 presents the results.

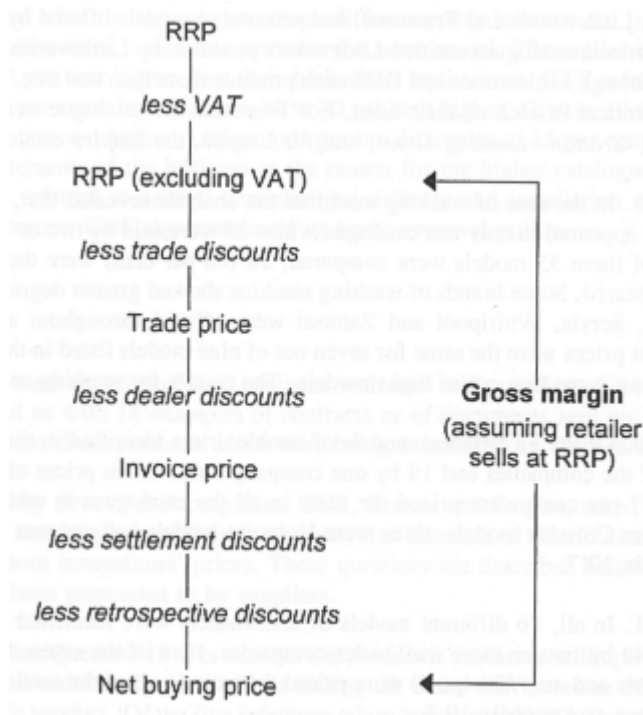
Discounts and gross margins

10.93. As mentioned earlier (see paragraph 10.13), retailers' buying prices in this industry are calculated by working downwards from the RRP. The only exception to this among the major suppliers is MDA with its Indesit brand for which, we have been told, buying prices are invariably agreed between supplier and retailer without any reference to RRPs, except when a new model is launched.

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

10.94. Suppliers generally distinguish in their discount structures between free-standing and built-in groups of products. They may also distinguish between different 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.

10.95. The manner in which net buying prices of the reference white goods are typically determined from RRP 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 may occur from this and in fact most major suppliers do not publish standard trade prices or discounts. Accordingly, their negotiations with retailers about dealer discounts (to arrive at an invoice price) start from RRP (excluding VAT) rather than the trade price.

Discounts

10.96. Discounts can broadly be divided between those that are fixed (for the period of an 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

10.97. 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. However, as already mentioned, most major suppliers of white goods do not publish standard trade prices or discounts.

Dealer discounts

10.98. 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. Although in other industries dealer discounts may be expressed as a percentage of trade price, for the major white goods suppliers such discounts are usually quoted as a percentage of RRP (excluding VAT), in the absence of any standard trade prices on which to base them. 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

10.99. Settlement discounts are conditional on 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).

10.100. 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

10.101. Most suppliers give retrospective volume discounts (also known as 'retros' or 'overriders'). 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, say, a three-year period. Payment would be made retrospectively after the end of the relevant period by means of a credit note against current or future purchases.

10.102. Retrospective volume discounts can arguably provide a significant incentive for retailers to promote a particular brand at another's expense. This is likely to be most effective just prior to the year end and when the likelihood of achieving a particular turnover threshold is finely balanced.

10.103. 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 (ie 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. Suppliers may also stipulate that advertising support should be matched (for example, 50:50) by the retailer.

10.104. 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, money-off vouchers and trade-in offers, or on merchandising products (for example, providing display material and promotional literature).

Other discounts

10.105. 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:

- *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 paragraph 10.102).
- *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).
- *Bought-out guarantee discount*-a fixed discount (rarely given on white goods) which can be given as a percentage of RRP (excluding VAT) or of invoice price. In return the retailer agrees to take on any costs arising from suppliers' guarantees on products sold.
- *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.
- *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.
- *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.

Discounts given by the major suppliers

10.106. We asked suppliers of the reference white 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 10.8 sets out the different discounts given by the major suppliers of the reference white goods and the approximate range of rates involved.

10.107. 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 often apply only to particular groups of retailers (for example, small retailers or single-purchase customers). They are invariably superseded by negotiated dealer discounts for those retailers which purchase in significant quantities.

10.108. Table 10.8 gives an indication of the different discounts offered by suppliers of the reference white 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

10.109. We asked multiple retailers of the reference white 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?

10.110. 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.

TABLE 10.8 Types and rates of discounts given by the major suppliers of the reference white goods*

per cent

	Type of, and base price for, discount									
	Reference goods supplied	Trade discount RRP (excl. VAT)	Dealer discount Trade price#	Settlement discount Invoice price	Volume discount Invoice price	Retrospective advertising support Invoice price	Target discount Invoice price	Growth/Display discount Invoice price	Guarantee discount Invoice price	Bought-out no return discount Invoice price
GDA										
Creda	All	[
Hotpoint	All									
Emaco										
AEG	All									
Electrolux	All									
Tricity Bendix	All									
Zanussi	All									
Candy										
CDA	All									
Hoover	Not CFS									
MDA										
Ariston	All									
Indesit ^β	All									
Whirlpool										
Bauknecht	All									
Ignis	Not tumble driers									
Whirlpool	All									
BSDA										
Bosch	All									
Neff	Not tumble driers									
Siemens	All									
Crosslee	Tumble driers									
Lec~~	CFS]

Figures omitted. See note on page iv.

Source: Suppliers.

*The discounts in the table should not be cumulated in an attempt to arrive at a total margin (see paragraph 10.107)

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

[Details omitted. See note on page iv.]

βIn the case of the Indesit brand we were told that invoice prices and settlement and retrospective discounts were agreed individually with each retailer unrelated to RRP.

[Details omitted. See note on page iv.]

~~Each discount cumulates on the previous one rather than being calculated on the base prices shown.

Gross margins from RRP

10.111. We asked suppliers of the reference white goods to indicate the average gross margin (defined as RRP excluding VAT minus net selling price to retailers after all discounts, as a proportion of the RRP excluding VAT) on their sales to retailers of each of the reference white goods for their latest financial year (1994/95).

10.112. Most suppliers stated that they did not have the data or the resources to perform a precise calculation or to distinguish the reference white goods from other similar products. Consequently estimated or indicative figures have generally been provided.

10.113. The average gross margins (as defined in paragraph 10.111) for the major suppliers of the reference white goods are summarized in Table 10.9. MDA has been excluded from the table having told us that, in the case of its Indesit brand, its prices to retailers bore no relation to RRP. Its Ariston and Scholtès brands are insignificant in terms of market share.

TABLE 10.9 Reference white goods suppliers: average gross margin from RRP (excluding VAT) on sales to retailers in 1994/95

	<i>percentage</i>			
	<i>Washing machines</i>	<i>Tumble driers</i>	<i>Dishwashers</i>	<i>CFS equipment</i>
GDA				
Creda	[
Hotpoint				
Emaco				
AEG*				
Electrolux*				
Tricity Bendix*				
Zanussi				
Candy				
CDA				
Hoover		#		
Whirlpool		<i>Figures omitted. See note on page iv.</i>		
Bauknecht*				
Ignis*	#			
Whirlpool*				
BSDA				
Bosch*				
Neff	#			
Siemens*				
Cross/lee	#	#	#	
Lec	#	#	#]

Source: Suppliers.

*Free-standing products only.

#Reference good not supplied, or only supplied in very small quantities.

10.114. Table 10.9 and the analysis of margins for different channels of trade which follows in Tables 10.10 to 10.13 have been drawn up on the assumption that goods are sold by retailers at RRP. If retailers' actual selling prices were generally lower than RRP, then (other things being equal) retailers' actual gross margins would correspondingly be lower than those shown in Table 10.9.

10.115. On that assumption Table 10.9 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 [~] to [~] per cent.

Gross margins for different channels of trade

10.116. We also asked suppliers of the reference white goods to indicate the gross margin from RRP (excluding VAT) which would be 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); and
- department stores.

10.117. The suppliers responded to this question in a variety of ways. Commonly an estimated or indicative figure (based on the terms available to one retailer or a group of retailers within each trade channel) was given. In a number of cases this 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 generally have common terms across different products, usually distinguishing only between free-standing and built-in appliances. A number of suppliers also emphasized that there could be quite considerable variations in the treatment of individual retailers within each channel of trade, purely depending upon the relationship between the supplier and the retailer concerned. For instance, a supplier may be very reliant on a certain retailer in a particular geographical location.

10.118. The outcome of this exercise, for the major suppliers of the reference white goods (with the exception of MDA for the reasons stated in paragraph 10.93), are set out in Tables 10.10 to 10.13. These tables show, by channel of trade (excluding mail order since very few suppliers gave us the required information), the differential in percentage points from the average gross margin from RRP set out in Table 10.9 (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). Dashes in the tables indicate that the product or model is not supplied (in any material quantity) through that particular trade channel. Unless stated otherwise the figures relate to the best-selling model.

TABLE 10.10 **Best-selling washing machines: 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 sales of washing machines of that brand**

	<i>Dixons and Comet</i>	<i>Other multiples</i>	<i>Small retailers</i>	<i>Department stores</i>
<i>GDA</i>				
Creda	[
Hotpoint (all sales)				
<i>Emaco</i>				
AEG (all sales)*				
Electrolux (all sales)*				
Tricity Bendix (all sales)*				
Zanussi (all sales)*				
<i>Candy</i>				
CDA				
Hoover		<i>Figures omitted. See note on page iv.</i>		
<i>Whirlpool</i>				
Bauknecht (all sales)*				
Ignis (all sales)*				
Whirlpool (all sales)*				
<i>BSDA</i>				
Bosch (all sales)*				
Neff (all sales)				
Siemens (all sales)*]

Source: Suppliers.

*Free-standing products only.
 [Details omitted.
 See note on page iv.]

TABLE 10.11 **Best-selling tumble driers: 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 sales of tumble driers of that brand**

	<i>Dixons and Comet</i>	<i>Other multiples</i>	<i>Small retailers</i>	<i>Department stores</i>
<i>GDA</i>				
Creda	[
Hotpoint (all sales)				
<i>Emaco</i>				
AEG (all sales)*				
Electrolux (all sales)*				
Tricity Bendix (all sales)*				
Zanussi (all sales)				
<i>Candy</i>				
CDA				
Hoover		<i>Figures omitted. See note on page iv.</i>		
<i>Whirlpool</i>				
Bauknecht (all sales)*				
Ignis (all sales)*				
Whirlpool (all sales)*				
<i>BSDA</i>				
Bosch (all sales)*				
Neff (all sales)				
Siemens (all sales)*				
Crosslee (all sales)]

Source: Suppliers.

*Free-standing products only.

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

TABLE 10.12 **Best-selling dishwashers: 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 sales of dishwashers of that brand**

	<i>Dixons and Comet</i>	<i>Other multiples</i>	<i>Small retailers</i>	<i>Department stores</i>
<i>GDA</i>				
Creda	[
Hotpoint (all sales)				
<i>Emaco</i>				
AEG (all sales)*				
Electrolux (all sales)*				
Tricity Bendix (all sales)*				
Zanussi (all sales)				
<i>Candy</i>				
CDA				
Hoover		<i>Figures omitted. See note on page iv.</i>		
<i>Whirlpool</i>				
Bauknecht (all sales)*				
Ignis (all sales)*				
Whirlpool (all sales)*				
<i>BSDA</i>				
Bosch (all sales)*				
Neff (all sales)				
Siemens (all sales)*]

Source: Suppliers.

*Free-standing products only.

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

TABLE 10.13 **Best-selling CFS equipment: 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 sales of cold food storage of that brand**

	<i>Dixons and Comet</i>	<i>Other multiples</i>	<i>Small retailers</i>	<i>Department stores</i>
GDA				
Creda	[
Hotpoint (<i>all sales</i>)				
Emaco				
AEG (<i>all sales</i>)*				
Electrolux (<i>all sales</i>)*				
Tricity Bendix (<i>all sales</i>)*				
Zanussi (<i>all sales</i>)				
Candy				
CDA				
Whirlpool(<i>all sales</i>)*		<i>Figures omitted. See note on page iv.</i>		
Bauknecht				
Ignis (<i>all sales</i>)*				
Whirlpool (<i>all sales</i>)*				
BSDA				
Bosch (<i>all sales</i>)*				
Neff (<i>all sales</i>)				
Siemens (<i>all sales</i>)*				
Lec]

Source: Suppliers.

*Free-standing products only.

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

10.119. As one might expect, Tables 10.9 to 10.13 indicate that Dixons and Comet generally achieve the best buying terms and small retailers the least favourable. The tables include a mixture of data on free-standing and built-in appliances; several suppliers told us that retail margins on built-in appliances are generally higher than on free-standing appliances, which might account for differences in margins between suppliers.

Margin maintenance when the RRP changes

10.120. As discussed earlier (see paragraph 10.18), suppliers frequently change RRP's. 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. When RRP's are adjusted it is common practice for retailers' invoice prices to be amended simultaneously. One simple way in which this is effected for a temporary period is in a fixed ratio, often 6:10 or thereabouts. In other words, for every £10 cut in the RRP the retailer's invoice price is reduced by £6.

10.121. Suppliers told us that unless they provided this assurance to retailers, their brands would be displaced from the retail market by a competitor who did offer it. Multiple retailers explained their requirement for margin maintenance in terms of the need to share with suppliers the risk they took in committing themselves to forward business plans for particular models.

10.122. However, where the supplier and retailer have already reached an agreement (as part of the annual negotiating round) regarding the retailer's gross margin from RRP, a reduction in RRP leads automatically to a reduction in invoice price by the same percentage, so that the retailer's gross margin from RRP (excluding VAT) is maintained in percentage, although not in absolute, terms.

10.123. 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 at the end of June 1996 we were informed by Dixons that the clause had been deleted from its terms and conditions. ScottishPower has a similar clause in its conditions of contact for the supply of goods, but it insisted that we had quoted this out of context.

Margin support

10.124. Where there is downward pressure on retail prices and margins, but RRP's 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 white goods industry, margin support is much less common. We discuss below *ad hoc* and contractual margin support and stock compensation.

Ad hoc margin support

10.125. 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 been obliged to follow 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.

10.126. We asked suppliers of the reference white 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 white goods? *If yes*, what is the form and the extent of such assistance, and under what conditions or provisos is it given?'

10.127. Most of the major suppliers denied that they would give margin support to a retailer in order to enable him to meet price competition from another retailer. However, Emaco said that, although there was no predetermined strategy and it would be unusual for this kind of support to be given, its provision would depend on the prevailing market conditions. MDA said that it gave margin support to some customers on a case by case basis (see below).

Contractual margin support

10.128. MDA explained to us that it had informal agreements with CIH and Allders to provide margin support on Ariston appliances. MDA had agreed to this in order to try to achieve a greater level of market penetration than would otherwise have been possible with the Ariston brand, which had only a small market share. MDA said that the cost to date had been small and that retailers generally did not make many claims because they tended to avoid head-to-head competition on models in the Ariston range.

10.129. 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.'

10.130. 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. Subsequently, Dixons informed us that clause 13 (like clause 1) had been deleted from its terms and conditions at the end of June 1996. None of the major suppliers we consulted took the view that clause 13 was in itself material to their relationship with Dixons.

10.131. 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:

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.

Stock compensation

10.132. Stock compensation is very similar in nature to margin maintenance and margin support, 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.

10.133. We asked suppliers of the reference white goods in what circumstances, if any, they would give a retailer financial help to sell stock at reduced prices. The replies we received from suppliers indicated that they were generally unwilling to assist retailers to sell stock at discounted prices. However, Whirlpool stated that it would give promotional support if a retailer was having severe problems selling products already held by the retailer in stock and would give retrospective discounts on such stock following a reduction in RRP. Emaco and BSDA said that they would give margin support on end-of-line stock in certain circumstances.

Observations on suppliers' behaviour

10.134. 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 10.10. In all, we received 352 observations from dealers and others in respect of one or more of the reference white goods. We judged that 252 of these lacked sufficient detailed evidence for us to pursue them further, or were not within our terms of reference (see paragraph 6.6).

10.135. The remaining 100 observations, and suppliers' comments on them, are at Appendix 10.10. We accepted the dealer's account of events in 53 of these cases; these observations have been denoted by an asterisk against the name or code number of the dealer. In 22 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 25 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 10.10 and we have not relied upon them in reaching our conclusions.

International comparisons

10.136. We asked major suppliers and multiple retailers in what ways they thought the patterns of retailing for each of the reference white 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 white goods were lower in the UK than elsewhere in the EU.

10.137. 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.

10.138. 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 washing machine prices in eight European countries¹ covering a four-month period to August 1995. The figures indicated that the prices of front-loading automatic washing machines were higher in most of these countries than in Great Britain. The highest prices shown were in Germany and the Netherlands. Prices in Italy and Spain, where low spin speed models were predominant, were below those in Great Britain.

10.139. GfK did not specify the methods it used to collect the data it used in the analysis. In its report it acknowledged the difficulties in making international comparisons but concluded that 'wherever any reasonable comparison can be made, either at product or product group level, other countries maintain, in most cases, a higher price than the UK'. GDA told us that with a uniform VAT system covering the EU it did not believe that there was any material obstacle that would have prevented us establishing that the GfK data referred to in paragraphs 10.137 and 10.138 were valid.

10.140. GDA told us that it believed the UK prices of reference white goods were the lowest in Europe. It sent us the same GfK data referred to in paragraph 10.138, and included a separate analysis undertaken by GfK covering a 12-month period ended 31 October 1995. This showed that the average prices for washing machines with low and high spin speeds in Great Britain were lower than those shown for any of the other eight countries.

10.141. We asked GDA why, in the light of its statement that prices in the UK were lower than in the EU countries, its exports of reference goods were so small. GDA said that, in the past, British white goods suppliers had not paid as much attention to exports as they should have done. GDA was now concentrating on improving its market share but faced the difficulty that its brand names, Hotpoint and Creda, were not well known in the rest of Europe. Differences in the structure of retailing in each of the EU countries affected a new entrant's opportunities for success. For example, a supplier might have to visit over 2,000 retailers in Italy to achieve the same volume of sales it could achieve through a few multiple retailers in the UK.

10.142. Emaco said that there was a growing trend, applicable to all white goods, towards more uniform conditions of competition across Europe. Increasingly, no manufacturer active in Western Europe could determine its competitive behaviour in any one country without being constrained by significant competitive pressures from other European countries. Emaco also told us, however, that apart from certain basic products such as chest freezers, it did not sell identical models across Europe. The UK tended to be different in terms of its consumer requirements compared with other countries so direct comparisons were difficult.

10.143. Several other suppliers stated that model specifications, particularly of washing machines and dishwashers, differed from country to country. In addition to the differences in spin speeds on

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

washing machines, we were advised that top loading washing machines were predominant in France, in the USA (agitator-driven) and in Japan (impeller-driven). However, GDA said that product differences between the UK and the rest of the EU tended to be relatively minor.

10.144. Emaco said that restructuring in the industry had greatly reduced the number of manufacturers. There were opportunities for further consolidation which would lead to the creation of more trans-national groups. Manufacturers in Western Europe were concentrating on developing common products which could be easily and cheaply adapted to local preferences. Flexible product lines were able to produce appliances with different specifications and performance options. GDA and Whirlpool shared that view. GDA said that it was now possible for a single factory to serve the entire EU market with a range of products which shared a common chassis. MDA said that it believed the concentration of manufacturing in Europe had probably peaked. It believed that it was necessary to retain different brands to cope with national or regional preferences.

10.145. Whirlpool said that there were now far more brands than suppliers. The concentration of suppliers, brands and retailers in the UK white goods market was much higher than elsewhere in Europe. For example, the UK sales (by volume) of the top five brands of washing machines was around 70 per cent compared with around 50 per cent elsewhere in Europe. However, the top brands varied from country to country. GDA commented that, despite the presence of large pan-European manufacturers, there were some EU countries in which one major producer chiefly served a single market: GDA in the UK; Miele in Germany; and Fagor in Spain.

10.146. Miele told us that the depressed state of the UK market since the onset of the recession in 1989, influenced by the collapse of the housing market and the reluctance of consumers to buy consumer durables, was a notable difference compared with other EU countries. It also believed there was greater competition in the UK between manufacturers and between retailers and that this had led to lower prices and margins in all the reference white goods.

10.147. Whirlpool said that it believed cheap prices and special offers were of paramount importance to UK consumers purchasing white electrical goods. They were usually a distress purchase. In some other EU countries knowledgeable staff, warranties and free delivery took priority. BSDA said that, in the past, the UK consumer had shown more interest in low prices than in quality. Hoover said that UK consumers were willing to shop around for bargains more than was assumed.

10.148. Whirlpool said that, despite being the market leader in white goods in the USA in the 1980s, it had decided to diversify into European markets. It had considered that the potential for growth in the USA was limited whereas Europe offered greater opportunities to maximize profitability. Whirlpool had identified a 'value gap' in European markets. Consumers paid considerably more and probably obtained less value for money than their US counterparts. Whirlpool had aimed to meet that gap; its business had been growing steadily although it had felt the effects of worsening economic factors in Europe, a more competitive environment, and the effects of raw material costs.

10.149. GDA considered that the MMC should have had no difficulty in establishing that in recent years pan-European suppliers such as itself had made very little profit from the sale of reference white goods. It said that some of these suppliers had adopted aggressive pricing strategies in their attempts to increase their penetration of the UK market. Suppliers from non-EU countries found the UK market particularly attractive because it had the easiest distribution structure in Europe. If a supplier could sell to the three largest retailers in the UK, it could achieve 50 per cent of national distribution. GDA had found it necessary to lower the prices of some of its products to compete with imports of CFS equipment from manufacturers in central and eastern Europe, and more recently from Korea. GDA believed it was likely that some of the imports from Eastern Europe were being sold at or below marginal cost to enable the suppliers to realize hard currency. The low prices of Korean goods were governed by their suppliers' desire to gain a foothold in the UK market.

10.150. GDA said it was true that prices for many categories of product were lower in the USA than the UK, including the simpler types of washing machines and tumble driers-but not refrigerators. It believed scale economies and the differences in raw material costs were probably partly responsible although the most significant difference was specification. With the exception of refrigerators, the reference white goods that were supplied to the UK market were more complex, more sophisticated and higher performing.

10.151. Hoover said that Europe was suffering from a more pronounced excess of supply over demand than the USA and that this had led to lower margins and prices in Europe. It was more costly, too, for suppliers in Europe than in the USA or Japan to satisfy consumer demands because of the greater diversity of specification (although these differences were gradually diminishing).

10.152. Crosslee said that the UK was one of the most competitive white goods markets in the world and was also 'fairly open' with regard to trade. Candy said that, unlike other markets, advertising in the UK was largely retailer-led. It also commented on the widespread use of interest-free credit in the UK which it, and other suppliers, said was uncommon abroad.

10.153. 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 sales taxes. GUS said that the design and specification of reference white goods sold outside the UK varied greatly, especially in the USA and Japan. Littlewoods said that local taxes in the USA were not included in the headline prices.

10.154. 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) different electrical standards in the UK which made products more expensive (in particular the 240-volt system used in the UK necessitated more heavily insulated components than the 110-volt system adopted in the USA);
- (c) UK products carried 12-month warranties whereas in the USA a three-month carry-back guarantee¹ was the norm; and
- (d) UK products were designed to have a seven-year service life, reflected in AMDEA's code of practice² whereas no equivalent code of practice existed in the USA.

10.155. 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 white goods; any other published information relevant to competition in any of the goods; and any evidence that suppliers of the reference white goods recommended retail prices. We received replies from the USA, Germany and Canada.

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

10.157. 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. Such businesses in the electrical goods industry had therefore formed so-called 'business circles' for the purposes of jointly engaging in advertising, servicing and promotional activity. So far the Bundeskartellamt

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

²AMDEA's Code of Good Practice relates to the servicing of domestic appliances. Its definition of service life relates purely to the minimum period after the cessation of product manufacture during which functional spares must be made available. AMDEA specifies the period for three of the reference white goods (washing machines, tumble driers and CFS equipment) as ten years.

had tolerated the participation of manufacturers in these business circles only if narrow, specific conditions were met. The Bundeskartellamt told us that it believed there was a danger that these joint activities might circumvent the prohibition of RPM.

10.158. 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 white goods under these provisions.

Retailing patterns

10.159. Some suppliers told us that there was not much difference between the retailing of reference white 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.

10.160. Emaco told us that major domestic appliances were increasingly purchased by retailers which were active in several countries as well as by buying groups, including Euronics (see paragraph 8.56). Emaco said that these large buyers were aware of prices across Western Europe and sought to be supplied on the best terms available, increasing the pressure on suppliers to adopt common product models and competitive pricing across Europe.

10.161. GDA told us that there was a world-wide trend towards greater concentration in the retail sector, where larger and more efficient players were gradually winning market share. It believed this concentration was most advanced in the UK and France, whilst somewhat less so in the USA, and perhaps least in Italy, and Japan. The concentration in the UK placed considerable buying power in the hands of the leading retailers, and considerable pressure on suppliers to provide various kinds of support. GDA said that, other than Darty in France, there were no retailers in Europe of a comparable size with Dixons or Comet.

10.162. Whirlpool, too, commented on the concentration of retailing within the UK which it said had increased significantly in recent years. Whirlpool believed that the major retailers were extremely conservative in choosing which brands to sell which made it difficult for new entrants to the UK market.

10.163. Hoover told us that none of the key retailers in the UK or Europe were large enough to exert undue commercial pressure. It also commented that warehouse clubs did not seem to be attractive to the majority of UK consumers although they were more commonplace in Europe. GDA said that warehouse clubs, which were widespread in the USA, were a minor factor in the UK and non-existent elsewhere.

10.164. 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. It believed credit offers were more common in the UK than elsewhere.