9 Retailing

Contents

Introduction

9.1. The suppliers of the electrical goods specified in our four white goods references (as well as those in our four concurrent brown goods references) distribute nearly all of their products through dealers. The most important dealers are the retailers (including mail order companies), with relatively small quantities being bought by rental companies, warehouse clubs and other non-retail outlets. Most retailers acquire reference goods directly from the suppliers, and only limited volumes are purchased from wholesalers or distributors (whose activities are described in paragraphs 8.46 to 8.49). Some retailers have formed buying groups (the largest of these, CIH, is described in paragraphs 8.50 to 8.57).

9.2. The main task of this chapter is to describe the role and activities of the principal retailers of the reference white goods. Retail pricing of these goods is considered in Chapter 10. The effects of suppliers' selective distribution arrangements on the retailers are described in Chapter 12.

9.3. We obtained information on retailers from several sources. These included: responses to questionnaires sent to suppliers, multiple retailers and mail order companies; a survey of small retailers; written submissions from retailers, including their responses to our `issues letters'; visits to retailers and warehouse clubs; and hearings with various suppliers, retailers and trade associations, followed in some cases by further written submissions. The views of retailers and other dealers are set out in Chapter 14.

9.4. We sent a questionnaire to all multiple retailers, defined for our inquiries as those selling domestic electrical goods from five or more outlets, and to the five major mail order companies. Some respondents did not answer all our questions, and some were unable to give information for each of the reference goods separately, for example when washing machines and tumble driers were grouped as a single home laundry category in their management information systems. Details of the number of complete replies are set out in paragraph 10.8, and we estimate that the response rate for multiple retailers weighted by sales was over 85 per cent for each of the reference goods. We also sent out supplementary questionnaires to suppliers and to the five major mail order companies in the course of inquiring into mail order retailing of the reference goods.

9.5. There are many categories of electrical goods retailer, but the first distinction we have made is between those who, broadly speaking, specialize in electrical goods (described in paragraphs 9.6 to 9.44) and those for whom electrical goods contribute only a small part of their turnover (described in paragraphs 9.45 to 9.69).

Electrical goods specialists

9.6. Electrical goods specialists include a relatively small number of national and regional multiples (including the retail operations of the regional electricity companies) and a much larger number of small retailers. Many offer both white and brown goods, including the reference goods, sometimes all eight. For many of them sales of non-reference white goods such as cookers and microwave ovens are important. Most of them sell small domestic appliances, and some have diversified into newer segments such as telecommunications products, computer hardware and software, and video games.

National multiples

9.7. Following the closure of Rumbelows (see paragraph 9.24) the only two specialist electrical goods retailers with operations across Great Britain are Dixons and Comet, a subsidiary of Kingfisher.

Dixons Group plc

9.8. Dixons was incorporated in 1937 under the name Dixon Studios Ltd. Originally it was in the business of portrait photography but by the mid-1940s its main activity was the retail sale of photographic equipment and optical products. It was listed on the London Stock Exchange in 1962. The company expanded rapidly during the 1960s and early 1970s, through both organic growth and acquisitions. During this period it diversified into audio products and television sets and subsequently extended its range to include VCRs, hi-fi, microwave ovens, computers and other electronic equipment.

9.9. In 1984 Dixons acquired Currys Group plc, a national retailer of white and brown goods, and Mastercare Ltd (Mastercare), its servicing subsidiary. In 1988 it bought Wigfalls plc, a chain of 106 electrical stores (mainly in northern England) which were then integrated into the Dixons and Currys organizations.

9.10. In December 1989 Kingfisher, which already owned Comet, announced that it intended to acquire Dixons. The offer was opposed by Dixons' management and was referred to the MMC. The MMC, with one member dissenting, concluded that the proposed merger would significantly weaken competition in the electrical appliance market, and lead to prices higher than otherwise with no compensating benefits. The majority therefore found that the merger would be against the public interest and recommended that it should not be permitted.[1] The Secretary of State agreed, and Kingfisher abandoned the bid.

9.11. In 1993 Dixons sold its retail operation in the USA and its UK Property Division, leaving a European Property Division and a UK Retail Division. The main arm of the UK Retail Division is DSG Retail Limited (DSG) which is the principal retailing operating unit. DSG operates the Dixons and Currys stores, all of which are in the UK. DSG has limited mail order operations conducted under the names Partmaster and Dixons Direct, which enable customers to respond to advertisements in the national press without contacting a local store. DSG also owns the PC World and The Link chains selling computer and telecommunications products respectively. Other operating units in the division are Mastercare, which provides a repair and after-sales service for products supplied by DSG stores, including Dixons and Currys; Coverplan Insurance Services plc, a subsidiary which is principally concerned with the provision of extended warranty insurance and managing consumer credit; and DSG (Far East) which liaises with principal suppliers in the Far East and provides quality control for exclusive brands made in the Far East.

9.12. In 1995 there were 353 Dixons high street stores and 386 Currys stores (195 in high streets and 191 out of town) in Great Britain and Northern Ireland. Each of the Dixons and Currys chains is headed by a Managing Director and has its own central marketing department. Both chains are serviced in terms of buying, advertising, merchandising, security and the like by central departments within DSG. There is a single management information system, a common distribution network and integrated after-sales service support.

9.13. Dixons told us that in the last five years it had differentiated the Dixons and Currys chains very clearly, and saw Dixons stores staying in the high street and Currys developing out of town. Currys' principal market was major electrical products for the home, with about 40 per cent of its business in white goods, 40 per cent in brown goods and the balance in other products. It concentrated on large appliances and products, for which the market was developing out of town because of the space needed to display a wide range and give customers a good choice. Dixons stores, by contrast, were aimed at selling personal electronics that could be carried out of the store, and would remain in the high street for many years; they did not stock the reference white goods.

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[1] *Kingfisher plc and Dixons Group plc: a report on the proposed merger*, HMSO, Cm 1079, May 1990.

9.14. Dixons has one own-label reference white goods brand, Nova Scotia (CFS products).

9.15. The results of Dixons' UK Retail Division for the four years to 30 April 1996 are summarized in Table 9.1. For the year to 30 April 1993 they exclude the results of discontinued operations, and for the following year they include exceptional charges of £24.5 million, mostly related to store closures. Much of Dixons' sales growth has come from personal computers and telecommunications products, both in its Dixons and Currys stores and in its specialist store chains, PC World and The Link, but for the year ended 30 April 1996 it reported that sales of white goods increased by 21 per cent, representing a gain in market share of 1.9 percentage points. In 1995/96 its operating profit increased by 38 per cent from the previous year, while for the 28 weeks ended 9 November 1996 its operating profit was 57 per cent higher than for the same period in 1995.

TABLE 9.1 **Dixons: financial performance of UK Retail Division**

				£ million
		Years ended 30 April		
	1993	*1994*	*1995*	*1996*
Turnover	1,274.3	1,402.1	1,545.7	1,900.8
Operating profit	77.0	47.8	90.5	125.0
Net operating assets	121.8	126.8	111.4	189.4
Average net operating assets	124.3	119.1	150.4	
				per cent
Operating margin	6.0	3.4	5.9	6.6
Return on average net operating assets	63.2*	38.5	76.0	83.1

Source: Dixons.

*Return on year-end net operating assets.

9.16. In 1995/96 the group had approximately 15,800 staff in the UK, of whom 10,100 were employed in the Dixons and Currys chains.

Comet Group plc

9.17. Comet began in 1933 as Comet Battery Service (Hull), renting out charged accumulators for radio receivers, before moving into the sale and rental of radio sets and, in the early 1950s, of televisions. Following the abolition of RPM in 1964, it pursued an aggressive policy of price discounting, although this occasionally brought it into conflict with its suppliers. Keen prices were backed by extensive advertising. It pioneered the use of edge-of-town discount warehouses. By 1983 it was selling the full range of white and brown goods from 180 warehouses, and had an annual turnover of £335 million making it the largest retailer of domestic electrical goods, ahead of Currys, its principal competitor. In April 1984 it received an offer from Harris Queensway, but finally accepted a higher bid from Kingfisher (then known as Woolworth Holdings).

9.18. Comet's activities were reinforced by the acquisition of other multiple retailers including Ultimate in 1987, the Connect chain in Northern Ireland in 1988 and Laskys in 1989, all of which were assimilated into Comet. Comet is the second largest UK retailer of electrical goods after Dixons and is one of the principal subsidiaries of Kingfisher, which in terms of capital employed is the fourth largest non-food retailer in the UK. Kingfisher is also the parent company of B&Q plc, which operates the leading chain of DIY centres in the UK and which stocks some of the reference white goods.

9.19. In 1993 Kingfisher acquired Etablissements Darty et Fils SA (Darty), the leading specialist retailer of domestic electrical goods in France. Comet told us that Kingfisher thus became the second largest specialist domestic electrical retailing group in Europe. Darty and Comet are managed as separate entities and there is little common purchasing because of differences in product specifications between the UK and France.

9.20. During the 1980s and early 1990s Comet moved away from what it described as a sales proposition based purely on discounted prices. By the end of its 1995/96 financial year it operated from 223 stores in Great Britain (having withdrawn from Northern Ireland in 1992) and employed 4,914 full-time equivalent staff. In 1995 it offered the four reference white goods in each of these stores, all of which traded under the Comet name. In addition to traditional white and brown goods, Comet sells telecommunications and computer products.

9.21. Comet offers a number of own-label white goods. VestFrost supplies fridge-freezers under its Scandinova brand to Comet, and Blomberg AG (see paragraph 8.40) supplies it with washing machines and fridge-freezers under its own name. With both these companies Comet has a supply agreement which gives it exclusive use of the brand name in the UK and exclusive distribution rights for the products. Comet also has exclusive supply agreements with Creda for the Crusader brand of white goods in the UK and with Candy for Kelvinator refrigeration products, but these manufacturers retain the right to sell the same products under different brand names to other UK customers.

9.22. The results of Kingfisher's Comet business could not be derived from the audited accounts of Comet Group plc alone, as some transactions related to its business were carried out on its behalf by other Kingfisher companies. Kingfisher therefore provided us with further financial information for its financial year to January 1995, including the turnover and operating profit within Kingfisher, which could be attributed to Comet. This information is shown in Table 9.2. Table 9.2 also includes Comet's turnover and operating profit for the two following financial years, as reported in Kingfisher's preliminary announcement of its results for 1996/97. Kingfisher told us that these figures had not been prepared on a basis consistent with those for 1994/95.

TABLE 9.2 **Comet: financial performance, three years ended 31 January 1997***

			£ million
	Years ended 31 January		
	1995	*1996*	*1997*
Turnover	516.2	584.6	653.0
Operating profit/(loss)	(18.6)	3.1	21.1
			per cent
Operating margin	(3.6)	0.5	3.2

Source: Kingfisher.

*The accounts of Comet are made up to the nearest Saturday to 31 January each year; 1995/96 was a 53-week year.

9.23. In November 1996 Comet purchased NORWEB, which had annual sales of £280 million, from United Utilities plc for £51 million. It was agreed that Comet would continue with NORWEB's previously announced plan to close its 57 high street stores. Comet stated that it would retain one of NORWEB's two distribution centres as a Comet facility. It planned to integrate NORWEB's 81 out-of-town stores with its own operation in early 1997 when some overlapping outlets would be closed. Comet received back £22 million from United Utilities to cover restructuring costs.

Rumbelows Ltd

9.24. For some years Thorn-EMI plc's subsidiary Rumbelows was the third national multiple with significant shares of the markets for many electrical goods. In February 1995 Thorn-EMI announced its decision to close Rumbelows, and most branches had ceased operating by 31 March 1995, shortly before the beginning of our inquiries. In August 1996 Thorn plc, whose rental operations are described in paragraph 9.145, was demerged from Thorn-EMI.

The RECs

9.25. When privatized the 12 English and Welsh regional electricity companies, the two Scottish electricity companies and NIE plc all had retail operations. For convenience we use the term `RECs' to refer to these retail operations and to Powerhouse, Powerstore and Homepower which bought retail businesses from regional electrical companies (see paragraphs 9.30 and 9.31).

9.26. The retail outlets of the regional electricity companies had concentrated on selling appliances with a large consumption of electricity. They also acted as payment centres for electricity bills. Their premises were mostly situated on traditional high streets with few out-of-town locations.

9.27. The 12 regional electricity companies in England and Wales were privatized in December 1990, followed by the two Scottish electricity companies in April 1991 and NIE in June 1993. As quoted companies, they came under increasing pressure to improve their financial performance, which led them to make changes in their retail operations. The RECs' product ranges came to resemble more closely those of other electrical retailers, and their income from their affiliated supply businesses was reduced or removed. Several RECs expanded their retail operations into additional out-of-town locations and beyond their traditional boundaries (generally the authorized area designated in their Public Electricity Supply licence). Some of this expansion has taken the form of acquiring the retail operations of other RECs rather than opening new stores in their territories, and in a number of cases companies merged their retailing businesses. A few RECs appear to have prospered in retailing, others have not and some have withdrawn from electrical goods retailing altogether.

9.28. ScottishPower expanded by acquiring superstores from other retailers which were in liquidation or were withdrawing from electrical goods retailing. These included 17 Rumbelows and Atlantis superstores in 1993, 50 from Clydesdale in 1994 and, in April 1995, five from Manweb which had decided to withdraw from retailing. (In October 1995 ScottishPower acquired Manweb.) After these acquisitions it had 75 shops and 17 superstores trading as ScottishPower in Scotland and 46 superstores trading as Electricity Plus in England and Wales. In 1995/96 ScottishPower's operating profit from electrical goods was £12.4 million on a turnover of £294.4 million. It has stated that its share of the white goods market in Scotland grew from 38.5 per cent in 1994 to 42.0 per cent in 1996.

9.29. Following privatization NORWEB expanded its operations by opening new out-of-town stores, moving outside the borders of its parent's authorized area to cover the Midlands, Yorkshire and parts of the South-East. In 1995 South Western Electricity plc withdrew from retailing and NORWEB acquired part of its business with 18 superstores and 16 high street shops, so that it came close to covering all of England and Wales. Its turnover of electrical goods in 1995/96 was £219.5 million with an operating profit of £9.5 million. In November 1995 NORWEB plc was acquired by North West Water plc and from January 1996 the combined company traded as United Utilities plc. In November 1996 United Utilities first sold the loan portfolio of NORWEB to Lombard Tricity Finance Limited (Lombard Tricity Finance) for £113 million and then sold the rest of the business to Comet (see paragraph 9.23).

9.30. Southern Electricity plc and Eastern Electricity plc merged their retail operations into Powerhouse in April 1992, joined by those of Midland Electricity plc a year later. Sales of £249.1 million in the year to 31 March 1995 made Powerhouse the third largest electrical goods retailer after Dixons and Comet but its operating loss of £24.9 million led its parents to put it up for sale in June 1995. In September 1995 Hanson plc acquired Eastern Electricity plc and bought the interests in Powerhouse of Southern and Midland, soon afterwards announcing its intention to close 195 of the 317 stores. In June 1996 a management buy-out team acquired Powerhouse with its remaining 122 stores in the Midlands, southern and eastern England, 1,400 staff and projected annual sales of £114 million.

9.31. Powerstore, a company formed in 1993, purchased 14 stores from London Electricity plc. It also acquired concessions which were being operated inside 45 Debenhams department stores, but which were terminated ten months later. In May 1995 Homepower Stores Ltd (a newly-formed subsidiary of Powerstore bought the electrical goods retailing business and assets of Homepower Retail Ltd, bringing an additional 70 stores and a head office. (Homepower Retail Ltd had itself been formed two years earlier from the retail operations of Yorkshire Electricity Group plc and East Midlands Electricity plc.) In April 1996 Powerstore and Homepower Stores Ltd went into administration.

9.32. SEEBOARD plc has retained a retail operation, closing more than half of its high street stores and opening 15 out-of-town superstores. Only the retail businesses of Northern Electric plc, SHE and NIE (whose subsidiary NIE Retail Limited trades as ShopElectric) have continued with relatively little change.

9.33. We were told, but were unable to confirm, that with all these changes in ownership and closures of loss-making premises, the RECs had lost market share in recent years. The shares in 1995 of each REC and their combined shares for the reference white goods are provided in Tables 7.7 and 7.8 for the UK market as a whole. The RECs' shares in the regions in which they operated probably varied a good deal, although few definite data are available. ScottishPower told us that it believed its combined shares of the white and brown goods markets would make it the largest electrical goods retailer in Scotland. SHE believes that it is the market leader in white goods within its authorized area.

9.34. The RECs still own the Electra brand name through Electra Brands Ltd (EBL). Each individual shareholder is free to commission products under the Electra brand and order them directly from any supplier. EBL told us that Powerstore had never become a licensee or shareholder of EBL. EBL's Board had been advised in 1995 that Homepower, then a member and licensee of EBL, was to be taken over by Powerstore, who wished to apply for a licence to sell Electra branded goods and to use the Electra marks generally. At a meeting in April 1995 the Board had considered Powerstore's application but decided against granting it such a licence. (The right to use the brand could be terminated by EBL following a material change in the ultimate control or ownership of the user.) EBL had subsequently granted a licence and arranged a transfer of shares to Powerhouse, after the management buy-out (described in paragraph 9.30). EBL also told us that, following Comet's acquisition of NORWEB, its Board also rejected an application by Comet to become an EBL licensee and shareholder in NORWEB's place.

Regional multiples

9.35. There are several specialist electrical goods multiples with outlets in particular regions; they probably have a significant market share, at any rate in some of the areas in which they operate. The largest of these with a turnover for 1994/95 of more than £40 million were Tempo, Miller Bros and, until its receivership in 1996, Colorvision. (Colorvision sold white goods from only two of its 88 stores.) Other regional multiples with a turnover for the same year of more than £20 million include: Bennetts (Retail) Ltd, a subsidiary of Berrys Group Ltd, which operates from Norwich; Hughes (Lowestoft) Ltd; and Apollo 2000 Ltd, with headquarters in Birmingham.

Tempo

9.36. Tempo is the trading name of KF Group plc's retail operation. In April 1996 it had eight high street stores and 22 superstores, mostly located in the South-East but with some recently opened in the Midlands and South. Tempo stocks both white and brown goods, but is notable for the high proportion of computers in its product mix. Its operating profit for the year to 30 June 1996 was £2.9 million on turnover of £85.7 million.

Miller Bros (Doncaster) Limited

9.37. Miller Bros is a family-owned company based in Doncaster operating from 16 superstores and one high street site. Most of its outlets are located in eastern England and the East Midlands, selling both white and brown goods, but carrying a particularly wide range of white goods. It does not sell computer equipment. In its financial year ended 31 March 1996 it reported an operating profit of £1.6 million on turnover of £47.6 million.

9.38. Miller Bros has EPOS systems in all its stores, but they are not fully integrated with its accounting systems, and it told us that it was therefore unable to provide turnover figures for individual reference goods.

Small retailers

9.39. We believe that there were about 3,600 small retailers of reference white goods in 1995, defined here as businesses with four outlets or fewer (see Table 7.6). We carried out a survey of small retailers designed in the main to obtain information about the two matters referred to us.

9.40. During the survey of small retailers we interviewed 419 small retailers of one or more of the reference white goods. Over 90 per cent of respondents sold all four. Most businesses had only one outlet, and two-thirds of outlets were located in traditional high streets. Over one-half of survey respondents employed fewer than six staff and had a turnover of less than £500,000.

9.41. Respondents to the survey who sold reference white goods told us that customers valued the service the small retailer could offer compared with that available in multiple stores. Free delivery and installation were cited by many as an alternative to price-cutting, along with favourable credit terms and warranties. Of the respondents selling reference white goods, 274 (65 per cent) told us that they bought reference goods from wholesalers. (They were not asked which of the goods nor the extent of their use of wholesalers.)

9.42. An analysis of the survey results is at Appendix 9.1. Responses to questions on prices and terms of trade are summarized in Chapter 10, and on withholding of supply in Chapter 12.

Retailer buying groups

9.43. Some small retailers have formed buying groups to give them more favourable buying terms from suppliers. The largest of these, CIH, together with the local groups which are its shareholders, is described in paragraphs 8.50 to 8.57. Other retailer buying groups which we identified include Scottish Independent Television Dealers Association with almost 50 members, and Combined Independents of Ulster which is described in paragraph 9.151. They differ from CIH in that they do not, it appears, take title to goods purchased by their members. 33 per cent of the respondents to our survey of small retailers told us that they were members of CIH and 3 per cent were members of other buying groups.

Profitability of electrical goods specialists

9.44. An analysis of discounts offered by suppliers and of retailers' gross margins by product and by type of retailer on the assumption that sales are made at the RRP is set out in paragraphs 10.94 to 10.120. Table 10.9 indicates that on that basis average gross margins for the reference goods were generally concentrated around [*] to [*] per cent of the RRP (excluding VAT). Dixons told us that its gross margin on the reference goods was between [*] and [*] per cent. Gross margins recorded by retailers will be affected by such factors as stock losses, sales below RRP and differences in the accounting treatment of the various types of discount. Table 9.1 shows the operating margins of Dixons and Table 9.2 shows those of Comet (including operating losses in 1994/95). The 1995/96 turnover and operating profits of two of the larger RECs, ScottishPower and NORWEB, were referred to in paragraphs 9.28 and 9.29. We also reviewed the operating margins of some of the other multiple retailers, as shown in their statutory accounts. Overall, the multiple retailers showed a wide variation in operating margins. But these were results for whole companies and usually included the profits from brown goods and non-reference white goods, as well as in many instances those from small appliances, computers, telecommunications products and rentals.

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*Figures omitted. See note on page iv.

Other retailers

9.45. As well as being sold by specialist electrical goods retailers, each of the reference white goods is stocked by many other types of outlet including department stores, retail co-operatives, mail order companies and, particularly for built-in units, kitchen and DIY specialists.

Department stores

9.46. Department stores have traditionally stocked both brown and white goods, but several chains have stopped selling them, including Debenhams after its concessions with Powerstore were terminated (see paragraph 9.31), or have withdrawn them from some of their stores. Department store chains which have continued to offer reference white goods from five or more outlets include Allders, HoF and JLP.

Allders Department Stores Limited

9.47. Following the sale in July 1996 of Allders International, a group of companies retailing duty-free goods around the world, Allders became the principal subsidiary of Allders plc. It operates from 20 Allders department stores and 10 Allders at Home shops in Greater London, central, southern and northern England. The four reference white goods are sold from all these locations, of which eight are out-of-town and two are edge-of-town. Allders is centrally managed, including the buying and pricing of the reference goods.

House of Fraser

9.48. HoF is the principal subsidiary of House of Fraser plc. During much of our inquiries it operated 51 stores in Great Britain under 17 trading names, including Rackhams, Binns, Army & Navy and Dickins & Jones as well as its own name. Of these stores all but four were in high street locations, including five in Greater London.

John Lewis Partnership plc

9.49. JLP's subsidiary, John Lewis plc, operates 23 department stores in England and Scotland under a variety of names, 22 of which sell white goods. It is well known for its `never knowingly undersold' policy. It differentiates itself from its competitors in electrical goods (and other products) in a number of ways. Whilst it accepts payment by debit card, it does not accept credit cards other than its own store card. It avoids the use of subsidized credit as a means of promotion, but offers a free one-year extension to the supplier's warranty on large electrical kitchen appliances, including all the reference white goods.

Other multiples

Retail co-operatives

9.50. The Co-operative Wholesale Society Ltd (CWS) provides buying, marketing, distribution and other services to co-operative retailers. It also operates its own retail outlets and, as such, is the largest co-operative retailer in the UK. It has 45 outlets which stock all the reference white goods. It told us that several independent retail societies also sold white goods but bought them mainly from the CWS, giving it a dual role as a retailer and wholesaler.

9.51. The Co-operative Retail Society (CRS), now trading simply as Co-operative, has 56 stores of which 28 sell white goods. Seven of these are superstores trading as Homeworld. The CRS told us that in 1995 it accounted for 20 per cent of the turnover of the Co-operative movement. The CRS purchases its white goods direct from suppliers rather than from the CWS.

Iceland Group plc

9.52. Iceland has as its main subsidiary Iceland Frozen Foods plc which has about 760 outlets trading under the name Iceland. There are appliance showrooms in 330 stores, approximately two-thirds of which are high street stores, with a range of refrigerators, freezers and microwave ovens. Iceland claimed in 1994 that it sold more freezers than any of the electrical goods retailers, having a market share for this category of almost 17 per cent.

9.53. Iceland primarily offers own-label or exclusive lines to differentiate itself from competitors and make it more price competitive. Its principal own-label brand is Iceline.

Mail order companies

9.54. While most retail trade in electrical goods is carried on in shops and stores, a considerable volume is undertaken by companies which have no retail premises and approach the public directly by advertising of various kinds or by sending out catalogues and leaflets. This kind of trade is known generally as mail order. In addition some retailers offer a mail order service, such as Dixons Direct.

9.55. The term `mail order' is more commonly associated with companies which send out large catalogues containing thousands of items covering a wide range of merchandise, of which only a small proportion are electrical goods. These are known as general catalogue mail order traders. Within this `general catalogue' category a further distinction has to be made between those which deal directly with their customers and those which send out their catalogues to agents and subsequently deal with their customers through these agents. We use the term `mail order company' to designate only those companies that use agents.

9.56. The mail order companies issue large colour catalogues twice a year as well as promotional updates. Their catalogues display a wide range of merchandise, including the reference white goods, and are sent to agents who are intermediaries between the company and its customers. Agents order goods by post or telephone, and the goods are dispatched `on approval', so that the customer has the chance to examine and then accept or return goods within a specified period, generally 14 days, before payment begins.

9.57. Payment is usually made by weekly instalments to the agent. The mail order companies make no extra charge for the granting of credit which is commonly on 20-week terms, but on 38 to 40 weeks for higher-value items, including most of the reference goods. Credit on any item, however small, is available as a matter of course provided the agent's credit limit is not exceeded. It is offered on a `roll-over' basis-if a customer with a 40-week account makes an additional purchase the increased balance becomes repayable over a new 40-week period. Roll-over credit is sometimes made available on selected items for 50 weeks as a promotion. Customers seeking a longer credit term may be able to arrange a 100-week or even a 150-week account, but these accounts bear interest at an APR of up to 29.9 per cent.

9.58. The typical agent serves no more than three or four customers, some of whom make only occasional purchases. Agents are recruited by various means including advertising, recommendation and direct canvassing. The agent is usually a customer in his or her own right and does not have the status of an employee. Recent experience of one of the companies leads it to believe that about 35 per cent of all purchases through mail order are in fact made personally by the agent.

9.59. The agent's role is to invite customers to select goods from the catalogue and to place the order on their behalf. Most goods are sent to the agent to be passed on to the customer but bulky items, including the reference white goods, are delivered direct to the customer. The agent arranges the return of goods which are not required, collects instalments from customers and forwards them to the mail order company. Although not responsible for his or her customers' debts, the credit limit of an agency depends upon the payment performance of the agency as a whole. All written communication between agent and mail order company, including costs of returns, is at the company's expense. For his or her services the agent receives a commission on all purchases made, which has for many years been 10 per cent in cash; some companies offer an alternative of 12.5 per cent in goods. In the case of an agent buying on his or her own behalf, this is the equivalent of a discount.

9.60. The mail order sector is dominated by five companies: GUS; Littlewoods; Empire; Freemans; and Grattan. Their parent companies and principal catalogues are shown in Table 9.3.

TABLE 9.3 **Agency mail order companies**

Company	*Parent company*	*Principal catalogue*
GUS	The Great Universal Stores plc	Great Universal
Littlewoods	The Littlewoods Organisation plc	Littlewoods
Empire	Pinault-Printemps-Redoute SA	Empire
Freemans	Sears plc	Freemans
Grattan	Otto Versand GmbH & Co	Grattan

Source: Mail order companies.

9.61. The replies by the mail order companies to our multiple retailers questionnaire made us aware that their catalogue prices for electrical goods were usually higher than those charged by other retailers, and that in some cases suppliers were issuing separate MORPs. The practices of suppliers and of mail order companies relating to mail order prices are described in paragraphs 10.72 to 10.91.

9.62. The mail order companies told us that high costs associated with their method of operation, such as agents' commissions, free credit, delivery costs, bad debts and the right of customers to return goods, unused, within 14 days of purchase, required them to sell the goods at prices which were typically 10 to 15 per cent higher than those in the high street. Freemans also drew attention to costs specific to some of the white goods such as those for installation and demonstration services.

9.63. Mail order companies use the photographs and descriptions in their catalogues to inform their customers of the reference white goods on offer. We examined the relevant catalogue entries and found that they set out the main features of the models covered. The catalogue entries did not, however, say in what way their performance, as perceived by a non-technical user, would be different from one model to another, or which products would be the easiest to operate. Nor did the catalogues say that one model would be more durable than another, or be more reliable, or be easier or less costly to repair.

9.64. Mail order companies do provide customer helplines, both order lines and inquiry lines, but we were told by GUS that the staff who answered its enquiry lines had no expertise in any of the reference white goods. They could pass on customer queries for specialist advice, but in 80 per cent of cases helpline staff answered the customer's question merely by reading from the catalogue. GUS added that its competitive offer against the pre-sale service offered by retailers was that its customers could have the goods for 14 days on free home approval.

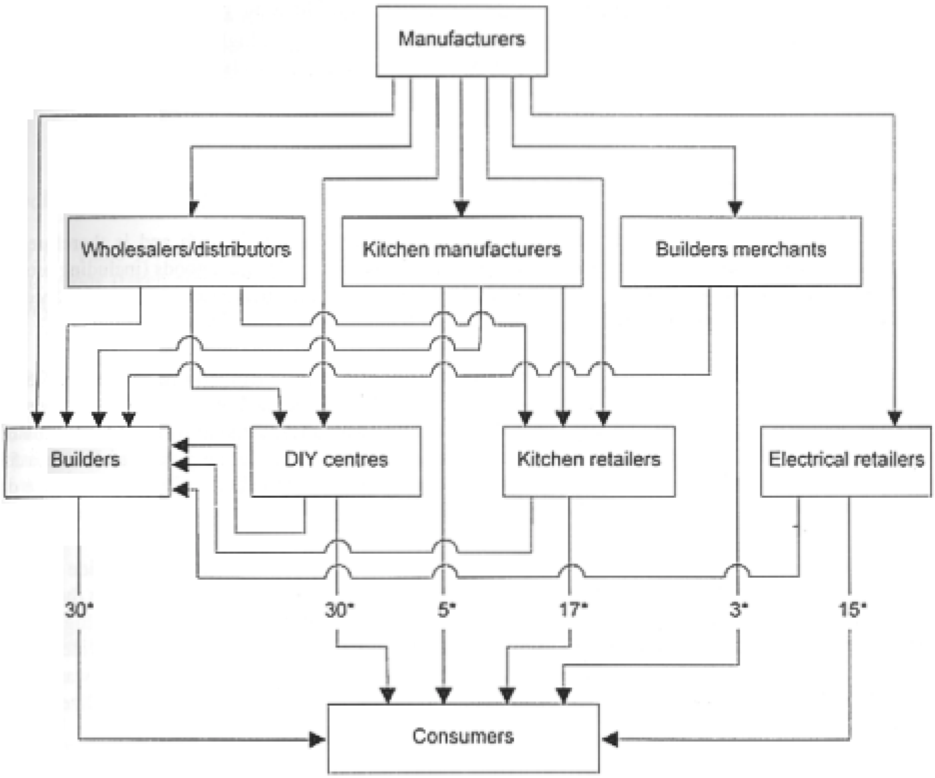
Specialist dealers in built-in white goods

9.65. Built-in white goods are mostly sold with kitchen furniture, which is supplied in both self-assembly and assembled form through a variety of distribution channels. Some are bought by builders for installation in new homes. MDA supplied us with a diagram (Figure 9.1) showing the channels through which its brands of built-in white goods were distributed; these included non-reference goods such as ovens, hobs and extractor hoods which have much higher sales than reference goods in this sector.

9.66. Figure 9.1 shows that MDA's built-in appliances are mostly distributed through channels which are different from those used by suppliers for free-standing white goods. MDA estimated that only about 15 per cent of its built-in Ariston and Indesit white goods were purchased from electrical goods retailers, with the majority of its built-in units being sold through builders, DIY centres and specialist kitchen retailers. Built-in white goods are likely to be acquired through these outlets as part of a larger transaction such as the construction of a new kitchen or the refurbishment of an existing one, and the price of the white goods may not always be separately quoted.

FIGURE 9.1

MDA's distribution channels for white goods built in to fitted kitchens



Source: MDA.

*Estimated percentage share by channel for Ariston and Indesit products.

9.67. Although many specialist kitchen retailers are small businesses, the category also includes chains such as MFI, Magnet Ltd and Limelight Group Ltd, which trades under the Moben and Kitchens Direct names. Some DIY centres also have significant shares in fitted kitchens. They include B&Q which, like Comet, is a Kingfisher subsidiary and Texas, which J Sainsbury plc acquired in 1995 to merge with its Homebase chain.

MFI Furniture Group plc

9.68. MFI claims to be the largest integrated retailer and manufacturer of furniture in the UK, selling kitchens, bedrooms and other furnishings. It told us that it was the market leader in kitchen furniture, which it sold in both self-assembly and assembled form, and believed that its market share was about three times that of its nearest competitor. It operated from 184 stores in the UK, and purchased reference white goods from a limited number of brands, including Tricity Bendix and AEG, but most of the reference white goods which it sold were supplied under its own Hygena brand. Its policy was to supply appliances that complemented its range of fitted kitchens, and it therefore supplied only a small quantity of the reference white goods in free-standing form. Its retail prices were set out in a catalogue, and were generally not RRPs, as most of the reference white goods which it sold tended to be exclusive models for MFI. The branded white goods were in the catalogue at competitive prices which might be the same as RRPs.

9.69. Table 7.7 shows that MFI's 1995 share of the market for washing machines and tumble driers was less than 1 per cent, for CFS products 2.7 per cent and for dishwashers 6.4 per cent. MFI told us that it attributed its relatively high share of the dishwasher market to two factors. First, a higher proportion of dishwashers were sold to new users rather than as replacements for old machines, and were therefore more likely to be purchased from a kitchen specialist. Second, it priced its Hygena dishwashers at £399, but from to time offered them at a promotional price of only £199 to customers whose purchases of kitchen furniture exceeded a stated value. This had led to a high take-up of dishwashers; they were also the only appliances where the `driver' for the purchase was likely to be male.

Services offered by retailers

9.70. Although each of the reference goods has a relatively long service life and is therefore an infrequent purchase, there are so many different categories of domestic electrical goods (including brown goods and small domestic appliances) that consumers are quite frequent purchasers of one appliance or another. A retailer is concerned as much as suppliers to build consumer loyalty to its brand.

9.71. Comet, for example, regularly reviews the behaviour of consumers who purchase from itself and from its competitors. One of its surveys (see paragraph 7.14) looked at buyers of audio visual products and major appliances at Currys, the RECs and its own stores. Among these three groups of buyers, between 29 and 34 per cent only visited the store where they made the purchase. Between 55 and 64 per cent either bought at their normal shop without shopping around or had visited only one or two other shops.

9.72. To maintain the loyalty of existing customers and to attract new ones, retailers provide a range of services which gives them the opportunity for non-price competition. They select the goods they wish to stock from the much larger number of available products. They operate retail sites in the high street and out of town to meet the requirements of different customers. They generally seek to provide advice to consumers and arrange credit on interest-bearing or interest-free terms. Many sell extended warranties and carry out repairs. They usually deliver and install the bulkier appliances, often at a subsidized price or free of charge.

Product selection

9.73. We were told that white goods, which have fewer technical changes than most brown goods, have model lives of several years but with cosmetic changes every one to two years. Suppliers usually give details of new models to retailers between two and six months in advance of their launch date, with the larger retailers generally being notified first. The selection process involves product reviews, often held outside the UK, attended by representatives of the larger dealers and possibly some of the smaller ones. Discussions with suppliers, we were told, cover the features offered and the intended positioning (ie price level) of the products in the UK market.

9.74. Product selection is one of the principal means by which a retailer can differentiate itself from its competitors. For all the reference white goods there are numerous manufacturers, some with more than one brand, and most with a large number of models and model variants. The large number of available models makes it possible for a retailer to stock a range which differs from those of its competitors. This differentiation of product offerings is discussed further in paragraphs 9.87 to 9.90.

9.75. Dixons told us that initially it chose models on the basis of their perceived marketability, but there was a need to ensure that the range gave a good spread of merchandise across all the price and feature points. It added that in its larger stores (the biggest had 32,000 square feet of space) it stocked a high proportion of the available models of the reference goods.

9.76. Department stores appear to take a different approach. Allders told us that brands were a key feature of department stores, and that it tried to stock the brand leader. It tended to offer only quality brands and steered away from tertiary suppliers.

9.77. The stocking policy of the mail order companies appears to put much emphasis on range differentiation. This emerges from the comparison of mail order prices in the autumn/winter 1995 catalogues, which is described in detail in paragraphs 10.87 to 10.91. For all four reference white goods the catalogues listed only a small proportion of the models available (ie there were many models which did not appear in any of the catalogues). Most of the models that were listed appeared in the catalogue of only one company, giving it mail order exclusivity. The number of models appearing in the catalogues of two or more mail order companies out of the total number of models listed were: for washing machines, 36 out of 94; for tumble driers, 12 out of 31; for dishwashers, 7 out of 16; and for CFS products, 29 out of 90.

Stocking policies of small retailers

9.78. Table 9.4 shows the 1995 market shares of the leading brands for each of the four reference white goods (taken from Tables 7.2 to 7.5) and the percentage of respondents to the small retailers survey who told us that they stocked that brand.

9.79. We were told that some suppliers regarded small retailers as a particularly important distribution channel for certain of their brands. Table 9.4 shows that some brands that are widely stocked by small retailers only achieve relatively low market shares, while others which are less frequently stocked by small retailers achieve higher shares. For example, Creda washing machines were listed by 41 per cent of the small retailers included in our survey but only had a market share of 2.6 per cent while AEG, listed by only 17 per cent of respondents to the survey of small retailers, achieved a share of 2.8 per cent.

Own-label brands and exclusive models

9.80. Larger retailers may offer products under a brand name which they own or has been licensed to them. These may be built to their own specification or they may be existing products which are badged with the name of one of the retailers' brands. Table 7.7 shows that some own-label brands such as the RECs' Electra brand have significant market shares in some of the reference goods.

9.81. We found that for both Dixons and Comet gross margins were lower on own-label reference products than on branded products. Comet, however, told us that own brands gave slightly more flexibility in pricing, and that for retailers with the resources of Comet or Dixons, own-brand products did not necessarily have to be at entry level in specification and price.

9.82. Retailers can also obtain branded products from some suppliers on an exclusive basis. Overseas manufacturers may have a large range of products for European markets, some of which have not been offered in the UK and exclusivity may be available in return for a large order. In other cases, we were told, a factory may have over-produced a model and be prepared to offer a favourable price and UK exclusivity to a retailer who would take the remaining stock. Similar deals are available from suppliers who have manufactured or imported excessive quantities, but complete exclusivity is not guaranteed since some units will probably already have been sold to other retailers. We encountered some of these semi-exclusive products in our price analysis exercise. They are described in paragraph 11.23 and can be identified in the tables in Appendix 11.3.

9.83. A further form of exclusivity arises when a retailer has a distinct model number for a product, whether or not the supplier adds additional features. The Consumers' Association (CA) told us that some major retailers had their own models with their own particular model numbers, which made it difficult for CA to compare prices across the range of retailers. It also posed a challenge to CA in other areas, not least in testing and evaluation. Sometimes CA could establish through inspection that the models were almost the same, differing only in some trivial aspect; one feature might be added or taken away, there might be cosmetic differences, or there might be no difference except a different label.

TABLE 9.4 **UK market shares of suppliers' brands by value in 1995, and rate of stocking by small retailers**

per cent

Supplier	*Brand*	*Supplier's market share**	*Respondents to survey of small retailers selling the listed brands*
Washing machines			
GDA	Hotpoint	29.3	79
	Creda	2.6	41
	Total	31.8	
Emaco	Electrolux	0.3	36
	Zanussi	15.2	74
	AEG	2.8	17
	Tricity Bendix	2.4	55
	Total	20.7	
MDA	Indesit	10.3	16
	Ariston	1.8	4
	Total	12.1	
Candy/CDA	Candy	3.4	12
	Hoover	10.1	59
	Total	13.5	
Tumble driers			
GDA	Hotpoint	21.0	72
	Creda	22.8	57
	Parnall	0.4	-
	Total	44.1	
Crosslee	White Knight	22.7	11
Emaco	Electrolux	0.2	34
	Zanussi	14.1	66
	AEG	1.5	14
	Tricity Bendix	0.4	44
	Total	16.2	
Dishwashers			
Emaco	Electrolux	0.3	33
	Zanussi	19.0	66
	AEG	5.0	16
	Tricity Bendix	3.2	43
	Total	27.6	
GDA	Hotpoint	19.9	69
	Creda	1.8	26
	Total	21.6	
BSDA	Bosch-Siemens	17.0	29
	Neff	3.6	12
	Total	20.6	
MDA	Indesit	5.3	15
	Ariston	2.4	26
	Total	7.7	
Candy/CDA	Candy	3.0	7
	Hoover	2.1	40
	Total	5.1	
CFS products			
GDA	Hotpoint	19.9	74
	Creda	2.2	31
	Total	22.1	
Emaco	Electrolux	4.9	54
	Zanussi	11.6	72
	AEG	1.7	17
	Tricity Bendix	2.9	61
	Total	21.4	
Lec		10.9	57
Candy/CDA	Candy	6.2	12
BSDA	Bosch/Siemens	4.0	28
	Neff	1.1	13
	Total	5.1	

Source: GfK, suppliers/manufacturers and MMC (see Appendix 9.1, Tables 14 and 15).

*Individual brand shares are subject to rounding errors and may not sum exactly to the total figures given.

9.84. GfK provided data on the extent of own-label and exclusive models for a five-week period covering October 1996. GfK publishes 12 `hit lists' every year for a large number of electrical goods including all the reference goods. In these lists the sales of each model are set out in the order of unit sales. (A similar list for the five-week period between 19 February and 25 March 1995 was used as the basis for the price analysis exercise described in Chapter 11.) For reasons of commercial confidentiality GfK excludes from its published hit lists any models for which one retailer has more than 80 per cent of unit sales.

9.85. In the information which it gave us, GfK defined own-label as brands which were owned by the retailer, such as the RECs' Electra brand. Brands which were sold by a single retailer but which belonged to a supplier (for example, Candy's Kelvinator brand sold exclusively in the UK by Comet) were treated as exclusives. For each of the four reference goods GfK gave us details of: *(a)* the total number of models for which it received sales data; *(b)* the number of those models omitted from its hit list under the 80 per cent exclusivity criterion (split between own-label and other exclusives); and *(c)* the percentage of sales by volume accounted for by these own-label and exclusive models. The information is summarized in Table 9.5.

TABLE 9.5 **Own-label and exclusive products, October 1996**

	Total models	*Own-label models*	*Exclusive models*	*Own-label models %*	*Exclusive models %*	*Own-label share of unit sales %*	*Exclusive share of unit sales %*
Washing machines	368	16	81	4	22	4	14
Tumble driers	157	6	33	4	21	8	14
Dishwashers	233	6	41	3	17	4	12
CFS products	645	91	99	14	15	10	17

Source: GfK.

9.86. Table 9.5 shows that own-label and exclusive models had a combined share of unit sales of the reference white goods of between 16 and 27 per cent.

Differentiation of product offerings

9.87. We asked the multiple retailers to provide a list of the suppliers of each of the reference goods sold through their outlets at 30 June 1995, showing their brands and models and model variants within these brands. We also requested information on own-label brands. Dixons listed 110 washing machine variants from 13 brands. Comet listed 54 washing machines from 8 brands (including one own-label washer drier). Tempo, a smaller retailer operating largely from out-of-town superstores, listed 62 washing machines from 9 brands. James H Donald (Darvel) Ltd, which operates from seven shops in Ayrshire, listed 41 washing machines from 12 brands.

9.88. Although all these retailers listed large numbers of brands and models, they did not stock all available brands and stocked less than half of the available models. Closer inspection of the responses showed that although some models were listed by most multiple retailers, especially best-selling items from leading brands, there were marked differences in the models and variants chosen, so that each retailer had a distinctive range.

9.89. As well as asking the multiple retailers about the models which they stocked, we enquired about the ones which were actually sold in large volumes. In our questionnaire to the multiple retailers, we asked for a list of the six best-selling models for each of the four reference white goods during the second quarter of 1995. Many retailers were unable to answer this question, but we received 14 replies from different types of retailer including Dixons, Comet, four of the RECs, GUS, Littlewoods, JLP and a number of small chains. Some of them did not sell all the reference goods, and some listed fewer than six best-sellers.

9.90. If the best-selling models had been the same across all the retailers, only six models would have been named for each of the reference goods. If, on the other hand, each of the 14 retailers had a unique list of best-sellers (and had named six best-selling items) they would between them have listed 84 different models. In Table 9.6, the third column shows that the number of models named was a long way above the minimum of six. However, account must be taken of the fact that not all 14 retailers sold all reference goods (column 1 indicates that one of them only sold CFS products); in addition some of the respondents listed fewer than six best-sellers. Column 2 accordingly shows the total number of best-sellers listed, and column 3 the number of distinct models among them. The ratio of column 3 to column 2, as shown in column 4, then indicates the degree of specialization with respect to best-sellers. The numbers point to wide differences in best-selling products between retailers for all the reference products, particularly CFS products and washing machines.

TABLE 9.6 **Best-selling products, second quarter of 1995**

	Number of respondents (1)	*Number of best-sellers (2)*	*Number of distinct models (3)*	*Models: best-sellers % (4)=(3)/(2)*
Washing machines	13	78	64	82
Tumble driers	13	78	54	69
Dishwashers	13	76	46	61
CFS products	14	84	75	89

Source: Multiple retailers.

Store location and ambience

9.91. The more successful retailers appear to have spent heavily on improving existing stores and relocating to better sites. Dixons reported that its UK Retail Division (including PC World and The Link) had incurred capital expenditure of £91 million in its 1995/96 financial year when its operating profit came to £125 million. About three-quarters of this was spent on new stores and refurbishments and the balance on after-sales service, distribution and systems infrastructure.

9.92. One of the most important changes in electrical goods retailing has been the move to stores on out-of-town sites. More recently these stores have increased in size and are known as superstores. One retailer told us that superstores generally offered improved profitability. It explained that high street stores had higher rent and rates costs, but also higher sales, per square foot. Large out-of-town stores could stock a far larger number of bulky, high-ticket items. As a result, out-of-town stores generally achieved higher sales per store but generally lower sales per square foot. The fact that there were higher margins on the more expensive products gave the out-of-town stores better margin performance.

9.93. The advantage of superstores extends across all the reference white goods. Miller Bros, which features a particularly wide range of white goods, told us that it could not fit its product range into high street shops. It was looking for stores with a floor area of about 10,000 square feet.

9.94. The 1996 Verdict report showed that the number of electrical superstores grew from 200 in 1986 to 743 in 1996 (some of which were dedicated to selling PCs). Of these 743 stores, 670 were operated by eight of the largest retailers, showing that smaller dealers had generally not been able to move out of town. Verdict stated that this gave a competitive advantage to the large multiple retailers, especially in bulky white goods.

9.95. Some department stores have suffered from the increased out-of-town competition. Allders told us that even its smaller stores will typically hold a range in white goods of about 150 products. At one time it could show a very wide range compared to the Currys and Dixons high street shops, but with the advent of out of town it had to some extent lost this advantage. Allders has itself opened out-of-town stores (see paragraph 9.47). JLP stated that it had a mixed portfolio of high street, shopping centre and out-of-town shops and that it had not been adversely affected by the growth in out-of-town outlets.

9.96. In August 1995 Dixons, using data from GfK, calculated that in little more than 18 months almost 700 high street shops had disappeared as a result of the withdrawal of many of the RECs, the liquidation of Clydesdale and the closure of 136 of its own Currys stores. (Some of these shops would not have sold white goods.) It believed that this was equal to half of the total number of closures in the previous ten years. There had been a correction after several years of out-of-town expansion with few offsetting closures of less profitable high street stores. The Chief Executive of Dixons commented that the RECs had been responsible for keeping many of their high street outlets open, but any superstores given up by the RECs would stay in the electrical goods market because other retailers would buy them.

9.97. While high street closures have reduced the amount of retail floor space available for the reference white goods, the move to large out-of-town superstores has increased it. The reference goods have to compete for space with other electrical goods, including new categories such as telephones and computers. The replies to the multiple retailers questionnaire did not enable us to calculate the amount of retail floor space devoted to white goods or any of the reference goods, nor to determine whether there had been an overall increase or decrease in this space in recent years.

In-store service and staff training

9.98. Suppliers as well as retailers told us of the importance of retailer provision of in-store service and hence of the availability of properly trained staff. Comet told us that until three or four years before our inquiry, the industry had a bad reputation for the quality of its sales staff, but Comet and Dixons had worked hard to improve customer service, which was of growing importance because of the accelerating technology of some of the products. Emaco stated that there had been a marked change in the quality of staff training in the previous five or six years, not only in Currys but in all the superstore operators. Miller Bros told us of the importance of staff training from the point of view of the retailer, explaining that one of the benefits it derived was an improved ability to sell higher-priced brands such as Miele. Its comments appear to apply to both sales training, normally organized by the retailer, and product training which is generally provided by the supplier.

9.99. In June 1996 the CA published in its *Which?* magazine the results of a survey into standards of service in electrical goods stores. It sent a team of `mystery shoppers' to 177 stores, including small retailers. The shoppers were briefed to ask set questions about four products, two white goods (a washer-drier and a refrigerator) and two brown goods (a television and a VCR). *Which?* reported that only 27 out of the 177 sales assistants who had served the mystery shoppers were rated as excellent and 93 were rated as poor. It also noted that despite widely publicized claims of price cuts and special deals the large chains not only matched each other on price but could be the most expensive. The independents and smaller chains tended to be cheaper.

9.100. A feature of white goods retailing is that it is in general not practicable to demonstrate most of the features of the appliances (it would be most unusual to find them connected to the electricity supply, let alone in the case of washing machines and dishwashers to the water mains or drainage). Dixons pointed out to us that this absence of practical demonstrations did not `denude consumers of reference points' when making purchases and that most of them were already familiar with using the reference goods and knew their basic features.

Consumer credit

9.101. The reference goods are expensive items and many consumers want to pay for them by instalments. Several multiple retailers issue their own store cards which offer an interest-bearing account facility, and most of them accept third party debit and credit cards. With most credit cards and some store cards the customer has two options, either to settle the balance at the end of the month with no interest charge, or to pay the balance in instalments and incur interest. With third party credit cards, such as Access or Visa, the retailers do not know the proportion of reference good purchases which involve the customer in paying interest (which in any event would be an arbitrary figure, given that the typical credit card-holder will use the card for a variety of purchases). We were therefore unable to determine the proportion of purchases financed on credit terms.

9.102. Most retailers arrange their consumer credit, including promotional credit, through an outside finance house which takes over responsibility for approving credit and collecting instalments, with the retailer receiving a commission. Other retailers finance credit transactions themselves, taking on the expense of administering the transactions and assuming the risk of bad debts but, for some of the business, earning additional income in the form of interest.

9.103. We asked the multiple retailers whether they arranged credit facilities within the group or outside. Most of the RECs and all the mail order companies financed their own credit facilities, but nearly all the other retailers used an outside finance house; Lombard Tricity Finance was mentioned more frequently than any other. An important exception was Comet which used Time Retail Finance Limited, another wholly-owned subsidiary of Kingfisher.

9.104. We obtained year-end statutory accounts for several retailers, some electrical goods specialists, some dealing in a wider range of products. For those RECs which were a division of a larger plc, we requested divisional financial statements. We compared the level of year-end trade debtors with turnover for their most recent financial year. We found that mail order companies had high levels of trade debtors, reflecting their extended credit terms, as did the larger RECs, especially NORWEB, possibly taking advantage of the strong balance sheets of their parents. A few smaller multiples have oriented their offerings heavily towards the provision of credit.

Promotional credit

9.105. Promotional credit usually takes the form either of interest-free credit or of deferred payment-`buy now, pay later'. With interest-free credit the purchaser pays a deposit, usually of 20 per cent, and the balance of the purchase price in equal monthly instalments. (The mail order companies do not require a deposit.) With `buy now, pay later' the customer also puts down a deposit at the time of purchase but then is allowed to wait for a period of several months before paying the balance of the purchase price. The Business Book 1996[1] suggests that in 30 to 40 per cent of `buy now, pay later' transactions the customer opts for a further period of interest-bearing credit resulting in commission income from an outside finance company.

9.106. Dixons told us that it had complained to the OFT and the Office of Electricity Regulation (OFFER) about the RECs' non-commercial attitude towards consumer credit; the capital cost of funding credit did not seem to be charged by the RECs to their retail operations.

9.107. We enquired about the characteristics of consumers who pay for reference goods by means of promotional credit. Dixons told us that it was frequently utilized by well-off customers, a view shared by some other retailers. Dixons stated that `buy now, pay later' and interest-free credit were sophisticated types of credit which presupposed that the customer was creditworthy. In other words they enabled people who did not really need credit to obtain extended payment terms. Customers who were influenced by their ability to make weekly payments were more likely to rely on mail order. One of the mail order companies told us, however, that the growing use of interest-free credit by high street retailers had led to increased competition because it was weakening one of mail order's key advantages.

9.108. The requirements of the Consumer Protection Act 1987, the Trade Descriptions Act 1968 and the Code of Practice for Traders on Price Indications make it necessary to avoid advertising a cash price for a product which is not a true cash price when account is taken of the availability of interest-free credit. In other words, the cash price of a product which is offered with interest-free credit must not be reduced for any customer not requiring the interest-free credit.

Cost and benefits of subsidized credit

9.109. The value to the consumer of subsidized credit terms, such as interest-free credit and `buy now, pay later' depends on his or her circumstances, being relatively small for someone earning

[1]*The Business Book for the Electrical Retail Market in Great Britain 1996*, Chalvington Publishing.

additional interest (subject to tax) on a deposit or building society account, and much larger for those who avoid the high interest rates payable on credit card balances and other types of consumer credit.

9.110. We asked the multiple retailers to provide for each of the reference goods an estimate of the cost of subsidized credit in the calendar year 1994 not only to their company and its affiliates but also to their suppliers.

9.111. Dixons gave us information for its financial year to 29 April 1995, though it was unable to provide separate data for each of the reference white goods. For all white goods, including non-reference goods, its sales of goods with subsidized interest amounted to £[*] million. The cost of the subsidy on these sales was £[*] million, of which £[*] million was borne by suppliers. The cost of the subsidy to Dixons was therefore over [*] per cent of its subsidized sales, but a much lower percentage of its total 1994/95 sales of white goods, which amounted to £257 million.

9.112. Comet provided information for its last two financial years, but could only analyse it for the sales categories which Comet uses for its management accounts. The category which encompasses the reference white goods is Major Appliances, and information on subsidized credit for this category is set out in Table 9.7. Comet told us that suppliers tended to bear all of the cost of promotional credit on certain lines which they were particularly keen to promote, while Comet would bear all of the cost on other lines, for example on own-label products. Overall, the share of the cost of subsidized credit paid by suppliers (for a wide range of merchandise) appears to have been relatively high, so that the cost to Comet of subsidized credit worked out at just under [*] per cent of sales in the two years to January 1995.

TABLE 9.7 **Comet: cost of subsidized credit**

	Total sales £m (1)	*Subsidized sales £m (2)*	*Cost of subsidy £m (3) (2)/(1)*	*Supplier portion £m (4) (3)/(1)*	*Subsidized sales: total sales % (5)= (4)/(3)*	*Subsidy cost: total sales % (6)= (3)-(4)/(1)*	*Supplier portion: subsidy cost % (7)=*	*Comet portion: total sales % (8)=*
Year to January 1994								
Major appliances	145.1	[		*Figures omitted. See note on page iv.*				]
Year to January 1995								
Major appliances	147.3	[		*Figures omitted. See note on page iv.*				]

Source: Comet.

9.113. NORWEB did not provide the information requested but said that it had long used subsidized credit as a promotional tool across a large part of its product range. Favourable payment terms were offered on goods above a qualifying level, currently £150 to £200 for the majority of product categories, but usually not on the lower-priced products. It estimated that the cost to itself of promotional credit was approximately 5 per cent of the sales value of the reference goods.

Delivery and installation of goods

9.114. The leading multiple retailers have varied approaches to the delivery and installation of white goods. Comet told us that it applied a standard delivery charge of £10 and that its standard installation charge was £49.99 for connection to an existing supply (sufficient to cover third party costs for laundry products). Dixons stated that it provided a service through its Mastercare subsidiary for all reference goods-a standard charge of £12.99 was levied for delivery, installation and connection of most appliances, with old units being removed and disposed of at no extra charge. NORWEB for many years offered free delivery and installation as part of a service-led position in the market. However, given continuing cost and profit pressures, it decided to introduce charges from October 1995. ScottishPower

*Figures omitted. See note on page iv.

told us that at the request of the customer it would arrange for delivery and installation. A charge would normally be made, but its sales staff had the freedom to reduce or waive it. It said that the benefit of free delivery and installation would vary between £10 and £15 depending on the reference product and extent of service given. Many of the other large retailers make a charge for this service although it is often insufficient to cover the cost. Mail order companies arrange for delivery of the reference white goods to their customers' homes directly from the supplier. The largest mail order company, GUS, has its own delivery fleet.

9.115. GDA told us that about 20 per cent of the goods it sold were delivered by itself to the customer, with the retailer paying an extra charge for this service. It seems that an increasing volume of white goods are being delivered direct. The advantage for the retailer is a reduced level of stock, with its associated storage and financing costs and the risk of obsolescence.

9.116. Among the multiple retailers who replied to our questionnaire, most of the smaller ones told us that they did not charge for delivery. A typical reply from a retailer in Scotland was that free delivery and installation were the norm. Old products were removed if requested, and no charge was made. This retailer delivered any item free if the customer required this (`for old people even a toaster, no REC would do that'). Free delivery was a major benefit that its customers expected.

9.117. We were told by respondents to the survey of small retailers who sold reference white goods that free delivery was an advantage they were able to offer over their large competitors. Over 80 per cent of respondents who did not cut prices in response to local competition did offer free delivery.

Other non-price promotions

9.118. Retailers use a wide range of promotional devices to stimulate interest and encourage sales although they may be partly or wholly funded by a supplier. These include free accessories, free gifts, trade-ins, competitions and package deals. Dixons told us that diversity was important because promotional offerings had a different appeal to different types of customer. Comet said that it tried to avoid free gifts because the customer `sees through' such offers, and because such gifts gave rise to significant logistical complexities. NORWEB said that it used these incentives extensively-it believed they could offer customers higher value at a lower cost to the business than a price reduction.

After-sales service

9.119. The servicing of reference white goods is normally arranged by the suppliers, using their own service organization or separate service companies, although some retailers undertake the servicing of own-label white goods. In this respect the retailing of white goods differs from that of brown goods where after-sales service, including warranty repairs on behalf of the supplier, is generally the responsibility of the retailer or of a specialist service company contracted to him.

Extended warranties

9.120. Most retailers sell extended warranties for all the reference goods, which come into effect when the manufacturer's warranty expires and provide an extension for a further four years. Retailers usually source their extended warranties from a single insurer, which undertakes the administration of the policy and the handling of claims. Small retailers and some larger retailers sell `off-the-shelf' policies and receive a commission from the insurer. A few of the larger retailers carry a substantial part of the risk themselves by having the insurer reinsure part of the risk with an affiliated insurance company, typically registered overseas. Some policies are not insured. A few retailers provide free extended warranties as a promotion.

Advertising by retailers

9.121. Retailers of electrical goods spend far more on advertising than their suppliers, and the nature of their advertising is different. Suppliers are likely to target advertising at strengthening their brands, while retailers' advertising will probably be product- and price-specific, aimed at a short-term sales advantage.

9.122. Advertising by retailers consists largely of advertisements in national and local newspapers. Solus advertising (featuring the products of only one supplier) is unusual. ScottishPower, referring to the disadvantages of solus advertising, said that it did not like individual supplier promotions, because they tended to move sales across to that supplier-the supplier would gain but it would not. Most advertisements therefore include the products of several suppliers, with the principal emphasis on price rather than product features. Artwork is basic, with product drawings kept small so that many products can be included in a single advertisement. Colour pictures are unusual.

9.123. Among the conventional multiple retailers Dixons and Comet normally use the national press (as do some department stores and the mail order companies). Comet also provides information on its top-selling products on Channel 4 Teletext. The RECs, regional multiples and small retailers more often use the local press, although the regional editions of national newspapers offer an alternative. Allders told us that local advertising could be expensive, citing its experience with the only local newspaper in Leeds.

9.124. Every year *Marketing Week* publishes details of the top 100 UK advertisers, using data supplied by Register-MEAL. Table 9.8 shows the total advertising spend for 1993, 1994 and 1995 and the press spend for 1994 and 1995 of Dixons and Comet which were the only electrical goods specialists to be included in *Marketing Week*'s statistics for the top 100 advertisers. The data refer to their expenditure on advertising their whole product range and thus extend well beyond the four reference white goods.

TABLE 9.8 **UK advertising spend of national multiple retailers, 1993 to 1995**

	*Rank**			*Total spend £m*			*Press spend £m*		*Press spend: total spend %*	
	1993	*1994*	*1995*	*1993*	*1994*	*1995*	*1994*	*1995*	*1994*	*1995*
Dixons	11	8	5	37.8	48.9	71.4	44.4	65.0	90.8	91.0
Comet	31	31	55	24.0	24.1	17.7	22.4	15.4	93.0	87.0

Source: *Marketing Week* from Register-MEAL data.

*Out of top 100 UK advertisers.

9.125. Table 9.8 shows the high proportion of advertising spend for Dixons and Comet devoted to press advertising. It also shows that Dixons' advertising increased from 1½ times Comet's spend in 1993 to twice that of Comet in 1994 and four times in 1995. The amounts in the table are based on rate cards. As the UK's largest user of press advertising, Dixons would presumably have been able to negotiate large discounts from the standard rates and its actual payments would be less than the amount shown. Other large advertisers, including Comet, will also have negotiated discounts, perhaps smaller than Dixons. Even though the effects of discounts are omitted, the table should still provide a rough measure of relative advertising volume.

9.126. We were told that this prominent investment in advertising reflected the fact that consumers were generally in the market for each of the reference white goods every seven years or so and took no continuing interest as prospective purchasers of the product in the intervening period. Intensive and repeated advertising was necessary to capture the interest of those in the market at a particular point in time.

9.127. Comet told us that while price cuts were quickly matched by competitors, the lead times in advertising delayed retaliation to a newly-advertised promotion. JLP commented on the role of RRPs in advertising, saying that they were frequently used by competitors who wanted to show a price saving; retailers with high advertising expenditure aimed to create the image of offering low prices but it constantly found that the promoted prices were the same as its own prices, which happened to be the supplier's promotional price of that product for the relevant period.

Other dealers

9.128. In addition to conventional retailers and mail order companies, several other types of dealer sell the reference white goods. These include wholesalers, retailers' buying groups, warehouse clubs and rental companies. Wholesalers and retailers' buying groups are both dealers and suppliers, and their activities are described in paragraphs 8.46 to 8.49 and 8.50 to 8.57 respectively.

Warehouse clubs

9.129. We use the term `warehouse club' to refer to dealers which operate a membership scheme and sell only to their own members, but which do not restrict membership to retailers. The term includes `cash-and-carry' businesses as well as newer formats which aim for a wider range of members. We understand that warehouse clubs are classified as wholesalers for planning law purposes but they are not only, or even mainly, wholesalers in our terms, as they sell to non-retailers. Nor are they all necessarily `warehouses': several of these stores are little different in their layout from conventional retailers; but others are austere in their fittings and display, and may be housed in extremely large shed-type structures, with the stock on high racks.

9.130. We believe that warehouse clubs have only a small share of the market for the reference white goods. We identified four warehouse clubs operating at the beginning of 1995 which sold the reference white goods: N&P; Makro; PriceCostco; and N&P's Cargo Club which closed in March 1995.

9.131. One source of supply for some of the warehouse clubs is from `diverters'. These are firms or individuals who buy up batches of white goods (including the reference white goods) usually because they are surplus to the requirements of manufacturers, importers or retailers, in the UK and abroad. The diverters sell these goods on to warehouse clubs or retailers, which may want them because they have been refused supply through the normal trade channels. We were told that products sold in this way carried the manufacturers' guarantees.

Nurdin & Peacock Cash and Carry Limited

9.132. N&P's traditional cash-and-carry business is mainly in the sale of food and tobacco but it diversified in 1994, under the name of Trade & Business Warehouse, to sell a wider range of goods including electrical goods. It has 56 outlets, only the largest of which stock reference white goods. Membership is restricted to retailers, caterers and other business customers, including many categories of sole trader; there is no membership fee. In November 1996 N&P's parent, Nurdin & Peacock plc was acquired by Booker plc, which does not itself sell reference white goods.

Cargo Club

9.133. N&P's other warehouse club, Cargo Club, was opened in 1994. Its membership criteria were stated to be much broader than those for the cash-and-carry business and it charged a membership fee of £25. It sold some white goods but, with few exceptions, obtained no direct supplies. After it incurred heavy losses, N&P closed it in March 1995 and sold its three warehouses to J Sainsbury plc.

Makro Self Service Wholesalers Limited

9.134. Makro is a wholly-owned subsidiary of a Dutch company, Holding Maatschappij Ukadema NV. We were told that SHV Makro NV holds 60 per cent of Holding Maatschappij Ukadema and Metro Holdings AG of Zug in Switzerland holds 40 per cent. SHV Makro is owned by SHV Holdings NV, a privately-owned company with its head office in Utrecht, and is one of the largest cash-and-carry wholesaling groups in Europe with world-wide sales of more than £7 billion in 1995 (at year-end exchange rates). In 1995 SHV Makro, which already held 14 per cent of Nurdin & Peacock plc's shares, proposed a merger between its UK cash-and-carry operations and Nurdin & Peacock plc, but this offer was rejected. In the autumn of 1996 SHV Makro sold its holding to Booker plc which then acquired Nurdin & Peacock plc (see paragraph 9.132).

9.135. Makro does not charge a membership fee and, like N&P, limits its membership to trade customers. It had 27 outlets in 1995. At the time of our inquiries it stocked the reference white goods only intermittently but was planning to do so on a regular basis.

9.136. Makro holds 35 per cent of the share capital of Chip Shop (Business to Business) Ltd which trades as Business to Business; the other 65 per cent is held by a private individual. Business to Business is the joint venture partner with Makro for the management of Office Equipment centres and Sound and Vision centres in Makro outlets. More recently, Makro has began to set up units where all four of the reference white goods are displayed and sold.

PriceCostco Europe (UK) Limited

9.137. In 1992 The Price Company Inc (Price) formed a 50:50 joint venture with The Littlewoods Organisation plc to develop a warehouse club business in the UK. Price was a leading operator of warehouse clubs in North America, where the concept was first introduced. Also in 1992 another leading warehouse club operator, Costco Wholesale Corporation (Costco), established a wholly-owned UK subsidiary. In October 1993 Price and Costco merged to form a new company in the USA, PriceCostco, Inc, and the UK subsidiaries combined to form a single organization, PriceCostco, in which the US parent company has a 60 per cent holding, with 20 per cent held each by The Littlewoods Organisation plc and Carrefour SA, the French supermarket group.

9.138. PriceCostco opened its first membership warehouse club in Thurrock in November 1993, and by the end of 1995 had opened further clubs in Watford, Glasgow, Liverpool and Manchester. Its stated aim is to sell high-quality, nationally branded merchandise at low prices to businesses purchasing for commercial use or resale, and also to individuals who are members of selected employee groups. There is a basic annual membership fee of £15 for business membership, plus a further £10 for each individual member from the same business; the fee for individual membership is £20. (In addition, VAT is payable on these fees.)

9.139. PriceCostco told us that some 65 per cent by value of its turnover is with what are called trade customers (some of whom may, however, purchase for domestic requirements) and the balance with individuals. This percentage related to all goods on offer; separate figures for the reference goods were not available. PriceCostco's business is based upon achieving high sales volumes and rapid inventory turnover by offering a limited assortment of merchandise in a wide variety of product categories at very competitive prices (we believe 15 to 20 per cent below RRP). Its stocking policy, including that for the reference white goods, is to offer breadth of coverage (a wide range of different products) but not depth (many variants of the same product). PriceCostco told us that it was dependent on diverters for supplies of some of the reference white goods, and that the range of brands and models which it sold therefore continually changed; the prices it had to pay for reference goods obtained from diverters were generally between 5 and 10 per cent higher than for goods it obtained directly from suppliers.

9.140. The effect of PriceCostco's policy of selling at heavily discounted prices can be seen in its accounts for the 53 weeks to 3 September 1995 for which it reported a gross profit of £1.4 million on turnover of £84.8 million, giving a gross margin of 1.6 per cent, and an operating loss of £2.8 million.

Services offered by warehouse clubs

9.141. The range of services offered by warehouse clubs is generally more limited than that offered by traditional retailers. As explained in paragraph 9.129, they often have an austere warehouse format, and pre-sales service both in terms of sales assistance and advice may be limited. But this is not always the case. Makro has recently set up separate areas in its outlets where white goods are displayed and, it told us, advice is available.

9.142. PriceCostco told us that it would take back any electrical goods with a full refund at any time after purchase at the request of the member.

9.143. Most warehouse clubs do not offer delivery and installation, but Makro has recently begun to provide these services.

Rentals

9.144. For some of the reference white goods there is a small volume of consumer rental business. While deliveries by suppliers to rental outlets fall within our terms of reference, the two practices which we have to investigate are unlikely to occur in this segment of the market. We therefore did not carry out a detailed investigation of this sector but relied largely on published information.

9.145. The rental market is dominated by two companies, Thorn and Granada. Most rental transactions involve televisions and VCRs, but there is a small but growing volume of rentals of other products, including the reference white goods. Thorn is supplied with the reference white goods by Whirlpool and Granada, which recently entered this market, is supplied by Hotpoint. Most of Thorn's rental business is conducted through its Radio Rentals subsidiary. It recently launched its Crazy George's operation, which operates rent-to-buy schemes, where ownership of the product passes to the consumer after payment of the final rental, but until then can be returned at any time. These schemes are aimed at cash-and credit-constrained consumers. There are no deposits or credit checks, and a wide range of goods are rented, including furniture and white goods. Martin Dawes Ltd, which has 26 rental outlets in the north and north-west of England, told us that it did not rent white goods since, in its opinion, they had little or no residual value after their first rental and cost more than televisions and VCRs to store, handle and deliver.

Trade associations

9.146. Many of the smaller retailers are members of the Radio, Electrical and Television Retailers' Association (RETRA). It told us that it had around 1,400 members in England, Scotland and Wales. The vast majority of them were independent businesses, but it had two large member organizations, the Thorn and Granada rental groups. RETRA was seen as primarily a brown goods association and, although it was recruiting more retailers of white goods, there was still a preponderance of the brown goods side among its members. Membership of RETRA was conditional on agreeing to abide by a long-standing code of practice, developed in conjunction with the OFT, on the sales and after-sales service of the products that RETRA's members sold and rented. RETRA added that about half of its members were also members of a retailer buying group, but RETRA itself had no involvement in buying.

9.147. RETRA told us that it acted as a lobby group and thus represented the interests of its members in discussions with the Government and the European Commission. It provided a clearing-house scheme to enable members to pay their monthly bills by sending just one cheque, saving bank charges. It published a range of standard forms for hire purchase and rental agreements which complied with all legislation, arranged special terms with credit card processors, and offered a wide range of other services to its members.

9.148. RETRA provided the secretariat for the Retailers' Forum, a less formal organization, which had been set up at the instigation of CIH and itself to enable a wider cross-section of the retailers, including Dixons, the RECs, the co-operatives and regional multiples, to discuss matters of mutual interest. RETRA told us that it was sometimes useful for the big players and small retailers to make joint representations on behalf of all electrical goods retailers.

9.149. Most larger retailers (including Dixons and Comet) as well as RETRA are members of the British Retail Consortium (BRC). The agency mail order companies are members of the Mail Order Traders Association.

Dealers in Northern Ireland

9.150. A higher proportion of electrical goods, including the reference white goods, are distributed through wholesalers in Northern Ireland than in Great Britain. V Leonard & Co Ltd (Leonard), a Belfast wholesaler, told us that the importance of the wholesaler in Northern Ireland had come about for the following reasons: many of the small retailers who accounted for about 75 per cent of the Northern Ireland market were unable to meet the minimum turnover requirements of the suppliers; the high cost and long lead times of deliveries from Great Britain; and the reluctance of some suppliers to set up their own local operations because of the political environment. Transport had improved and this, together with the reluctance of some suppliers to have their products stocked by the same wholesaler as their competitors, had led to a diminishing role for wholesalers.

9.151. CIR (NI), one of the local groups which is a shareholder of CIH, has, we understand, a significant presence in Northern Ireland with 14 members. It obtains reference white goods both direct from suppliers and from local wholesalers. It operates a small warehouse and storage operation on behalf of its members as well as acting as a purchasing organization for them. Combined Independents of Ulster has 34 members. It negotiates favourable terms on behalf of its members who are then supplied direct; it has no warehouse and does not take title to goods.

9.152. Among the larger multiples Dixons has nine branches in Northern Ireland. Makro has one outlet in Belfast. NIE Retail is the largest retailer with 33 branches. Comet withdrew from retailing in Northern Ireland in 1992.