

## Pricing policies

### Introduction

1. This appendix reviews the evidence on some aspects of the pricing policies adopted by GAME and Gamestation, to support the discussions of pricing in the findings.
2. We first describe the use of promotions by the parties as part of their overall pricing policy. Second, we consider the way that prices are varied for products through their life cycle. Third, we look at details of pricing determination for the sale of pre-owned products, and for the purchase of trade-in products. Finally, we look at how the parties respond to the opening of competitor stores near their existing shops.

### Use of promotional tools

3. It is common for retailers to offer promotions on games, such as price reductions or 'buy one get one half price', and hardware is often bundled with games in promotional deals. The parties told us that they used promotional tools extensively to enable them to compete more effectively on price with more aggressively-priced supermarkets and online retailers, as well as with other high street retailers.<sup>1</sup>
4. The parties told us that they heavily discounted a substantial share of titles during any given week. During any given week, promotional discounts and reductions in net price arising from trade-ins at GAME (ie after the initial discount to SRP or RRP) typically affected [X] per cent of the total mint software volume sold (translating to [X] per cent in value terms).
5. The proportion of mint hardware affected by promotional discounts is higher, predominantly due to the greater proportion of hardware sales that are included in a hardware/software bundle. As such, when mint hardware is included, the proportion of sales affected by a promotional or trade-in discount is marginally higher—between [X] and [X] per cent in volume terms and between [X] and [X] per cent in value terms.
6. This is illustrated in Table 1, which provides the breakdown by type of discount for total mint software, and software and hardware. Gift cards are included because GAME estimated that the majority ([X] per cent) of such expenditure was trade-in credit which was not used at the time of the trade-in.

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<sup>1</sup>For GAME these tools include hardware bundles, multibuy, trade-in discounts, loyalty card discounts and deal of the week.

TABLE 1 Proportion of GAME's mint sales affected by promotional discount

	<i>per cent</i>			
	<i>Mint software</i>		<i>Mint software and hardware</i>	
	<i>Volume</i>	<i>Value</i>	<i>Volume</i>	<i>Value</i>
Promotional discount (eg multibuy, bundle)	(	)	✂	)
Trade-in discount				
Deal of the week/temporary price reduction				
Redeemed loyalty points				
Gift card				
Total excluding gift card				
Total including gift card				

Source: GAME.

## Product life cycle

7. The price of any one hardware or software SKU is not fixed indefinitely but tends to decline over time. For games software, demand tends to be highly centred on recent releases (see Figure 2 in the findings) and chart games (the parties estimated that the top 20 chart products represent well over half ([✂] per cent) of mint software sales, and that nearly three-quarters ([✂] per cent) of sales are represented by the top 50). As demand falls over time, prices are reduced in steps. Publishers may also issue budget or platinum editions of old games at a lower price point to extend the retail life of the game.
8. GAME provided an analysis of cumulative sales for the top 50 games software titles by volume and value in 2004. This found that approximately [✂] per cent of sales volumes (equating to [✂] per cent of value) were achieved within the first 20 weeks of the launch and that around [✂] per cent of sales volumes (equating to [✂] per cent of sales values) were achieved within the first year.
9. In terms of the price profile as the title moves through the life cycle, changes in prices appear to depend largely on the success of the title and hence on stock management policies negotiated with the supplier. GAME provided evidence of successful titles maintaining the same price level for at least one year from release while other titles dropped from £29.99 to £4.98 within six months.
10. Hardware prices also fall over time. For example, Table 2 shows that four years after release, the prices of Playstation 2 have fallen to less than one-third of their initial level.

TABLE 2 Retail price of Playstation 2

<i>Date</i>	<i>Price</i> £
Launch—24 November 2000	299.99
5 June 2001	269.99
27 September 2001	199.99
29 August 2002	169.99
1 October 2003	139.99
20 August 2004	104.99
24 August 2006	94.99

Source: GAME/Gamestation initial submission.

## Links between pre-owned and mint prices

11. Both GAME and Gamestation stated that pre-owned prices were set by a combination of:
- (a) the mint price of the product;
  - (b) demand and supply considerations in the stock of pre-owned games or hardware; and
  - (c) price monitoring of competitors.

Both parties told us that they used their pre-owned offer in order to present the consumer with a generally better-value alternative to mint and as a means to compete with low-priced supermarkets and online retailers. Consequently, the pre-owned prices are below mint prices.

12. Gamestation provided a matrix which it said it used as a guide for setting the pre-owned price for an equivalent mint price. This matrix is reproduced below along with the percentage differences between the prices.

TABLE 3 Gamestation's matrix for mint and pre-owned prices

Mint price £	Pre-owned price £	Percentage difference	Notes
✂			

Source: Gamestation.

13. The average percentage difference between the mint and pre-owned price in this matrix (ignoring the exceptions in the fourth column) is [✂] per cent, the maximum difference is [✂] per cent and the minimum is [✂] per cent.
14. In the event that pre-owned stock levels start to build, both GAME and Gamestation will first reduce the trade-in price offered. In addition, once a title has sufficient stock [✂], Gamestation will take a view as to when it may be necessary to start reducing the pre-owned price too.

## Pricing for the purchase of trade-in

15. Both GAME and Gamestation initially set trade-in prices in relation to the pre-owned price using a specific matrix (where, as discussed above, pre-owned prices appear to be set in reference to the parties' own mint price).
16. GAME stores operate using [✂] trade-in offer matrices [✂]. Where GAME offers national promotions, the trade-in offer is set nationally and is not determined by

reference to the matrices. However, for approximately [X] per cent of SKUs the [X] scheme potentially offers a higher trade-in price than [X].

17. According to GAME, the difference in trade-in offers between the [X] matrices [X] arises because the matrices are an attempt to take into account the possibility that in certain locations demand for pre-owned stock will be high relative to the available supply. Specifically, where GAME faces Gamestation and independents which have a greater focus on pre-owned sales, there will be a greater demand for pre-owned stock. Therefore, the trade-in offers in those areas will be higher to balance demand and supply.
18. Table 4 compares GAME and Gamestation's pre-owned and trade-in prices. It is reproduced from material provided by GAME from a report prepared by [X] in April 2006. The comparison is from March 2006 and is reflective of prices at that point in time.

TABLE 4 Comparison between GAME and Gamestation's pre-owned and trade-in prices across the product life cycle, April 2006

		£			
		Selling price	Trade-in price	Cash margin	
Less than 3 months old	GAME	(	)		
	Gamestation				
3-6 months old	GAME				
	Gamestation				
6-12 months old	GAME				X
	Gamestation				
12-24 months old	GAME				
	Gamestation				
Older than 24 months	GAME				
	Gamestation				

Source: GAME.

19. Table 4 shows that there was a clear difference between the average trade-in price between GAME and Gamestation in 2006. Across the five different parts of the life cycle illustrated, Gamestation's trade-in price was, on average, [X] per cent higher than GAME's. Table 4 also shows that [X].<sup>2</sup>
20. [X]

## Response to new store openings

21. The parties provided information that had previously been submitted to the OFT regarding the impact of Gamestation's store openings on GAME's sales. An analysis by GAME's strategy consultants [X] suggests that the opening of Gamestation stores in areas where a GAME store is already present has a significant negative effect on GAME stores' sales. In response to a Gamestation store opening, GAME stores located nearby typically experience a reduction in value sales of [X] per cent of overall sales and [X] per cent of pre-owned sales during the 12 months following the entry shock.
22. GAME said that its stores responded to a local store opening by a rival through, for instance, development of special promotional deals, ie three-for-two offers, and bundled hardware/software sales at a discount. A local pricing response policy was

<sup>2</sup>[X]

ceased in February 2005. GAME may, if deemed necessary by management, launch a local marketing campaign in response to a competitor opening for a period of two weeks from the competitor's store opening. However, this does not include a price response.

23. Gamestation said that it rarely deviated from its national price, quality, range and service offering in response to a local store opening, instead relying on its 'price-matching' policy. The only exception to this was that 'a local decision will be made if a "loss leading" offer is required'.

**GAME group pre-owned pricing matrix**

