

## CHAPTER 4

### **Evidence of certain retailers refused supplies by Raleigh**

4.1. We sought evidence from six multiple retailers who had been interviewed by OFT in the course of the Director General's investigation under section 3 of the Competition Act. Paragraphs 6.8 to 6.10 of the OFT report refer. Four of these retailers—Argos, Asda, Comet (which includes McOnomy) and House of Holland—attended a hearing. The other two, Tesco and Woolworth, sent us written observations.

4.2. Those who attended the hearing gave evidence on a number of matters arising in connection with Raleigh's unwillingness to supply them with bicycles. The following paragraphs draw on the relevant parts of their evidence.

4.3. The general policy of the retailers was to deal in branded products recognised by consumers. Their reason for wishing to sell Raleigh bicycles was that Raleigh was the acknowledged brand leader, with a reputation for quality among consumers, and that they were confident that Raleigh would sell very briskly in their stores, increasing their present volume of bicycle sales.

#### **Pricing policy**

4.4. The retailers stated that they did not sell goods at a loss or as 'loss leaders'. (One of them suggested that loss-leading was selling an item at a level where one could not make a profit, apparently in order to attract customers into the shop and interest them in other merchandise.)

4.5. Although the companies emphasised that they did not make a loss on sales, there appeared to be, when pricing goods, some differences between companies in the way overhead costs were included in the price of individual products.

4.6. Two retailers explained that there was one exception to the general rule that nothing was sold below cost. A company might, at one time or another, sell at prices below cost items from discontinued lines or residual end-of-season goods. But such instances did not imply a policy of selling continuing, regular lines below cost.

4.7. As to the possibility that the companies would sell Raleigh bicycles, albeit not at a loss, at a price lower than was being asked by Raleigh dealers and specialist bicycle shops, one company stated that it would be its intention to do so. Other companies indicated that they might conceivably do so but that this would, or could, be difficult. While they did not know the margins which (if forced to supply) Raleigh would offer them, these might not be conducive to heavy price cutting. Some Raleigh dealers, and a specialist multiple, were already cutting the price of Raleigh bicycles considerably.

4.8. One of those attending the hearing stated that, if the retailers were supplied with Raleigh bicycles, these bicycles would become cheaper to the public because the specialist bicycle dealers would start to compete more actively.

#### **Range of bicycles to be stocked**

4.9. On the question whether the retailers would find any difficulty in complying with Raleigh's expectation, as recorded in the OFT report at paragraph 4.17, that generally a retailer should stock one or more bicycles from each of its six main ranges, some of them foresaw no problem in carrying such a range in each of their outlets. One retailer said however that, having regard to the size of its stores and the style of bicycle that customers asked for, it would expect to carry a somewhat smaller range.

#### **Pre-sale checks, advice and assembly**

4.10. The retailers said that at present a large proportion (in one case, all) of the bicycles they sold were delivered to the customer packaged. They thought the great majority of customers preferred this, intending to take the purchase away in or on top of a car, and not wanting the handlebars or pedals to protrude. Often, moreover, the bicycle was to be put away at home until Christmas, and the packaging was convenient for this.

4.11. The majority of the retailers indicated that, on request from the customer, their shop staff would be prepared to assemble pedals and adjust handlebars. Two of them stated that they already provided this service at point of sale to the small minority of customers who asked for it.

4.12. According to the retailers, it was not their present practice to make a specific comprehensive examination of each bicycle before it was handed to the customer. In the case of two retailers, a sample of the bicycles received was subjected to a quality control examination, for compliance with specification and safety standards, before the bicycles were sold. In another case, when the packaged bicycles reached the customer area of the store, the visible parts, eg the wheels, were examined for damage and, where necessary, returned to the manufacturer. Another retailer, while not ruling out the possibility of a pre-sales check or pre-sales adjustment, said that it would like to know from Raleigh exactly what would be required of it. This point was echoed by others: they could not find out exactly what Raleigh wished them to do by way of examination and service until such time as Raleigh was prepared to discuss the matter with them.

4.13. It was the general practice for a manufacturer's instructions booklet to be supplied in the package or with the bicycle. In some cases, the text had been checked by the retailer concerned.

#### **After-sales service**

4.14. As regards after-sales service, one retailer said that it already employed its own engineers and had service departments throughout the

United Kingdom where goods (including bicycles) could, if they needed servicing, be taken or sent. Another retailer had a system of weekly visits to its branches by engineers or mechanics from its suppliers of goods which might need servicing. It would not wish to employ such staff directly and would like to discuss with Raleigh, if bicycles were supplied to it, ways in which its existing service arrangements could be improved—possibly by use of Raleigh Service Dealers. Two retailers said they already, in the case of certain goods, referred customers to outside repair or service agents and indicated that they would like to explore with Raleigh the possibility of using the Raleigh Service Dealer network in a similar way. At present, these two retail companies would normally replace (or refund the price of) a bicycle brought in with an alleged fault. But bicycles were seldom brought back.

### **Commitment**

4.15. The retailers were invited to comment on a point to which Raleigh attached importance—the question of commitment to selling bicycles, in the sense of continuing to sell them at all seasons of the year and even when the market was very bad, as distinct from going out of bicycles with the possibility of starting to sell them again when things improved.

4.16. The retailers indicated that they would expect to sell and display bicycles all the year round, though in some cases there might be seasonal variation in the display space allotted. One of them would sell the same range of Raleigh bicycles throughout the year. Another stated that it was conceivable that the range for the autumn period might be wider than that offered earlier in the year. Nevertheless it, too, would sell bicycles all the year round.

4.17. The retailers thought it likely that the demand for bicycles would be a continuing one and that it was most improbable that the question of dropping the line would arise. Nevertheless, they took the view that normal commercial practice required that, if it happened that there was a continuing lack of demand for *any* product, any retailer would consider excluding it from its range.

### **Implications for brand image**

4.18. None of the retailers considered that the supplier of any product sold through them had as a result suffered damage to its brand image. On the contrary, they thought that a manufacturer such as Raleigh would benefit from the increased public awareness of and interest in its brand of product which would result. This increased awareness would come about because so many customers would see the product in the store, or pictured in a catalogue or mentioned from time to time in a retailer's advertisements.

### **Spare parts**

4.19. We put it to the retailers that Raleigh attached importance to the stocking by retailers of an adequate range of spare parts for their own use and also for sale to customers who wished to repair their own bicycles.

4.20. Two retailers said that they carried bicycle spares. One of them had about one hundred service departments and a spares distribution centre. The public could already take a bicycle bought from the retailer to one of its service departments for servicing. The service departments carried the popular spares. The non-popular spares were kept centrally as part of a comprehensive set of spares for all types of goods. There was a regular distribution service from the distribution centre to the service departments. If the retailer stocked Raleigh bicycles, it would keep a comprehensive set of spares to supply its own needs, the trade and, if they required it, the public. The second retail company said it carried a range of accessories and spares, such as brake blocks and cables, primarily because it considered that, if it was to be a credible cycle retailer, that was a service which it should offer to its customers. Neither of the two other retailers said that they carried bicycle spares. One of them said it might have to consider doing so if it was a pre-condition of supply by Raleigh. But it would prefer to leave such matters to the network of Raleigh Service Dealers.

### **Sales and market share**

4.21. As to the consequences for the sales of well known branded goods, if made available through discount stores, one retailer said that there had been instances of initial reluctance to supply it, and where this resistance had been overcome, not only had there been an increase in the sales of the manufacturer concerned through the company's type of outlet but he had also increased his total market share. Another retailer said that, as more suppliers had offered their merchandise through it, either it had given them a reasonable increased share of the market or their business had increased overall or it had not been to the detriment of their other outlets. A third put it that it knew of no manufacturer with a branded product that, having ventured into the discount market, had ended up worse than before going in. The fourth retailer attributed the fact that its present sales of bicycles were relatively small to its lack of supply from Raleigh. It would sell many more bicycles if it had Raleigh.

### **Expected effects on other dealers**

4.22. The retailers were asked whether, in their view, the market for bicycles was capable of expansion, or whether, if Raleighs became available through their outlets, other retailers such as specialist bicycle dealers would lose sales of Raleigh bicycles. The retailers suggested strongly that in general this would not happen. The degree of advertising to which bicycles would be exposed, if the retailers were allowed to sell Raleigh bicycles, would be an important influence and could be expected to widen the market. If Raleigh asked itself how and why its market share was dropping, it would see that Raleigh was not represented in any of the emerging markets, ie the type of market represented by those at the hearing. The success of such outlets would, the retailers suggested, seem to indicate that the public liked their type of product, the way they sold it, the ranges they offered and the prices they offered them at.

4.23. The retailers stated that the quality of the imported bicycles in which at present they dealt had improved greatly. The specification was now such that they could be sold on a quality basis alongside Raleigh. Nevertheless, once

assured of supplies from Raleigh, the retailers indicated that their sales of imported bicycles would be greatly reduced (in certain cases, eliminated). On the other hand, the retailers were not going to give up selling bicycles: if they could not get Raleighs there would be more and more imports.

### **Inconsistent application of requirements**

4.24. The retailers indicated their awareness that some of the services that were being discussed in the course of the hearing were not required by Raleigh from catalogue mail order firms which it supplied with bicycles. It was put to us that there could be no pre-sales check by mail order houses as the bicycle was delivered to the customer's home and, similarly, that the only advice given was in the catalogue or written descriptive material such as an owner's handbook. It was also suggested to us that catalogue mail order houses were able to leave provision of servicing facilities and supply of spare parts to Raleigh Service Dealers.

### **Tesco**

4.25. Tesco told us it regarded its commitment to bicycles as permanent. It sold a range of adults' and childrens' road bicycles at a minority of its stores. Its stores selling such bicycles all had adequate display space for the product. They were mostly in 'the High Street'. If supplied by Raleigh, Tesco would price its bicycles competitively. It considered that—if Raleigh bicycles were made available to it and comparable multiple retailers—retail price levels would be somewhat lower, to the benefit of the consumer, and that the whole bicycle trade would be stimulated by the competitive spirit that would be invoked.

4.26. Bicycles sold by Tesco were supplied either from display—'ready for the road'—or from stock, needing the pedals to be put on and the handlebars straightened. If a customer did not wish himself to prepare a bicycle for the road and a display model was not available, he could wait until Tesco staff had prepared a bicycle from stock. Tesco would be willing for its staff to be trained to give advice and make a pre-sales check.

4.27. Tesco had particular concern for quality and safety where bicycles were involved and it appreciated Raleigh's own concern with servicing facilities. Accordingly, although Tesco would prefer to rely on Raleigh Service Dealers for servicing and most stocking of spare parts, the company would be willing to hold a dialogue with Raleigh to ensure that adequate servicing facilities etc would be available. If Raleigh wished Tesco to do so, as a pre-condition for supplying road bicycles, it would be willing to sell spare parts or accessories.

4.28. Tesco would be happy to be guided by Raleigh's advice on the range of Raleigh-made bicycles it would stock. It would consider any conditions Raleigh put forward, for example, whether there should be a 'pilot scheme' whereby Raleigh bicycles would initially be sold in only a few stores. Tesco wished to establish the principle that Raleigh should supply it with bicycles, preferably the Raleigh brand, but Tesco would—albeit reluctantly—be willing to consider selling other Raleigh-made brands.

## **Woolworth**

4.29. For a number of years, Woolworth has been selling road bicycles. In 1977-79, it would have welcomed the opportunity to sell Raleigh bicycles, but was refused supplies. The company has established itself as a retailer of bicycles under the 'Hawk' brand (these bicycles are of German, Japanese, or United Kingdom origin). Since 1980, it has introduced a range of bicycle spares and accessories into its stores.

4.30. Woolworth has confirmed that its views remain as indicated to the Office of Fair Trading (OFT report, paragraph 6.9). The company is committed to selling bicycles but no longer wishes to be supplied with Raleigh. It views the fact that it does not sell Raleigh bicycles as making very little difference to the volume of bicycles it sells.