

CHAPTER 5

Other evidence

5.1. We received observations from a number of organisations, businesses, and individuals. These included the Department of Transport, the National Consumer Council, the Bicycle Association of Great Britain, cyclists' organisations, specialist bicycle dealers, certain other bicycle distributors, the National Association of Cycle and Motor Cycle Traders Limited, the Managerial Administrative Technical and Supervisory Association, the Radio, Electrical and Television Retailers' Association, Halford Limited, the National Union of Small Shopkeepers, and organisations concerned with vehicle and road safety. The following paragraphs draw upon this evidence. (Certain organisations referred us to the evidence they had given to OFT.)

5.2. The Department of Transport informed us that the Secretary of State had stressed his general concern that full weight be given to the interests of road safety, and his particular concern to see that bicycles sold and on the road were in a good, safe condition. The Department drew our attention to 'Cycling: a Consultation Paper', published in May 1981 by the Secretaries of State for Transport and for Wales. The Consultation Paper referred, in its paragraphs 31-34, to the preparation of a new British Standard on bicycle construction and its possible incorporation in legislation. The letter indicated that the draft standard made provision for instruction, to be supplied to purchasers, giving details of the bicycle's correct adjustment and maintenance (but did not, as yet drafted, make provision for pre-delivery inspection).

5.3. The Department are considering the replies received to the Consultation Paper, including suggestions for matters to be covered by the possible new British Standard (the proposal for a mandatory standard received much support in replies to the Consultation Paper).

5.4. The Department's letter also included mention of the generally favourable impression they had received as to Raleigh's responsible attitude to road safety.

5.5. The National Consumer Council represented to us that refusal to supply was against consumers' interests unless it could be shown that consumers would suffer more than they would gain from a more competitive market situation. The Council found nothing which led it to believe that Raleigh's distribution policy was in the best interests of consumers. They considered that in this matter a fully competitive market was the best way of ensuring freedom of choice and value for money for consumers.

5.6. The Council commented on Raleigh's criteria (as recorded in the OFT report) for making its supply decisions. Among the arguments advanced by the Council were that:

- (a) for the consumer, a dealer's long-term *commitment to bicycles* was only important (i) if the consumer expected to obtain after-sales service from

him or was unable to obtain it elsewhere (see (d) below) or (ii) if, in the absence of such commitment, there was a danger that a less competitive market structure would be encouraged in the long run. As regards (ii) the Council saw no reason to expect that any concentration of the market for Raleigh bicycles resulting from the entry of multiple retailers was likely in the long run to lead either to less access for consumers to bicycles, or to a less price competitive market. On the contrary, increased competition from the multiples (if supplied by Raleigh) was to be expected and would lead to better value for money;

- (b) as regards *pre-sales servicing*, safety was clearly of crucial importance but, if the current regulations governing the sale of bicycles were shown to be inadequate to ensure that bicycles were sold by dealers in a roadworthy condition, then those regulations should be strengthened (rather than placing reliance on refusal to supply, a policy which some manufacturers did not operate);
- (c) if the question of pre-sales service was not one of safety but one of *brand image*, one possibility was for multiple retailers not giving such service to display a notice stating as much, thus enabling customers to choose whether they wished to buy a bicycle at a lower price (leaving them eg to adjust the handlebars and pedals themselves) or preferred to go elsewhere and pay a higher price for the full pre-sales service;
- (d) as regards provision of *after-sales servicing* of bicycles, dealers should, if there was as Raleigh had suggested (OFT report, paragraph 4.33) keen competition throughout the year in the servicing of bicycles, welcome new business from multiple retailers, unless they were cross-subsidising their charges for servicing from the prices at which they sold bicycles;
- (e) such cross-subsidisation would not be in the public interest as it would act as a barrier to entry into the servicing market;
- (f) consumers should at least be given the option of paying either a lower price for a bicycle and the economic price of servicing (the latter perhaps obtained from a servicing dealer, rather than from the seller) or a higher initial price and thereafter lower servicing charges; and
- (g) as regards Raleigh's desire to protect its existing retailer network, such protection was likely to breed inefficiency. The best way for retailers to protect themselves was to offer value for money in competition with other retailers who did likewise: this was the best way of ensuring a continuous and long-term demand for any product.

5.7. The Bicycle Association of Great Britain Limited (BAGB), representing bicycle manufacturers and certain established bicycle importers, component manufacturers and factors, reaffirmed its members' view (as recorded in the OFT report at its paragraph 5.3) that a manufacturer has a right to choose the most suitable outlets for his products, guided by commercial considerations—for example, the retailer's ability to present the product acceptably, to provide specialist advice to the potential customer on the model best suited to him, and to maintain back-up service. BAGB stressed the importance to the manufacturer of loyalty to established trade outlets.

5.8. BAGB thought that outlets such as multiple stores, with their economies of scale and willingness to promote specific products at low profit margins, would (if supplied) be able to sell Raleigh bicycles at lower prices than might otherwise prevail. Specialist retailers would then be forced to reduce their prices, although—as their specialised service could justify a small premium—not necessarily to the levels of the multiples.

5.9. Consumers might gain in the short term but in the longer term they would be likely to suffer as many specialist dealers would be likely to close down, reducing the available number of bicycle outlets, servicing facilities, and competition in the market, with probable adverse implications for servicing charges and bicycle safety.

5.10. BAGB also supplied statistical and other information on which we have drawn in Chapter 2.

5.11. The Cyclists' Touring Club (CTC), which is concerned with the encouragement and protection of cycling activities, expressed wholehearted support for Raleigh's distribution policy. CTC stated that, having regard to the number of road accidents involving pedal cyclists, it was of prime importance that bicycles should be sold in first-class condition; this implied expert pre-sale testing and servicing. CTC felt that Raleigh, if it sold bicycles through discount stores, would be unable to monitor whether they were sold in a roadworthy condition or whether they would receive the correct back-up service.

5.12. The British Cycling Federation, interested in the promotion of both recreational and competitive aspects of cycling, considered it in the public interest that cycles should be sold through specialist cycle dealers. This usually ensured sound pre-sale advice as to size and type of bicycle for the rider and use proposed, pre-sale inspection as to proper assembly and tightness of nuts and bolts, and—even more important in the Federation's view—after-sales servicing to enable the customer to maintain the bicycle in roadworthy condition. There were adverse implications for safety if bicycles were sold through organisations lacking such facilities.

5.13. The National Committee of the Road Time Trials Council (one of the national controlling bodies for cycling sport in England and Wales) expressed a similar view: the sale of bicycles should be through retail outlets whose staff were fully conversant with the repair and maintenance of a wide range of machines. The National Committee emphasised that, being a road vehicle, a bicycle must be carefully constructed, assembled and maintained. Both the Federation and the Committee emphasised that manufacturers commonly despatched to their retailer customers bicycles which, before being ready to be ridden, needed a greater or less degree of assembly and careful adjustment.

5.14. The Committee pointed out that the less knowledgeable and experienced the prospective purchaser, the more desirable it was that expert advice on the most suitable machine for his use be made available to him, in addition to a thorough pre-delivery check of the machine. Moreover, the bicycle should be returned to the dealer for further adjustment after 100 miles

or so of use. Thereafter, availability of servicing and repair facilities was important, especially for the inexperienced purchaser.

5.15. The following paragraphs draw out main points raised in letters received, directly or through the National Association of Cycle and Motor Cycle Traders, from businesses retailing bicycles. Except as indicated in paragraph 5.13, these letters were from independent specialist bicycle dealers.

Price

5.16. Reactions to the prospect that discount stores would set prices for Raleigh bicycles that were generally lower than those hitherto prevailing ranged at the extremes from a call for the restoration of Resale Price Maintenance to a declaration by an independent dealer that he was not concerned with added competition by large outlets as he, a skilled engineer, offered a service which the multiples concerned would not be able to match.

5.17. However, perhaps the most typical comment concerning prices made by the specialist retailers who wrote to us was that, if faced by severe price cutting from large multiples, dealers would either drop servicing to compete on discounting, or switch from Raleigh to selling other makes (probably, in some cases, cheaper foreign makes) of bicycles. A catalogue mail order house wrote to us on similar lines, expressing concern as to the possibility that servicing, technical advice and spare parts facilities (whose availability it thought essential) might be drastically reduced if outlets not providing such services were supplied and set their prices low. A department store group, which stated that it had always relied on, and found satisfactory, Raleigh Service Dealers for after-sales service, wrote that, if such servicing facilities became unavailable for the bicycles it now sold, it would stop selling them.

5.18. A company with several bicycle shops, stating that it handled thousands of Raleigh bicycles annually, considered that small independent retailers with one outlet would, granted their low overheads, servicing skills and relationships with customers in the locality, always remain viable. For a medium-sized company with a considerable investment in stock and branch premises, however, it saw one of two consequences if Raleigh bicycles were to be supplied to any multiple who cared to stock them:

- (i) if the terms available to the medium-sized company from Raleigh enabled it to secure its margins, it would, with its specialist capacity for giving service, hope to beat off the challenge on prices; or
- (ii) if, in the face of severe price cutting by multiples, the company was unable to maintain sufficient turnover on Raleigh products, it would be forced to seek, and would undoubtedly be able to obtain in replacement of Raleigh bicycles, supplies of other makes of bicycles the prices of which could not be directly compared with Raleigh.

5.19. A view expressed by more than one small dealer was to the effect that any price advantage to consumers if Raleigh widened its distribution policy was likely to be short-lived, as—assuming that discount stores would force many

small bicycle retailers out of the market—the stores would thereafter be strongly placed to increase prices.

Advice and sizing

5.20. Several dealers wrote about the importance of technical advice to customers, eg as to type of bicycle, and of the retailer's important role in 'sizing' or 'fitting' the cycle to the intended rider. Where a bicycle was being bought for a child, one writer put it that sizing had to be a careful balance between the bicycle being too small and a bad buy for the parents and too big and being unmanageable, therefore unsafe, for the child.

Pre-sale check and safety

5.21. A frequent theme of the specialist dealers who wrote was that it was highly important in the interests of safety that a competent bicycle mechanic should make a thorough check of, and any necessary adjustments to, bicycles before delivery to customers. Such a check was made by specialists. Several writers indicated that they did not believe that large multiples, eg discount stores, would or could arrange for their shop staff to make such technical checks and adjustments.

5.22. Several dealers underlined the importance of the pre-sale check by explaining that manufacturers often sent them incomplete bicycles or bicycles needing adjustment: it was, one wrote, rare indeed to find nothing requiring attention.

After sales service

5.23. In paragraph 5.17 above, it was mentioned that some dealers wrote of possibly dropping servicing if the need for heavy discounting materialised. Certain dealers indicated that they did not charge customers the full cost of repair and servicing. As one firm put it, it made no profit on repairing bicycles as it was a service offered in order to sell new bicycles.

5.24. A specialist dealer, who had over 50 years in the bicycle trade, wrote of the trade's uniqueness in the special relationship which dealers had built up with customers as regards the important role played by after-sales service. Riders, including school children, would often call in for an adjustment—often made at no charge—to rectify a fault. He did not think such a service would be available from the type of outlet seeking supplies of Raleigh bicycles, and this could have serious implications for safety.

Faulty machines from other sources

5.25. A number of dealers stated that from time to time people brought into their shops bicycles or components which were faulty, allegedly on the basis that the bicycles had been bought from a branch of this or that large company which had been unable or unwilling to rectify the fault. Another allegation was that a person would bring in a bicycle, not fully assembled, as supplied by such a branch, and ask for the dealer's help in assembling it.

5.26. One firm suggested that a valid reason for a manufacturer to arrange for area representation that was not so overcrowded with its outlets as to threaten their individual viability was to maintain standards, eg as to servicing facilities, so that the user got the maximum use of the product. Thus, availability of local servicing facilities avoided the need for sending the goods back to a distant manufacturer.

Specialist bicycle dealers refused supplies by Raleigh

5.27. Three specialist bicycle dealers, each established in a different area, wrote to us that they had been refused supplies by Raleigh. In two cases, the nature of the responses by Raleigh's representatives to their applications as they reported the matter to us (eg that Raleigh already had enough outlets in the town in question) suggested that the refusals resulted from application of the geographical criterion. The third retailer provided evidence that a reason for Raleigh's attitude was that it regarded his advertised prices as showing Raleigh's products as 'loss leaders'. He also alleged that Raleigh wished a nearby '5 Star' dealer to have a local monopoly. (Raleigh subsequently informed us that it had, in the two towns where the retailer had shops, respectively five and three appointed outlets.)

5.28. The National Association of Cycle and Motor Cycle Traders Limited (NA) submitted both written and oral evidence to us. NA took the view that a manufacturer should have the right to decide that he would supply only such traders as would provide the degree of technical knowledge and service he thought necessary for his products. If Raleigh were forced to supply discount stores, specialist dealers would, in NA's opinion, lose sales because they would not be able to compete on price with the discount stores which, as compared with the dealers, had a much wider spread of merchandise against which to offset the effect of selling bicycles at a heavily discounted price.

5.29. The NA considered it essential that all outlets selling bicycles should provide adequate servicing and spares facilities for the public. They foresaw, however, that, if discount stores sold Raleigh bicycles, but did not themselves do servicing, many specialists would be unable to maintain a servicing and repair facility because repairs and servicing were subsidised by sales of bicycles, which would be eroded by the discount stores. Customers were used to paying a low, subsidised rate for servicing and repairs and would not want to pay an economic price, even if the dealer was able to offer continuing servicing. Customers would also suffer because discount stores would be unable to give the customer the skilled advice as to the correct type of appropriate adjustment of bicycle for the intended rider.

5.30. The NA represented to us that an increase in the number of outlets selling bicycles would not necessarily lead to an increase in the number of bicycles sold. Probably fewer bicycles per outlet would be sold by more outlets. As a result of such dilution of their market potential, many specialist dealers would be faced with the possibility of closure. This could lead to considerable unemployment in the trade and a great loss of specialised knowledge.

5.31. Some specialist dealers, to avoid closure, would have to switch from Raleigh to other makes of bicycle. (The NA cited the responses received to questionnaires they had issued in support of this and other views they expressed to us.) Doubtless some would turn to well-known foreign makes (whose manufacturers paid attention to design, safety and pre- and after-sales service). Others, in order to compete on price, would switch to the cheaper imported bicycles, servicing them thoroughly in their own workshops so as to ensure reliability and make the imported bicycles excellent value for money. A specialist dealer could influence the choice of bicycle by his advice.

5.32. One NA representative suggested that, to the extent that Raleigh's dominant position was weakened as specialist dealers dropped Raleigh, the relative bargaining power of foreign bicycle suppliers and of those dealers who would then be relying on them would change to the disadvantage of the latter. This could cause some difficulties for the trade.

5.33. The NA stated that it was in their view essential that every bicycle should have a pre-delivery check to ensure that it was roadworthy. The NA had campaigned strongly for, and still believed in the necessity of, legislation to this effect to be brought in. (The increased volume of traffic on the roads meant that there was nowadays less chance for the bicycle rider to survive an accident caused by a fault in a bicycle.) The pre-delivery inspection could take from half an hour for a Raleigh bicycle to, for some other makes, an hour or even two hours.

5.34. If many specialist dealers were obliged to close because they could not compete on price with the discount stores, this would, the NA asserted, result—in the long term—in those stores effectively controlling the market, with effective freedom to determine prices of bicycles at will, resulting ultimately in dearer bicycles and distortion of competition.

5.35. The NA conceded that, if a discount store was able to, and did, provide—and continue to provide—the requisite technical knowledge and service, the NA would have no objection to their being supplied with Raleigh bicycles. There would then be comparable conditions of competition because the discount stores would have to take into account their on-cost for servicing. But the NA expressed doubt whether discount stores would in practice so comport themselves.

5.36. Two representatives of the NA demonstrated to Commission members the work that specialist bicycle dealers considered should be done on bicycles, as received from manufacturer or other supplier, to make them ready for retail sale.

5.37. The Managerial Administrative Technical and Supervisory Association (GMWU-MATSA) wrote to us, expressing similar views to the NA as regards the implications for servicing facilities if Raleigh supplied certain multiple retailers, and adding the view of the GMWU-MATSA membership involved that it was in the long-term interest of both Raleigh and themselves (and their jobs) that Raleigh should stick to its present outlet arrangements.

5.38. Halfords Limited (Halfords) submitted written evidence and also gave oral evidence at a hearing. The company, Raleigh's single biggest customer for bicycles, told us that, through over 350 branches, it sold a wide range of Raleigh bicycles, as well as bicycles made by its associated manufacturing company, Halmanco, and some bicycles from other suppliers.

5.39. Halfords was content with Raleigh's selective distribution policy which it felt to be in the interests of both Raleigh and consumers.

5.40. It was emphasised to us by Halfords that it had, and intended to maintain, a reputation for supplying good quality, reliable bicycles at competitive prices. Every bicycle it sold was subject to a pre-delivery check, the points covered by which were clearly printed on the back of the price tag. (However, Halfords considered it would not be difficult for the average customer to carry out his own pre-use inspection provided he had, and followed, good instruction leaflets.)

5.41. There was intense competition in the bicycle market, both intra-brand competition in the selling of Raleigh models and inter-brand competition. Every Raleigh bicycle sold by Halfords was at a discount from the recommended retail price and, in general, Halfords was selling as cheaply as anyone.

5.42. If new suppliers came into the market, there might be—but probably only in the short run—some exceptionally low prices quoted. In the longer run, however, the level of competition was unlikely to be altered dramatically as, in Halfords view, there was a price level below which merchandise could not be sold continuously over a long period. Moreover, the mere fact that Raleigh bicycles became more widely available would not in itself be likely to increase demand. There was very little impulse buying of bicycles.

5.43. If Raleigh began supplying the large multiples that they had so far refused, Halfords would have to reconsider its marketing policy. Points that would then be reviewed would include the range of Raleigh models to be stocked and the scope of, provision of, and charges for servicing, repairs and spare parts. Halfords would be concerned if it found that it could not obtain the supplies of Raleigh bicycles it wanted for the peak selling period. The nature, extent and duration of any changes in Halfords' trading practices could not be decided unless and until the possibility of an innovation in Raleigh distribution policy materialised and it became known what competitors were doing.

5.44. The National Union of Small Shopkeepers (NUSS) wrote to express support of Raleigh's course of conduct and emphasised that, bicycles having become more sophisticated, the specialist cycle dealer had an important role in matters such as advising the customer; suiting the size and model of the bicycle to the rider; carrying out a pre-sales check; and in providing servicing and maintenance facilities. NUSS suggested that, if Raleigh bicycles were to be sold through any form of outlet, the specialist dealer would, over the years, largely cease to exist because his remaining business would become unprofitable; the resultant loss of specialist skill and facilities would have adverse implications for safety.

Organisations concerned with vehicle and road safety

5.45. In view of suggestions made that bicycles obtained from non-specialist sources were inherently less safe to use because of the frequent lack of expert pre-delivery checks, we sought to obtain information (in particular, accident statistics analysed in a relevant way) which would supply evidence tending to prove whether this belief was well or ill founded.

5.46. We approached a number of organisations and persons concerned with vehicle and road safety, including the Royal Society for the Prevention of Accidents, the Transport and Road Research Laboratory, certain Local Authority Road Safety Officers and officers of Trading Standards Departments, but replies from these sources indicated that they had no relevant statistical evidence. On the advice of the Home Office we also approached an officer of the Traffic Committee of the Association of Chief Police Officers who informed us that the Committee had no evidence on the above matter and who doubted that any other police organisation would have such statistics.