

2 The market

Introduction

2.1. This chapter reviews the two related markets. The first is the supply of domestic power tools and work-benches by manufacturers to retailers; the second the wider market for retailing do-it-yourself (DIY) and home improvement products to the public. We first consider the reference products themselves, the shares of the manufacturers and importers, and the promotion and advertising of the product by both manufacturers and retailers. We then examine the size and value of the retail market, and the growth of the major retailers. Finally we consider the interaction between the suppliers' and retailers' policies, including pricing.

THE PRODUCT MARKET

The products

2.2. We are concerned with tools that are intended for domestic use: but while it is possible to distinguish in broad terms between domestic power tools and those which are produced for the tradesman there is some overlap between the categories. Some models with higher specifications, intended and marketed primarily for the tradesman, are likely to be purchased by some domestic users; at the same time we understand that there are many tradesmen who are satisfied with the performance of some of the domestic DIY tools for trade purposes. As many of the retail outlets are now seeking to attract the custom of tradesmen, the retail market for DIY power tools cannot be easily separated from the professional market. The overlap is, however, still relatively small: we have therefore measured the market for reference goods as the power tools and work-benches which manufacturers produce primarily for the DIY user and which are usually sold in DIY multiple retailers, hardware retail outlets, by catalogue retailers, and by mail order.

2.3. The main types of DIY power tools falling within our terms of reference are:

- Drills (mains and cordless)
- Cordless screwdrivers
- Jigsaws (mains and cordless)
- Circular saws
- Sanders (orbital and belt)
- Heatguns (paintstrippers)
- Angle grinders
- Tackers
- Planers
- Powerfiles
- Routers
- Bench-top tools (bandsaws, chopsaws, benchesaws, bench grinders, bench planers)
- Portable work-benches (the 'Workmate').

The manufacturers of power tools and other manufacturers also produce ranges of attachments and accessories which are often sold alongside these items, but these are not included in our terms of reference.

2.4. Within the categories of power tool covered by the reference, there are tools of varying degrees of sophistication. Drills are a basic tool, required for many DIY activities; electric saws also have widespread application. On the other hand the router is a specialised woodworking tool which

requires some knowledge of carpentry. The angle grinder and other bench-top tools have less appeal for the occasional DIY user. These specialised tools are closer to their industrial and professional counterparts, although they may be less durable.

2.5. The market for power tools has been changing. Most sales growth now has to be based either on the introduction of completely new products or on innovation and product enhancement which induce the accelerated replacement of existing units. Whereas at the time of the Price Commission report¹ in 1978 less than half of new units were bought for replacement purposes, this has now risen to about two-thirds. Innovation has included microchip control, programming, variable speed and reversing action for power drills, and the development of cordless tools which some in the industry consider to be the main growth area for the future. Since the Price Commission reported, the market for drill attachments (eg attachment jigsaws and circular saws) has declined in favour of separate, powered units. Table 2.1 shows the value of the DIY power tool market for the past five years. Currently the value of sales of reference goods is about £115 million at retail prices (about £80 million at manufacturers' selling prices). Expenditure on reference goods was falling in real terms in 1985 and 1986 but more recently appears to have recovered. One reason for this is probably the introduction of new products such as cordless drills, cordless screwdrivers, and powerfiles.

TABLE 2.1 Estimated value of the United Kingdom retail market for DIY power tools and portable work-benches

	<i>£ million</i>				
	<i>Year ended September</i>				
	<i>1984</i>	<i>1985</i>	<i>1986</i>	<i>1987</i>	<i>1988</i>
DIY power tools	73.3	74.7	74.5	85.9	104.3
Work-benches	10.9	9.3	8.1	9.9	10.3
Total	84.2	84.0	82.6	95.8	114.7
Total at 1988 prices	100.8	95.5	90.0	100.6	114.7

Source: B & D.

2.6. The power drill remains the most important individual product. Table 2.2 shows the changes in product shares within the overall market for reference goods for the period 1984 to 1988. The importance of innovation is illustrated by the relative growth of some products (eg drills, where cordless and fully-featured models were introduced in this period) and the relatively short time-span of others (eg the heatgun).

TABLE 2.2 Sales of DIY power tools by type

	<i>per cent</i>		
	<i>Year ended September</i>		
	<i>1984</i>	<i>1986</i>	<i>1988</i>
Drills	36	40	45
Jigsaws	12	12	12
Sanders	10	10	10
Heatguns	13	14	7
Circular saws	6	8	6
Cordless screwdrivers	-	-	5
Planers	9	7	4
Angle grinders	2	2	4
Powerfiles	-	-	2
Routers	7	3	2
Bench-top tools	2	3	2
Tackers	3	-	-
	100	100	100

Source: B & D.

Note: Totals rounded.

¹Prices, Costs and Margins in the Manufacture and Distribution of Portable Electric Tools. HC 204, 21 February 1979.

2.7. The real price of drills has fallen. In the case of a B & D two-speed half-inch chuck power drill, the company told us that list prices have declined by as much as 40 per cent in real terms since 1978. (At the same time the specification of this power drill has been upgraded, and the power output has risen to 500 watts.)

The manufacturers

2.8. In the United Kingdom the first domestic power tool, the Wolf Cub drill, was introduced by a leading industrial power tool manufacturer, Wolf Electric Tools Ltd (Wolf), in 1949. Sales grew rapidly, to 100,000 units per annum by 1955. B & D, which had launched home utility tools in the USA in 1946, entered the United Kingdom market at the start of 1954 with a drill that competed with the Wolf Cub. In the same year another industrial power tool manufacturer, Bridges, introduced a higher-powered drill. Bridges' drill was initially more successful than B & D's, which had some technical problems. The new entrants together adversely affected Wolf's sales. B & D introduced a new drill, the D500, in January 1958. Intended to undercut the price of its competitors, it was priced at a then-popular £6 19s 6d (£6.98). B & D test-marketed this drill with heavy advertising in the Midlands region during the winter of 1958/59. The success of this experiment resulted in nation-wide advertising and distribution; sales rose to some 600,000 drills per annum in 1960/61. The sales volume that was generated by B & D's advertising campaign established its position as the market leader in the United Kingdom market. Wolf and Bridges, with their higher-priced tools, lost market share and chose to concentrate on other sectors of the power tool market.

2.9. Throughout the 1960s B & D continued to cultivate the DIY market with competitive prices, strong advertising support and the introduction of new products. The two-speed drill was introduced by B & D in 1962 and this quickly replaced the single-speed drill as the biggest selling unit. By the end of 1968 the drill market was beginning to show signs of saturation and B & D diversified the product range to maintain its level of growth.

2.10. During the 1970s increases in recreation time and rising real incomes, combined with cost pressures, particularly in the service trades, brought about a substantial increase in the amount of DIY improvements and maintenance undertaken by the growing number of home owners (50 per cent of households in 1970 rising to 65 per cent in 1983). The expansion of the market led to a number of attempts by manufacturers to challenge B & D's position in the United Kingdom market. Two American companies, Rockwell and Thomas A Edison Ltd, entered the market in the mid-1970s by importing tools from their United States plants but by the 1980s both had ceased to supply the market. Another supplier, Wen, also from the USA, tackled the market at the start of the 1980s, but failed to establish itself.

2.11. A number of companies have, to differing degrees, been more successful in supplying the DIY market, however, by entering from an established base in the industrial and professional sector and using their reputation and sales organisation to support an image of a high- quality tool. Suppliers that have entered the market in this way since the start of the 1980s include Robert Bosch Ltd (Bosch) (from West Germany) and Hitachi Power Tools (UK) Ltd (Hitachi) (from Japan).

2.12. B & D told us that neither transport costs nor tariffs were significant barriers to international trade. On the technical side differing regulatory requirements could be accommodated within a common basic design. Peugeot Power Tools (Peugeot), which produces a range of power tools including domestic tools in France, told us, however, that manufacturing domestic DIY power tools required different manufacturing capabilities from those needed to produce professional and industrial tools: not all of the industrial manufacturers could easily produce for the DIY market. B & D pointed to the fact that current competitors chose to manufacture in West Germany, Switzerland and Japan; this was evidence of the global nature of market supply. It was not necessary to manufacture in the country where a product was marketed, and the policies of B & D's competitors were thus similar to B & D's own production and sourcing approach. In addition to entry by manufacturers across the whole range of tools some retailers sell individual, usually imported, products: these include cordless screwdrivers and heatguns.

2.13. The B & D portable work-bench, the Workmate, has achieved a 90 per cent market share. B & D's strong position in this market has been supported by the fact that its product is based on a design which it acquired and of which key features have, until 1989, been protected by patents. Retailers told us that they had tried alternative portable work-benches but that these had not met with the success of the Workmate, which had been supported by considerable marketing effort.

2.14. B & D remains the principal United Kingdom supplier of DIY power tools with a share of about two-thirds of the market. B & D's position has, however, declined since the end of the 1970s when it had a 90 per cent market share. Table 2.3 gives our estimates of the suppliers' shares of the DIY power tool and portable work-bench market. B & D gave us slightly different estimates. We think that the 7.5 per cent shown in Table 2.3 for 'others' is overestimated, and that the market shares of the principal suppliers may have been underestimated.

TABLE 2.3 Suppliers' shares of the DIY power tools and portable work-bench market

	<i>per cent</i>	
	1978	1988
B & D	91	66
Bosch	-	23
Hitachi	-	3
Peugeot	-	0.5
Others	9	7.5
Total	100	100

Source: MMC study. 1978 is based on Tables 2.1 and 2.2 in the Price Commission report.*

*Prices, Costs and Margins in the Manufacture and Distribution of Portable Electric Tools. HC 204, 1979.

2.15. B & D estimated the suppliers' share of the market for individual products as shown in Table 2.4. This indicates that although the pattern is broadly similar at the product level competition exists between individual products as well as brands.

TABLE 2.4 Brand shares of domestic power tools by type, 1984 and 1988

	<i>per cent</i>							
	<i>Drills (mains and cordless)</i>	<i>Jigsaws (mains and cordless)</i>	<i>Sanders (orbital and belt)</i>	<i>Heatguns</i>	<i>Circular saws</i>	<i>Planers</i>	<i>Angle grinders</i>	<i>Routers</i>
<i>1984</i>								
B & D	79	78	80	95	61	84	38	65
Bosch	16	13	8	3	5	13	12	15
Hitachi	-	-	3	-	-	-	18	-
Makita	-	1	5	-	6	3	16	-
Others	5	8	4	2	28	-	16	20
<i>1988</i>								
B & D	65	66	61	87	48	62	56	38
Bosch	22	27	23	7	27	28	17	40
Hitachi	3	1	2	-	4	-	10	-
Makita	4	2	4	-	7	1	9	-
Others	6	4	10	6	14	9	8	22

Source: B & D/AGB Research.

2.16. B & D also gave us its estimates of the total market shares by value in both the industrial and the domestic markets for 1984 and 1988. On these estimates B & D has a much lower share of the professional market than of the DIY power tools and combined markets. Bosch's share of the professional market exceeds a quarter and Makita Electric UK Ltd (Makita) and Kango Wolf have shares above B & D's 9 per cent.

TABLE 2.5 United Kingdom power tools (including Workmates) market shares by value, 1984 and 1988

	<i>per cent</i>					
	<i>DIY</i>		<i>Professional</i>		<i>Total</i>	
	<i>1984</i>	<i>1988</i>	<i>1984</i>	<i>1988</i>	<i>1984</i>	<i>1988</i>
B & D	79	66	10	9	41	34
Bosch	10	20	23	27	17	24
Makita	2	3	11	13	7	8
Hitachi	1	2	5	9	3	6
AEG/Peugeot	1	1	3	4	2	3
Hilti	-	-	4	3	2	2
Metabo	1	1	2	3	1	2
Kango Wolf	-	-	14	12	8	7
Others	6	7	28	20	19	14
	100	100	100	100	100	100

Source: B & D estimates, at retail selling prices.

B & D's international market position

2.17. B & D told us that its competitive strategy was not specific to the United Kingdom market. The company was competing in a global market against a large number of powerful international competitors. B & D has a larger market share for DIY power tools in the United Kingdom (66 per cent) than in other major overseas markets, including its American home market. B & D told us that its estimate of its market share for reference products in some other international markets for 1988 was:

	%
USA	39
France	43
Germany	21
Benelux	44

B & D told us that it did not have a significant share of the Japanese market where, according to its estimates, 43 per cent of the market was supplied by Hitachi and 34 per cent by Makita.

B & D in the United Kingdom

2.18. A number of factors have served to sustain B & D's pre-eminent market position in the United Kingdom. B & D explained that it was an efficient, innovative and low-cost producer. 82 per cent of its United Kingdom reference market needs were sourced from its factory in Spennymoor, County Durham. This factory had been the subject of considerable investment by B & D in recent years and, B & D told us, it now enjoyed significant cost advantages compared with B & D factories in other countries, and probably also in relation to other producers. As part of its industrial strategy B & D had redesigned many of its domestic power tools to take common modular power units. Thus, an electric drill, an electric garden product and a domestic electrical appliance might all share the same motor unit (though they would have different transmission and gear mechanisms). This had required a redesigning of B & D power tools. B & D explained that the traditional batch production method was for each model to be separately assembled on its own line, with the motor being built within and supported by the outer casing. By contrast in most current B & D tools the modular motor unit rested separately within the outer casing, the motor pack, including its windings and armatures, having been assembled as a separate unit. This method of production involved higher capital costs in setting up the automated motor production line, but made possible a manufacturing volume that enabled the motor's cost to be spread over many models, not just the production run of any one tool. The availability of interchangeable motors enabled B & D to supply products across the whole range of powered electrical equipment both for reference products and, for example, for garden tools, and enabled the benefits of the economies of scale in production to be reflected in the price of all the products.

2.19. Since 1986 B & D had operated a central distribution warehouse at Northampton which was used for all its products, including the reference goods. The warehouse was fully automated and computer-controlled. Distribution was contracted out to a third-party haulier. With this system B & D was able to offer quick response times to retailer needs (aiming for three- to five-day service and 97 per cent product availability). Given B & D's assurance of quick replenishment the system enabled the retailer to reduce his own stock costs. In most cases delivery would be made directly to the retail outlet: this avoided the need for the retailer to have a central stock warehouse. B & D had limited its need for wholesalers' services to very small order accounts, which were serviced by three wholesalers.

2.20. B & D told us that it had undertaken extensive research and development for power tools and been innovative in bringing new products to market. It had recently introduced a cordless screwdriver range and the powerfile, a narrow belt sander.¹ Such innovation, redesign and repackaging stimulates either new demand or earlier replacement of existing tools.

2.21. B & D has established and maintained a very strong brand image and B & D's market research suggests that the brand name is recognised by 98 per cent of the market population. From the time of the Midlands promotion of the cheap, high-volume drill in the late 1950s B & D has seen advertising as important to its commercial strategy. B & D told us that it regarded its good brand image as an important part of its competitive stance because it provided an assurance to customers, who viewed an innovative product launched by B & D as likely to represent good value for money. For complex products B & D considered that this assurance of quality was a key factor in gaining customer acceptance and provided useful information to all purchasers of B & D products, particularly to the estimated 20 per cent who purchased such products as gifts.

2.22. All B & D's significant competitors in the United Kingdom have established a market from a base in the industrial/professional tools sector, and have set up a sales and service organisation for that market which can also supply some domestic DIY power tools. In some instances sales to the DIY market are made with minimal promotion, though the association with the professional brand of tool or a 'household' name may contribute to brand recognition amongst domestic customers. In all cases actual manufacture is overseas and the plants have not been established principally to supply the United Kingdom market.

Other suppliers to the United Kingdom market

2.23. There are three other manufacturers which supply a full range of DIY power tools to the United Kingdom market: Bosch, Hitachi and Peugeot. Until recently a fourth supplier, Makita, had supplied the domestic market but now principally supplies industrial and constructional tools. Makita's range includes 'Powercraft' tools which would be suitable for the premium end of the DIY market. However, Makita told us that it no longer sought to sell these tools through DIY retail outlets. We also spoke to Kress, Metabo, AEG, and Kango Wolf, all of which said that they did not currently aim directly to supply the United Kingdom DIY power tool market. There are also some small suppliers or importers which source products from the Far East. These smaller groups tend to specialise in one area of the market, such as cordless screwdrivers, drills or heatguns: their products are not strongly branded.

¹During our investigation B & D launched a DIY steam wallpaper stripper (though other suppliers were also offering a similar item). This is not a reference product.

2.24. Prior to 1979 Bosch had a very limited selection of products that were supplied through wholesalers, many of which offered them only in seasonal sales. In 1979 Bosch decided to market a selected range of 14 DIY products; it now offers the full range of reference goods, with the exception of work-benches. Bosch sales have been growing by over 20 per cent annually, but the company explained that in developing its United Kingdom sales it had initial difficulties in persuading the multiple DIY superstores to take its products. The first store took Bosch tools in 1982, and the last of the superstore groups has only recently accepted its products. Bosch believes that it offers a more highly specified and better product than B & D and that, with rising real incomes, the strength of its brand reflects a general market trend towards premium and quality engineered items. Most Bosch products are manufactured in Germany or Switzerland. Whilst Bosch accepts that its products are generally more expensive to produce than B & D's, it does not regard itself as a less efficient producer given the quality of its engineering.

2.25. Hitachi Power Tools (UK) Ltd was established in 1981 as a wholly-owned subsidiary of Hitachi Kuki Ltd of Japan. Initially Hitachi developed products for the industrial and professional market and still regards this section of the market as its principal concern. In 1984/85 the company introduced a small range of DIY tools, most of which were derived from industrial tools. In 1986 a national accounts manager was appointed and Hitachi told us that it had developed its range to the point where it was comparable with B & D's. One of Hitachi's strengths in its power tool range is cordless products; Hitachi was the first producer to obtain widespread distribution for a DIY cordless hammer drill. Hitachi regards its products as of high quality. Hitachi's prime customers are Argos, Texas and independent retailers designated as Hitachi's Power Tool Centres.

2.26. Until 1986 Peugeot participated in a joint venture with AEG, the latter specialising in the industrial and professional market. Peugeot now operates separately through a sole import agency operated by West Midlands Plant Hire Ltd. Products are manufactured in France. Sales of its power tools are growing rapidly, but from a small base; the value of sales is only about 0.5 per cent of the United Kingdom power tool market. About two-thirds by volume and half by value of Peugeot's sales are to the DIY market. Peugeot told us that it offers a full range of power tools, comparable with the other manufacturers, aimed at the premium-quality end of the market. Recently, for the first time, one of the major superstore groups agreed to stock Peugeot products.

Advertising and promotion

2.27. Advertising and promotion play an important role in this market. In part, advertising enables a manufacturer to build a market for its product and force distribution when retailers are obliged by customer demand to carry the advertised goods. B & D has built a strong brand awareness and spent £5.7 million on this in the year to September 1988 (equal to 11.4 per cent of sales revenue, more than twice the proportion for which it accounted in 1978). Television advertising accounted for two-thirds of this. Television and press advertising accounted for 84 per cent of advertising expenditure in 1988. B & D told us that its policy was to concentrate advertising expenditure on communicating the existence and capabilities of its new products. Bosch is the only other current participant in the DIY power tool market to undertake any significant degree of national media advertising, though its expenditure as a proportion of turnover is only about one-third of B & D's. Hitachi and Peugeot have not undertaken national television advertising of their DIY power tools. Part of the advertising/promotional support of B & D and most of the other major manufacturers is co-operative advertising featuring the supplier's products and the retail outlet jointly. Typically up to 50 per cent of the cost of co-operative advertising will be met by the supplier. This co-operative advertising is the principal advertising medium for those manufacturers which do not undertake national television/press advertising.

2.28. The suppliers regard the presentation of their products at point of sale as particularly important. Whilst the suppliers hope that informed sales assistants will be available to advise customers, they accept that this may not always happen. Consequently the information on the packaging or rack display may be the critical factor in steering a consumer towards a particular purchase. This product information and packaging is particularly important if the product is bought as a gift, when the purchaser may be less informed about the product than the intended user. The

suppliers usually offer to give the retailer display racking and point-of-sale aids and regard the cost as promotional expenditure.

After-sales service

2.29. B & D has a chain of 38 service centres which offer rapid repairs or exchanges, and sell accessories and reconditioned units (the latter at a small discount). Whilst these service centres are often in principal shopping centres, they do not sell new tools and thus do not compete directly with other retail outlets supplied by B & D. B & D also designates 503 of its independent retailers as service collection points for reference products and pays a small fee (currently 50 pence) for each tool handled. B & D collects the tools from the retailers for repair by its service centres.

2.30. The other major manufacturers do not have chains of service centres but provide a repair service through a central service centre. Additionally Bosch and Hitachi have a number of independently-owned service centres, a list of which is supplied with every new product.

THE DIY RETAIL MARKET

2.31. As this reference essentially concerns the relationship between a manufacturer and the retailers selling its product, we now consider the evolution and present structure of the retail market for DIY products.

2.32. As we have explained, rising levels of income and home ownership, together with inflationary pressures, have led to an increasing demand for home improvement goods. This demand has stimulated the growth of sophisticated DIY products for use in home maintenance and improvement. B & D drew our attention to a review of the United Kingdom DIY retail sector by Phillips & Drew carried out in February 1989 which estimated consumer spending on DIY products at around £6 billion in 1987, with a further £3 billion in closely related sectors of domestic and motoring accessories. B & Q, on the basis of analysis by its advisers McKinsey & Company Inc, estimated that expenditure on products used in the repair, maintenance and improvement (RMI) of existing homes (excluding expenditure on products used in the construction of new homes) was £11 billion in 1987. Estimates for 1989 are somewhat higher. Table 2.6 gives B & Q's breakdown of RMI expenditure by category of product.¹ Power tools (including accessories, not included in Table 2.1) represented about 1 per cent of RMI expenditure.

¹We also saw broadly similar estimates by Phillips & Drew, which had a narrower coverage. We regard the figures in Table 2.6 as broadly indicative of the order of magnitude involved.

TABLE 2.6 RMI market in the United Kingdom, 1987

£ million at retail selling prices excluding VAT

<i>Timber/boards/doors</i>			<i>Paint</i>		
Wood and metal windows/doors	1,639		Paint	450	
Timber	716		Wood care and varnish	167	617
Plywood and board	140		<i>Bathroom/taps</i>		
Plasterboard	95		Bathroom suites	262	
Garage doors	42	2,630	Showers/bathroom accessories	262	
<i>Roofing/plumbing/building</i>			Taps	73	596
Plumbing/heating	1,033		<i>Electrical/lighting</i>		
Building/landscape	405		Lighting	335	
Roofing/rain/soil	402		Electrical accessories/cables	145	480
Insulation	92	1,932	<i>Flooring/carpets</i>		
Self-assembly furniture		913	<i>Garden tools/equipment</i>		
<i>Kitchens</i>			Tools, hoses, etc	125	
Self-assembly kitchens	742		Furniture	120	
Work-tops/sink-tops	93	836	Lawn-mowers	120	
<i>Tools, hardware and security</i>			Greenhouses and sheds	60	425
Hardware/hand tools	422		<i>Wall coverings</i>		
Security	192		<i>Decorating accessories/adhesives</i>		
Power tools/accessories	129		Curtain track/accessories	53	
Abrasives	15	759	Adhesive/filler/sealant	148	
<i>Horticulture</i>			Decorative sundries/tools	57	256
Plants and seeds	500		<i>Tiles</i>		
Chemicals	160	660	<u>188</u>		
Sub-total		7,730	Total RMI market		
			11,030		

Source: B & Q/McKinsey.

Note: Totals rounded.

2.33. The increased importance of the sale of DIY products (and associated goods for the garden or home) has created opportunities which, together with developments in retail management and a desire to achieve scale economies in retailing, have led to structural changes in the retail market. Similar trends have also occurred in other retail markets including those for groceries and furniture. The major change has been the growth of national chain DIY superstores, often at the expense of smaller DIY and hardware outlets.

2.34. The importance of the various segments of the retail market is changing rapidly. The British Hardware Federation told us that ten years ago there were some 15,000 ironmonger/ hardware DIY retail outlets, but this number had now fallen to no more than 11,000, including 1,000 superstores. As most of the DIY multiple superstores have been set up during this time, this suggests that about 5,000 retail outlets have closed over the ten-year period.

2.35. The last five years have seen particularly strong growth for the DIY market. During a period in which the United Kingdom economy as a whole has been enjoying a sustained period of growth, the annual rate of growth of consumers' expenditure on DIY goods has been twice that of consumers' expenditure generally. During this period the growth of DIY superstore chains has exceeded the growth rate of the DIY market. DIY superstores have gained market share at the expense of traditional hardware retailers, though the British Hardware Federation told us that numbers of independents had declined till 1986 but now appeared to have 'bottomed out'. A factor in the growth of DIY superstores has been their expansion into the retailing of related goods (eg furniture, soft furnishings, motor accessories and horticulture) so that they have also gained market share at the expense of non-DIY retailers.

2.36. There are some indications that the growth of the DIY market has slowed. In 1989 house sales have slowed significantly. The demand for DIY is often related to decorating or refurbishing recently-acquired homes and there are some indications that the DIY market may no longer be

outperforming the rest of the retail sector. This has led some commentators to remark that parts of the DIY market, superstores in particular, are becoming saturated and that, with an announced programme of new store openings, the superstore sector is likely to be facing some overcapacity. Fierce competition between the major superstores with widely advertised special offers and the introduction of discount cards, might, some commentators have suggested, be characterised as a 'price war'. Alternatively other commentators have regarded these as short-term pressures (with talk of a price war exaggerated), suggesting a long-term fundamental strength of the sector and considerable scope for further superstore development outside those localities that are already well served.

2.37. One way of segmenting the retail market is to distinguish between different types of retailer. Retailers can be categorised as:

- DIY multiple superstores (eg B & Q and Texas)
- Ironmongers/hardware retailers (including independent single shops), and specialised DIY stores (eg Focus and Octopus)
- General retailers (eg Asda and the John Lewis Partnership)
- Mail order catalogues (eg GUS and Littlewoods)
- Catalogue showrooms (eg Argos and Index).

Builders merchants also supply the DIY market.

The DIY superstores

2.38. There are seven established chains of DIY superstores (see Table 2.7) which currently operate approximately 800 outlets between them. Over the next six years these chains plan further substantial expansion, possibly to around 1,200 superstores. The superstore format usually consists of large buildings (known as sheds) located typically on relatively inexpensive land or in retail developments, with ample car-parking space. In major conurbations, superstores are often located on ring roads adjacent to residential housing. The superstore is designed to accommodate as large a product range as possible. In addition to DIY products, superstore chains may also have departments supplying kitchen and bathroom units, furniture and flooring, garden products, household plants and a range of products such as car accessories, wine-making kits and other hobby items. A wide product range of DIY and other goods, the ability to provide 'one stop' shopping, and car parking represent the strengths of the superstore retail formula. The average size of DIY superstores is now over 30,000 square feet and the largest exceed 75,000 square feet.

TABLE 2.7 National DIY superstore chains, 1989

Name	Owner	Number of stores	£ million
			Value of sales, all products
B & Q PLC	Kingfisher	233	640
Texas Homecare Ltd	Ladbroke's	185*	350
Do It All Ltd	W H Smith	108	190
Payless DIY Ltd	Ward White	98	185
Homebase Ltd	J Sainsbury	47	135
Great Mills	RMC	76	135
Wickes PLC		44	180
Total		791	1,815

Source: DIY Superstore Magazine, December 1988.

*Includes recently-acquired Sandfords.

2.39. The market positioning of the superstore chains (Table 2.7) varies, and the range of goods, ambiance and the extent of service tends to differentiate their retail style. The superstores also differ in the extent to which they rely on nationally-branded goods and the extent to which they offer their

own brands (though only one store supplies own-brand power tools). Further differentiation arises from offering technical information (leaflets, books and design services for kitchens and heating); tool, roof-rack and van hire; snack bars and play areas; credit and credit cards; discount cards; and cutting services (for timber, keys and glass). To varying degrees the superstores aim to carry products that will variously appeal, on the one hand, to the less experienced DIY buyer possibly with emphasis on decorative products, furniture and homewares and, on the other, to the skilled person also requiring heavier building products. Although the main focus of most of the superstores has been on sales to the consumer, some of the chains, particularly those which offer builders' products, now supply products to a substantial and growing number of trade purchasers. With the exception of Wickes,¹ which was bought by its management from its American parent in 1987, all the other superstore groups are subsidiaries of much larger public companies.

2.40. The superstore may well appeal to the consumer who undertakes DIY at the weekend and wishes to purchase DIY goods either when such jobs are undertaken or when leisure time available is greatest. The remoteness of a superstore from main shopping centres is not a drawback when consumers are prepared to undertake a separate trip, probably by car, for such DIY shopping. Phillips & Drew reported that Sundays had become a prime DIY shopping day and that the ability of a DIY superstore to open on that day was a significant factor in determining store profitability and market position. Indeed Phillips & Drew reported that for those superstores that opened on Sundays at least 20 per cent of their weekly sales took place on that day, and it suggested that a seven-day-opening superstore could achieve profits, prior to charging central costs, of perhaps 35 per cent higher than one that opened for six days.

2.41. Promotion and advertising is an important element of the trading approach of the superstore groups. The need for such promotion is enhanced when the location of the store is away from the principal shopping area of a conurbation, or where several apparently similar superstores operate in a locality. Advertising often takes the form of both local media advertising (or distributing leaflets and catalogues) for a particular store or stores, and regional or national advertising. In both cases advertising tends to feature particular goods and draw attention to competitive prices. The range of such goods featured is inevitably much smaller than the full range offered in the store and will tend to include prime DIY purchases such as white paint, power tools, wallpaper, sets of hand tools and brushes, lighting products, kitchen and bathroom equipment, lawn-mowers and greenhouses. Such items are often referred to as being key value items, or as being core-value or known-value items. Some superstores have a high proportion of own-brand goods whilst others place greater reliance on national brands. Many superstores use heavily-advertised national brands in their own advertisements. Generally the DIY superstore groups appear to spend about 2 per cent of turnover on advertising.

2.42. The superstores do not seek to be agents for after-sales service. Whilst they will rectify faults in items, such as power tools, occurring within the guarantee period, often by exchange for a new item, they will not usually assist customers whose power tools need repair or maintenance after that period, other than directing them to the supplier's service depots.

Independent retailers, DIY and hardware shops

2.43. The 10,000 independent ironmonger/hardware shops are a diverse group. They range from proprietor-owned single outlets to chains of high street stores specialising in hardware (such as Carpenters and Dyas) or DIY (such as Focus and Octopus). There are specialist tool shops which sell the reference goods, and professional power tools, to the industrial/trade market. There are also DIY stores that are comparable in trading floor space and product range to some of the multiple superstores but are in fact run as local businesses. A range of shopping formats is available including self-service and full service. Some independents believe that their strengths lie in offering a high level of personal service, information and advice, together with local convenience.

¹Wickes tends to carry a builders merchant product range, and has a high proportion of own-brand goods (eg the only power tools it carries are own brand and these are described as 'professional power tools which are industrially rated for continuous use').

2.44. The independents, particularly the single outlet operators, do not undertake price-based promotion to the same extent as the multiple superstores and may, therefore, be perceived as 'high price' outlets. The British Hardware Federation told us that once the key value items which DIY superstores chose to promote were excluded, its own surveys (which it accepted that others would question) showed that the prices charged by its members for DIY goods generally were broadly comparable to those in other types of outlet. Most independents focus predominantly on retail sales to consumers but may also sell 'emergency' supplies to tradesmen working in the neighbourhood.

2.45. The independent retailers also undertake a certain amount of advertising and promotion. Some retailers told us that they regarded the demand for power tools as highly elastic and very sensitive to promotions. Often local in-store promotions are closely related to and with national media advertising campaigns undertaken by the manufacturers or importers. Independent retailers look to their suppliers to bear some of the cost of their advertising/promotion campaigns and often the manufacturer provides display stands. Own branding is not usually viable for small retailers and we were told that it was important that the leading brands of basic items were available in such outlets.

2.46. Many independent retailers, particularly the smaller specialist DIY and tool stores, feature after-sales service as part of their normal trading. In the case of B & D products, 503 retailers are designated as service collection points. B & D told us that such collection points received 40 per cent of all the B & D tools that were returned for service.

Catalogue traders

2.47. The catalogue showrooms (notably Argos and more recently Index) operate by publishing, normally twice a year, a catalogue of items at prices they undertake to hold for the period of the catalogue. The customer will make a choice from the catalogue, pay for the purchase and then collect the packaged item from a service counter. The stores offer a wide range of consumer products. They do not specialise in DIY goods, but power tools are offered as part of a range of many electrical goods including home entertainment products.

General retailers

2.48. The general retailers include many department store operators which have a DIY/ hardware or electrical department. Often the amount of space devoted to the sale of DIY goods varies seasonally. These retailers are not major sellers of power tools.

Mail order companies

2.49. The mail order catalogues of the major mail order traders may offer power tools as part of the variety of goods offered in their range. Their comprehensive range includes 'white goods', entertainment products, sports products and fashion goods. As with the catalogue traders, DIY goods, apart from power tools, are not a major feature of the range but the sales of power tools can be an important part of an individual manufacturer's market share. Mail order agents receive a commission on the sale and the goods may be offered at prices which include 'free' credit. Another feature of this form of trading is the facility of returning goods that do not meet the purchaser's requirements.

The distribution of power tools

2.50. Power tools for the domestic market are thus offered through a very wide variety of retail distribution outlets. The marketing strategies of the different types of outlet are necessarily very diverse, as are the mixes of products that are sold. With the exception of the mail order catalogues, and some of the departmental and general stores, the inclusion of power tools in the product range appears to be essential to the various types of trader and in most cases traders consider that such tools must include B & D products. Table 2.8 reproduces the result of an OFT survey conducted as part of

its investigation of B & D's course of conduct, which shows, by type of retailer, the sales of reference products.

TABLE 2.8 Retailers' total turnover and sales of power tools and work-benches: results of an OFT survey

Type of retail outlet	Number of retailers approached for information	Number of retailers supplying information	Sales of power tools and work-benches (£m)			B & D sales as proportion of total sales of power tools and work-benches	Total retail sales £m	Total sales of power tools as proportion of total retail sales
			B & D	Other	Total	%		%
DIY superstores	7	6	21.8	7.1	28.9	75.5	1,609	1.8
General retailers	8	7*	3.7	0.9	4.6	81.2	4,446	0.1**
Mail order and catalogue showrooms	6	5	24.5	3.3	27.8	88.1	2,614	0.9***
Independent ironmongers, hardware groups and specialised DIY stores	51	34	4.5	1.9	6.4	70.3	225	2.9§
Total	72	52	54.6	13.1	67.7	80.6	8,895	0.7§§

Source: OFT survey.

*The eighth company replied that it no longer stocked B & D products and could not therefore assist the OFT's enquiries.

**Calculated from the figures of the six companies supplying complete data.

***Calculated from the figures of the four companies supplying complete data.

§Calculated from the figures of the 30 companies supplying complete data.

§§Calculated from the figures of the 46 companies supplying complete data.

2.51. Table 2.9 summarises the relative importance to the manufacturers of DIY power tools of different types of retail outlet. Overall the DIY superstores account for nearly 40 per cent of sales of power tools, with independent retailers accounting for just under a third. B & D makes a much lower proportion of its sales through independents than does Bosch, and (according to its own estimates) a much lower proportion than other manufacturers. B & D makes 97 per cent of its sales directly to retailers while nearly 40 per cent of Bosch's sales are made through wholesalers.

TABLE 2.9 Distribution of value of sales by type of retail outlet, 1988

	per cent			
	B & D	Bosch	Others	Total
National DIY superstores	38	45	15	39
Independents*	25	35	75	32
Mail order and catalogue showrooms	31	15	5	22
General retailers**	6	5	5	7
	100	100	100	100
Of which: sales through wholesalers	3	38***	na	na

Source: OFT from B & D and Bosch data.

*Ironmongers, hardware stores and specialised DIY stores (excluding national multiples).

**Retailers not specialising in the DIY market.

***1987.

2.52. B & D believes that the commercial policies of some retailers limit the range of its products which the customer is offered. The OFT undertook a survey of the number of B & D models stocked by various types of outlet. We do not have comparable information for other brands. Independent outlets do have the widest range of models stocked, on average, and general retailers the least. DIY superstores and mail order and catalogue showrooms both stock, on average, about 30 or so B & D models, midway between the other categories (see Table 2.10).

TABLE 2.10 Number of B & D models stocked by range of product and type of outlet*

Type of retail outlet	Drills, screw- drivers			Jigsaws, circular saws			Powerfiles, planers, sanders, routers, sander/ grinders			Work- mates			Heat- guns			Bench- top tools			Total		
	H	L	A	H	L	A	H	L	A	H	L	A	H	L	A	H	L	A	H	L	A
	DIY superstores	13	8	10	8	4	6	13	3	8	3	2	3	5	1	3	1	0	0	39	20
General retailers	16	5	8	8	1	3	17	3	6	3	0	2	5	1	3	4	0	1	53	12	22
Mail order and catalogue showrooms	14	8	11	8	3	5	14	7	10	2	1	2	3	1	2	3	0	2	44	25	32
Independent ironmongers, hard- ware groups and specialised DIY stores**	16	3	13	8	2	7	17	4	12	3	0	3	5	1	4	4	0	1	53	12	40

Source: OFT survey.

*Retailers were asked to indicate, by ticking boxes on a list, which of 53 B & D reference products they stocked. These items do not necessarily constitute the complete range of B & D products stocked by any retailer.

**Based on information supplied by 33 companies.

Note:

H = highest number of products stocked

L = lowest number of products stocked

A = average number of products stocked

The pricing of DIY power tools

2.53. Table 2.11 gives some results from B & D's own half-yearly price survey, undertaken in December 1988, of actual retail prices of its products in a variety of stores. The table also shows the results for Bosch's products (for which broadly similar products had been chosen). B & D's survey covers most of B & D's and Bosch's products but not those of other manufacturers. To illustrate the results we have examined some representative products: a two-speed half-inch chuck electric drill (B & D's BD142 and Bosch's 500RLE); a planer (B & D's BD710 and Bosch's PHO100); a circular saw (B & D's 5.5 inch BD227 and Bosch's six-inch PKS46) and a Workmate (B & D's WM750, for which there is no direct Bosch substitute).

2.54. It will be seen that there is little price variation in the results of this survey. The survey distinguishes between multiple operators (DIY superstores, catalogue retailers and department stores) and independents. Within the multiples group, price differences are mainly in pence (50, 95 or 99) rather than in pounds. The independents occasionally show prices above the 'going price': in many cases the difference is not large, though there are instances where one or two independents charge significantly more than most of the others.

2.55. For further evidence on the amount of price variation in these goods we asked the Consumers' Association (CA) what variation it had found in the purchasing exercises undertaken as background to Which? surveys undertaken in October 1988. For the B & D BD142 drill, which was widely available in all types of outlets, prices ranged from £29.95 to £49.95. CA told us, however, that it believed this apparently wide range was misleading as the prices were heavily clustered. 80 per cent of the drills were found to be selling at between £33.95 and £34.95. Moreover that narrow range included all those on sale at the larger self-service DIY outlets, and at all but one of the department stores (the other department store offered the cheapest price £29.95). In practice CA found that almost all the price variation was accounted for by the smaller DIY outlets or specialist stores, most of whose prices were above the narrow price band. The highest price quoted was in a B & D specialist outlet.

TABLE 2.11 Retail prices, December 1988: results of B & D survey

£

Outlet	Drill		Planer		Circular saw		Workmate
	B & D	Bosch	B & D	Bosch	B & D	Bosch	B & D
	BD142	500RLE	BD710	PHO100	BD227	PKS46	WM750
List price	49.50	78.30	56.60	67.50	60.90	75.60	89.20
Argos	34.95	57.95	39.95	49.95		55.95	62.95
B & Q	34.95	57.95	39.95	49.95	42.95	55.95	62.95
Do It All	34.95	59.95	39.95	49.95	42.95	55.95	62.95
Homebase	34.95	57.95	39.95	49.95	42.95	55.95	62.95
F W Woolworth	34.95		39.95				
Gateway	34.99		39.99		42.99		62.99
Payless	34.99		39.99	49.99	42.99	55.99	62.99
Halfords			39.95				62.95
Sava Centre			39.95				62.95
Co-op	34.95		39.95				62.95
Sandfords		57.95	39.95	49.95	43.95	55.95	62.95
John Lewis	36.00	57.50		49.50		55.50	62.50
Texas		57.95	39.95	49.95	43.99	55.95	62.99
Selfridges	34.95	57.95	39.95	49.95	42.95		62.95
Asda	34.95		39.95				
Great Mills	34.95		39.95		42.95		62.95
Multiples' average 'going price'	35.04	58.14	39.96	49.90	43.19	55.90	62.93
Kaminski		78.30			52.96	75.60	
Evans & Son	34.95						62.95
Harris & Son	34.95		39.95		42.95		62.95
Bude Garden	34.99						
McInnes Tool	34.95	59.95	39.95	53.95	42.95		62.95
Timbermills	34.95				42.95		
Murrays	34.95		39.95				62.95
W P Kendall	34.95		39.95				62.95
R W Jones	34.95	62.64	39.95	54.00	42.95	60.48	62.95
Northern Hardware	34.95		39.95				62.95
Wilkinson	34.95						
Gralands	34.95	59.95	39.95	53.95	42.95	59.95	62.95
G K Proudlock	34.95	57.95		49.95		55.95	
Morris & McGlin				49.99			
Bizzy Be Centre						58.95	
John Millar		62.95		53.95		59.95	
McFarlane	34.95	59.95	39.95	53.95			
Workingham Tool Co				48.50			
Lee Brothers				49.95		57.95	
Gill & Hosby		57.95		49.95		55.95	
Pryce		57.50		49.50		55.50	
Elmers		53.50		48.95		44.95	
Roys				49.95		56.95	
Octopus		59.20		50.65		61.40	
Independents' average 'going price'	34.95	60.89	39.95	51.23	44.38	59.05	62.95
Average 'going price'	35.00	59.74	39.95	50.71	43.71	57.79	62.94

Source: B & D.

2.56. By comparison, CA's panel of purchasers found that the prices quoted for the Bosch SB400 were more dispersed, exhibiting both a wider absolute range (£26.40 to £55.89) and less clustering. Prices were bi-modal, with about a third of the drills on sale at £29.95 and a third at £33.95, and the rest scattered fairly evenly across a range of prices. Although this model was available in all types of store, compared with the B & D model sales were more heavily concentrated on the smaller DIY outlets. However, these were often charging lower prices than the larger outlets.

Pricing policy

2.57. The approach to pricing power tools that has generally been used by the trade has been for the manufacturer to publish a set of list prices that may be described as 'manufacturer's

recommended prices' and for the other prices throughout the distribution chain to be expressed by reference to that list. This may be contrasted to the situation where manufacturers publish a wholesale price list for their wholesaler/retailer customers. In the latter instance the manufacturer may not publish suggested retail prices and will leave retailers/distributors to take their own pricing decisions. In the case of power tools, as will be seen from Table 2.11, there is a very wide margin between the list (manufacturer's recommended) prices and actual selling prices with a negligible portion of trade actually occurring at 'recommended' prices. Such recommended prices may be quoted by retailers to imply that they are 'discount stores'. Since March 1989 legislation has curbed the ability of retailers to make price comparisons with a 'recommended retail price' or similar unless that price is not significantly higher than prices at which the product is generally sold at the time when the comparison is first made.¹ It is not yet known how retailers will describe prices when next they have to print retail price lists.

2.58. B & D and Bosch have a similar structure of prices. From their published list prices they supply to retailers at a significant discount, to which a smaller rebate is applied. Additionally a further small settlement discount will be available for prompt payment. The level of rebate will be individually agreed with the customer in the light of his performance and may be relatively smaller for accounts where the manufacturer makes a significant contribution to advertising expenses. Additionally the manufacturer may make available value-added packs, which include items beyond the base specification ('free' drill bits etc) and special items not on the normal price list (which the retailer may describe as 'special purchase items'). The manufacturer may provide a 'suggested going price' for retailers which will either be discussed with the retailer or otherwise known to him, eg because he sees the prices in an Argos catalogue.

2.59. B & D publishes a price list to retailers for its DIY power tools and portable work- benches and other products. The price list describes these prices as 'manufacturers' recommended list prices'. From these prices B & D then supplies retailers at a discount of 38 per cent, with a 2 per cent rebate being available for those retailers who meet financial targets. This rebate is used as an incentive by B & D for all sizes of account, its availability being determined in individual cases by B & D's assessment of a retailer's performance in selling B & D products. It is not a volume discount in the way that many other manufacturers set a lower price for higher-volume accounts but not for smaller ones. Additional funds for in-store promotions and specific advertising campaigns amounted to 2 per cent of total B & D sales in 1988, although these were not uniform across all retailers. Value-added packs accounted for 17.7 per cent of sales in 1987/88 and low-cost non-catalogue price promotions accounted for 4.5 per cent of total sales, a combined total of non-standard product sales of 22.2 per cent (compared with about 17 per cent the previous year). A 2.5 per cent cash settlement discount is offered for payment of the invoice by the 15th of the month following the date of the invoice. B & D offers uniform wholesale prices to all its customers. Some of B & D's major retail customers told us that they felt that B & D's discount structure did not reflect the buying power that other manufacturers recognised in setting wholesale terms for national accounts.

2.60. B & D's wholesalers normally receive a 46 per cent discount from B & D enabling them to sell on to retailers at the 38 per cent discount and keep an 8 per cent margin. As explained in paragraph 2.19, wholesalers are much less important for B & D's products than for other manufacturers. Mail order catalogue companies receive a basic 44 per cent discount; like other retailers they also receive net priced units and value-added packs. B & D told us that mail order companies were similar to wholesalers because they allowed their agents a 10 per cent commission on sales. (See paragraph 4.18.)

¹Statutory Instrument 1988 No 2078: The Consumer Protection (Code of Practice for Traders on Price Indications) Approval Order 1988. (See section 1.6.3.)

2.61. B & D told us that it did not set retail prices. It said, however, that it would, on the request of a retailer, make available a list of suggested 'going prices' which were typically at a 30 per cent discount from its 'manufacturer's recommended list prices'. Typically these 'going prices' would enable a retailer to achieve a retail margin of about 15 per cent. Although some retailers may set higher prices, as will be seen from Table 2.11, this is relatively unusual. One exception to this is mail order companies which tend to set prices that reflect only a 15 per cent discount off the 'manufacturer's recommended list prices'. Such mail order companies typically offer free credit and agent commission, although in many cases the purchaser may receive the agent's discount. One mail order company told us that its main pricing policy was to be competitive with the high street. It would try to set its prices within a 10 to 15 per cent band above the going high street price.

2.62. Bosch told us that it offered a discount off list price of 47 per cent to retailers and marginally more to wholesalers. It also offered a significant further rebate to customers according to its assessment of their performance in selling Bosch products. A small settlement discount was also offered. 20 per cent of sales were of promotional products, including value-added packs. Additionally contributions were made to co-operative advertising with retailers. Bosch suggested retail selling prices that were 25 to 26 per cent below list prices. These retail prices on average gave a retail margin of 28 per cent though this could vary between 12 and 30 per cent. An out-of-town discount store could expect a 24 to 28 per cent return on the sales price. Bosch discussed its suggested retail price with retailers: such discussions had not led, we were told by Bosch, to any disagreements with retailers who might wish to discount Bosch products further.

2.63. Hitachi told us that its prices offered retailers a 25 to 30 per cent margin. Hitachi regarded its products as quality items and did not seek to encourage retailers to offer its tools purely on a price basis. Peugeot told us that its smaller retailers should make about 25 per cent margin selling at prices which were 10 per cent less than Peugeot list prices.

2.64. B & D told us that it offered its retailers a margin of 15 per cent; less, it said, than they would get from selling Bosch products and almost half that from selling some Hitachi and Peugeot products. B & D told us that it had actively encouraged low retail margins in order to maximise the sales of its products. B & D told us that another way of looking at this was to view the retailer's margin on selling B & D products as an input cost to B & D which, like any other cost, B & D seeks to minimise. This retail margin on B & D products is about half the gross retail margin normally expected in the retail trade.¹

2.65. B & D told us that, in its view, price competition between manufacturers was intense. It cited the example of the price of cordless screwdrivers, a relatively new product, to illustrate the way in which such price competition worked. Table 2.12 shows the recent prices that have been charged for these products. The first cordless screwdrivers were 'pistol grip' models that had the look of a small power drill; B & D had two models, the BD430 retailing at £27.95 and a more powerful SC450 at £37.95; Bosch had one model, the PSR, at £32.94 (later £34.95) which was generally comparable to the more powerful higher-priced B & D unit. These units were introduced in the mid-1980s. The product was then developed to a slimmer cylindrical screwdriver shape. The first such product to be launched was the Skil cordless screwdriver, carried by Argos in its 1987 catalogue at £19.95. This was sourced from Skil UK, a subsidiary of Emerson, a USA company, but was produced in Holland. Plasplugs entered the market with a product made in the Far East that initially set a price at around the £17 mark, subsequently falling to £14. In 1988 B & D launched a similar product, the BD9018, priced, like the Skil product, at £19.95. In February 1989 Bosch reduced the 'going price' of its cordless screwdriver by £5 to £29.95 and B & D responded by cutting £8 off its comparable SC450, to match Bosch's £29.95, and £6 off the lower-powered BD430, to £21.95. At the same time the Argos catalogue price for the Skil cordless screwdriver had fallen to £13.95, a £6 reduction from the 1988 level. Early in 1989 Bosch revealed its own 'straight-bodied' cylindrical cordless screwdriver at the Cologne Trade Show. B & D told us that, having heard that Bosch

¹ In 1986, the last year for which official figures are available, the average gross margin in DIY retailers was 29.2 percent. See Business Monitor SDA25, Retailing, Business Statistics Office, HMSO 1989 (especially Table 3).

intended to price this screwdriver at £19.95 on its expected United Kingdom launch, it adjusted the price of its BD9018 to £16.95, the £3 reduction being to prevent the erosion of its market share. Bosch has now launched its 'straight-bodied' cordless screwdriver at a 'going price' of £17.95. It regards that price as reflecting the competitive pressures that the Far Eastern products have set in the market, together with the fact that this product is not manufactured by Bosch itself, though it aims for the product to benefit from the wide distribution available through Bosch's trade channels.

TABLE 2.12 The price of cordless screwdrivers

			£			
<i>Manufacturer</i>	<i>Model</i>	<i>Features</i>	<i>Aug '87 'going price'</i>	<i>July '88 'going price'</i>	<i>Feb '89 'going price'</i>	<i>May '89 'going price'</i>
B & D	BD430	Pistol grip, 2.4V	27.95	27.95	27.95	21.95
	SC450	Pistol grip, 3.6V	37.95	37.95	37.95	29.95
	9018	Case, screwdriver shape, double bit	-	19.95	19.95	16.95
Bosch	PSR	Pistol grip, 3.6V	32.95	34.95	29.95	29.95
	'new'	Screwdriver shape	-	-	-	19.95
Richmond* (ex-Taiwan, UK agent Titan UK Ltd)		Case, 20 bits	-	-	24.95	24.95
Skil UK* (Emerson USA)	Skil	Screwdriver shape, double bit	19.95	19.95	13.95	13.95
Plasplugs	PSD105	Screwdriver shape, four single bits	-	16.95	14.95	13.95

Source: MMC study.

*Offered in Argos catalogue.

2.66. B & D told us that it would not always respond to match price cuts and to illustrate this it drew our attention to the instance of 4.5 inch angle grinders. In this case Bosch marketed the PWS115, on sale in August 1987 at the 'going price', according to B & D, of £56.95. This had risen by £3 a year later, but was cut by £4, to £55.95, in February 1989. B & D, whose comparable product was the BDPL80, was achieving a 'going price' of £45.95 in August 1987 and that price rose by £2 at the time of each of Bosch's price changes, so that by February 1989 the B & D price was £49.95, £6 less than the comparable Bosch product though it had initially been £11 cheaper. B & D told us that this illustrated that it did not always respond to the lower prices suggested by its competitors and in this case it had been forced to accept a loss of market share as the consequence of maintaining its price level. (Angle grinders account for only 4 per cent of power tool sales.)