

# 9 Retailing

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## Introduction

9.1. The suppliers of the electrical goods specified in our four brown goods references (as well as those in our four concurrent white goods references) distribute nearly all of their products through dealers. The most important dealers are the retailers (including mail order companies and catalogue retailers), with relatively small quantities being bought by rental companies, warehouse clubs and other non-retail outlets. Most retailers acquire reference goods directly from the suppliers, and only limited volumes are purchased from wholesalers or distributors (whose activities are described in paragraphs 8.97 to 8.101). Some retailers have formed buying groups (the largest of these, CIH, is described in paragraphs 8.91 to 8.96).

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

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

9.4. We sent a questionnaire to all multiple retailers, defined for our inquiries as those selling domestic electrical goods from five or more outlets, and to the five major mail order companies. Some respondents did not answer all our questions, and some were unable to give information for each of the reference goods separately, for example when televisions and VCRs were grouped as a single category in their management information systems. Details of the number of complete replies are set out in paragraph 10.8, and we estimate that the response rate for multiple retailers weighted by sales was about 90 per cent for each of the reference goods. We also sent out supplementary questionnaires to suppliers and to the five major mail order companies in the course of inquiring into mail order retailing of the reference goods.

9.5. There are many categories of electrical goods retailer, but the first distinction we have made is between those who, broadly speaking, specialize in electrical goods (described in paragraphs 9.6 to 9.49) and those for whom electrical goods contribute only a small part of their turnover (described in paragraphs 9.51 to 9.74).

## Electrical goods specialists

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

## National multiples

9.7. Following the closure of Rumbelows (see paragraph 9.24) the only two specialist electrical goods retailers with operations across Great Britain are Dixons and Comet, a subsidiary of Kingfisher. In addition, Intertan (UK) Ltd operates 350 of its own Tandy stores and a further 150 franchised dealerships, as well as acting as a wholesaler for a number of small retailers. However, it concentrates on items with a ticket price of less than £200, so it is not an important retailer of the reference brown goods.

### ***Dixons Group plc***

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

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

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

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

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

9.13. Dixons told us that in the last five years it had differentiated the Dixons and Currys chains very clearly, and saw Dixons stores staying in the high street and Currys developing out of town. Currys' principal market was in major electrical products for the home, with about 40 per cent of its business in white goods, 40 per cent in brown goods and the balance in other products. It concentrated on large appliances and products, for which the market was developing out of town because of the space needed to display a wide range and give customers a good choice. Dixons stores, by contrast, were aimed at selling personal electronics that could be carried out of the store, and would remain in the high street for many years.

9.14. Dixons has two own-label reference brown goods brands, Matsui (televisions, VCRs and hi-fi systems) and Ingersoll (VCRs). It also has exclusive UK distribution rights for Chinon camcorders. For some products Matsui is a leading brand (see market share tables in Chapter 7).

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<sup>1</sup> *Kingfisher plc and Dixons Group plc: a report on the proposed merger*, HMSO, Cm 1079, May 1990.

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

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

	<i>£ million</i>			
	<i>Years ended 30 April</i>			
	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>
Turnover	1,274.3	1,402.1	1,545.7	1900.8
Operating profit	77.0	47.8	90.5	125.0
Net operating assets	121.8	126.8	111.4	189.4
Average net operating assets	124.3	119.1	150.4	
				<i>per cent</i>
Operating margin	6.0	3.4	5.9	6.6
Return on average net operating assets	63.2*	38.5	76.0	83.1

*Source:* Dixons.

\*Return on year-end net operating assets.

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

### ***Comet Group plc***

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

9.18. Comet's activities were reinforced by the acquisition of other multiple retailers including Ultimate in 1987, the Connect chain in Northern Ireland in 1988 and Laskys in 1989, all of which were assimilated into Comet. Comet is the second largest UK retailer of electrical goods after Dixons and is one of the principal subsidiaries of Kingfisher, which in terms of capital employed is the fourth largest non-food retailer in the UK.

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

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

traded under the Comet name. In addition to traditional white and brown goods, Comet sells telecommunication and computer products.

9.21. Comet offers a number of own-label brands for brown goods. Comet has a trade-mark licence (from Goodmans Industries Limited, a subsidiary of Alba Group plc) and the exclusive right to use the Goodmans brand name on televisions, VCRs and mains-only hi-fi systems. The tables in Chapter 7 show that Goodmans is one of the leading brands. The Proline trade mark is owned by Comet and has been used for hi-fi systems.

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

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

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

*Sources:* 1995-Kingfisher analysis for MMC; 1996 and 1997-Kingfisher preliminary results for 1996/97.

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

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

### ***Rumbelows Ltd***

9.24. For some years Thorn-EMI plc's subsidiary Rumbelows was the third national multiple with significant shares of the markets for many electrical goods. In February 1995 Thorn-EMI announced its decision to close Rumbelows, and most branches had ceased operating by 31 March 1995, shortly before the beginning of our inquiries. In August 1996 Thorn plc (Thorn), whose rental operations are described in paragraphs 9.152 to 9.162, was demerged from Thorn-EMI.

### **The RECs**

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

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

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

9.28. ScottishPower expanded by acquiring superstores from other retailers which were in liquidation or were withdrawing from electrical goods retailing. These included 17 Rumbelows and Atlantis superstores in 1993, 50 from Clydesdale in 1994 and, in April 1995, five from Manweb which had decided to withdraw from retailing. (In October 1995 ScottishPower acquired Manweb.) After these acquisitions it had 75 shops and 17 superstores trading as ScottishPower in Scotland and 46 superstores trading as Electricity Plus in England and Wales. It also had 15 shops and superstores in England trading as Sound and Vision, selling brown goods only. In 1995/96 ScottishPower's operating profit from electrical goods was £12.4 million on a turnover of £249.4 million. It stated that its share of the brown goods market in Scotland grew from 17.3 per cent in 1994 to 27.5 per cent in 1996.

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

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

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

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

9.33. We were told, but were unable to confirm, that with all these changes in ownership and closures of loss-making premises, the RECs had lost market share in recent years. The shares in 1995 of each REC and

their combined shares for the reference brown goods are provided in Tables 7.7 and 7.8 for the UK market as a whole. The RECs' shares in the regions in which they operated probably varied a good deal, although few definite data are available. ScottishPower told us that it believed its combined shares of the white and brown goods markets would make it the largest electrical goods retailer in Scotland. SHE believed that it was the market leader in white goods within its authorized area, but this was not necessarily true for brown goods.

## **Regional multiples**

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

### ***Tempo***

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

### ***Miller Bros (Doncaster) Limited***

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

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

### ***Colorvision plc***

9.38. Colorvision was founded in 1964 in Liverpool. By 1996 it had expanded from the Merseyside region to a total of 88 stores, nearly all in secondary high street locations, but with two superstores and five concessions in Courts furniture superstores, which Colorvision had taken on after the withdrawal of Rumbelows, the previous concessionaire. Colorvision's stores were mostly located in the North-West with a few others spread throughout the rest of Great Britain. In most of its stores it only sold brown goods, but its two superstores carried a full range of white and brown. Sales for the year to 31 March 1995 were £72.5 million with a pre-tax profit of £1.1 million.

9.39. Colorvision explained to us that at one time credit sales had accounted for two-thirds of its turnover. Although this proportion had declined, sales on extended credit terms were still important. Colorvision stated that it was to some extent in competition with the rental companies because many of its customers compared monthly credit instalments with monthly rental payments.

9.40. In January 1996 the OFT announced that it was to take action to have Colorvision's consumer credit licence revoked. In May 1996 the founders of Colorvision reduced their shareholdings and resigned from the Board, and undertakings were given to the OFT to avert the revocation of the licence. However, the adverse publicity had led to a fall in turnover of almost 30 per cent, and Colorvision went into administrative receivership on 31 July 1996.

## **Small retailers**

9.41. We believe that there were about 4,000 small retailers of reference brown goods in 1995, defined here as businesses with four outlets or fewer (see Table 7.6). We carried out a survey of small retailers designed in the main to obtain information about the two matters referred to us.

9.42. During the survey of small retailers we interviewed 472 small retailers of one or more of the reference brown goods. Almost all of them sold televisions, hi-fi systems and VCRs, and over 70 per cent sold camcorders. Most businesses had only one outlet. Two-thirds of outlets were located in traditional high streets. Over one-half of survey respondents employed fewer than six staff and had a turnover of less than £500,000.

9.43. Respondents to the survey of small retailers who sold reference brown goods told us that customers valued the service the small retailer could offer compared with that available in multiple stores. Free delivery and installation were cited by many as an alternative to price-cutting, along with favourable credit terms and warranties. Of the respondents selling brown goods, 272 (58 per cent) told us that they bought reference goods from wholesalers. (They were not asked which of the goods nor the extent of their use of wholesalers.)

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

## ***Retailer buying groups***

9.45. Some small retailers have formed buying groups to give them more favourable buying terms from suppliers. The largest of these, CIH, together with the local groups which are its shareholders, is described in paragraphs 8.91 to 8.96. Other retailer buying groups which we identified include: Scottish Independent Television Dealers Association, with almost 50 members; Radius, with 15 members; and Combined Independents of Ulster, which is described in paragraph 9.169. They differ from CIH in that they do not, it appears, take title to goods purchased by their members. 33 per cent of the respondents to our survey of small retailers told us that they were members of CIH and 3 per cent were members of other buying groups.

## ***Solus dealers***

9.46. Some dealers choose to become outlets for a single supplier, usually for one of the leading brands. Sony and Panasonic have formal arrangements for their solus dealers. B&O, which sells high-quality, high-priced brown goods, has eight dealers who have decided only to stock its products.

9.47. Sony told us that at 1 September 1995 it had 45 Sony Centre dealers operating at 82 locations, many of whom separately operated multi-brand outlets. They had agreed not to supply from a Sony Centre any product which competed with Sony products. Sony Centres were given a contribution [

\* ] towards the cost of fitting out their outlets. The principal advantage of operating a Sony Centre was that it was given priority on stock allocations and that a special reserve inventory of stock was held for each Sony Centre dealer which could be called off as required.

9.48. Panasonic told us that it had launched a solus scheme in 1990 under which its PanaService dealers could establish one or more solus outlets, known as Panasonic Technics Centres, in which only Panasonic and Technics brands were displayed (to the extent that Panasonic offered the relevant product categories). Benefits included a 50 per cent contribution to the cost of shop fittings, a 10 per cent contribution to annual rent and a display allowance of £6,000, in addition to the benefits for which all PanaService dealers were eligible. Solus dealers had to commit to a minimum business plan, to six-month forward ordering with a minimum three months non-cancellable order, and to the stocking of all product categories. At 1 March 1997 there were 15 solus dealers operating 20 solus outlets.

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\*Details omitted. See note on page ii.

## **Profitability of electrical goods specialists**

9.49. An analysis of discounts offered by suppliers and of retailers' gross margins by product and by type of retailer on the assumption that sales are made at the RRP is set out in paragraphs 10.105 to 10.122. Table 10.10 indicates that on that basis average gross margins for the reference goods were generally concentrated around [\* ] to [\* ] per cent of the RRP (excluding VAT). Dixons told us that its gross margin on the reference goods was between [\* ] and [\* ] per cent. Gross margins recorded by retailers will be affected by such factors as stock losses, sales below RRP and differences in the accounting treatment of the various types of discount. Table 9.1 shows the operating margins of Dixons and Table 9.2 shows those of Comet (including operating losses in 1994/95). The 1995/96 turnover and operating profits of two of the larger RECs, ScottishPower and NORWEB, were referred to in paragraphs 9.28 and 9.29. We also reviewed the operating margins of some of the other multiple retailers, as shown in their statutory accounts. Overall, the multiple retailers showed a wide variation in operating margins. But these were results for whole companies and usually included the profits from white goods and non-reference brown goods, as well as in many instances those from small appliances, computers, telecommunication products and rentals.

## **Other retailers**

9.50. As well as being sold by specialist electrical goods retailers, each of the reference brown goods is stocked by many other types of outlet including department stores, retail co-operatives, mail order companies, catalogue retailers and, particularly for camcorders, photographic retailers.

## **Department stores**

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

### ***Allders Department Stores Limited***

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

### ***House of Fraser (Stores) Limited***

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

### ***John Lewis Partnership plc***

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

## **Other multiples**

### ***Retail co-operatives***

9.55. The CWS provides buying, marketing, distribution and other services to co-operative retailers. It also operates its own retail outlets and, as such, is the largest co-operative retailer in the UK. It has 45 outlets which stock all the reference brown goods except camcorders, which are offered in only 18 outlets. It told us that several independent retail societies also sold brown goods but bought them mainly from the CWS, giving it a dual role as a retailer and wholesaler.

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

### ***Savacentre Limited***

9.57. Savacentre is a wholly-owned subsidiary of J Sainsbury plc, operating from 11 locations in England and Scotland. It is a specialist hypermarket company, offering more than 60,000 products in each store, including foods, toiletries, clothing, household goods, home improvement products and a range of electrical goods, among them all the reference brown goods.

## **Mail order companies**

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

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

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

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

9.62. The typical agent serves no more than three or four customers, some of whom make only occasional purchases. Agents are recruited by various means including advertising, recommendation and

direct canvassing. The agent is usually a customer in his or her own right and does not have the status of an employee. Recent experience of one of the companies leads it to believe that about 35 per cent of all purchases through agency mail order are in fact made personally by the agent.

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

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

TABLE 9.3 **Agency mail order companies**

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

*Source:* Mail order companies.

9.65. The replies by the agency mail order companies to our multiple retailers questionnaire made us aware that their catalogue prices for electrical goods were usually higher than those charged by other retailers, and that in some cases suppliers were issuing separate MORPs. The practices of suppliers and of agency mail order companies relating to mail order prices are described in paragraphs 10.85 to 10.93.

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

9.67. Mail order companies use the photographs and descriptions in their catalogues to inform their customers of the reference brown goods on offer. We examined the relevant catalogue entries and found that they set out the main features of the models covered. The catalogue entries did not, however, say in what way the picture (in the case of televisions and camcorders) or the sound (in the case of televisions, VCRs and hi-fi systems), as seen or heard by a non-technical user, would be different from one model to another, or which products (all four reference goods) would be the easiest to operate. Nor did the catalogues say that one model of reference good would be more durable than another, or be more reliable, or be easier or less costly to repair.

9.68. Mail order companies do provide customer helplines, both order lines and inquiry lines, but we were told by GUS that the staff who answered its enquiry lines had no expertise in any of the reference brown goods. They could pass on customer queries for specialist advice, but in 80 per cent of cases helpline staff answered the customer's question merely by reading from the catalogue. GUS told us that Argos (see paragraph 9.71) did give space in its catalogue for an explanation of some of the technical terms associated with brown goods; this was non-productive space and GUS would need to assess whether incurring an additional cost of this kind in its principal catalogue would give it an adequate return. GUS added that its competitive offer against the pre-sale service offered by retailers was that its customers could have the goods for 14 days on free home approval.

## **Catalogue retailers**

9.69. We identified two catalogue retailers, Argos and Index. Like the mail order companies, they publish catalogues displaying a wide range of goods, of which brown goods form only a small part. Neither company sells any of the reference white goods. They differ from the mail order companies in that they operate high street and out-of-town outlets where stocks of goods are held. Customers go to one of the stores, select goods from the catalogue, place their order at the counter and usually take the goods away with them; home delivery and installation can be arranged for televisions, VCRs and hi-fi systems.

### ***Argos plc***

9.70. Argos is the larger of the two catalogue retailers. It supplies a wide range of brown goods including all four reference goods. Through its subsidiary Argos Distributors Ltd it operates from 404 outlets, of which 63 are superstores and 10 are 'call and collect' stores. Argos told us that in 1995 it had as an experiment opened a variety discount store in Edgware under the name 'First Stop'; the merchandise was primarily branded goods, including the reference brown goods, but concentrating on end-of-line items and clearance specials. By the end of 1996 Argos operated three First Stop stores.

9.71. We examined Argos's autumn/winter 1995 catalogue which in many ways resembled those of the mail order companies in presentation, although as pointed out by GUS (see paragraph 9.68), it differed from the mail order catalogues in that space was also allocated to explain some of the technical features of the products. We noticed that the Argos catalogue gave the numbers of the telephone helplines operated by many of its suppliers of brown goods.

9.72. Argos told us that the pre-sale advice available from the staff in its outlets was not comparable with that in a department store or specialist retailer, but it was confident that the descriptions in its catalogue, which had been agreed with the suppliers, gave enough information to enable consumers to make a properly informed choice. Most of its customers read the information provided in the catalogue at home and already knew what they wanted to buy when they came to a store to make a purchase. It did not know how much use was made of helplines, as these were run by suppliers, but it believed that most calls were made in connection with post-sale queries rather than to seek pre-sale advice.

9.73. We were told by the Chairman of Powerstore that Argos' catalogue prices were widely used as a bench-mark by other high street retailers of brown goods.

### ***Index Ltd***

9.74. Index is a subsidiary of The Littlewoods Organisation plc. It operates from 134 outlets, 45 of which are located inside the Littlewoods stores of its affiliate, Littlewoods Chain Stores Holdings Ltd. (Index is responsible for managing these in-store locations.) Index offers a range of televisions, VCRs and hi-fi systems in its catalogue, but not camcorders. It benefits from its access to the Littlewoods purchasing organization and the advantageous terms which it therefore enjoys.

## **Photographic retailers**

9.75. Many photographic retailers sell camcorders. The largest photographic retailers are Argos and Dixons (already described) and Boots, but there a number of specialist multiples such as Jessop with 70 Photo/Video Centres. There are also many small retailers, who either purchase direct from suppliers or from specialist wholesalers. Some photographic retailers also stock VCRs and televisions as an extension of their camcorder line.

## **Services offered by retailers**

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

9.77. Comet, for example, regularly reviews the behaviour of consumers who purchase from itself and from its competitors. One of its surveys (see paragraph 7.18) looked at buyers of audio visual products and major appliances at Currys, the RECs and its own stores. Among these three groups of buyers, between 29 and 34 per cent only visited the store where they made the purchase. Between 55 and 64 per cent either bought at their normal shop without shopping around or had visited only one or two other shops.

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

## **Product selection**

9.79. We were told that in general the manufacturers of the reference brown goods change their ranges annually, with most new models being launched in the spring. Panasonic told us that the timing for the introduction of new models was led by retailers' requirements. Major multiple accounts, such as Dixons and Comet, required the launching of new models between April and July and would typically be shown prototypes and mock-ups during the preceding October. Presentations to other multiples, mail order companies, catalogue retailers and large independent retailers would follow in November and December. Introduction dates had less impact on the ranging decisions of smaller retailers; because of their lower stockholdings, they were able to react more quickly so that newly-launched products would typically be seen by consumers first in their outlets.

9.80. It thus appears that the selection process begins with product reviews, often held outside the UK, attended by representatives of the larger dealers and possibly some of the smaller ones. Discussions with suppliers, we were told, cover the features offered and the intended positioning (ie price level) of the products in the UK market.

9.81. Product selection is one of the principal means by which a retailer can differentiate itself from its competitors. For all the reference brown goods there are numerous manufacturers, some with more than one brand, and most with a large number of models and model variants. The large number of available models makes it possible for a retailer to stock a range which differs from those of its competitors. This differentiation of product offerings is discussed further in paragraphs 9.95 to 9.99.

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

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

9.84. The stocking policy of the mail order companies appears to put much emphasis on range differentiation. This emerges from the comparison of mail order prices in the autumn/winter 1995 catalogues, which is described in detail in paragraphs 10.100 to 10.104. For all four reference brown goods the catalogues listed only a small proportion of the models available (ie there were many models which did not appear in any of the catalogues). Most of the models that were listed appeared in the catalogue of only one company, giving it mail order exclusivity. The number of models appearing in the catalogues of two or more mail order companies out of the total number of models listed were: for televisions, 40 out of 153; for VCRs, 24 out of 62; for hi-fi systems, 49 out of 147; and for camcorders, 14 out of 35.

### ***Stocking policies of small retailers***

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

9.86. We were told that some suppliers regarded small retailers as a particularly important distribution channel for certain of their brands. Table 9.4 shows that some brands that are widely stocked by small retailers only achieve relatively low market shares, while others which are less frequently stocked by small retailers achieve higher shares. For example, Sony camcorders were stocked by 40 per cent of the small retailers included in our survey and achieved a market share of 24.6 per cent, while Samsung achieved a share of only 7.3 per cent while being stocked by 43 per cent of the small retailers. In VCRs, the 1995 market shares of Mitsubishi and Hitachi were virtually identical, but the percentage of respondents to the survey of small retailers who stocked Mitsubishi was well over twice that selling Hitachi.

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

*per cent*

<i>Supplier</i>	<i>Brand</i>	<i>Supplier's market share*</i>	<i>Respondents to survey of small retailers selling the listed brands</i>
<i>Televisions</i>			
Sony	Sony	15.9	40
Matsushita	Panasonic	11.0	58
	JVC	<u>3.3</u>	33
	Total	14.4	
Toshiba	Toshiba	13.5	53
Philips	Philips	6.5	51
	Grundig	1.8	19
	Pye	<u>0.5</u>	N/A
	Total	8.8	
Hitachi	Hitachi	7.1	26
<i>VCRs</i>			
Matsushita	Panasonic	13.7	58
	JVC	<u>7.1</u>	33
	Total	20.8	
Sony	Sony	8.9	40
	Aiwa	<u>1.6</u>	14
	Total	10.6	
Toshiba	Toshiba	7.7	48
Mitsubishi	Mitsubishi	6.5	60
Hitachi	Hitachi	6.3	24
<i>Hi-fi systems</i>			
Sony	Sony	11.4	39
	Aiwa	<u>21.7</u>	32
	Total	33.1	
Matsushita	JVC	9.9	35
	Technics	5.9	37
	Panasonic	<u>2.2</u>	55
	Total	17.9	
Kenwood	Kenwood	8.2	16
Pioneer	Pioneer	6.0	20
Alba	Alba	3.4	4
	Bush	<u>2.1</u>	1
	Total	5.5	
<i>Camcorders</i>			
Matsushita	Panasonic	14.1	61
	JVC	<u>13.1</u>	34
	Total	27.1	
Sony	Sony	24.6	40
Sanyo	Sanyo	15.7	8
Canon	Canon	13.9	16
Samsung	Samsung	7.3	43
Sharp	Sharp	5.8	27

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

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

### ***Own-label brands and exclusive models***

9.87. Larger retailers may offer products under a brand name which they own or has been licensed to them. These may be built to their own specification or they may be existing products which are badged with the name of one of the retailers' brands. Table 7.7 shows that some own-label brands such as Dixons' Matsui and Comet's Goodmans have significant market shares in some of the reference goods. It follows that they may form high proportions of the sales of these two retailers; the most extreme example we encountered concerns Dixons' Matsui VCRs in 1993/94, which constituted over 40 per cent of Dixons' VCR sales by value.

9.88. Dixons told us that there were a large number of overseas manufacturers who specialized in the private-label market. Typically they sold a product to one customer in each of several countries, who would therefore have national exclusivity. Dixons added that retailers' own-label products would never be purchased from the leading branded suppliers because the volumes would not be sufficient; only the major rental companies purchased televisions and VCRs in large enough quantities to interest the major brands. Dixons also stated that, while five years previously own-label products had produced higher retail margins than branded ones, this was no longer the case. There were three reasons for this. First, economies of scale in manufacturing had largely been exhausted. Second, the brands had fought back, by reducing the selling prices for branded merchandise at the entry level, dropping specifications and changing their model mix in order to enter a sector of the market which they had previously left to private-label manufacturers. Third, the notional discount which the consumer expected to receive between a branded product and an own-label product had widened.

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

9.90. Retailers can also obtain branded products from some suppliers on an exclusive basis. Overseas manufacturers may have a large range of products for world markets, some of which have not been offered in the UK and exclusivity may be available in return for a large order. In other cases, a factory may have over-produced a model and be prepared to offer a favourable price and UK exclusivity to a retailer who would take the remaining stock. Similar deals are available from suppliers who have manufactured or imported excessive quantities, but complete exclusivity is not guaranteed since some units will already have been sold to other retailers. We encountered some of these semi-exclusive products in our price analysis exercise. They are described in paragraph 11.26 and can be identified in the tables in Appendix 11.3.

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

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

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

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

	<i>Total models</i>	<i>Own-label models</i>	<i>Exclusive models</i>	<i>Own-label models %</i>	<i>Exclusive models %</i>	<i>Own-label share of unit sales %</i>	<i>Exclusive share of unit sales %</i>
Televisions	799	26	151	3	19	8	17
VCRs	452	15	77	3	17	12	16
Hi-fi systems	702	22	161	3	23	9	19
Camcorders	151	-	41	-	27	-	18

Source: GfK.

9.94. Table 9.5 shows that own-label and exclusive models had a combined share of unit sales of the reference brown goods of between 18 and 28 per cent.

### ***Differentiation of product offerings***

9.95. We asked the multiple retailers to provide a list of the suppliers of each of the reference goods sold through their outlets at 30 June 1995, showing their brands, and models or model variants within these brands. We also requested information on own-label brands. Table 9.6 shows the number of brands and models or model variants listed by four retailers (out of a larger number who responded). The retailers selected were Dixons, Comet, Tempo and James H Donald (Darvel) Ltd (Donald). Donald operates from seven shops in Ayrshire.

TABLE 9.6 **Number of brands and models/model variants stocked by selected retailers, June 1995**

	<i>Dixons</i>	<i>Comet</i>	<i>Tempo</i>	<i>Donald</i>
<i>Number of brands</i>				
Televisions	15	13	16	22
VCRs	15	14	18	15
Hi-fi systems	13	12	16	19
Camcorders	9	9	7	4
<i>Number of models</i>				
Televisions	112	64	145	109
VCRs	60	37	56	49
Hi-fi systems	86	71	93	85
Camcorders	45	18	34	9
<i>Own-label models</i>				
Televisions	12	21	0	0
VCRs	6	15	0	0
Hi-fi systems	8	20	0	0
Camcorders	0	0	0	0

Source: Dixons, Comet, Tempo and Donald.

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

9.97. As well as asking the multiple retailers about the models which they stocked, we enquired about the ones which were actually sold in large volumes. In our questionnaire to the multiple retailers, we asked for a list of the six best-selling models for each of the four reference goods during the second quarter of 1995. Many retailers were unable to answer this question, but we received 15 replies from different types of retailer including Dixons, Comet, four of the RECs, Argos, GUS, Littlewoods, JLP and a number of small chains. Some of them did not sell all the reference goods, and some listed fewer than six best-sellers.

9.98. If the best-selling models had been the same across all the retailers, only six models would have been named for each of the reference goods. If, on the other hand, each of the 15 retailers had a unique list of best-sellers (and had named six best-selling items) they would between them have listed 90 different models. In Table 9.7, the third column shows that the number of models named was a long way above the minimum of six. However, account must be taken of the fact that not all 15 retailers sold all reference goods (column 1 indicates that two of them did not sell camcorders); in addition some of the respondents listed fewer than six best-sellers. Column 2 accordingly shows the total number of best-sellers listed, and column 3 the number of distinct models among them. The ratio of column 3 to column 2, as shown in column 4, then indicates the degree of specialization with respect to best-sellers. The numbers point to wide differences in best-selling products between retailers for all the reference goods, particularly televisions.

TABLE 9.7 **Best-selling reference brown goods, second quarter of 1995**

	<i>Number of respondents</i> (1)	<i>Number of best-sellers</i> (2)	<i>Number of distinct models</i> (3)	<i>Models: best-sellers %</i> (4) = (3) ÷ (2)
Televisions	15	89	75	84
VCRs	15	87	66	76
Hi-fi systems	15	90	66	73
Camcorders	13	76	53	70

*Source:* Multiple retailers.

9.99. Dixons and Comet listed several own-label items among their best-selling reference brown goods. Comet's four best-selling televisions were all Goodmans products, while for Dixons numbers 1, 2 and 4 were sold under the Matsui label. The presence of own-label and exclusive models, which by definition are only available to one retailer, selling in large volumes is one factor behind the diversity shown in Table 9.7.

## Store location and ambience

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

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

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

9.103. In August 1995 Dixons, using data from GfK, calculated that in little more than 18 months almost 700 high street shops had disappeared as a result of the withdrawal of many of the RECs, the liquidation of Clydesdale and the closure of 136 of its own Currys stores. (Some of these shops would not have sold brown goods.) It believed that this was equal to half of the total number of closures in the previous ten years. There had been a correction after several years of out-of-town expansion with few offsetting closures of less profitable high street stores. The Chief Executive of Dixons commented that the RECs had

been responsible for keeping many of their high street outlets open, but any superstores given up by the RECs would stay in the electrical goods market because other retailers would buy them.

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

### **In-store service and staff training**

9.105. Suppliers as well as retailers told us of the importance of retailer provision of in-store service and hence of the availability of properly trained staff. Comet told us that until three or four years before our inquiry, the industry had a bad reputation for the quality of its sales staff, but it and Dixons had worked hard to improve customer service, which was of growing importance because of the increasing complexity of some of the products.

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

### **Consumer credit**

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

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

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

9.110. We obtained year-end statutory accounts for several retailers, some electrical goods specialists, some dealing in a wider range of products. For those RECs which were a division of a larger plc, we requested divisional financial statements. We compared the level of year-end trade debtors with turnover for their most recent financial year. We found that mail order companies had high levels of trade debtors, reflecting their extended credit terms, as did the larger RECs, especially NORWEB, possibly taking

advantage of the strong balance sheets of their parents. A few smaller multiples have oriented their offerings heavily towards the provision of credit.

### ***Promotional credit***

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

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

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

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

### ***Cost and benefits of subsidized credit***

9.115. The value to the consumer of subsidized credit terms, such as interest-free credit and `buy now, pay later', depends on his or her circumstances, being relatively small for someone earning additional interest (subject to tax) on a deposit or building society account, and much larger for those who avoid the high interest rates payable on credit card balances and other types of consumer credit.

9.116. We asked the multiple retailers to provide for each of the reference goods an estimate of the cost of subsidized credit in the calendar year 1994 not only to their company and its affiliates but also to their suppliers. Dixons gave us information for its financial year to 29 April 1995, which is summarized in Table 9.8.

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<sup>1</sup> *The Business Book for the Electrical Retail Market in Great Britain 1996*, Chalvington Publishing.

TABLE 9.8 **Dixons: cost of subsidized credit, 1994/95**

	<i>Total sales</i>	<i>Subsidized sales</i>	<i>Cost of subsidy</i>	<i>Supplier portion</i>	<i>Subsidized sales: total sales</i>	<i>Subsidy cost: total sales</i>	<i>Supplier portion: subsidy cost</i>	<i>Dixons' portion: total sales</i>
	£m	£m	£m	£m	%	%	%	%
	(1)	(2)	(3)	(4)	(5)= (2)÷(1)	(6)= (3)÷(1)	(7)= (4)÷(3)	(8)= (3)-(4)÷(1)
Televisions	162.3	[						
VCRs	121.5							
Hi-fi systems	98.0							
Camcorders	65.3							]

*Figures omitted. See note on page ii.*

*Source:* Dixons.

For the reference brown goods in 1994/95 the cost of subsidized credit to Dixons varied from [ \* ] per cent of total sales for televisions to [ \* ] per cent of total sales for VCRs. Camcorders, proportionately, attracted a particularly large supplier contribution.

9.117. Comet provided information for its last two financial years, but could only analyse it for the sales categories which it uses for its management accounts. This is set out in Table 9.9. Comet told us that suppliers tended to bear all the cost of promotional credit on certain lines which they were particularly keen to promote, while Comet would bear all the cost of credit on other lines, for example on own-label products. Overall, the proportion of subsidized credit paid by suppliers (as shown in column 7 of the table) appears to have been relatively high.

TABLE 9.9 **Comet: cost of subsidized credit**

	<i>Total sales</i>	<i>Subsidized sales</i>	<i>Cost of subsidy</i>	<i>Supplier portion</i>	<i>Subsidized sales: total sales</i>	<i>Subsidy cost: total sales</i>	<i>Supplier portion: subsidy cost</i>	<i>Comet portion: total sales</i>
	£m	£m	£m	£m	%	%	%	%
	(1)	(2)	(3)	(4)	(5)= (2)÷(1)	(6)= (3)÷(1)	(7)= (4)÷(3)	(8)= (3)-(4)÷(1)
<i>Year to January 1994</i>								
Vision	152.0	[						
Audio	68.3							
Electronics	26.0							]
<i>Year to January 1995</i>								
Vision	149.7	[						
Audio	73.0							
Electronics	19.2							]

*Figures omitted. See note on page ii.*

*Figures omitted. See note on page ii.*

*Source:* Comet.

After suppliers' contributions Comet's operating margins were reduced as a result of offering subsidized credit by the percentages shown in column 8 of the table, varying from [ \* ] to [ \* ] per cent of sales in the two years to January 1995.

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

\*Figures omitted. See note on page ii.

## **Delivery and installation of goods**

9.119. Reference brown goods are mostly portable items and customers often take delivery of them at the point of sale. The exceptions are the large-screen and home cinema televisions and some of the hi-fi systems which are frequently delivered and installed by the retailer.

9.120. The leading multiple retailers have varied approaches to the delivery and installation of brown goods. Comet told us that it applied a standard delivery charge of £10 and that its standard installation charge was £49.99. Dixons stated that it provided a service through its Mastercare subsidiary for all reference goods except camcorders-a standard charge of £12.99 was levied for delivery, installation and connection of most appliances. NORWEB for many years offered free delivery and installation as part of a service-led position in the market. However, given continuing cost and profit pressures, it decided to introduce charges from October 1995. ScottishPower told us that at the request of the customer it would arrange for delivery and installation. A charge would normally be made, but its sales staff had the freedom to reduce or waive it. It said that the benefit of free delivery and installation would vary between £10 and £15 depending on the reference product and extent of service given. Many of the other large retailers make a charge for this service although it is often insufficient to cover the cost. Mail order companies arrange for delivery of the reference brown goods to their customers' homes, with some larger items delivered directly from the supplier. The largest mail order company, GUS, has its own delivery fleet.

9.121. Among the multiple retailers who replied to our questionnaire, most of the smaller ones told us that they did not charge for delivery. A typical reply from a retailer in Scotland was that free delivery and installation were the norm. Old products were removed if requested, and no charge was made. This retailer delivered any item free if the customer required this ('for old people even a toaster, no REC would do that'). Free delivery was a major benefit that its customers expected. One of the retailers with a large rental operation told us that the benefits of free delivery and installation did not entirely go to the consumer; installation of televisions and VCRs could be complicated and having it undertaken by a trained installation engineer would often prevent a non-chargeable service call.

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

## **Other non-price promotions**

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

9.124. One supplier of brown goods told us that accessories were a high-margin add-on, particularly for camcorders. An accessory kit, possibly comprising a bag, tripod and battery, could be given away with the product or sold at a heavily reduced price-the notional benefit to the consumer was far higher than the cost to the retailer.

## **After-sales service**

9.125. After-sales service of reference brown goods is generally the responsibility of the retailer, and most suppliers insist that their retailers be able to provide it. (In this respect the retailing of brown goods differs significantly from that of white goods where after-sales service is generally the responsibility of the supplier.) After-sales service includes warranty repairs which retailers typically undertake on behalf of suppliers, either being reimbursed for costs incurred or receiving an additional discount to buy out the warranty obligation. If the retailer does not have his own service organization, he will employ a specialist contractor to meet the requirements of his suppliers to provide warranty repairs.

9.126. Many retailers commented that suppliers' refunds or additional discounts did not cover the warranty costs incurred. Dixons told us that the majority of service visits made by its engineers during the period of the manufacturer's warranty were not covered under the terms of that warranty and were therefore borne by Dixons. These include 'no fault found' visits and non-technical visits to deal with tuning, head-cleaning and such like. Some manufacturers made a contribution towards the variable costs of meeting warranty claims, but for the reference goods there was a cost to Dixons in 1994/95 of £15.1 million.

## **Extended warranties**

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

## **Advertising by retailers**

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

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

9.130. Among the conventional multiple retailers Dixons and Comet normally use the national press (as do some department stores, the two catalogue retailers and the mail order companies). Comet also provides information on its top-selling products on Channel 4 Teletext. The RECs, regional multiples and small retailers more often use the local press, although the regional editions of national newspapers offer an alternative. Allders told us that local advertising could be expensive, citing its experience with the only local newspaper in Leeds. One of the rental companies which is also a retailer said that advertising was not worthwhile; Dixons took such large spreads in newspapers that it could not afford an advertisement which would be noticeable in the same editions.

9.131. Every year *Marketing Week* publishes details of the top 100 UK advertisers, using data supplied by Register-MEAL. Table 9.10 shows the total advertising spend for 1993, 1994 and 1995 and the press spend for 1994 and 1995 of Dixons and Comet which were the only electrical goods specialists to be included in *Marketing Week's* statistics for the top 100 advertisers. The data refer to their expenditure on advertising their whole product range and thus extend well beyond the four reference brown goods.

TABLE 9.10 UK advertising spend of national multiple retailers, 1993 to 1995

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

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

\*Out of top 100 UK advertisers.

9.132. Table 9.10 shows the high proportion of advertising spend for Dixons and Comet devoted to press advertising. It also shows that Dixons' advertising increased from 1.5 times Comet's spend in 1993 to twice that of Comet in 1994 and four times in 1995. The amounts in the table are based on rate cards. As the UK's largest user of press advertising, Dixons would presumably have been able to negotiate large discounts from the standard rates and its actual payments would be less than the amount shown. Other large advertisers, including Comet, will also have negotiated discounts, perhaps smaller than Dixons. Even though the effects of discounts are omitted, the table should still provide a rough measure of relative advertising volume.

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

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

## Other dealers

9.135. In addition to conventional retailers and mail order companies, several other types of dealer sell the reference brown goods. These include wholesalers, retailers' buying groups, warehouse clubs and rental companies. Wholesalers and retailers' buying groups are both dealers and suppliers, and their activities are described in paragraphs 8.97 to 8.101 and 8.90 to 8.96 respectively.

## Warehouse clubs

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

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

9.138. One source of supply for some of the warehouse clubs is from 'diverters'. These are firms or individuals who buy up batches of brown goods (including the reference brown goods) usually because they are surplus to the requirements of manufacturers, importers or retailers, in the UK and abroad. The diverters sell these goods on to warehouse clubs or retailers, which may want them because they have been refused supply through the normal trade channels. A diverter told us that he had supplied one UK warehouse club alone with reference brown goods to the value of over £1 million in 1995. We were told that products sold in this way carried the manufacturers' guarantees.

### ***Nurdin & Peacock Cash and Carry Limited***

9.139. N&P's traditional cash-and-carry business is mainly in the sale of food and tobacco but it diversified in 1994, under the name of Trade & Business Warehouse, to sell a wider range of goods including electrical goods. It has 56 outlets, only the largest of which stock reference brown goods. Membership is restricted to retailers, caterers and other business customers, including many categories of sole trader; there is no membership fee. In November 1996 N&P's parent, Nurdin & Peacock plc, was acquired by Booker plc (see paragraph 9.141).

### ***Cargo Club***

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

### ***Booker Belmont Wholesale Ltd***

9.141. Booker plc, through its subsidiary Booker, is the largest operator of cash-and-carry stores in the UK. In 1995 it sold some of the reference brown goods from more than 150 outlets, but with combined sales of less than £3 million they were an insignificant part of Booker's turnover. In November 1996 Booker plc acquired Nurdin & Peacock plc.

### ***Makro Self Service Wholesalers Limited***

9.142. Makro is a wholly-owned subsidiary of a Dutch company, Holding Maatschappij Ukadema NV. We were told that SHV Makro NV holds 60 per cent of Holding Maatschappij Ukadema and Metro Holdings AG of Zug in Switzerland holds 40 per cent. SHV Makro is owned by SHV Holdings NV, a privately-owned company with its head office in Utrecht, and is one of the largest cash-and-carry wholesaling groups in Europe with world-wide sales of more than £7 billion in 1995 (at year-end exchange rates). In 1995 SHV Makro, which already held 14 per cent of Nurdin & Peacock plc's shares, proposed a merger between its UK cash-and-carry operations and Nurdin & Peacock plc, but this offer was rejected. In the autumn of 1996 SHV Makro sold its holding to Booker plc which then acquired Nurdin & Peacock plc (see paragraph 9.141).

9.143. Makro does not charge a membership fee and, like N&P, limits its membership to trade customers. It had 27 outlets in 1995 which stocked all the reference brown goods.

9.144. Makro holds 35 per cent of the share capital of Chip Shop (Business to Business) Ltd which trades as Business to Business; the other 65 per cent is held by a private individual. Business to Business is the joint venture partner with Makro for the management of Office Equipment centres and Sound and Vision centres in Makro outlets. It effectively operates only as a sales, marketing and procurement department in Makro, and when suppliers are dealing with Business to Business they are, we were told, to all intents and purposes, dealing with Makro. Sound and Vision centres stock all four reference brown goods, including Makro's Pro-Tech own-label televisions, with a combined turnover of £25 million. We were also told that a large percentage of its trade is with customers buying for use in their own businesses with only minimal

quantities being purchased by retailers for resale. Makro agreed that some trade customers purchased brown goods for their own personal use.

9.145. Business to Business told us that it operated differently from PriceCostco. The number of lines offered was much greater and customer service was becoming much more important. Experience had taught Makro that to sell such high-value, low-margin products without a specialist sales team and specialist management could prove disastrous. If not sold correctly, there could be customer dissatisfaction, a high rate of returned goods and damage to products if customers were removing them without specialist handling. The higher the price the more confidence the customer needed before making a selection, and that confidence depended on a number of factors, including customer service, after-sales service and the knowledge of the salesman. Makro told us that its policy is to aim to set prices below that of the lowest competitor for each category of merchandise.

### ***PriceCostco Europe (UK) Limited***

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

9.147. PriceCostco opened its first membership warehouse club in Thurrock in November 1993, and by the end of 1995 had opened further clubs in Watford, Glasgow, Liverpool and Manchester. Its stated aim is to sell high-quality, nationally branded merchandise at low prices to businesses purchasing for commercial use or resale, and also to individuals who are members of selected employee groups. There is a basic annual membership fee of £15 for business membership, plus a further £10 for each individual member from the same business; the fee for individual membership is £20. (In addition, VAT is payable on these fees.) PriceCostco told us that some 65 per cent by value of its turnover is with what are called trade customers (some of whom may, however, purchase for domestic requirements) and the balance with individuals. This percentage related to all goods on offer; separate figures for the reference goods were not available. PriceCostco's business is based upon achieving high sales volumes and rapid inventory turnover by offering a limited assortment of merchandise in a wide variety of product categories at very competitive prices (we believe 15 to 20 per cent below RRP). Its stocking policy, including that for the reference brown goods, is to offer breadth of coverage (a wide range of different products) but not depth (many variants of the same product). PriceCostco told us that it was dependent on diverters for supplies of some of the reference brown goods, and that the range of brands and models which it sold therefore continually changed; the prices it had to pay for reference goods obtained from diverters were generally between 5 and 10 per cent higher than for goods it obtained directly from suppliers.

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

### ***Services offered by warehouse clubs***

9.149. The range of services offered by warehouse clubs is generally more limited than that offered by traditional retailers. As explained in paragraph 9.136, they often have an austere warehouse format, and pre-sales service both in terms of sales assistance and advice may be limited. But this is not always the case. Makro has set up separate areas in its outlets where electrical goods are displayed and, it told us, advice is available. It sometimes offers promotional credit, funded by itself or by suppliers, and always aims to offer reduced prices. Makro has a range of own-brand televisions under the Pro-Tech label (see paragraph 9.144) and arranges after-sales service for reference brown goods.

9.150. PriceCostco told us that it would take back any electrical goods with a full refund at any time after purchase at the request of the member. In addition PriceCostco has recently introduced the offer of a free three-year guarantee on reference brown goods costing over £100.

9.151. Warehouse clubs do not offer a delivery service nor do they undertake installation.

## Rentals

9.152. For some of the reference brown goods, particularly televisions and VCRs, there is a significant volume of consumer rental business. While deliveries by suppliers to rental outlets fall within our terms of reference, the two practices which we have to investigate are unlikely to occur in this segment of the market. We therefore did not carry out a detailed investigation of this sector but relied largely on published information, including a survey by the Economist Intelligence Unit,<sup>1</sup> and on information from a consultant.

9.153. The rental market is dominated by two companies, Thorn and Granada. We understand that they account for more than two-thirds of the rental base and of new rentals. Each has over 500 outlets. There are also large regionally-based rental companies such as Martin Dawes Ltd, whilst many small retailers have a stake in the rental market; we were told that the steady cash flow from the rental business often plays an important part in sustaining the retail business particularly in making an after-sales service organization economically viable.

9.154. Thorn has two principal rental and rental-purchase agreement types: rent-to-rent, where ownership is not transferred to the customer; and rent-to-buy, where customers obtain ownership having made a fixed number of payments. Granada operates a rent-to-rent agreement similar to Thorn's. Its rent-to-buy (or conditional sale) agreement was withdrawn for brown goods during our inquiries.

9.155. In the UK the rental of televisions and VCRs used to be proportionately more important than today. When these goods were launched, their prices were regarded as high and there were widespread doubts about their reliability. Television rental grew rapidly in the 1950s and 1960s, assisted by the regulation of hire-purchase transactions and boosted by the introduction of colour television in 1969. When VCRs were first 'mass-marketed' in the late 1970s they were often rented. During the 1970s rental businesses enjoyed a favourable corporation tax regime with first-year capital allowances of 100 per cent, but these were reduced in phases from 1984. Falling prices and improved reliability further reduced the attractions of rental, and the rental market's share of deliveries of televisions and VCRs continued to decline.

9.156. According to Target Group Index, a continuous survey carried out by BMRB International, household penetration of televisions increased little from 94 per cent in 1985 to 96 per cent in 1995, but rental of the main television set fell from 37 to 14 per cent. In the case of VCRs, penetration increased from 35 to 84 per cent over the same period, but the numbers rented actually fell. Target Group Index's survey results are summarized in Table 9.11.

TABLE 9.11 Ownership and rental of main televisions and VCRs, 1985, 1990 and 1995

*per cent of households owning or renting*

	1985	1990	1995
<i>Televisions</i>			
Rent	37	23	14
Own	57	74	82
Total	94	97	96
<i>VCRs</i>			
Rent	14	14	9
Own	21	56	75
Total	35	70	84

Source: Target Group Index.

<sup>1</sup> *EIU Retail Business*, No 456, February 1996.

9.157. Originally rental businesses were carried on from high street shops and this is still the dominant mode of trading. More recently rental companies have been established which reach potential customers by such means as mail shots or inserts in local newspapers, inviting them to contact the rental company by telephone. All details of the rental are negotiated on the telephone, and a representative of the rental company calls at the customer's house to install the equipment and to obtain a signature on the rental agreement; operators in this rapidly growing sector include Direct Vision Rentals, which is now part of Granada, Thorn's DER Direct, Dial-a-TV and Colour Scene Televisions.

9.158. There are also specialist operators such as Thorn's Easiview and Granada's Telebank which supply coin-operated equipment for some kinds of non-domestic use and to renters who are not regarded as eligible for credit or who prefer to pay in this way. Crazy George's (Thorn) operates rent-to-buy schemes, under which ownership of the product passes to the consumer after payment of the final rental, but until then the product can be returned at any time. These schemes are aimed at cash and credit constrained consumers. There are no deposits or credit checks, and a wide range of goods are rented, including furniture and white goods.

9.159. The rental companies purchase televisions and VCRs from most of the leading suppliers. The rental companies are also involved in conventional retailing, and a proportion of their purchases will be destined for the retail rather than the rental market. Originally most products carried the rental company's own label but, because of the growing demand for well-known brands, an increasing proportion of branded products is being rented.

9.160. Because of the importance of reliability, both in terms of serviceability and transportability, the rental companies deal mostly with premier manufacturers, and negotiations will cover the long-term availability of spare parts. Many other aspects of the negotiations are the same as for conventional retailers, including discounts, staff training, contributions to marketing costs and the payment of staff incentives. Rental transactions have a less favourable initial cash flow than sales, as some time elapses before the deposit and subsequent rental payments cover the cost of the equipment. The companies therefore seek extended credit terms from their suppliers. New suppliers sometimes have to make an initial payment to the rental companies to cover some of the initial costs such as training, marketing and purchasing a stock of spare parts.

9.161. Rental companies need to keep their equipment rented, and products returned from one renter after termination or upgrading are re-rented or sold. Rental companies have some discretion over whether a new renter is supplied with new or second-hand equipment and for this reason the volume of purchases can diverge from the volume of new rentals, at least in the short term. This can help the companies to manage their cash flow.

9.162. High street rental companies usually quote prices for both rental and purchase, so that consumers can in principle compare the total cost to them of purchasing (from whatever outlet), paying instalments under credit or mail order arrangements, and rental.

## **Trade associations**

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

9.164. RETRA told us that it acted as a lobby group and thus represented the interests of its members in discussions with the Government and the European Commission. It provided a clearing-house scheme to enable members to pay their monthly bills by sending just one cheque, saving bank charges. It published a

range of standard forms for hire purchase and rental agreements which complied with all legislation, arranged special terms with credit card processors, and offered a wide range of other services to its members.

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

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

## **Dealers in Northern Ireland**

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

9.168. Leonard told us that there was a small demand for UHF/VHF equipment to receive broadcasts from those parts of the Republic of Ireland where programmes were still transmitted on VHF. Leonard had therefore acquired some dual-frequency televisions from the Republic of Ireland since they could not be bought elsewhere. NICAM was now widely available although certain rural areas had yet to be covered. Since EU harmonization there was little difference in prices between Dublin and Belfast, and cross-border trade had almost ceased.

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

9.170. Among the larger multiples Dixons, Argos and Index have branches in Northern Ireland. Makro has one outlet in Belfast. NIE Retail Limited is the largest retailer with 33 branches. Comet withdrew from retailing in Northern Ireland in 1992.