

Rip-off Britain

Tales of inflated pricing for consumer goods bought in the UK are all too familiar, not least in the PC and technology arenas. Duncan Peberdy finds out how our US counterparts end up with better-value computing kit than we do

Newspaper articles and TV programmes such as *Watchdog* regularly investigate differences between the cost of identical goods in the UK and overseas. Whether compared with Europe, the Far East or the US, time after time Britain is portrayed as a 'rip-off' economy for consumers. Whether you are after a new camera, sports equipment or clothes, waiting until you go on holiday has always been a money saver.

So on the basis that where the US leads Britain follows, we thought that by specifically comparing the USA and UK computer markets we could discover how much cheaper America is and identify what lies ahead for the future of PC retailing in the UK.

ILLUSTRATION: SIMON PEMBERTON



Technology supermarket

The US market is many times the size of the UK and, naturally, consumers benefit from the huge economies of scale that are possible. This is helped by intense competition, not only from companies within the industry, but from outside, too – supermarkets have taken a competitive stance in the market. Similarly, there was a time in the UK when the likes of Tesco and Asda could undercut computer retailers on hardware prices. Prices were low because they only stocked a narrow range and sold them for lower margins than on the high street.

Among the cheapest prices we could find in North America were those at the supermarket chain Walmart (www.walmart.com) which, incidentally, now owns Asda in the UK. At \$399 (£285) the Microtel 1GHz Celeron-based PC is a basic entry-level machine: 128MB of SDRAM, 40GB hard drive, CD-ROM and modem. However, at this price neither a monitor nor an operating system is provided. Walmart's website states that this system would be ideal for those "that have already purchased a full version of

Windows that has never been installed, or if you have an alternative operating system, such as Linux".

But Walmart doesn't stop there; on the shelf alongside a full range of Microtel computers are top brands such as HP – all stocked instore together with a wide selection of printers, scanners, cameras and consumables.

Big league players

Across the United States three major retailers dominate the computer market. From its 219 superstores CompUSA (www.compusa.com) sells only computers and related products. In addition to retail customers, it focuses heavily on educational, corporate and government clients and many of its superstores contain classroom training facilities.

With 590 retail stores, Circuit City (www.circuitcity.com) has a much larger presence, offering the consumer a comprehensive range of home electronic products – TVs, audio, phones and so on.

Another serious player in the computer market is Office Depot (www.officedepot.com). Trading from 822

stores across the US, Office Depot also has an international presence and is known here in the UK as Viking Direct. Originally specialising in stationery products, in the USA it carries a large range of branded computer hardware.

Whole different attitude

Prices are lower in the US for a number of reasons. Firstly, instead of VAT at 17.5 percent, sales tax averages around six percent (some states, such as California, levy slightly higher at 10 percent while in Oregon and Arizona there is no sales tax). Tax is added at the till to the advertised price, so prices are not quite as attractive as they first appear.

Secondly, earlier adoption of the internet, not least helped by unlimited calls for a flat-rate monthly payment right from the outset, means that consumers are much more likely to compare and buy on price alone. Apart from in some rural areas, most Americans have access to ADSL (asymmetric digital subscriber line) and cable services, typically at a cost of around \$34 (£24.50) per month. Credit cards are also used more widely than in

Online operators

The internet has opened up a range of market approaches to US vendors; CompUSA and Circuit City are two suppliers that have chosen very different online sales methods. CompUSA offers now-traditional online discounts that are not available in its stores, while Circuit City encourages more integration between its website and stores. For example, you can place your order online and then drive to any branch to collect your purchase. This way the buyer can have the immediate experience of buying from their desktop and get their hands on their purchases just as quickly – all without incurring any exorbitant carriage charges.

Furthermore, Circuit City will refund the difference plus an extra 10 percent if the same product becomes available locally (not online) within the next 30 days – including any sale offers at its own stores. Circuit City also allows users to try any computer product at home for 14 days.

Returning products in this way – often for no other reason than a personal whim – is part of accepted customer service from US retailers. You can, for example, buy a printer, use it to print out your work and then return it for a full refund because you don't like the colour or the whirr of the motor. It is not in the American psyche to abuse this benefit and, all in all, the US computer market does give its customers a better service.

Interestingly, HP recently piloted a service in the UK allowing consumers to try any of its digital imaging products for 45 days and then return them for a full refund if they didn't want to keep them. The standard warranty for products is one

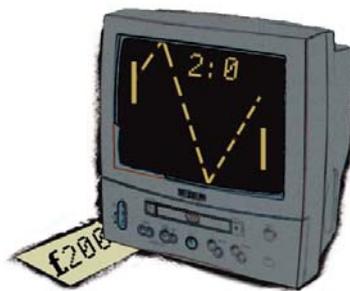
The screenshot shows the Circuit City website interface. At the top, there's a navigation bar with 'Weekly Ad', 'Rebates', and 'Store Locator'. A search bar is set to 'Electronics'. Below the navigation, there are tabs for 'Electronics', 'Games', 'Movies', and 'Music'. The main content area is titled 'Desktops' and shows 17 items in the category. It includes a 'Filter' section with dropdown menus for Processor Type, Processor Speed Range, Amount of RAM, Hard Drive capacity, CD-ROM or DVD, CD-RW Capability, and Brand Preference. Below the filters, there are sorting options: 'compare selected items', 'sorted by price', 'sort by brand', 'sort by rating', and 'sort by top sellers'. Two products are listed: 'eMachines eTower Desktop Computer' (Brand/Model: EMA T1140) priced at \$474.99 with a 'Click BUY for our price' button, and 'eMachines Desktop Computer' (Brand/Model: EMA T1150) priced at \$574.99 with a 'Click BUY for our price' button. Both listings include 'Free Shipping!' and 'Price is before \$50 combined mail-in rebate' information, along with a 'Customer Rating' bar.

↑ Circuit City has integrated its website and stores by allowing its customers to purchase a product online and then collect it from one of its stores

year, but the buck stops with the retailer; they won't fob you off to contact a third-party repair service for your monitor, but rather handle all the administration themselves.

Being able to return a product on a whim to a retailer must at some point be factored into the price, which is another

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the UK and there is no apprehension about using credit cards over the web. Not surprisingly, then, the internet has been embraced by consumers for all products as a way of searching out the best value-for-money purchases and has driven down prices and margins.

The bigger stores mentioned above have kept pace because rents and rates are lower than in the UK and because they

have fully embraced the internet to complement their high street services.

Practical parenting

Over the last six years a strong emphasis for the UK's major PC retailers has been on selling first-time buyers a bundled system – computer, printer, scanner, digital camera. Consumers with little appreciation of their needs were attracted by this

'one-price-for-everything' approach. But when consumers still looking for this solution started drying up in the UK a couple of years ago, companies such as Tiny were unable to change the emphasis of their business quickly enough to remain competitive.

The US experienced this change at least three years before the UK and the structure of retailing was forced to alter significantly. Second-time buyers know more precisely what they want in terms of both products and services and focus on improving specific parts of their system, rather than the whole package. It is not uncommon for a second-time buyer to spend as much on a replacement PC as they did on their first complete bundle.

The first companies to really cater for the knowledgeable consumer were the small independent retailers. Before the major manufacturers cottoned on to the fact that not everyone wanted a monitor, mouse and keyboard to go with their PC,

↑ Many PC suppliers now offer an online discount, and CompUSA is no exception. Purchasing some products from CompUSA's website will cost you less than buying the same product instore

reason why the internet continues to drive down prices. Unless a real fault exists, the online customer is unlikely to want to incur the carriage charge for sending back a product. Circuit City continues to build customer confidence in its online service by allowing customers to return any faulty product purchased online, directly to any of its stores.

these companies, known to Americans as Ma and Pa shops, assembled systems to the exact specifications their customers wanted. While prices remained high they were able to make a good profit from their specialisation but, after memory prices crashed along with massive reductions in the cost of every component, the profit achievable from such specialisation has dwindled.

In the USA there are still a few Ma and Pa shops that just about scratch out a living, but most have disappeared from the high street without a trace. Those that remain rely on the loyalty from older, established customers. The younger customers are all online.

Comfort factor

To take account of the growing market in the UK for second- and third-time buyers, online retailers such as Dabs.com and Jungle.com compete almost exclusively on price. Jungle.com would seem ideally

placed to benefit most from the business model of the US' Circuit City, by integrating its web activities with the retail presence of Argos, its parent company. According to Argos, 98 percent of the UK population lives within 10 miles of one of its 488 shops and superstores. What better experience could there be than to buy online and then pop down to your local Argos shop to collect your goods? Argos could act as the return/warranty channel, too, providing another comfort factor for Jungle.com's customers.

The down side is that this model would mean Argos holding a larger stock inventory at its individual stores.

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However, with its retail clout, manufacturers would do everything to assist them – after all, this is exactly the methodology that Circuit City has adopted to remain competitive and expand its business.

The smaller independent retailers that used to be in every North American neighbourhood built up their businesses on service. As well as supplying the PC, they would probably install it at the customers' home or business, configuring any printers or network settings. Many of these retailers are still in business, but have necessarily altered their business focus. Instead of selling products from retail premises, they now work out of cheaper office accommodation. Smaller businesses buying hardware direct from the internet, especially

↓ Jungle.com could benefit from integrating its web activities with Argos' high street retail presence

UK vs US: price comparison

Product	CompUSA (US)	Circuit City (US)	Office Depot (US)	Dabs.com (UK)	Jungle.com (UK)	Dixons (UK)	Amazon.co.uk (UK)
 Sony Vaio*	£1,060	N/A	£1,060	£1,245	£1,229	N/A	N/A
 Microsoft Office XP Standard upgrade	£174	N/A	£151	£183	£187	£199	N/A
 Palm M125	£152	£152	£151	£152	£146	N/A	£180
 Kodak DX4900	£303	£303	£306	£351	N/A	£399	£340
 Sony 64MB Memory Stick	£37	£37	£34	£42	£43	N/A	£45
 Sony PlayStation 2	£143	£143	N/A	£193	£195	£193	£229
 Microsoft Xbox	£143	£143	N/A	N/A	£195	£195	£229

* Sony Vaio FXA47 in USA and Vaio FX604 in UK. Prices include VAT but not US sales tax and are based on exchange rate of US\$1.4/£1. Prices correct as of May 2002

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those without their own IT specialist, need competent and qualified people to install and maintain their networks.

Personal trainers

Networking and education are two more signs of a mature market and yet further areas where the differences between the UK and US are easily visible. The US is big on training – indeed, one of the ways that an employer's quality is measured is by the number of employee training days it has per year.

The more IT training provided in the workplace, the more this benefits home computing by raising the whole level of competency. And in high schools the IT emphasis is not just on using applications, it heavily involves infrastructure and the internet, too. Under a partnership fronted by Cisco but also supported by Sun Microsystems and Adobe, among others, the Cisco Networking Academy Program teaches students from the age of 14 valuable internet technology skills including networking, web design, IT essentials, cabling, Java and Unix.

Wireless networking is at last beginning to make its mark in the UK corporate workplace and provides an affordable working solution to organisations with mobile workers. Being automatically connected to the network as soon as you turn on your notebook PC is far preferable to hunting down a spare wall

socket every time you visit head office. In the US, where a much larger percentage of homes have multiple PCs, Gateway is actively targeting the home market for wireless networking.

For a price of \$499 (£357) a Gateway engineer comes to your home or office, where they will supply and install wireless networking between two computers, including full configuration of file, printer and internet sharing of a broadband-only line. Wireless USB adapters add further computers to the network at a cost of \$109 (£78) each. Because both wireless home networking and broadband are still in their infancy here, these latest products have not yet been made available in the UK.

As internet reliance increases in the UK, smaller independent retailers will all but disappear, either going out of business or changing their role to a more service-based one. The significant reduction in prices experienced in the UK over the last few years means that the US is not quite the shoppers' paradise it once was. So, if you are off to the States in the near future, the table, *UK vs US: price comparison*, above, gives you an idea of product price differences with worldwide warranty arrangements.

Oh, and don't forget that purchases in the US totalling £136 or more should be declared to HM Customs and Excise as you enter the UK as they are liable to import duty. ■

