



SUBMISSION TO INQUIRY INTO IT PRICING

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As a consumer who purchases most of my IT hardware and software over the internet – both domestic and foreign suppliers, and have been doing so for the past 10 years, I am fully aware of the price discrepancies between Australian and foreign resellers. Also, being a relatively new resident, (6 years), to Australia I have been able to approach this with eyes not jaded by the general business propaganda pushed onto Australian consumers by manufacturers and resellers.

My take on the reasons for the relatively high price discrepancy between Australia and, for example, USA are:

- False arguments about transportation costs and volume. Yes, sales volumes are smaller than in the USA and yes, transport can be long, but in the overall supply chain transport is generally a very small part of the equation, especially given manufacturing is largely in SE Asia; closer to Australia than USA (or Europe). The same argument was used in my native Sweden to justify prices being substantially above continental Europe before Sweden joined the EU. Strangely, once Sweden joined EU, prices fell by 20% without resellers going bankrupt...
- Retail and distributor margins. In USA retailers and distributors generally make profits on volume. To make \$1000 gross they sell 10 of product X for \$100. In Australia they rather sell 4 of product X for \$250. Where distributors and resellers may work on 20-30% margins in the USA, they work on close to 100% (or more) in Australia. This is possible due to lack of competition and consumer protection in Australia. There is no incentive to sell volume in Australia and distributors and resellers have become complacent, resulting in inefficient operations not able to compete internationally. Isn't it strange that places like Myer & DJ's can have a "20% off all IT – except Apple" and obviously not sell at a loss?. Also, I would not be surprised if international companies use countries like Australia, where legislation and market conditions protect businesses' rather than consumers, to reap profits lost in highly competitive markets like the USA.
- In regard to consumer protection. In USA MSRP (Manufacturer's suggested retail price) is only a recommendation set by manufacturers or distributors. This is usually set high to allow even the smallest retailer to sell at this price and still make a profit. It is illegal to force anyone to price at MSRP. In practice this means street prices in USA are significantly lower than the RRP – Apple products being the sole exception. In Australia, on the other hand, the distributor sets a MSRP (manufacturers recommended retail price) which almost all resellers follow. Hence, every one (Harvey Norman, Myer, DJ's, Good Guys, Dick Smith, etc) have virtually the same listed prices for the same products. Nobody goes under the MSRP unless they have a special sale.
- Warranty service. Local distributors often claim their obligation to provide factory warranty is a cost driver. I would argue that Australia generally has the worst warranty service in existence. I buy IT hardware from the US or Hong Kong and get better warranty than here, where the trend is to make things as complicated as possible. Good resellers will, if you have a problem, provide international return freight (or even have an Australian repair agreement), so all you do is send it away, paid, and receive it back in return a few weeks later. In Australia first I have to transport my product to the reseller, wait in vain for someone to show interest in me, then get told I need to contact the distributor directly, who tells me to visit a repair shop in the other end of town, only open during working hours. I need to take time off work, hand it in there and then repeat the procedure upon repair completed. Better customer service and higher cost for the supplier? I say not!
- The most absurd price difference is on downloadable software. There is no reason for it to be higher in Australia than other countries. Add 10% GST yes, but 50% difference or more? There is no distribution cost, no warehouse cost, etc. It is pure price gauging.

To bring prices down there needs to be an incentive for competition. As long as distributors can “encourage” (you’ll never hear anyone admitting this) resellers to sell at MSRP, no parallel distribution is allowed, and no price regulation for downloadable software in place, then this practice will continue.

Given the structure of the Australian market, competition can only come from overseas. The large resellers are too complacent with the large distributors/manufacturers to change anything. JB-HIFI tried parallel importing for a while and then stopped. I don’t know the reason, but have my suspicions...

Historically, legislation in Australia protects businesses more than consumers. Business rights are always considered before consumers, not only for IT goods but everywhere – lack of food health labelling & the botched food price watch being the most notable example. Hence, global manufacturers, hardware and software, know they can ignore cries for lower prices in the wisdom Australian legislation protects this practice. Consumer cries for lower prices are therefore as effective as the federal treasurer’s pleas for banks to pass on rate cuts in full...

This has resulted (not only for IT, but in general – like hardware, whitegoods, building material, books, etc) in low competition, inefficient supply chains, bad customer service, and high prices. Self regulation will not solve the problem. A thorough shakeup is required – legislative if needed – ignoring business claims of job losses and other pathetic arguments. The world has changed and Australia can not ignore if it wants to be part of the global marketplace.

Leaving it to market forces will not change a thing, as there are no such forces in Australia.

Encourage parallel distribution until the Australian supply chain becomes more competitive, ban Australian distributors from not acknowledging international warranties (a common practice), and ban MSRP forced price setting. Penalise prices not justified, like downloadable software being more than GST higher than US prices.

If nothing is done, or recommendations buried in further investigations, this inquiry will be worthless in lowering IT prices in Australia.

Regards

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