

INFORMATION**C O N S U M E R S****THE EXPENSIVE AND INEXPENSIVE EEC COUNTRIES -
REASONS FOR MAJOR PRICE DIFFERENCES**

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Monsieur Dupont in Strasbourg finds it pretty hard to understand why - when both Germany and France are in the Common Market - he has to pay almost twice as much for the same vacuum cleaner as Herr Meier who lives only a few hundred yards away in the German border town Kehl. The fact is that despite the reduction of tariffs, the free trading in goods and services and the introduction of a uniform value-added tax system, prices for the same product still vary greatly between the individual EEC countries. There is, however, a tendency towards adjustment, since the supply of products, increased by the economic integration process, has made competition tougher. Nowadays, no businessman can autonomously pursue an arbitrary price and marketing policy in a national market.

However, consumer prices within the European Community have failed by far to reach that level of adjustment which one might reasonably have expected in view of the 14 years the EEC has been in existence. The European Community's Statistical Office is constantly recording price differences between the individual EEC nations for the same product or group of products, differences which are sometimes astonishing and hard to understand. The EEC authorities have long been trying to achieve identical production and marketing conditions throughout the Community with the help of an intensified competition policy, by doing away with technical obstacles to trade, by the assimilation of legislation and through their industrial and structural policies. The aim is that the 190 million consumers of the EEC - 260 million after 1 January, 1973 - should feel the benefits of European integration when doing their daily shopping.

However, all the measures taken so far by the Community have failed to do away with the price differences within the EEC area, some of which are quite enormous. It is not enough to take cognisance of these price differences and to hope for an increasing amount of mutual adjustment within the framework of the integration process. The fact that the first thorough investigation into the reasons for these price differences within the Community is now available is therefore particularly useful.

The EEC Commission commissioned the Gesellschaft für Konsum-, Markt- und Absatzforschung (GfK - Society for Consumer, Market and Marketing Research) in Nuremberg to look into the reasons for the differences between the prices of identical articles noted in 1968 in the six nations which make up the Community. The investigation covered 35 selected and precisely defined brand products put on the market by various leading manufacturers in the foodstuff, electrical household appliance, radio, tape recorder and photographic fields.

The aim of the study was not to make universally valid pronouncements regarding the consumer price level in the individual countries. Rather, it was concerned in the first place with pinning down the influence of the sales policies of entrepreneurs and the effects of trade structures on the final consumer prices of individual products. If only for reasons of expense the study had to be confined to specific groups of products. At the same time it was based on the idea that markets with varying structures and price-influencing factors should be considered. Foodstuffs, for example, were chosen because the degree of up-to-date-ness of the foodstuff retail trade varies greatly in the EEC countries. With photographic products varying price systems exist (fixed price or net price). Finally, a deliberate choice was made of products known for the relatively large differences in their final consumer prices.

In the course of the study, manufacturers, wholesalers, retailers and department stores in all member states were questioned about their price policies relating to the 35 brand products. Specifically, price formation was investigated in respect of nine industrial brand food-stuffs, eleven electrical household appliances, seven radios and tape recorders and eight photographic products. Since there had been no prior studies on the reasons for the price differences within the Community, this enquiry was the very first attempt to illuminate the problem by questioning all the economic parties involved (with the exception of the consumer). The study also covered the influence of the varying systems and rates of turnover, value-added and special excise taxes applying in the individual countries and the differences between them. It was based on selected brand products of international firms occupying a not unimportant market position. Main cause: price and marketing strategy of manufacturers The results of the questioning of manufacturers, wholesalers and retailers, which took more than a year and a half, show in general that the price differences noted in the six countries can be traced back mainly to the decisions taken by the manufacturers and only in part to variations in the level of profit margins and taxes. The manufacturers' selling prices exhibit considerable differences, varying according to country. These price differences are - in individual cases - substantially larger than the differences between final consumer prices. For example, differences in 1968 in the manufacturers' prices for the cameras selected amounted to some 40% (without taxes), while differences of only 24% were noted between the most expensive and the most inexpensive country with regard to the final consumer prices. Wholesalers in the most inexpensive country pay 67% less for cognac than those in the most expensive EEC country, while the final consumer prices for the drink show a divergence of only 46%. The differences in the prices of coffee grinders and colour reversal films are also greater at the manufacturing level than at the consumer level. The consumer prices for washing machines, radios and tape recorders, on the other hand, show a far greater divergence than the wholesale prices.

The GfK's study permits the well-founded conclusion that manufacturers pursue a specific price policy for each individual EEC nation, adapting their prices to the market and competitive conditions which happen to obtain there. The varying market conditions in the individual member states permit manufacturers, or oblige them, to set their prices at various levels. That the manufacturers' price policies are often highly arbitrary and not necessarily the consequences of economic conditions can be judged from the fact that in many cases prices in the country of origin are not particularly favourable nor are they particularly unfavourable in countries which do not produce such a product themselves. However, one must also bear in mind that the following factors play a major part in the setting of prices by manufacturers: the supply and demand structure, the market potential, market position and share in the market of individual sellers and products, the intensity of competition, price level, price flexibility, price system, the degree of organisation and efficiency of commerce.

Photographic products most inexpensive in Germany and Holland

Looking now at the four groups of products which were studied, we see that the price variations for photographic products are to be ascribed above all to the varying price policies of the manufacturers. The distribution set up in the individual countries is another factor, though a less important one. The net wholesale purchase prices of cameras are lowest in Germany and the Netherlands. Both countries also have the lowest final sales prices, although they have the highest profit margins - as regards both the wholesale and retail trades. The prices paid to the manufacturers by the distributors for films are also relatively low in both countries, the total profit margins are again the highest, while the consumer prices are on a medium level. In 1968, the system of price fixing dominated in the photographic products field in the Federal Republic and the Netherlands, while the net or recommended price system was applied in the other EEC nations. In these four countries the purchase prices paid by the distributors and the consumer prices were relatively high despite small profit margins. This is true, in particular, of Italy and France (with the exception of colour reversal films in Belgium and roll films in France).

The differences in final sales prices between the most inexpensive and the most expensive EEC country amount to 23.7% as regards photographic articles and 46.4% as regards films (24.5% for roll films and 52.5% for colour reversal films). In other words, the photography enthusiast buys his camera most cheaply in Germany, his roll film in France and his reversal film in Belgium. Photography costs most in Italy or in France (for colour reversal films).

What reasons can be discerned behind these surprising facts? The first thing that sticks out is that in the most expensive countries, Italy and France, the net price system predominates, i.e. the consumer prices are neither fixed nor recommended by the manufacturer. In the "inexpensive" countries, the Netherlands and the Federal Republic, the price fixing system dominates. In these two countries the overall profit margins may be unequivocally the highest, but the consumer prices are relatively low. The reverse is true of France and Italy, where despite low profit margins the consumer prices are very high. The net retail profit margin on cameras in Italy is 19.57% and 30.5% in the Netherlands. Dutch distributors earn 39% on transparency films, while their Italian counterparts earn 18.65% - to name the two ends of the scale. The varying consumer prices are thus to be attributed exclusively neither to the price system nor to the customary profit margins but, rather, to the policies of the manufacturers combined with the structure of commerce. The purchase prices paid by distributors in France and Italy are clearly higher than those paid in Holland or Germany.

Questioning the manufacturers elicited the information that, as a rule, price differences are not fixed by the manufacturer in the country of origin, i.e. the manufacturer's foreign branches are supplied at uniform clearing prices. However, in fixing the prices at which he sells to the distributor, the manufacturer does take his lead from prevailing market conditions. The purchasing power of the consumer and the market volume obviously play a subordinate role. The decisive factors are the level of prices on the individual markets, the concentration of demand and the competition situation or the competition policies of the manufacturers. Manufacturers mostly give their foreign branches a pretty free hand in fixing the prices at which they sell to the distributor. Cost conditions also are a factor, though not a very important one.

As regards the tax burden on photographic articles, countries with low turnover taxes have comparatively low consumer prices. Above all, it is the structure of the wholesale and retail trade which enable manufacturers to demand varying prices: a strong, consolidated, specialised distribution setup (e.g. in the FRG and Holland) can obtain favourable purchase prices from the manufacturer and offer favourable consumer prices despite high markups. In a weak, disunited distributing setup (in Italy, for example) we observe high purchase prices, small profit margins and, in spite of that, high consumer prices. In addition, there is a tendency to imitate price leaders in conditions where competition is relatively weak because of the small number of sellers.

Up-to-date trading structure forces down food prices

Price differences in the foodstuff sector are attributable mainly to the varying degrees of concentration and up-to-date-ness of the food trading setup in the individual countries. This makes it possible for manufacturers to demand divergent purchase prices. In Italy, for example, there was one self-service grocer per 68,000 inhabitants in 1968, one per 700 in the Federal Republic, one per 1,400 in the Netherlands, one per 2,700 in France and one per 3,700 in Belgium.

Much also depends on the extent to which the retail trade is organised. In the Federal Republic, for example, more than 85% of all retailers are organised, while this is true of only 10% in Italy. In the Federal Republic there are 350 people to each grocer's shop, while there are only 105 in Italy. These figures make it plain that the food retailing business is relatively up-to-date and concentrated in Germany and the Netherlands, while it is highly disunited in Italy and might be described as backward.

Large-scale distributors generally mean low sales prices since big distributors are able to buy at more favourable prices. The average total profit margin is highest in Germany and the Netherlands and lowest in Italy. On the other hand, consumer prices are lowest in the Netherlands and highest in Italy. The average differences in the prices

of foodstuffs within the Community amount to 50.9% as regards consumer prices and 99% as regards the net purchase prices paid by distributors. Italy has the lowest total profit margin (18.62%), while German food retailers have the highest (30.84%). Variations in the price of instant coffee amount to as much as 117%.

Here again we see that the countries of origin are not the cheapest and the countries with the biggest markups do not have the highest prices. The Netherlands, the country with the most favourable food prices, also has the lowest wholesale purchase prices, while the situation in Italy is the reverse of that. This leads to the following conclusions:

- a) the more up-to-date and efficient the distribution setup, the lower are the prices despite relatively large markups;
- b) the stronger the market position of the distributors (degree of concentration), the more favourable are the prices at which they buy from the producers and the higher are their profit margins, while consumer prices remain relatively low.

All in all, it may be stated that in this field as well varying manufacturer's prices are largely responsible for the variations in consumer prices. Differences in profit margins and taxes naturally exert a certain influence. But this does nothing to change the conclusion that countries with low manufacturer's prices also have low consumer prices. And, as far as the price system is concerned, fixed prices are not identical with high or low consumer prices.

In the radio and tape recorder sector the Federal Republic of Germany has both the lowest wholesale purchase prices and the lowest consumer prices. The second most favourable country for wireless sets is the Netherlands. By far and away the most expensive country for all seven products included in the study is France. However, unlike the prices for foodstuffs and photographic products, the differences between the wholesale purchase prices and the consumer prices are far smaller in the radio and tape recorder field. Italian wholesalers, for example, pay 41.4% more than German wholesalers for radios, while retail prices east of the Rhine are 79% cheaper than west of that river. The consumer prices for tape recorders vary by 56% between the Federal Republic and France.

An unorganised distribution setup is to the consumer's disadvantage

The main cause for these variations in price, apart from the varying prices demanded by the manufacturers, is the difference in structure between the distribution setups in the six EEC countries (degree of concentration, distribution channels, customer services). These have a substantial influence on distribution costs and profit margins, and increase the price differences for which the producers are responsible by an average of 30 to 35%. Profit margins differ in fact widely. Italy exhibits the smallest profit margins (20-21% net total profit margin), while traders in Luxembourg and the Netherlands collect a total markup of 33-41%. In Germany, the total profit margin is also relatively small. This, and the low wholesale and consumer prices, reflect the high degree of rationalisation and the intense competition in German radio and record player retailing. The small profit margins in Italy, on the other hand, are attributable mainly to the unorganised state of the distribution trade. Of the three major reasons for price differences within the EEC for radios and tape recorders - the competition policies of the manufacturers, the structure of the distribution setup, and the tax burden - the greatest importance must be attached to the varying efficiency of the distributors.

Large price differences for electrical appliances

The electrical household appliance market is characterised above all by varying degrees of satiation and by unequal market conditions for individual groups of products in the various EEC countries, as well as by varying degrees of efficiency in the individual distribution setups. As far as household appliances such as vacuum cleaners, refrigerators and washing machines are concerned, the differences in price can, substantially, be explained as resulting from the extent to which the market is sated. Where the market is glutted a trend towards low prices can be observed, and vice versa. But here too - above all in Germany and the Netherlands - powerful distributors are able to obtain favourable purchase prices from the manufacturers. The consumer prices are also influenced by the greatly varying net total profit margins (low in Italy, medium in Belgium, Germany and Luxembourg, high in France and the Netherlands) and also by the varying taxation levels.

Final consumer prices in this group of products vary on average by 51%. The most inexpensive country is Germany, the most expensive France. The price difference between these two countries in respect of vacuum cleaners amounts to 95%, while the difference in the price of washing machines between the Netherlands and France is 52%. At the wholesale level the price differences between the most expensive and the least expensive countries are not so large, though they are also between 44 and 57%. The various markups also differ considerably; the net retail markup on washing machines in Italy, for example, is 9.15% and 24.25% in the Netherlands. The difference between the purchase prices paid by wholesalers and the final consumer price is lowest in the Federal Republic and Italy and highest in France and the Netherlands.

In view of the current discussion on the abolition of technical obstacles to trade within the European Community, it is interesting to note that the polling of manufacturers revealed that the varying legal safety stipulations have no influence on price formation in the individual countries in respect of any group of products.

Still a long way from uniform consumer prices

One thing was clearly shown by this price analysis: hopes on the part of consumers in the EEC countries that they will soon be able to buy perishable and durable consumer goods throughout the Community at equally favourable prices and on equally favourable conditions are not likely to be fulfilled in the near future. For this study comes to a conclusion which is not likely to cheer up the consumer, namely that the tendency towards varying prices will persist, as long as the considerable structural differences in the distribution systems and in competitive conditions remain and as long as price levels are determined by the manufacturers. At any rate, these conclusions are likely to influence the future industrial, competitive, regional and structural policies of the European Communities.