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The DVD wars

Reporter: Helen Wellings
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Over the years, Today Tonight's reported on Coles' and Woolworths' rapid inroads into various industries - liquor, petrol, car servicing, health products, electronics, telecommunications, poker machines, and hardware.

Now the big two seem to be setting their sights on the DVD industry with pre-Christmas offers of videos buys for as low as \$5, the cost of renting. It could spell doom for thousands of video store owners and begs the question: are the discounts legal?

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The challenge for the industry's survival has well and truly begun, with the supermarket giants furiously discounting blockbuster movies, selling them for a fraction of their recommended retail price to shoppers who spend \$100 on groceries.

Keran Wicks, Managing Director of Network Video, says the supermarket price of \$5 to \$10 is 83% below the wholesale price of \$29. That's the price the DVD stores have to pay for the movie, making it impossible to match the supermarkets' low prices.

"They can average it across \$10, \$20, \$30, \$40, \$100 dollars worth of groceries, and happily lose the \$20 that they're losing out of Harry Potter, because it's advertised across the cost of all of the things," Keran said.

"It's absolutely a loss leader... because the cost that they're losing has been absorbed somewhere else, and you're eventually paying for it, which was the big thing about the 4c off a gallon/a litre of petrol."

"Leave our category alone. Stop using DVDs just to drive a trolley load of goods to sell jocks and socks. Just sell jocks and socks."

Professor Frank Zumbo, Australian School of Business, University of NSW, says the Australian Competition and Consumer Commission should be investigating whether any discounting is below cost, and for what purpose.

"If Coles and Woolworths are selling below their cost, for example, if Woolworths are buying a DVD for \$10 and selling it for \$5, that would be below cost and that would raise questions under our competition laws," Professor Zumbo said.

"Coles and Woolworths just want to control everything, DVDs are just a subset of that, they're getting into hardware, they want to get into other areas... they want to be the last two standing and they just want to then be able to push up prices at will."

"The real concern with these promotions is that Coles and Woolworths may be engaging in predatory pricing to destroy the competition. Predatory pricing refers to a situation where a large company sells below their costs for a sustained period of time with the intention of driving out competitors."

Paul Uniacke, Director of Franchise Entertainment Group, says Coles and Woolworths are creating a negative perception of mum and dad video store owners by offering discounted DVD titles.

"If you can buy it for \$5, the perception is that your mum and dad video store is simply having a go at you by renting it to you for \$6. That is not the case. We are still paying \$29 for our DVDs and we are not having a go at mum and dad by renting it at \$6."

"For Coles to sell ICE AGE at \$10 they need to sell \$550 worth of



DVDs and the big two

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groceries. Just to break even. The only way I can see Coles and Woolworths making a profit on this, is by selling groceries, fruit and vegetables at a higher price. Consumers are subsidizing the loss on the DVDs in their grocery basket."

"The DVD industry is just next in a long line of what the duopoly of Coles and Woolworths are looking to take number 1 market share in today. They want to knock you off? They want to take us out."

"Coles and WW need to consider very carefully the DVD mum and dad rental industry that they happen to be taking on now, bastardising our product in the marketplace at \$5 and \$10. We will not sit still and watch you run over the top of us."

In the UK Tesco, Asda and Woolworths ran similar DVD discounts campaigns there 4 years ago. The majority of the rental stores, stocking tens of thousands of DVDs, were been driven out of the marketplace. In the hands of the big supermarkets, the prices have shot up and the range of videos has shrunk.

Coles and Woolworths insist their DVD specials offer great value for loyal customers. Woolworths says the offers are simply short term promotions in response to industry competition.

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