

The burgeoning low-end PC market is the **latest arena for competitive retail giants** — and now Tesco has jumped in. George Cole talks to PC World marketing director, Nicholas Cadbury, and Tesco product development manager, Ian Sinclair, about retailing and off-the-shelf PC prices.

Checking out the cheap end

LAST SUMMER, SUPERMARKET GIANT, **TESCO, ENTERED THE HOME PC MARKET.** Following sales trials of Siemens-Nixdorf PCs at its store in New Malden (where customers could buy one for £679) Tesco began selling higher-priced and higher-specified Siemens-Nixdorf PCs at its stores in Banbury, Gloucester, Brookfield, Brent Park and Twickenham, and is now selling Fujitsu PCs. It is no coincidence that Siemens-Nixdorf supplies Tesco's back-office system, and Fujitsu, the company's mainframes.

Lower-priced PCs are not new but whereas these have tended to be obsolete or end-of-line products, Tesco's machines offer a good specification, including a large hard drive, Pentium II processor, lots of memory and useful pre-installed software (see the panel on p126). Tesco also sells Lexmark printers in several stores, and is now even an ISP through its TescoNet service. Shortly after, the computer superstore PC World, which has 56 stores nationwide, announced two, new, lower-priced PCs at £599 and £699 — and neither were these low-end machines.

to have the right level of expertise in the store and so the assistants selling the PCs have been supplied by the vendors, Fujitsu or Siemens-Nixdorf. Our customers have spoken; by buying the PCs.

Nicholas Cadbury: We don't believe it is. The customer segment and the market is fairly wide and it is important to offer a choice of product. Customers are not just looking for a box, they're looking for solutions. There is a variety of PCs which can offer different things. We think price is important but so, too, is service — and we don't just mean the person selling you the product. The ongoing relationship is important, too. Our customers don't just visit us once and then go elsewhere. They come back time and again to upgrade their PC and buy add-ons, and that's where the specialist company comes in. They also want the after-sales support to come from the store that sold them the PC — not someone else.

Ian Sinclair: After-sales care is important to us, which is why we offer an assisted install service with the price of the Fujitsu, and this will be part of our future services. We also offer on-site

Vendors have seen the deals that are being offered in THE SUPERMARKETS IN EUROPE; they see enormous potential and we've been able to take advantage of this

repair. I think this is a big market and that there are a lot of people out there who don't have PCs, but do want to buy them. It's parents who want to get their kids on the internet or who see their children using computers at school.

There's room for everybody, it's all about offering more choice to consumers.

Is there enough competition in the PC retail sector?

Nicholas Cadbury: There's Dixons, Currys and PC World, but there are also others such as Tesco coming into the market. But the main competition we see is from the direct chains such as Time, Tiny, the Dells and Gateways. PC World doesn't just sell PCs to the home market, a fair chunk of our customers are from the SoHo [small office/home office] and SME [small to medium enterprise] sectors, and we don't think these people are going to other retailers.

We talked to Ian Sinclair, Tesco's product development manager for PCs and peripherals, and Nicholas Cadbury, PC World's marketing director, in a head-to-head interview. Many issues were covered, including whether UK PC prices were too high, whether software prices are likely to fall, and even what the PC of the future might look like.

Is a supermarket the ideal place to buy a PC?

Ian Sinclair: We believe it is. It's the simplicity of it — there's someone in-store to whom people can talk, the PC is at a good value price and it's a brand name. One of our criteria was that we had



photographs by Nick Dawe

Ian Sinclair: Customers have asked for our service. People have said they want to buy a PC at their local [Tesco] store. In New Malden, some people were buying six to 15 PCs for their small business. People come into our store, buy them and use them – and if they don't like them they can bring them back because Tesco offers a no-quibble guarantee.

Who are your target customers?

Ian Sinclair: We've only been doing this for five weeks, but from what I've seen, there seems to be three different types: those who are new to the PC market, people who have bought a PC before, and those from the smaller business sector who are buying systems for their office.

Nicolas Cadbury: We go across the board, from new entrants to SMEs. Dixons and Currys tend to cater for the new and the family PC while PC World caters for the slightly more experienced purchaser. SoHo and SME buyers are looking for more than just the purchase of a PC but also

getting it fixed into an office, upgrading software and so on.

Ian Sinclair: We're looking at how we can move this forward. We already sell printers in some of our stores and we believe that TescoNet offers one of the best ways of getting onto the internet. We may well extend our range of peripherals.

Is buying a PC the same as buying a fridge or a TV?

Nicolas Cadbury: I wish it were! It's getting closer in terms of price, which is good for the consumer, but a PC is a much more complex product. A fridge simply keeps your food cold but you can do so many things with a PC, from playing games to doing your business accounts. PCs need upgrading and feeding with consumables and peripherals. PCs are becoming more plug-and-play but the technology moves so fast that you need to be able to explain this to your customers.

Ian Sinclair: We sell TVs at Tesco, but not fridges. The key is to have a good post-sales package, with a telephone helpline, after-sales care and so on.

▲ **TESCO'S SINCLAIR BELIEVES IN THE SIMPLICITY OF BUYING A PC IN THE SUPERMARKET AS LONG AS THE RIGHT LEVEL OF ADVICE IS AVAILABLE FROM PROPERLY TRAINED STAFF**



▲ PC WORLD'S CADBURY SAYS IT'S IMPORTANT TO OFFER A CHOICE OF PRODUCTS, AS HIS CUSTOMERS ARE NOT JUST LOOKING FOR A BOX, THEY WANT A SOLUTION

Why have you launched PCs at these prices?

Ian Sinclair: We wanted to get a good value package. We didn't want to put PCs into Tesco stores at very high prices. A PC is not an impulse purchase, so we made sure our PC had a modem and used a Pentium II chip. We didn't go into PC World and see what price they were selling at. Neither did we carry out market surveys of high-street prices.

Nicolas Cadbury: Tesco has brought in a product at this price level, but at PC World we aim to be competitive across all levels. We've launched our Advent brand, which is aimed at the second-time buyer. The £599 and £699 PCs are

Prices are likely to come down, but the rate at which they do so will slow. **THERE WILL BE A £399 PC** but it won't do as much as one costing £599

part of our strategy. We saw a gap in the market for people who would like to own a PC but could not afford to buy one. PC prices have fallen throughout the world, so we can buy at a good price and sell at reasonable margins. The opportunity came to us — it wasn't a response to whatever Tesco was doing.

How can you afford to sell PCs with these specifications at these prices?

Nicolas Cadbury: It's a competitive marketplace and, because of the size of PC World, we have been able to get our product at competitive prices. *Ian Sinclair:* We've worked with our suppliers to get what Tesco feels are the right margins. We have the buying power, too. Vendors have seen the deals that are being offered in the supermarkets in Europe; they see enormous potential and we've been able to take advantage of this.

Are these PCs loss leaders?

Ian Sinclair: Tesco believes we are making reasonable margins, comparable to our other products. Our suppliers are making reasonable margins, too.

Nicolas Cadbury: PC World also makes reasonable margins. It doesn't mean we are making very large margins on a £1,200 PC, because there is a lot of competition from the direct marketers for higher-priced

PCs. So it's tough.

What effect will these lower-priced PCs have on the home market?

Nicolas Cadbury: We see it as a good thing. The home PC penetration in the UK is about 17 to 20 percent compared with about 28 percent for Germany, so there's a long way to go. These PCs will increase penetration and also give people an opportunity to buy a second PC for their home.

Ian Sinclair: This is going to get a lot more people into the market. PCs have got simpler thanks to Windows 98 and plug-and-play. It's getting easier to get onto the internet and the PC is becoming an everyday object.

Are UK home PCs over-priced compared with the US and other European countries?

Ian Sinclair: At Tesco, we have been told by Siemens-Nixdorf and Fujitsu that UK prices are more expensive than in Germany or France. A *Sunday Times* survey showed that the average UK price is £1,189, in France it's £1,093, and in Germany £922. Judging by these figures, I would have to say "yes".

Nicolas Cadbury: It depends on what you're measuring. All I can say is that our average prices are not as high as this, so someone must be over-

charging. You have to look at what you're getting. Germany is a more mature market, so users want a straight PC — are they getting a monitor with it?... and what's the VAT rate?... what's the exchange rate? There are a number of variables to consider. I'd say we're fairly well priced when compared with the US — you have to look at the total package.

Do you expect PC prices to get any lower?

Nicolas Cadbury: Prices are likely to come down, but the rate at which they do so will slow. There will be a £399 PC, but it won't do as much as one costing £599.

Ian Sinclair: You're going to reach a limit where they can't get any lower, but we're not there yet. The physical components inside a PC will be the limiting factor but, as I said earlier, I think there's scope for an even lower-priced PC.

Does buying a lower-priced PC mean sacrificing after-sales care?

Ian Sinclair: At Tesco, we offer a year's telephone support, while others offer only 30 days. We have a 1-year on-site repair service, and there's assisted install. We won't compromise our customer service. If we have to do more for our customers, then of course we'll do that. But it may mean that we need to offer these extra services as an option from which the customer can choose.

Nicolas Cadbury: After-sales care is a very important part of PC World's business. We have 200 people out on the road making repairs. Last year, our telephone helpline took 1.5 million calls. It's a 24-hour service. We achieve 4,000 visits each week. So, the answer is that you don't have to sacrifice support at these prices.

Are we likely to see software being sold at lower prices?

Ian Sinclair: We already sells budget software...

But what about top-end packages like Microsoft Office?

...At Tesco, we are looking at this but at the moment we have no plans for that. But if that's something our customers want we'll see what we can do about it.

Nicolas Cadbury: I don't see them falling, unless our suppliers are going to do something about it.



▲ STACK 'EM HIGH AND SELL 'EM CHEAP — £799 Fujitsu PCs ON SALE AT TESCO. JUST THINK OF ALL THOSE CLUB CARD POINTS!

The margins we make on software at PC World are reasonable and we can't see the prices getting any lower.

Should people expect to upgrade their PC every 18 months?

Nicolas Cadbury: It depends on what you want to do with it. You could buy a PC for five years and never have to upgrade it. If you buy a family PC, you may wish to do different things with it as the kids grow up, so you will eventually want to upgrade.

Ian Sinclair: It's about consumer choice. If people want to upgrade, they will. People are not throwing away PCs, they're ending up in the kid's room — or rather the other way round!

Will today's PCs still be around in the same format in a decade's time?

Nicolas Cadbury: The digital TV set-top box is coming and if there's a market for them, PC World will sell them. I think the basic PC format will still be around, we'll just do different things with them, like networking from home.

Ian Sinclair: There's a desire for knowledge. When people see what you can do with a PC, it will encourage them to buy one. Today, you can find out the best train times by going to the Railtrack website rather than ringing them up. This type of service will drive the market. My only concern about set-top boxes is that they will have to be simpler to use than a VCR!

TUCK 'EM IN YOUR TROLLEY

At Tesco:

Fujitsu T-Bird Price £799 (inc VAT).
266MHz Pentium II chip, 32Mb RAM,
4.3Gb hard disk, 24X CD-ROM drive,
56K modem, 15in monitor, sound card,
speakers, microphone, headphones.
Includes Windows 98, Microsoft Works

for Windows 95, and Microsoft Word
97 pre-installed.

At PC World:

Contessa 233 Price £599 (incl. VAT).
Includes 233MHz Pentium MMX
processor, 32Mb RAM, 2GB hard drive,

24X CD-ROM drive, sound card,
speakers, 14in monitor, Windows 98.
Advent K300+ Price £699 (inc VAT).
AMD 322MHz K6 processor, 32Mb
RAM, 3.2Gb hard drive, 32X CD-ROM,
33.6K modem, 15in monitor. Windows
98 and Lotus SmartSuite pre-installed.