



Submission to "Inquiry into IT pricing"

Submitter Information:

Damien Holley

Submitter background:

Owner/operator: Nuclear fruit salad
Former employee at EB Games
Freelance computer technician for over 10 years
Programmer for 15 years
Current small business owner in IT support troubleshooting et al.

Submission terms of reference replies:

A) Whether a difference in prices exists between IT hardware and software products, including computer games and consoles, e-books and music and videos sold in Australia over the internet or in retail outlets as compared to markets in the US, UK and economies in the Asia-Pacific.

Having checked multiple sites of retail gaming outlets in America the common price for an as yet unreleased game of high popularity seems to be about \$49 U.S (ie: batman Arkham city goty for Ps3) this game is estimated to retail for about \$119 on average in most gaming retail stores in Australia.

Russia has even lower average prices due to the high availability of pirated products at the retail level. (yet the independent games developers still manage to cover entire production costs with release in this one country [ie. Pc game: Amnesia])

Having worked at EB Games for 5 years and in running my own business and supplying software and hardware solutions in the IT industry, I occasionally have had opportunity to ask the distributors what they thought they were doing. Several explanations came over the years, the first was the dollar was too low vs the US (We were at around 80US cents), later when we got parity it was claimed that different advertising took up the cost, when informed that the same ads in the US were playing here the excuse changed to import taxes and the general cost of importing the games. (please see section C for a full breakdown of the costs of importing games)

Interestingly the RRP of console and PC games has risen quite a lot over the last 10 years in contradiction to the Australian dollar gaining ground on the US dollar (about 10 years ago the average retail price of a brand new game was around \$89.95)

The online platform, steam, is another example of price-fixing/gouging. Several games, including call of duty and other high end titles, initially displayed the price Americans paid for the game (\$49.95) a few days after the initial advertisement the price changed for those of us in Australia to a RRP of \$99.95, note the price was still in US dollars. Due to the nature of steam, the actual product delivered is usually the exact same as the overseas product (often downloaded by the user from the same internet location).

To use the above information in a real-world example, it's like one shop in one location, but depending on your country of origin a different price is charged when you walk in the door.

In summary there are marked differences between prices in Australia and other countries.

B) Establish what those differences are

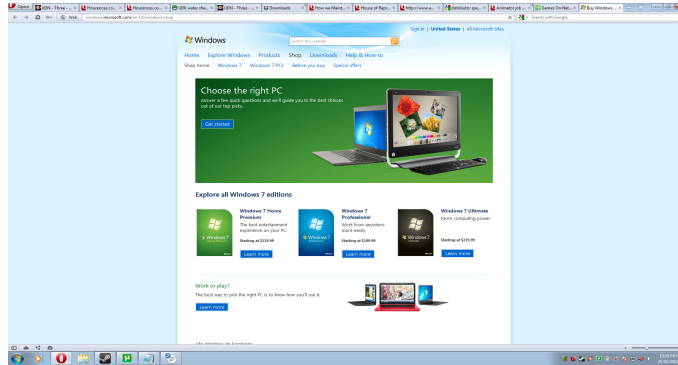
As established in A, there is a marked difference in retail prices in Australian outlets as opposed to overseas outlets. In my own personal experience running a business the wholesale prices are also far higher than our overseas counterparts.

Need for speed 2: Shift unleashed was released on Steam (digital distribution) on 29/3/2011 the current price in Australia is \$79.99 (USD), in America it is \$19.99 and in the UK it is £19.99

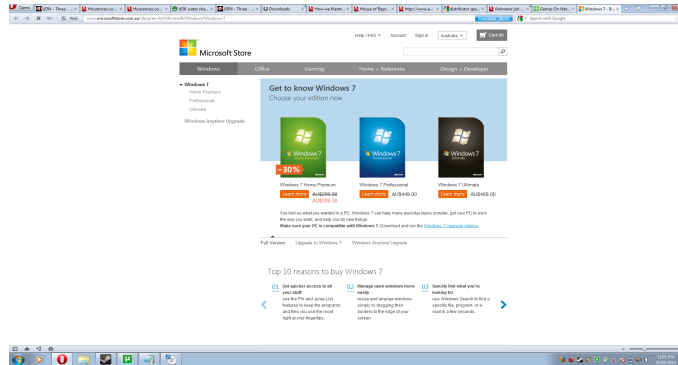
(please note that the pound is worth roughly about \$2 USD at the moment.)

For more of the examples please refer to <http://www.steamprices.com/au/topripoffs>

A classic example is Microsoft's pricing structure:
US windows 7 prices:



Australian windows 7 prices:



Prices are commonly enforced using region checking, a method that tries to stop users in other regions from importing for personal use or retail sale and thus restricting competition in violation of our consumer competition laws (see sony vs ACCC in 2002 for some region limiting), the same method is applied to DVD and blu-ray players.

In summary there are large differences in both recommended retail prices and wholesale prices for the same products as found in other countries.

C) Determine why those differences exist

As previously mentioned one of the most used excuses by distributors is the cost of importing the items, this is negated by digital distribution (such as the afore-mentioned steam platform) yet the difference remains, and other countries do not suffer the same difference in pricing. But lets examine the price structure of importing games to Australia. Please note that these prices are estimations based on current import duties and shipping costs etc.

The smallest shipping container any importer would use is a 20 footer which gives 33.2 cubic metres of space.

To ship a container this size from America would cost \$10,292 (AU \$)

Roughly 107,700 dvd sized cases would fit in such a container, but lets assume a larger cardboard box is used and will only fit about 22,585 units.

Thus your transport cost would be \$0.45 per item.

If we assume the importer is buying at FULL retail price of \$49.95 and assuming that \$1 AU= \$1 US, import duties may be worked out as follows:

$$\text{Duty} = \$2.4 \text{ (AU customs Duty)} + \$0.007 \text{ (insurance)}$$

$$\text{GST} = (\text{Duty} + \text{insurance} + \text{value}) * 0.10 \text{ [GST]} = (2.4 + 0.007 + 49.95) * 0.10 = \$5.24$$

$$\text{Total} = \text{Duty} + \text{GST} = \$7.647$$

If we add this import costing to our original price and the transport cost we get: \$58.047
As afore-mentioned this pricing (US) is what you would pay for a \$119 game in Australia.

This is an increase in equivalent retail price of about 51%

This is also assuming the smallest container is used, that full US retail price was paid for each item and that each item is larger than the average game case.

The accepted theory of the pricing at the moment is similar to the pricing structure of dvd's and movies in the world, in that the distributors have created these markets and try to keep them contained within themselves; they charge what people in those regions are willing to pay and try to thwart attempts to import for personal or retail purposes outside their own distribution channels, creating a closed loop with the distributor essentially setting the prices with little/no competition.

In summary the international distributors of these products are yet to reveal the specifics of why they sell at such a higher price for Australia. Previous excuses or reasons have repeatedly been debunked, until they reveal the why we cannot know for certain.

D) Establish what the impacts of these differences might be on Australian businesses, governments and households

This impacts various levels of the Australian economy:

1. Australian Businesses:

A major impact is felt within the IT community here, I have personally found it cheaper to buy from bulk importers from Asia for computer hardware, thus bypassing the Australian based distributors. Higher prices for the Australian retailer means more people will import for themselves, bypassing local retailers due to cost. This impacts heavily on the Australian economy as more money is sent overseas, thereby weakening our industry and economy.

2. Australian Governments:

Artificial restriction on where you can purchase an item for what price means less choice for the public, more profits and money going to another country which reduces our independence, weakens our economy and means that any infrastructure projects such as the NBN end up costing far more than would otherwise be the case.

3. Households:

Less ability to purchase high-end products, lower frequency of spending locally (due to inflated prices) makes the local economy less reliable and more subject to change, this in turn reduces the amount of local enterprise/business building. For an example of this in action see any rural town's economies and locally owned businesses before and after a chain supermarket opens for the first time.

I am no economist or econometrics student, as such the above is my opinion based on evidence I have assessed myself. But I imagine there are a multitude of impacts that I cannot predict.

E) Determine what actions might be taken to help address any differences that operate to the disadvantage to Australian consumers

Enforcing no region limiting on any products (unrated content is legal to import for personal use), especially software and dvd's/blu-ray etc.

Fine any company found to be 'racketeering' by creating a false market and enforcing anti-competitive practices such as refusing support for their own product, artificially limiting where a product and for what price a product can be sold and other such practices.

If you read this through, then thank you for your time, I hope this helps with the decision making process or just generally informs you.

Regards,
Damien Holley