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Lock-ins that aren't any fun

by Jack Schofield

Producers can afford to sell cheap mobiles, printers and games consoles because they charge a fortune for their associated 'consumables'

- 1 - Did you pay too little for your mobile phone? Why are games consoles sold at a loss? And isn't it strange that cheap printers don't cost much more than their ink cartridges? These are all examples of price manipulation in controlled markets, and it is curious that most governments show so little
5 - interest in them.

Of course, every consumer knows that a "free" mobile is not really free. The phone company will retrieve the full price of the phone from your pockets by overcharging you for the line rental and/or for making calls. It will certainly have calculated the average payback period, and if you make more
10 - calls than expected, or keep the phone longer than average, it will make very nice profits.

This approach only works if you have some sort of "lock-in". Network operators do not give away phones that can immediately be used on any network: there would be no guarantee of a payback. Consumers have a
15 - choice between network operators: they can choose company A's way of distorting the market, rather than company B or C's way of distorting the market, though actually these tend to be much the same.

Phones are not the only products that may be sold at less than obviously commercial prices. The traditional example is razors and razor blades, but in
20 - high-tech electronics, printers and games consoles also qualify. With printers, the lock-in is incompatibility, while the "consumables" are ink cartridges and, to a lesser extent, paper, rather than minutes of talk-time. The cheap printer is the bait. You pay for it in the long run, by paying over the odds for ink cartridges.

25 - Consoles are usually sold at the lowest possible prices and, at some times in most cases, at a loss. The profits come from the sale of games, so the most important number is what the industry calls the "attach rate": the number of games the average console owner buys.