EDITORIAL

DO MAP POLICIES WORK?

What a difference a year can make. Last year when we polled leading m.i. dealers about the value of minimum advertised price (MAP) policies, only 31% said they had a positive effect on gross margins. 60% responded that MAP had no effect at all on selling prices, while 9% said the programs actually decreased margins. When asked the same question this year, retailers expressed a major change of heart. 51% said that MAP policies had improved their gross margins during the past 12 months, and only 44% deemed the policies ineffectual.

This 20-point shift in opinion seems to reflect a number of factors that are subtly reshaping the m.i. market. Perhaps the biggest benefit of MAP policies has been to rid the internet of loss-leader pricing. All the MAP documents we have reviewed rely on a very broad definition of "advertising," including print, broadcast, direct mail, catalogs, websites, and just about everything else, short of a direct conversation between salesperson and customer. As a result, these days when you type the name of a popular product into a search engine, you'll get a screen full of results offering the same MAP regulated price. As our poll indicates, brick-and-mortar retailers obviously appreciate the fact that they don't have to deal with a legion of customers coming into the store brandishing a computer print out and demanding, "Why can't you beat this price?"

If MAP policies reduce the number of "free riders," those parasitic retailers who carry no inventory, offer no service, and thrive strictly by offering rock-bottom price, then they are obviously a benefit to the industry. However, we think MAP policies receive some undeserved credit for a slightly more sane approach to industry pricing. After a decade of steady contraction, retail margins appear to have stabilized, not due to any particular manufacturer policy but because of simple economic realities. The industry's retail network has come to the realization that if prices go much lower, everyone will go bust. Apparently, the notion that "we lose money on every sale, but we make up for it through volume," is finally being put to rest.

Independent retailers might be surprised to find that this heightened concern for margins and profits is most apparent at the major chains. After expanding MARS Music from $0 to over $300 million in the past five years, Mark Begelman said in *Music Trades* last month that his company's survival now depends on turning away from sales growth and focusing on generating profits. Early in July, Guitar Center announced that its quarterly profit would be approximately 10% under earlier projections. Wall Street reacted swiftly to the news, driving the share price down over 25% from $21 to just under $15 in a five day period. With outside investors clamoring loudly for profit growth, it's unlikely that MARS or Guitar Center will be relying on slash-and-burn pricing to gain competitive footing. Obviously, MAP policies aren't responsible for the pricing decisions that take place when major chains are scrambling to pick up a few margin points.

At a NAMM show a few years ago, a high-profile retailer delivered a stinging address, lamenting the fact that manufacturers sat by idly as price wars raged and retail profits plummeted. Over coffee after the session, he regaled a small group of his approving audience with the story of how he had used a manufacturer invoice and relentless bargaining to bludgeon an incredible price from some hapless car salesman. The irony of the situation was missed by all.

As our survey results indicate, MAP policies have cleaned up some of the "spoiler" pricing practices that understandably gave retailers fits. At the end of the day, however, as long as consumers are ingenious and determined to get the best price possible, there's only so much any manufacturer can do to prop up selling prices. However, it's just possible that the pursuit of profit growth at the major chains may signal a more stable pricing environment.

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