

Is Amazon.com A Freeloader?

Following Wal-Mart and Costco, Amazon.com is the latest mass merchant to start offering music products. As we detail on page 42 of this issue, Amazon's approach to music is not that of a traditional retailer. The internet seller doesn't own any inventory, make any merchandising decisions, or even fulfill any orders. Rather, it allows a group of m.i. retailers to present merchandise on the Amazon.com website. For this privilege, the retailers agree to remit an undisclosed commission to Amazon for products sold.

With this latest news, independent m.i. dealers are understandably feeling a bit under siege. Competing with all the dedicated m.i. outlets is tough enough without having to square off against the world's largest commercial enterprise and a mammoth internet merchant as well. For all the talk of how the mass merchants will expand the music market—and there is some evidence to suggest that they will—it's no fun to feel like you're in the crosshairs of a corporate behemoth.

Wal-Mart may be a bigger, more consequential enterprise than Amazon.com, but we feel that it poses far less of challenge to the music industry. Here's why: The Wal-Mart distribution system incorporates the most advanced technology and can rapidly move thousands of products from factories all over the world onto the shelves of 2,500 retail locations, at amazingly low cost. But there's a catch: The system works only for products that can be merchandised in sealed boxes. Scan the inventory in your store and ask yourself how much of it you could sell if it was stuck in a shrink-wrapped box that could be opened only after the customer took it home? As long as Wal-Mart is equipped to sell only instruments in sealed boxes, they are consigned to a relatively limited segment of the market. (And we're not sure that the company is anxious to overhaul its vaunted distribution network to better serve music, when our entire industry is equal to a mediocre weekend at the combined Sam's and Walmart.)

Amazon, however, is a different case. Although the company has warehouses across the country, one of the world's highest profile websites, and \$1 billion in inventory, founder Jeff Bezos says Amazon is a "facilitator," not a retailer. What he means is that the business exists to try and "facilitate" the lowest prices to consumers, either by selling out of its own warehouses or inciting a price war among other retailers who have a presence on the Amazon site. Either way, the company wins by gaining a website traffic from consumers in search of the best price. We have nothing against low prices (who does?) or hard-nosed competition. However, the idea of



Amazon pushing prices down on music products strikes us as both unfair and shortsighted.

Ten years ago there was a high-profile restraint of trade case that pitted a group of wallpaper manufacturers against retailers who were advertising heavily discounted wallpaper in the back pages of magazines like *House Beautiful*. Retailers argued that the law allowed

them to charge whatever they wanted. Manufacturers countered that lower prices robbed local merchants of the financial incentive to maintain a showroom well stocked with samples. The federal judge eventually ruled in favor of the manufacturers, reasoning that the discounters were "free riding" unfairly on the local dealer's investments in inventory and service. Customers would check out the samples at the local store and then call the discounter to order at the lower price.

Substitute guitar for wallpaper and the case sounds remarkably similar to what's going on with Amazon.com. If Amazon.com uses its auction status to effectively force down the price of music products, will local merchants, from Guitar Center on down, have the financial incentive to lay in large quantities of inventory and maintain a showroom? Most major m.i. manufacturers have already considered this issue, which is why they have not allowed participating retailers to include their products on the Amazon.com site.

As of press time, the Amazon.com music store had been operating for a little more than three weeks, so it has been relatively easy for suppliers to steer clear of it. However, as anyone in sales knows, it's hard to turn down a big order, especially if you have a quota to make, a bank loan to pay off, or you're faced with a temporary cash squeeze. If the Amazon "music store" is successful, at some point suppliers will be tempted to participate. It's up to retailers to make their objections known, to prevent a multi-billion dollar business from "free riding" on the efforts of independent local merchants. Don't be shy.

Brian T. Majeski

Editor

email: brian@musictrades.com