# We Have Met The Enemy And He Is Us!

At an industry gathering some years ago, a prominent retailer gave a rousing speech, calling suppliers to step up their enforcement of minimum advertised price policies (MAP). He argued that letting any MAP violations go unpunished was leading to "race-to-the-bottom" pricing that was making it financially impossible for retailers to maintain the inventory and service levels necessary to support a vibrant market for music products. The comments were well received by retailers in the audience and also garnered nods of approval from suppliers. Later that night at the bar, this champion of MAP regaled his colleagues with an account of how he used factory invoices, competing bids, and hard bargaining to bludgeon a deeply discounted price from a local car dealer. The irony of the car lot experience seemed lost on him, but it highlights the inevitable tension between consumer behavior and efforts to shore up selling prices. In short, it's hard to square retailers' want and need to maintain profits with the buying public's creative efforts to seek out the lowest price.

We retell this anecdote not to criticize MAP policies, or the retailers who request them, but to illustrate the problems these programs inevitably encounter. There's general agreement MAP is useful. If effectively presenting a product line requires retailers to invest in inventory and service, a limit on loss leader advertising can curb those who offer low prices by "free-riding" on the investments of others. Absent those constraints, a retailer's incentive to provide support to a given product line is diminished, manufacturer sales suffer, and customer service declines. It all makes sense in theory, but putting it into practice is another matter.

For starters, contrary to popular opinion, manufacturers don't establish selling prices; consumers do. If a manufacturer sets a high MAP price to provide retailers with a generous gross profit, consumers may opt for a competitive product, or forego the purchase altogether. Procter & Gamble, the company that practically invented consumer research, is on record saying that interviews, surveys, and focus groups are notoriously unreliable in determining optimal pricing levels. Consumers will honestly reveal whether they prefer the red one to the blue one, but when asked about how much they'd be willing to pay, their answers get fuzzy. Like P&G, there are a number of m.i. suppliers who only discovered they set prices too high after their sales went into a tailspin. And, last time we checked, maintaining retail margins isn't a top priority for the buying public.

With some frequency, retailers share with us their thoughts on how MAP violations should be policed (tremendous rigor is preferred), who should be terminated (anyone who has even the slightest pricing slip-up), and what an optimal distribution network would look like (one or two dealers per state, as long as I'm one of them). The commentary is typically thoughtful and well-reasoned. However, some of these critics can also be found selling products through an eBay or Amazon alias as "new in an opened box" to skirt MAP. We don't doubt their sincerity in advocating for a tough approach to distribution. But practical considerations have a way of trumping principle when faced with, say, an immediate need to convert inventory into cash or the opportunity to score a nice rebate by taking a few extra hard to move units. Suppliers face similar conflicts. The choice between terminating a serial MAP violator or missing budget isn't one that most sales managers relish . As the cartoon character Pogo famously noted, "We have met the enemy and he is us!"

Perhaps, the biggest challenge for MAP policies comes from the dramatic increase in the amount of available information. Once upon a time, and not too long ago, when buyers had no choice but to consult a retailer for product pricing and availability, the retailer and supplier could exert considerable control over the transaction, including setting a gross margin. Now that the pricing and availability data on virtually every product is readily available on a smartphone, control of the transaction has shifted from the retailer to the consumer. This leveling of the playing field, more than anything else, is changing the nature of retail and compressing selling margins.

How to build a viable business to serve increasingly empowered customers? Based on a review of the 200 largest m.i. retailers ranked in this issue, we would say there isn't a single answer, but there are numerous paths to success. Some of the retailers profiled include traditional full -ervice school music dealers, a specialist in vintage audio gear, and an online seller that transacts on Amazon and eBay. While they have differing takes on MAP policies, none predicate their business on a paragraph or two of legal language in their dealer agreements. This empowered consumer environment is the world we live in, and success requires adapting. Musical tastes have become so fragmented that it's impossible for any single business to serve every segment of the market. But with $7.0 billion in total sales, with or without some type of price protection, there remain a lot of areas of opportunity.

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