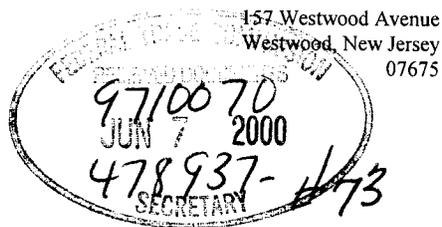


# Music Merchant Inc.

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June 06, 2000

Office of the Secretary  
FTC  
600 Pennsylvania Ave. NW  
Washington, DC 20850

Dear FTC Commissioners:

Robert Pitofsky, Chairman  
Shella S. Anthony  
Mozelle W. Thompson  
Orson Swindle  
Thomas B. Leary

As the owner of two music stores in downtown shopping areas and someone with over 30 years of experience in music retailing, I am very distressed after reading the FTC ruling on the music industry's MAP (Minimum Advertised Price) policy.

According to a chart printed in the Wall Street Journal, 27% of CD shoppers buy from mass merchandisers and 4% from the Internet, while 45% buy from full line record stores. Why would the FTC want to force the Entertainment Companies into helping the mass merchandisers jeopardize the financial health of the majority of music sellers?

I am at a loss in trying to understand the logic behind this ruling and some of the statements made by Chairman Pitofsky, because if you take a look at the numbers, there's not much more to achieve for the consumer. For example, the wholesale cost is \$11.81 for a \$17.98 list CD. The MAP price would be \$12.85. When sold, profit is a whopping \$1.04. Should the customer choose to use a charge card, deduct \$0.27 for the bank. Profit is now an outstanding \$0.77. Subtract the cost of a bag and the overhead of an employee, and that sale has lost money. Go under the MAP price, bigger losses, get the manufacture to pay for an ad to generate more sales, even larger losses.

Provoking price wars in the retail environment and squeezing the margin of profit of music retailers is not the answer for lower CD prices. Contrary to Chairman Pitofsky's spin, price wars in the music business started during the Ronald Reagan administration, which resulted in the loss of over 1000 independent record outlets and caused 11 national chains to file Chapter 11.

Perhaps it's time for Chairman Pitofsky and his committee members to come to grips with the reality of why prerecorded music has become so expensive. After all it was the Clinton administration that approved the merger between Universal and Polygram, which, either by design or gross miscalculation, resulted in soaring prices at the wholesale level to pay for the acquisition. Instead, the FTC decided to blame MAP policy for higher prices at the cash register and misled the consumer into thinking that they are being overcharged by any profit made by dealers. What a disgrace!

Should the committee finalize its ruling on MAP pricing, the end result would be going back to the era of what Democrats love to quote as the "failed policies of the Reagan/Bush administration," an era that spelled disaster for many music retailers. I sincerely hope that the committee will also take a long hard look at the effect the ruling will have on the 45% of retailers who sell only music, before it makes its final decision.

Sincerely,

  
John Schlapak  
President  
Music Merchant Inc.