M E M O R A N D U M

TO: Russ Bach

FROM: Dave Kronemyer

RE: Record Prices

DATE: October 11, 1991

You asked me to look into how the price of records has changed over time. My pricing files detail most price changes for most distributors from 1970. I compiled a data base setting forth changes by month to each distributor's lowest wholesale card price, at the then-predominant price point for front-line pop product.

- In the days of functional discounts, that price typically was a sub-distributor or "rack" price, though frequently it also was offered to dealers on a volume discount or "meet competition" basis. I transitioned over to box-lot prices when they came into effect.

- For a time, cassettes were charged at a higher price than LPs, in which case I used the LP price.

- I defined the predominant manufacturer's suggested retail list price ("MSRLP") as the price for which a majority of front-line pop records were sold. $4.98 was the predominant MSRLP in Winter 1970 when I began the analysis. While there may be some differences of interpretation, here is when I pegged subsequent shifts in the predominant MSRLP:

$5.98 -- Winter 1972
$6.98 -- Fall 1974
$7.98 -- Winter 1977
$8.98 -- Fall 1978
$9.98 -- Summer 1989

A typical indicator of a coming change in MSRLP is the release of motion picture soundtracks, Broadway shows, and super-star product at the next higher price point. With this in mind, I included $10.98 MSRLP as the last entry for September 1991.

It is important to note that the MSRLP is not the price for which records actually are sold to consumers. For example, during the relatively long run of the $8.98 MSRLP, customers accommodated themselves to shrinking variable margins by raising their actual selling price to $9.49. Recognizing this effect, several companies have abandoned the use of MSRLP altogether. CEMA does not establish a MSRLP for compact discs.

- Distributors frequently offer discount, dating, free goods, customer advertising, exemption from returns charges, and other programs as a way to stimulate sales. Because of their transient nature, I did not calculate their effect on wholesale prices, even though economically they function as an implicit price reduction.

- Distributors often extend de-facto price relief to their customers by improving the mix of titles available at lower price points. This analysis does not account for that effect.

Figure 1 depicts changes in lowest wholesale price at the predominant MSRLP for each of the six major distributors from 1970 through 1971. The amounts are expressed in nominal dollars. I then took each price change for each distributor and adjusted it for changes in the cost of living, using the implicit price deflators for gross national product published quarterly by the Bureau of Economic Analysis, U. S. Department of Commerce. The results are depicted in Figure 2.

Comparing Figure 1 with Figure 2 dramatically illustrates the relative decline in the real cost of records since 1970. This also is shown by Figure 3, which evaluates nominal MSRLP against its inflation-adjusted counterpart. Significantly, the MSRLP of a front-line pop record has declined from an inflation-adjusted high of <u>$17.98</u> in the mid-1970s to <u>$10.98</u> today.

I have compact disc pricing information available from January 1985, which is when they first were introduced. Figures 4 and 5 depict compact disc price changes in nominal and real dollars, respectively. After adjustment for inflation, compact disc wholesale prices have dropped by approx. 30% over the previous six years.

Finally, Figure 6 depicts the ratio of CEMA's lowest wholesale price to the predominant MSRLP since 1970. A typical standard for retail pricing is to multiply the actual cost price for which the merchandise is purchased by 1.42, and then round up to the nearest $.49 or $.99. Even without taking into account the effect of discounts, CEMA's ratio never has exceeded .58. Thus, our customers have had ample variable margin over the previous two decades with which to conduct their activities and operations.

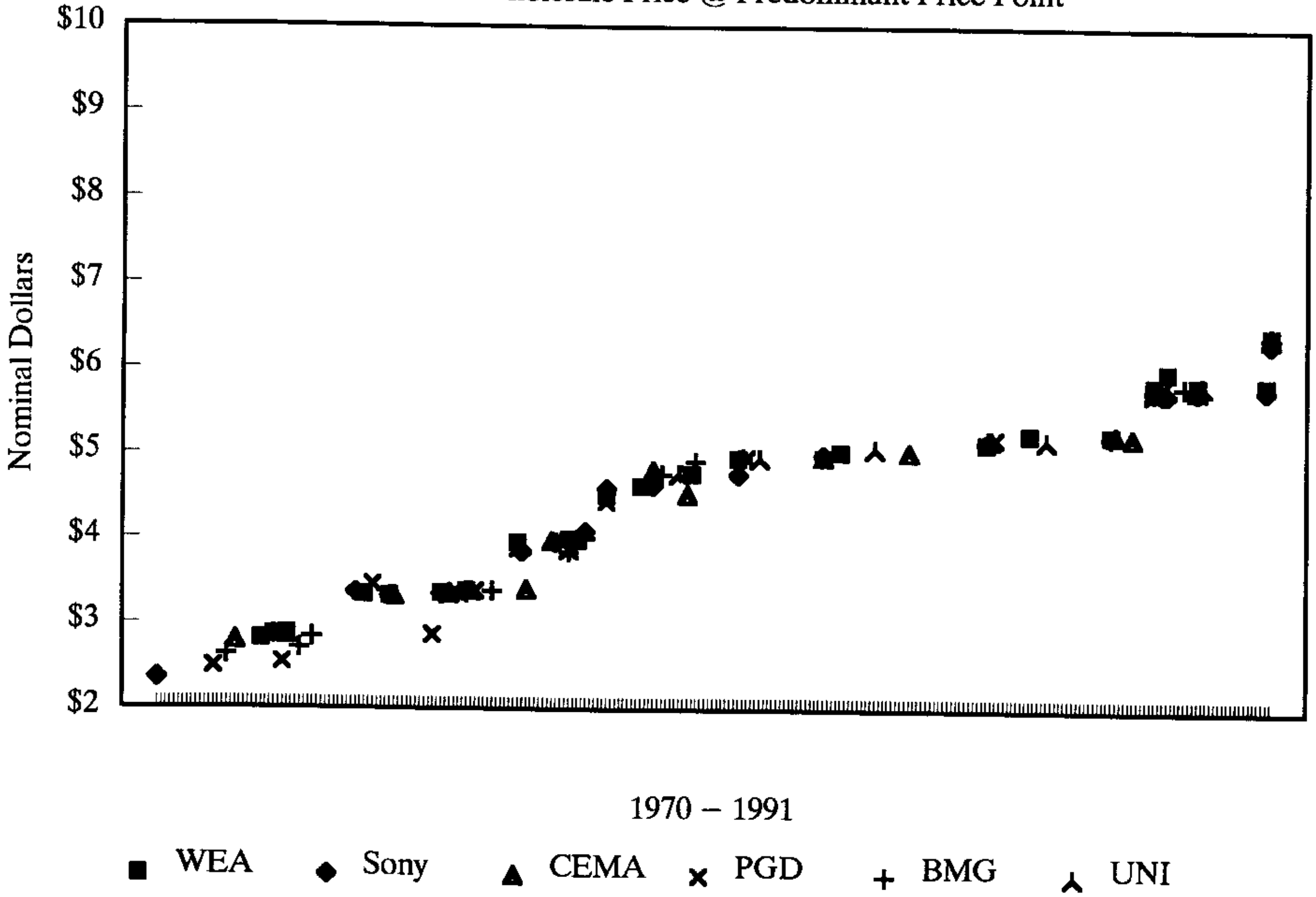
I welcome your comments or further questions. My data base is available for inspection, should you wish to examine particular price changes.

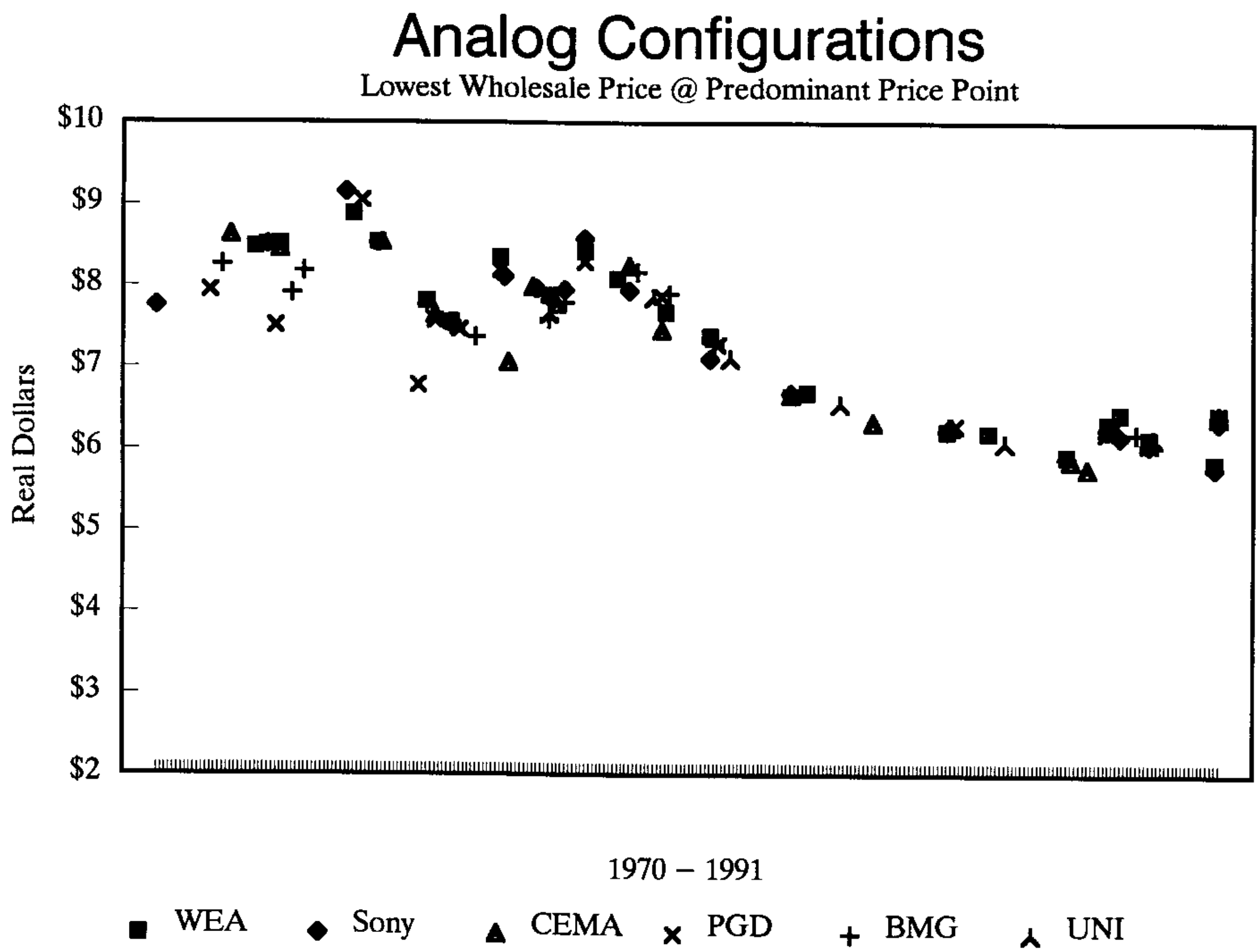
cc: Bleimeister
McFadden
Jackson
Reese

Jews

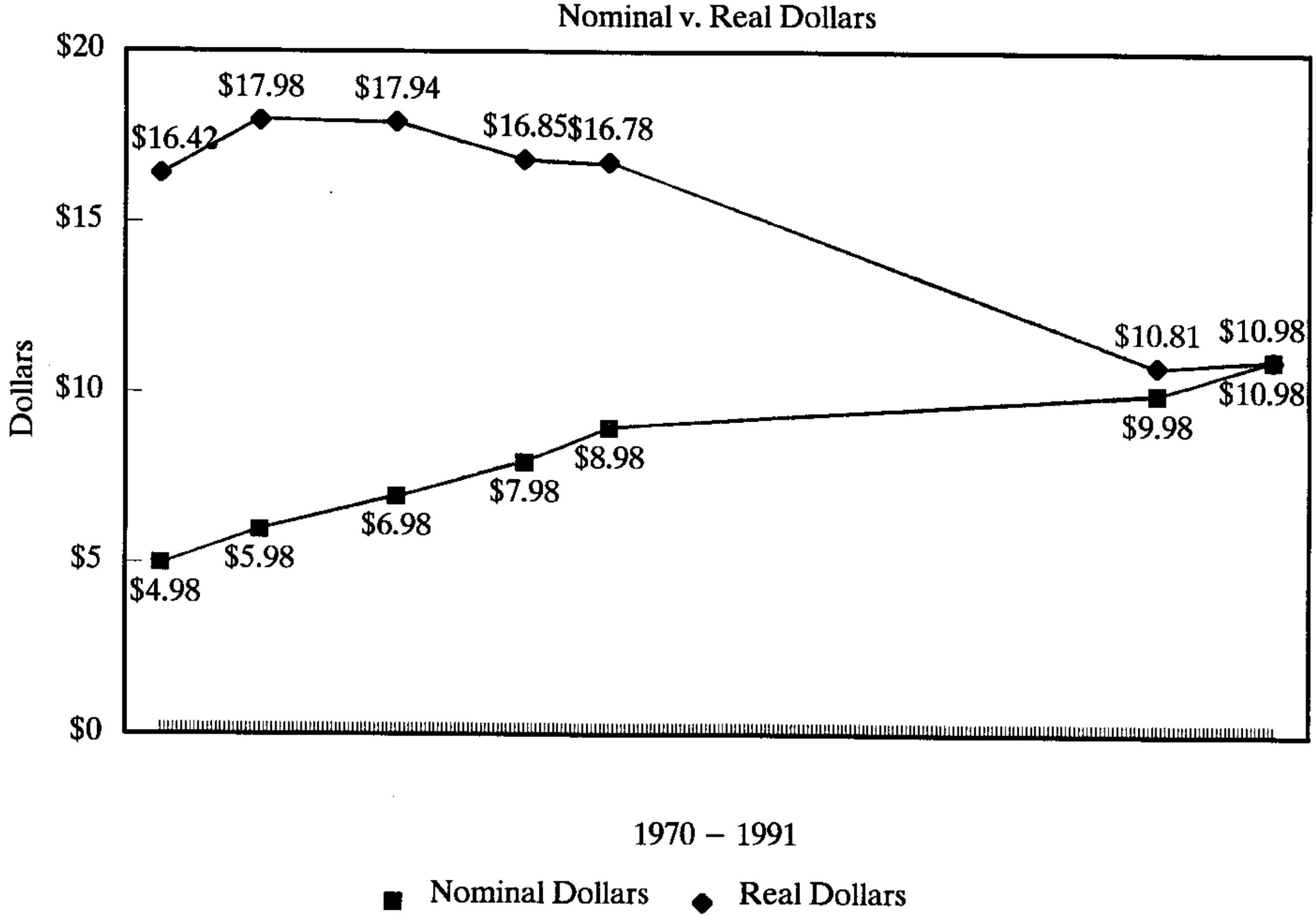
Analog Configurations

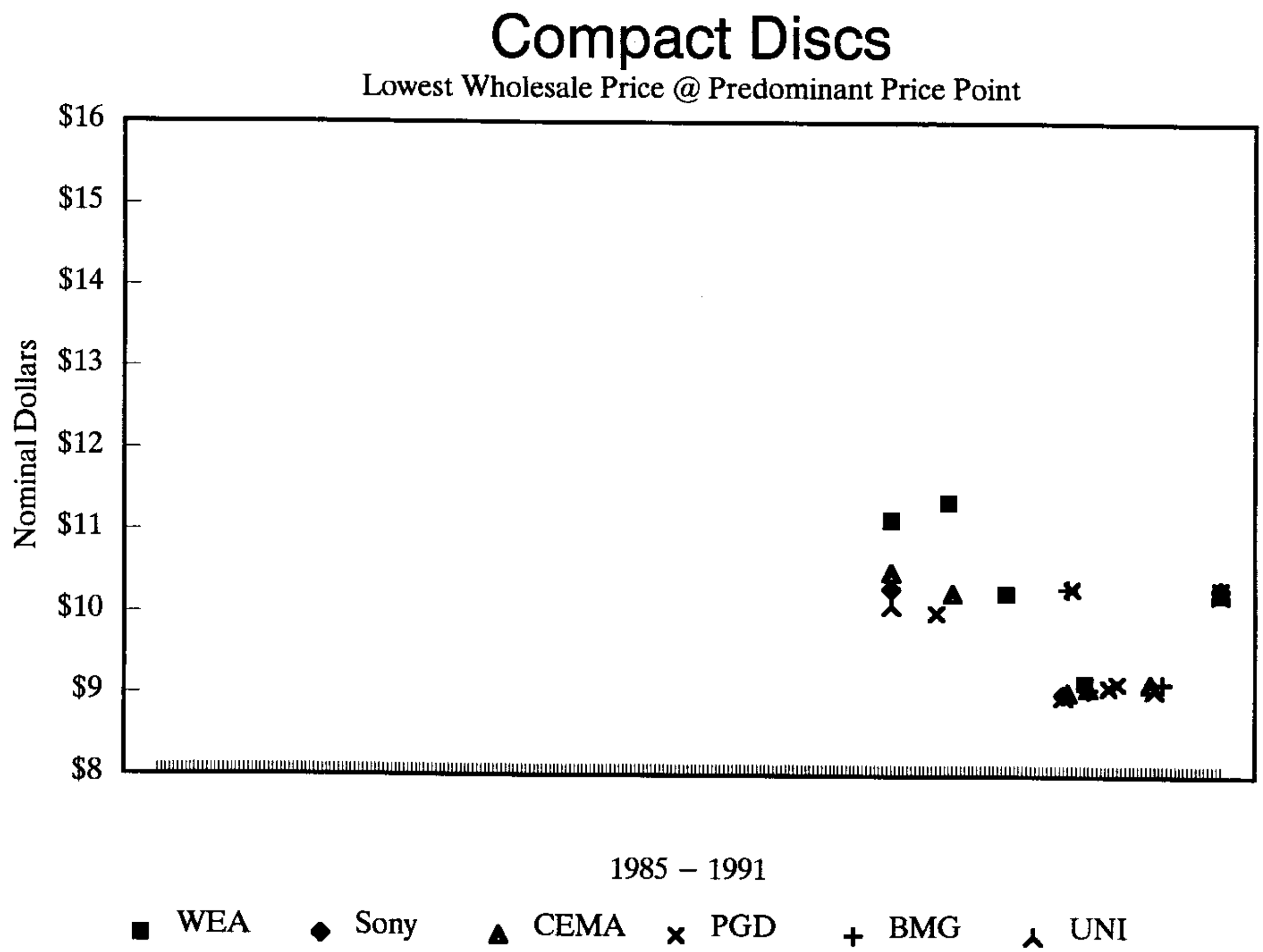
Lowest Wholesale Price @ Predominant Price Point

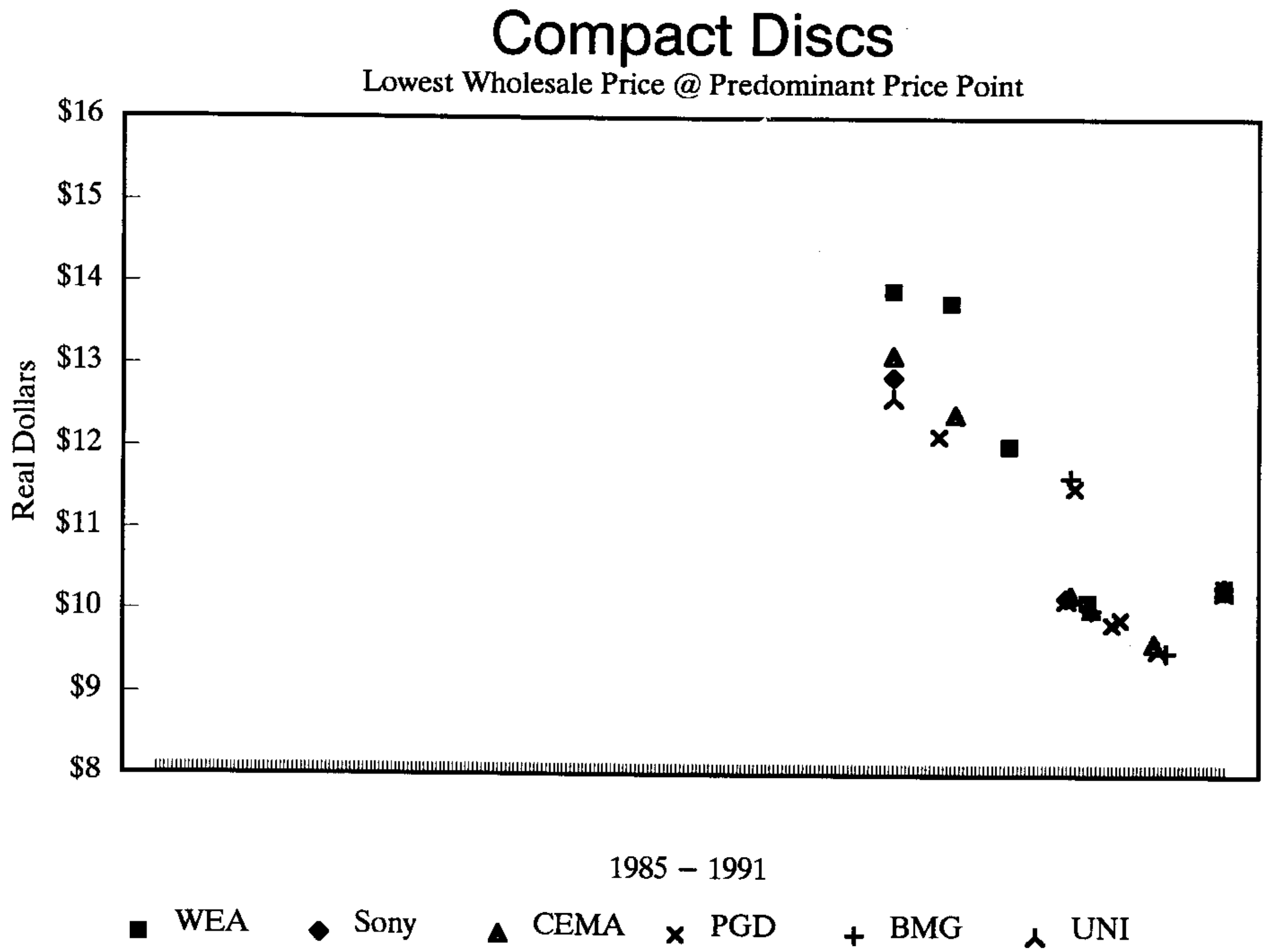



Analog Configurations
Lowest Wholesale Price @ Predominant Price Point
$10
$9
$8
$7
$6
$5
$4
$3
$2
Real Dollars
1970 – 1991
WEA
Sony
CEMA
PGD
BMG
UNI

Manufacturer's Suggested Retail List Price




Compact Discs
Lowest Wholesale Price @ Predominant Price Point
$16
$15
$14
$13
$12
$11
$10
$9
$8
Nominal Dollars
1985 – 1991
WEA
Sony
CEMA
PGD
BMG
UNI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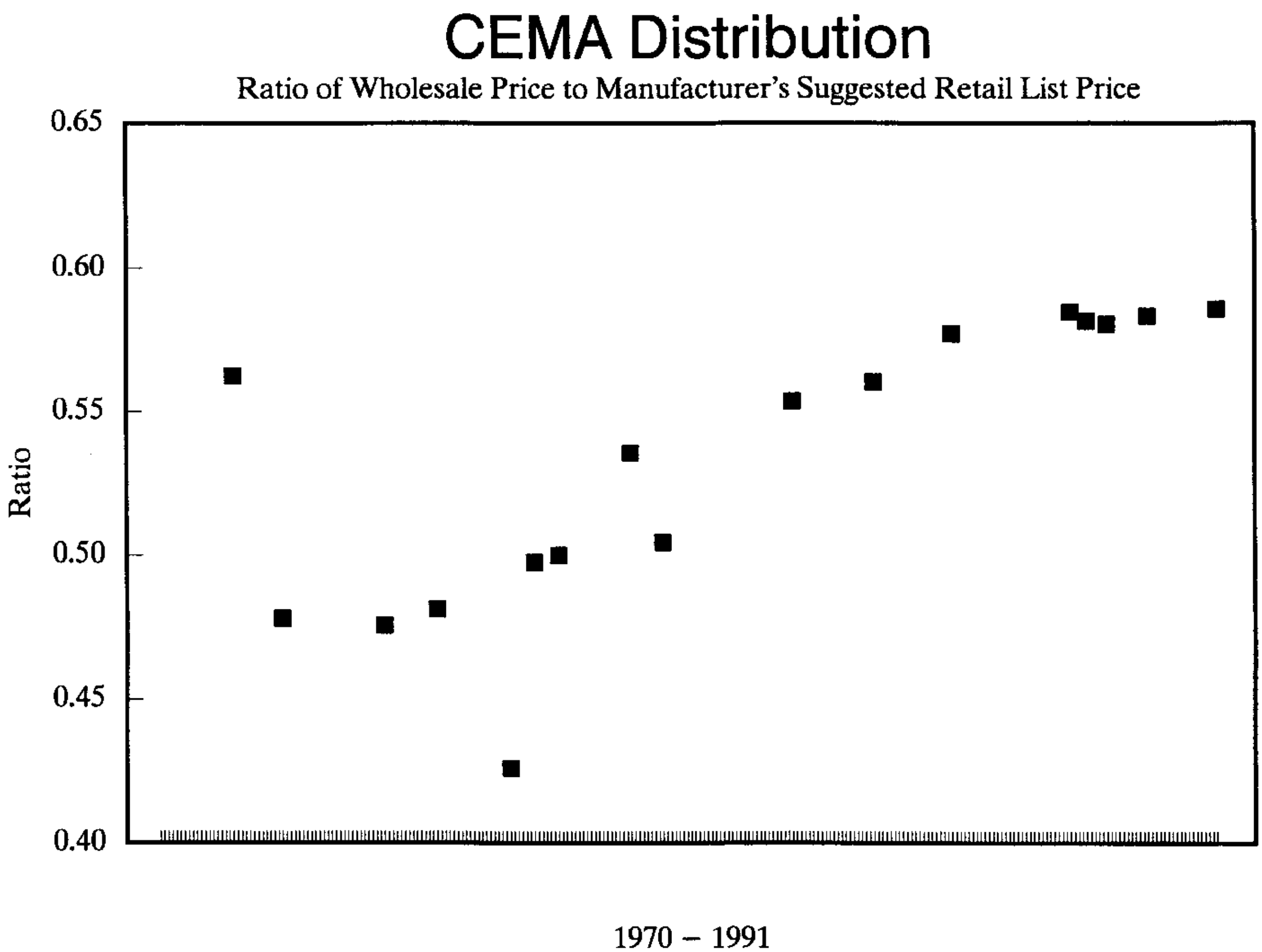
CEMA Distribution
Ratio of Wholesale Price to Manufacturer's Suggested Retail List Price
0.65
0.60
0.55
0.50
0.45
0.40
Ratio
1970 – 1991

"REAL" RECORD PRICES ARE AT AN ALL-TIME LOW

by Russ Bach

President, CEMA Distribution

There's been a lot of discussion lately about cassette and CD prices being "too high" and how this has resulted in a fall-off of consumer demand, particularly in a tough economic climate. Much of this is part of the usual give-and-take between customers and suppliers, with a healthy dose of encouragement from the media. The true fact of the matter, however, is that record prices now are a better value than they've ever been.

We discovered this after we looked into how the price of records has changed over time, both for customers and consumers. We compiled a data base setting forth changes by month to each major distributor's lowest wholesale card price, at the then-predominant price point for front-line pop product. We then examined the relationship between wholesale prices to customers and retail prices to consumers.

A. Wholesale Prices

Figure 1 depicts changes in lowest wholesale price at the predominant manufacturer's suggested retail list price ("MSRLP") for each of the six major distribution companies from 1970 through 1991. The amounts are expressed in nominal dollars.

We then took each price change for each distributor and adjusted it for changes in the cost of living, using the implicit price deflators for gross national product published quarterly by the Bureau of Economic Analysis, U. S. Department of Commerce. The results are depicted in Figure 2.

Comparing Figure 1 with Figure 2 dramatically illustrates the relative decline in the *real* cost of records since 1970. The average inflation-adjusted price to customers in mid-1973 was approximately $9.00. By late 1991, it had declined to $6.40 -- a drop of nearly 30%.

Figures 1 and 2 pertain only to analog carriers -- Lps and cassettes. Compact disc pricing information is available only since 1985, which is when they were introduced. Figures 3 and 4 depict compact disc price changes in nominal and real dollars, respectively. After adjustment for inflation, compact disc wholesale prices have dropped by approximately 30% over the previous six years.

B. <u>Retail Prices</u>

Figure 5 evaluates nominal MSRLP against its inflation-adjusted counterpart. Significantly, the MSRLP of a front-line pop record has *declined* from an inflation-adjusted high of *$17.98* in the mid-1970s to *$10.98* today -- a drop of nearly 40%. Few other consumer products can make this claim.

The ratio of wholesale price to MSRLP over this same time period has fluctuated between 43% to 58% (even without taking into account the effect of discounts). Thus, customers also have had ample variable margin over the previous two decades with which to conduct their activities and operations.

Recorded music products today offer not only a greater diversity of repertoire, but also greatly improved audio fidelity. What's been overlooked in this analysis is that they also now are better value than they've ever been.

<u>NOTES TO FIGURES</u>

1. In the days of functional discounts, the lowest wholesale card price typically was a sub-distributor or "rack" price, though frequently it also was offered to dealers on a volume discount or "meet competition" basis. Our analysis transitions over to box-lot prices when they came into effect.

2. For a time, cassettes were charged at a higher price than Lps, in which case we used the LP price.

3. We defined the predominant MSRLP as the price for which a majority of front-line pop records were sold. $4.98 was the predominant MSRLP in Winter 1970 when we began the analysis. While there may be some differences of interpretation, here is when we pegged subsequent shifts in the predominant MSRLP:

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It's important to note that the MSRLP is not the price for which records actually are sold to consumers. For example, during the relatively long run of the $8.98 MSRLP, customers accommodated themselves to shrinking variable margins by raising their actual selling price to $9.49. Recognizing this effect, several distribution companies have abandoned the use of MSRLP altogether.

4. Distributors frequently offer discount, dating, free goods, customer advertising, exemption from returns charges, and other programs as a way to stimulate sales. Because of their transient nature, we did not calculate their effect on wholesale prices, even though economically they function as an implicit price discount.

5. Distributors often extend *de facto* price relief to their customers by improving the mix of titles available at lower price points. This analysis does not account for that effect.

THESE ARE THE "NOMINAL"
OR NON-INFLATION-ADJUSTED
WHOLESALE CD PRICES

Date	MSRLP	WEA	CBS	CEMA	PGD	BMG	MCA
1-85	$15.98	$11.13	$10.29	$10.50			$10.09
2-85							
3-85							
4-85							
5-85							
6-85							
7-85							
8-85							
9-85							
10-85							
11-85							
12-85					$10.00		
1-86							
2-86							
3-86		$11.35					
4-86				$10.24			
5-86							
6-86							
7-86							
8-86							
9-86							
10-86							
11-86							
12-86							
1-87							
2-87							
3-87							
4-87							
5-87		$10.24					
6-87							
7-87							
8-87							
9-87							
10-87							
11-87							
12-87							
1-88							
2-88							
3-88							
4-88							
5-88							
6-88							
7-88			$9.00				$8.98
8-88				$9.03		$10.30	
9-88					$10.30		
10-88							
11-88							
12-88	$13.98	$9.15					

Date	MSRLP	WEA	CBS	CEMA	PGD	BMG	MCA
1-89				$9.08		$9.07	
2-89							
3-89							
4-89							
5-89							
6-89					$9.09		
7-89							
8-89					$9.14		
9-89							
10-89							
11-89							
12-89							
1-90							
2-90							
3-90							
4-90				$9.14			
5-90							$9.07
6-90							
7-90						$9.14	
8-90							
9-90							
10-90							
11-90							
12-90							
1-91							
2-91							
3-91							
4-91							
5-91							
6-91							
7-91							
8-91							
9-91	$15.98	$10.24	$10.29	$10.30	$10.30	$10.30	$10.24

THESE ARE THE "REAL" OR INFLATION-ADJUSTED CD PRICES

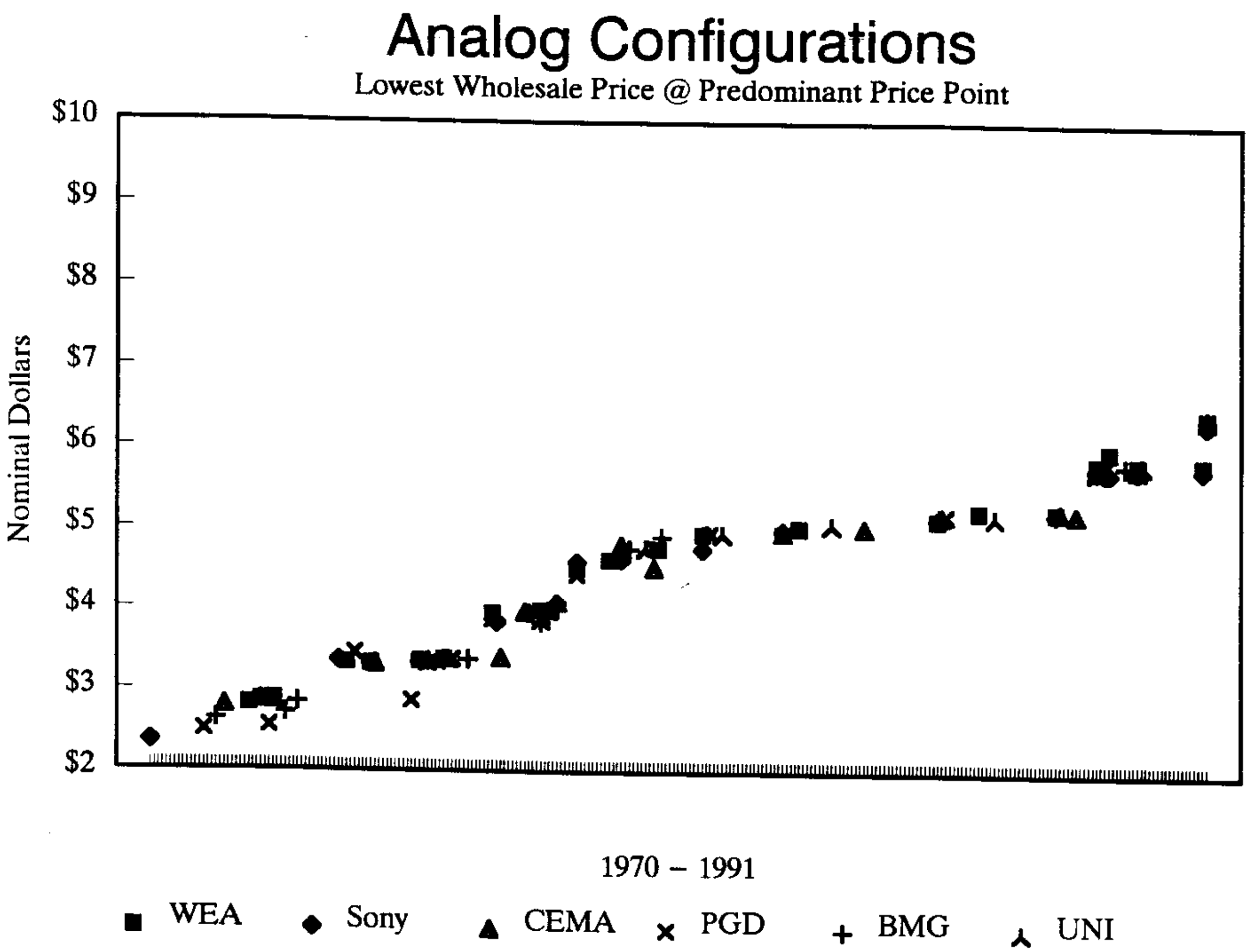
Date	GNP-IPD	MSRLP	WEA	CBS	CEMA	PGD	BMG	MCA
1-85		$19.97	$13.91	$12.86	$13.12			$12.61
2-85								
3-85	109.7							
4-85								
5-85								
6-85	110.6							
7-85								
8-85								
9-85	111.3							
10-85								
11-85								
12-85	112.2					$12.14		
1-86								
2-86								
3-86	112.4		$13.75					
4-86					$12.41			
5-86								
6-86	113.2							
7-86								
8-86								
9-86	114.6							
10-86								
11-86								
12-86	115.1							
1-87								
2-87								
3-87	116.0							
4-87								
5-87			$12.02					
6-87	117.1							
7-87								
8-87								
9-87	117.9							
10-87								
11-87								
12-87	118.6							
1-88								
2-88								
3-88	119.2							
4-88								
5-88								
6-88	120.6							
7-88				$10.16				$10.14
8-88					$10.20		$11.63	
9-88	121.9					$11.51		
10-88								
11-88								
12-88	123.3	$15.44	$10.11					

1-89					$10.03		$10.02	
2-89								
3-89	124.6							
4-89								
5-89								
6-89	125.8					$9.84		
7-89								
8-89						$9.90		
9-89	126.8							
10-89								
11-89								
12-89	128.0							
1-90								
2-90								
3-90	129.5							
4-90					$9.61			
5-90								$9.54
6-90	131.0							
7-90							$9.50	
8-90								
9-90	132.2							
10-90								
11-90								
12-90	133.1							
1-91								
2-91								
3-91	134.8							
4-91								
5-91								
6-91	136.3							
7-91								
8-91								
9-91	136.9	$15.98	$10.24	$10.29	$10.30	$10.30	$10.30	$10.24
Date	GNP-IPD	MSRLP	WEA	CBS	CEMA	PGD	BMG	MCA

RUSS - Before you "finalize" the article I should up-date the inflation index to use the 6/92 numbers instead of the 6/91 numbers (which at the time were the most recent ones available.)

[illegible]

Dave Please get this # as soon as possible R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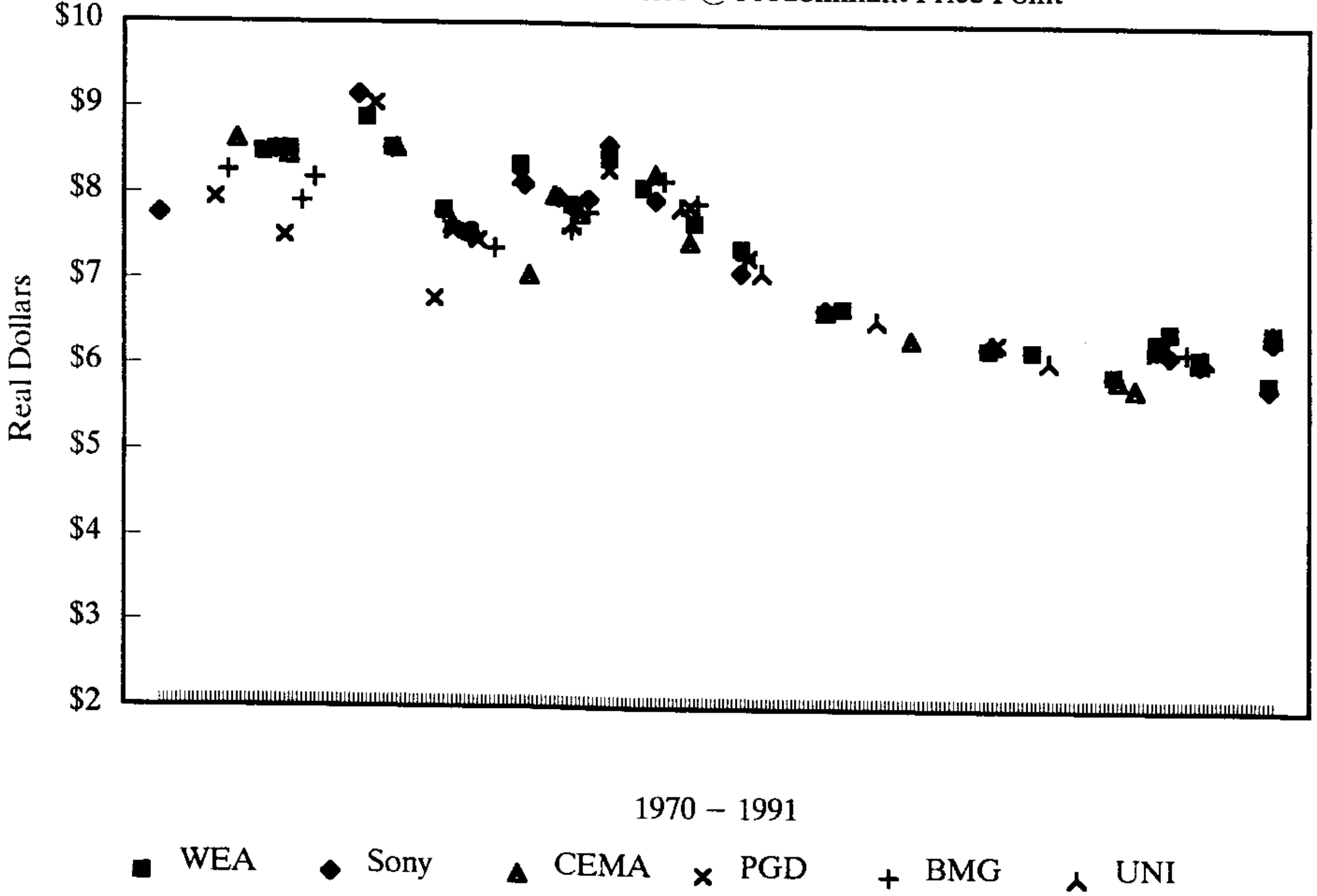
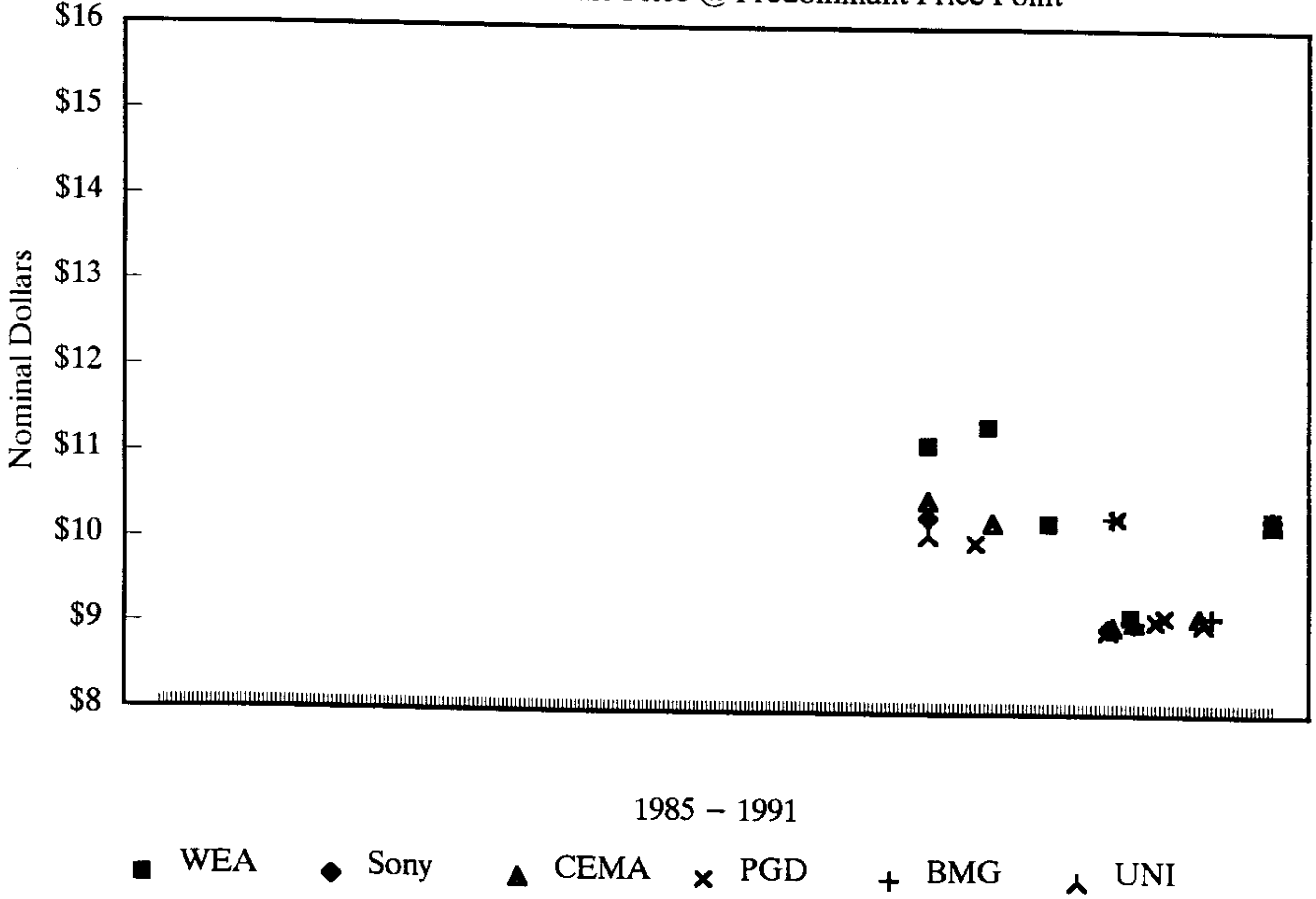
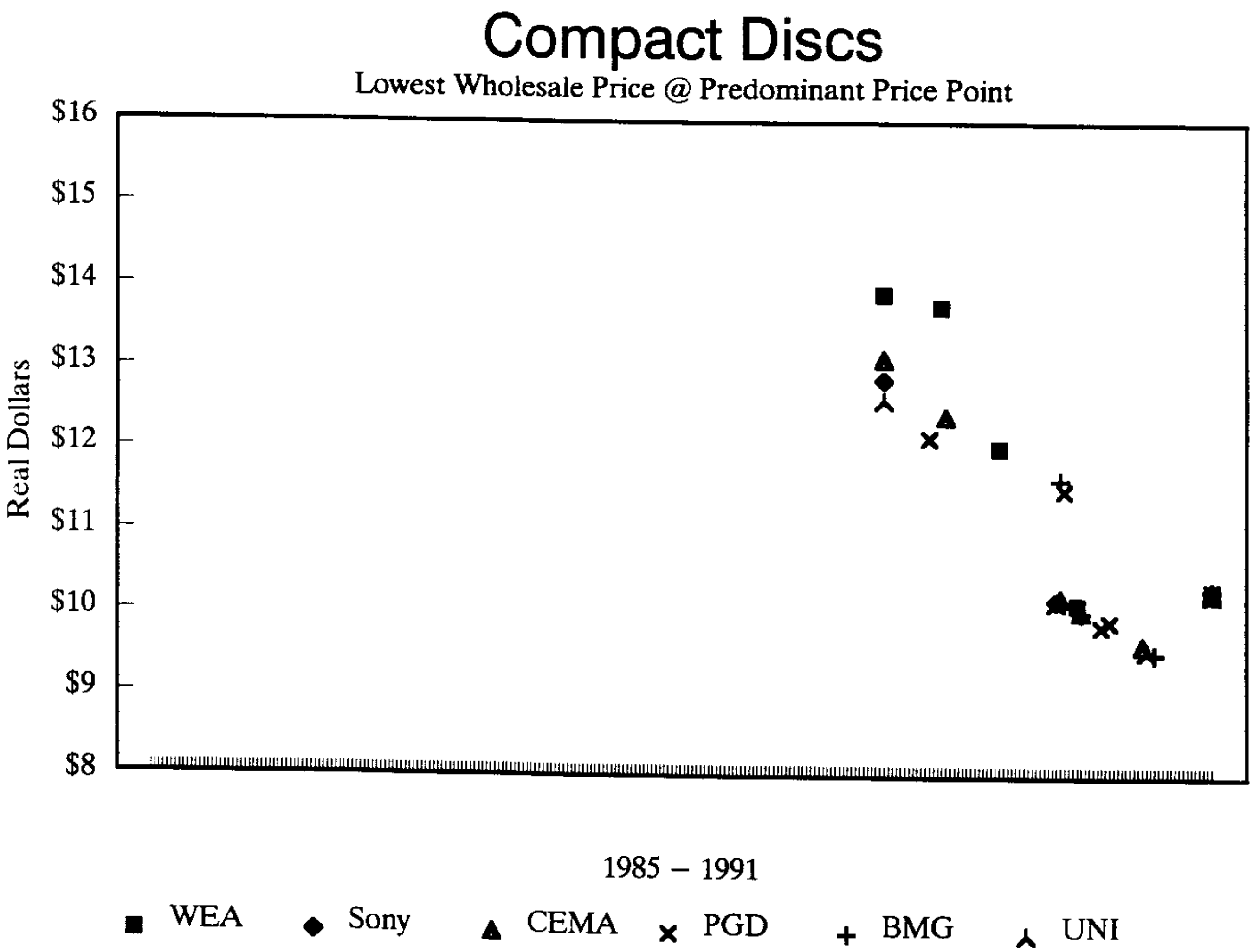


Compact Discs

Lowest Wholesale Price @ Predominant Price Point

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Manufacturer's Suggested Retail List Price