

It's yours for a song

Competition for walk-in buyers sends CD prices down

By Geoff Edgers, Globe Staff, 7/30/2002

The new Bruce Springsteen CD is out today, and you can get it for just \$9.99. Not through a lucky bid on eBay, but at a regular record store. One aisle over you may find the disc by the Australian buzz band the Vines, at a bargain-bin price as low as \$6.99.

This, lucky shoppers, is a record-store price war, when retailers set prices they know are going to lose them money to get customers through their doors.

"I think the music companies are desperate," says Michael Nathanson, a music-industry analyst at Sanford C. Bernstein & Co., an investment firm in New York. "This is what they have to do. It's not going to be pretty, but it's great for consumers."

With industry sales down and on-line music growing more popular, competition for the shrinking share of walk-in customers has forced even large chains to consider prices disc-by-disc, store-by-store.

As a result, Virgin Megastore employees quietly scoot to the competition to check the sales racks. Newbury Comics buyers tear through other retailers' ads in the Sunday newspaper, and price their own discs accordingly. And Best Buy, Circuit City, and Target offer sales that often last just 24 hours.

For the savvy consumer, this means leading artists - whose discs typically sell for at least \$14 - can go for less than \$10. Springsteen opens at \$9.99 today at both Best Buy and Newbury Comics. Best Buy is also selling new albums by Def Leppard and Linkin Park for that price. At Virgin Megastore, the new Boyz II Men sells for \$9.99, with discs by emerging artists TRUSTcompany and Ed Harcourt going for \$7.99.

Meanwhile, at Circuit City, the new CD by soul artist Amerie is only \$5.99 - less than what many CD singles sell for.

The price wars come at a time when the music industry is struggling. The average suggested retail price of a CD is \$14, according to the Recording Industry Association of America. Last year, the number of albums shipped by record companies to retailers dropped by 10 percent, from 1.08 billion in 2000 to 968.58 million; Sanford C. Bernstein & Co. predicts a similar drop in 2002.

"You would think that if they wanted to compete with burning and MP3s, they would lower the prices," says Alex Daniel, manager of CD Spins, a used music store on Newbury Street.

But Hilary Rosen, chief executive officer of the RIAA, said that it's unfair to expect record companies to cut costs. She says people who steal music by downloading soundfiles or burning discs illegally are responsible for sales drops.

"In the age of \$150 sneakers, \$12 movie prices and \$40 video games, I'm just unsympathetic," Rosen says. "At any price in the \$10 to \$18 range, CDs are a great value."

There are two key forces behind the price drops, which remain selective.

Record companies, trying to break in new bands, have started to sell some discs to retailers for less. Instead of paying roughly \$11, the typical wholesale cost of a new Dave Matthews disc, stores could buy the Vines' "Highly Evolved" from Capitol Records for \$6.46.

Virgin Megastore chose to sell that disc for \$6.99.

''There are many key drivers behind the breaking of a new artist,'' says Joe McFadden, senior vice-president of national sales for Capitol Records. ''The pricing strategy is as crucial to the success as an effective radio, video, press and touring plan.''

The plan may be working: The Vines' album debuted at number 11 on the Aug. 3 Hot 200 album chart in Billboard magazine.

The other driving force in the price wars comes from the stores themselves, which are willing to lose money on individual disc sales to attract more customers. Chains and mass merchants are reluctant to detail pricing practices, calling them trade secrets. But they do agree that the key to competing is keeping close tabs on the competition. ''Our goal is to be the low price leader on every item we carry,'' says Wal-Mart Spokesman Karen Burk. ''Our operators shop the competition daily and set our prices accordingly.''

For Wal-Mart and other merchants, music covers only a fraction of store shelves. A CD sale is meant to simply bring in foot traffic.

''It acts kind of like milk does for a grocer,'' says Colin McGranahan, a retail analyst for Sanford C. Bernstein & Co. ''The idea being that they want to drive some people into the store who will end up buying a \$1,600, widescreen television.''

This strategy wiped out thousands of independent record stores during the 1990s. Newbury Comics, one of the lone survivors, adapted by expanding its non-music products. Instead of relying on new CD sales, Newbury has branched out to offer everything from lawn flamingos and baseball cards to body jewelry and collectible Playboy Playmate dolls. While Newbury Comics had a 14 percent profit margin on new CDs in July, it had healthy margins for trading cards (50 percent), comic books (52 percent) and posters (66 percent), according to Newbury Comics CEO Mike Dreese.

That doesn't mean the company ignores the competition's music prices.

Yesterday, in the Newbury Comics office on Guest Street, Dreese and three employees sat with glossy, Sunday circulars in their laps. There were grumbles about a Hoobastank disc being sold exclusively through Target for \$5.99. The band played a promotional set at Newbury Comics when it was starting out, and the store offered their disc for cheap.

But there were no complaints about Best Buy's planned one-day sale of the new Springsteen album, ''The Rising.''

''We'll sell it at \$9.99,'' music buyer Larry Mansdorf says. ''But we'll sell it for two days.''

Geoff Edgers can be reached at gedgers@globe.com

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