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UNITED STATES OF AMERICA
BEFORE FEDERAL TRADE COMMISSION

In the Matter of
Universal Music & Video Distribution Corp., a corporation, and
UMG Recordings, Inc., a corporation.

Docket No. C-3974

COMPLAINT

Pursuant to the provisions of the Federal Trade Commission Act, as amended, 15 U.S.C. § 41 et seq., by virtue of the authority vested in it by said Act, the Federal Trade Commission, having reason to believe that Universal Music & Video Distribution Corp. and UMG Recordings, Inc. have violated the provisions of Section 5 of the Federal Trade Commission Act, 15 U.S.C. § 45, and it appearing to the Commission that a proceeding by it in respect thereof would be in the public interest, hereby issues this complaint, stating its charges as follows:

PARAGRAPH ONE: Respondents, Universal Music & Video Distribution Corp. and UMG Recordings, Inc., (hereinafter "UMVD"), are corporations organized and existing under the laws of the State of Delaware with their principal place of business at 70 Universal City Plaza, Universal City, California 91608. UMVD produces, manufactures, distributes, and markets prerecorded music, among other things.

PARAGRAPH TWO: Five major distributors sell and distribute over 85% of all prerecorded music in the United States. UMVD is one of the five major distributors of prerecorded music. Sony Music Distribution, Inc., WEA Inc., BMG Music and EMD Music Distribution, are the other major distributors.

PARAGRAPH THREE: The major distributors sell prerecorded music to numerous retailers including independent retailers, large national chains, mass merchandisers, regional chains and consumer electronics stores. They also sell prerecorded music to sub-distributors who in turn supply retailers not serviced directly by the prerecorded music distributors.

PARAGRAPH FOUR: There are two relevant markets in this matter. First, the commercial development, distribution and wholesale sale, by any means, of prerecorded music (hereinafter "wholesale market"). Second, the retail sale, by any means, of prerecorded music (hereinafter, "retail market"). The geographic scope of the wholesale market is the United States of America. The wholesale market is characterized by high entry barriers that seriously limit the likelihood of effective new entry.

PARAGRAPH FIVE: In the early 1990's, several large consumer electronics chains began selling compact discs and other prerecorded music products. These new entrants competed aggressively on price and offered consumers substantial savings on some prerecorded music products. A retail price war ensued and music retailers lowered their prices.

PARAGRAPH SIX: Some retailers, faced with newly invigorated price competition in the retail market, requested margin protection from UMVD. In 1993, UMVD, was also concerned that declining retail prices could have wholesale price effects. Thereafter, UMVD decided to introduce a Minimum Advertised Pricing ("MAP") policy. In 1992 and 1993, the other major distributors adopted MAP policies. These policies set forth minimum advertised prices for most prerecorded music products. As discussed below, these MAP policies were modified between 1995 and 1996. In 1995 and 1996, retail prices increased. Since 1997, wholesale prices have also increased.

PARAGRAPH SEVEN: The MAP policy changes which occurred in 1995 and 1996 significantly tightened the programs. By February 1, 1997, each of the major distributors had implemented similar policies. The new MAP policies provided that any retailer who advertised the distributors' product below the established MAP would be subject to a suspension of all cooperative advertising and promotional funds for either 60 or 90 days. BMG's policy varied slightly and provided that any retailer who violated the policy three times within a twelve month period would be subject to a suspension of all cooperative advertising and promotional funds for up to twelve months. For each company, the suspension would be imposed whether or not the retailer paid for the offending advertisement or promotion. In addition, the suspension would be imposed for in-store "advertising and promotion" that included virtually every method of communicating the price of the product to the consumer other than the pre-printed price sticker on the product.

PARAGRAPH EIGHT: A single violation of the new MAP policies resulted in a total loss of all cooperative advertising and promotional funds for the specified suspension period with the exception of the BMG policy described herein. The severity of the new MAP penalties ensured that even the most aggressive retail competitors would stop advertising prices below MAP. By defining advertising broadly enough to include all in-store displays and signs, the MAP policies effectively precluded many retailers from communicating prices below MAP to their customers.

PARAGRAPH NINE: Shortly after adopting the new MAP policies, the distributors began aggressively enforcing the policies. Several high profile enforcement actions that resulted in long periods of suspension were widely publicized by the trade press.

PARAGRAPH TEN: UMVD's stricter MAP policy, in effect since July 1, 1996 and continuing to date, was implemented to eliminate aggressive retail pricing and to stabilize overall prices in the retail marketplace. This policy was successful.

PARAGRAPH ELEVEN: The purpose, effects, tendency or capacity of the acts and practices described in PARAGRAPHS SIX, SEVEN, EIGHT, NINE and TEN relating to the implementation and enforcement of MAP policies are and have been to restrain trade unreasonably and hinder competition in the retail and wholesale markets for prerecorded music in the United States, and constitute a violation of Section 5 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 45.

CONCLUSION

PARAGRAPH TWELVE: The aforesaid acts and practices of the respondents were and are to the prejudice and injury of the public. These acts and practices constitute unfair

methods of competition in or affecting commerce in violation of Section 5 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 45. These acts and practices may recur in the absence of the relief requested.

WHEREFORE, THE PREMISES CONSIDERED, the Federal Trade Commission on this thirtieth day of August, 2000, issues its complaint against said respondents.

By the Commission.
Donald S. Clark
Secretary
SEAL