

Subject: iTunes Update
Date: Sat, 16 Jan 2010 19:06:51 -0800
From: Eddy Cue <ecue@me.com>
To: John Sargent <john.sargent@macmillan.com>
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Hi John,

I am looking forward to getting together next week in NY. Let's celebrate a deal for dinner:) I really want to find a way to get this done. With our devices and software, I am confident we can materially grow your business! We will make a decision by Thu, at the latest, to determine whether we will launch a book store. The most important goal for us is to build a book store that will be the biggest in the world (sales) as quickly as possible. Our time and resources are precious and we don't want to spend them unless we can build a real business (big revenues) for us as well as you. Our alternative is to let others build book store apps (like we already have from Amazon, Barnes & Noble, etc) which gives our devices many book solutions. But we can do way better!

There are 3 driving forces (selection, price and profitability) for us to succeed. From a customer point of view, they expect us to offer all books available at a price that is less than physical. For both of us, we can only do this over the long term if there is healthy (profitable) business. We have listened to your feedback and concerns over our proposal and have made some adjustments. We have considered many different options and think this is the best one.

In addition, one question that has been asked is whether we would take less than a 30% commission. As I mentioned, at 30% this gives us a low single digit positive margin business. Secondly, it is the margin we use with all music labels, tv studios, Hollywood studios and app developers. We can not compromise this without damaging those multi-billion dollar businesses.

Here are the maximum prices for new release hardback books -

| List Price | Wholesale | iTunes | 70% | Diff |
|---------------|---------------|---------|---------|-------------|
| \$20.01-22.50 | \$10.00-11.25 | \$9.99 | \$7.00 | \$3.00-4.25 |
| \$22.51-25.00 | \$11.25-12.50 | \$10.99 | \$7.70 | \$3.56-4.80 |
| \$25.01-27.50 | \$12.50-13.75 | \$12.99 | \$9.10 | \$3.40-4.65 |
| \$27.51-30.00 | \$13.76-15.00 | \$14.99 | \$10.50 | \$3.25-4.50 |
| \$30.01-35.00 | \$15.01-17.50 | \$16.99 | \$11.90 | \$3.10-5.60 |
| \$35.01-40.00 | \$17.51-20.00 | \$19.99 | \$14.00 | \$3.51-6.00 |

In addition, it is critical that we appear at least reasonable (we won't be less) to the heavy discounting that is happening for NYT best sellers. When a book that list for \$30 or less is in the NYT Bestseller List than the iTunes price will be no greater than \$12.99. Between \$30.01-35 in the NYT Bestseller List, the price will be no greater than \$14.99.

This gives you significantly more tiers and higher prices. Though I think this is higher than we need to be, the elegance and ease with which we will offer should make this work.

If you have any questions or want to discuss, don't hesitate to call me (cell [REDACTED]).

Eddy



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remote-id 339675 subject iTunes Update

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