

Subject: Re: Random House update
Date: Sun, 10 Jan 2010 19:24:21 +0000
From: "Eddy Cue" <cue@apple.com>
To: "Keith Moerer" <kmoerer@apple.com>
Message-ID: <E4373EAD-7C5B-498E-91BF-A502890B3AD1@apple.com>

On Jan 9, 2010, at 7:37 PM, Keith Moerer wrote:

Eddy--

RH's #2, Madeline McIntosh, called me this afternoon to say RH is currently "stuck" in considering an agency model and asked me a series of questions:

1) Are we willing to consider the agency model for new releases only? (I told her our preference would be an agency model for all titles, but we're willing to consider for new releases only.)

Yes as long as new releases are defined correctly (e.g. as long as hardback or 1 year - maybe 6 months) but this is really about others not us. We want all agency.

2) Are we willing to accept an agency model if other retailers continue a standard wholesale model for new releases without holdbacks? (No.)

We are (I don't think we can legally force this). What we care about is price so the contract will say we get it at 30% less whatever the lowest retail price out in the market is (whether agency or wholesale).

3) Are we willing to consider a wholesale model for titles not currently available in ebook form because lack of color, no ability for multi-media add-ons, or multiple-device pagination problems that other ebook retailers haven't resolved? (I told her we're not interested in harder-to-execute opportunities such as Martha Stewart cookbooks and Dr. Seuss picture books if we're forced to sell current ebook bestsellers such as Dan Brown and Andre Agassi as loss leaders or not at all.)

Yes on your points. We would just prefer an all agency model with us, otherwise it gets complicated.

4) Are we willing to consider an agency model with more tiers or different tiers than currently proposed? (I told her we're willing to listen to and consider a counter-proposal. I also told her that I would send our analysis of NYT bestsellers comparing physical prices and current ebook prices, which helped us arrive at a \$12.99 price point for most new-release titles, once I got your OK.)

No, I don't want a proposal. This is our offer. I am willing to add \$14.99 for above \$30. We need to start being very firm on price.

She repeated what Markus told you about RH basically being happy with industry ebook terms as they exist now, even though they know the current model isn't sustainable long-term. She also repeated what Markus told you about RH paying their authors higher royalties for digital books than physical books (typically 50% of net sales vs. 30% for physical). They're trying to unwind these terms with authors with only limited success so far. Contrary to RH's market-leading status in sales, I believe that it may have the worst digital terms with their authors in the industry.

We will launch without them if we have to.

She argued that NYT bestsellers represent a smaller percentage of total sales than we might think. I asked her to tell us what percentage of RH's total 2009 ebook sales came from titles that appeared on the NYT Hardcover Fiction or Nonfiction charts. She said she'd get this information to us by Tuesday.

It has nothing to do with this. It has to do with books costing between \$11-14 in physical and that being \$3-4 less because of the savings.

Eddy

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