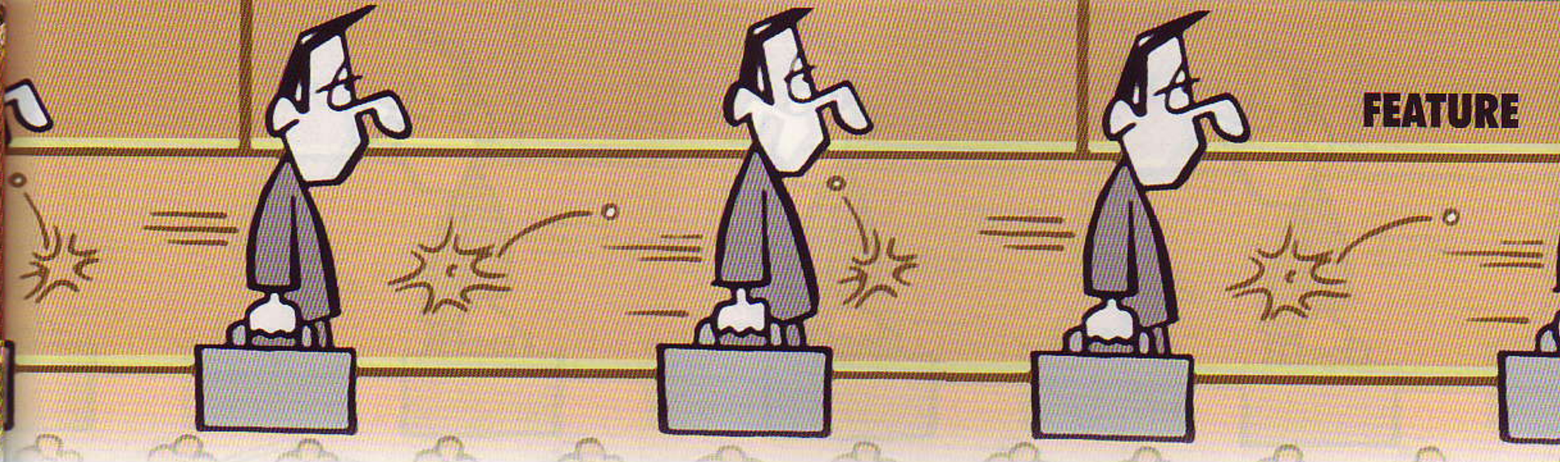


5FUTURESTRATEGIES

Embrace them if you really want to stay in business!

By **Ken Markman** and **Anthony White**

MISSION OF OBJECTIVE OVER OPPORTUNITY: TARGETS VS. TARGETING

Forget everything you know about mass marketing. It no longer works. In fact, it hasn't worked for a long time. Let's face it; marketing isn't what it used to be.

It used to be - we could anticipate targeting consumers in groups, clusters or other equally scientific or squeezed research-based-boxes.

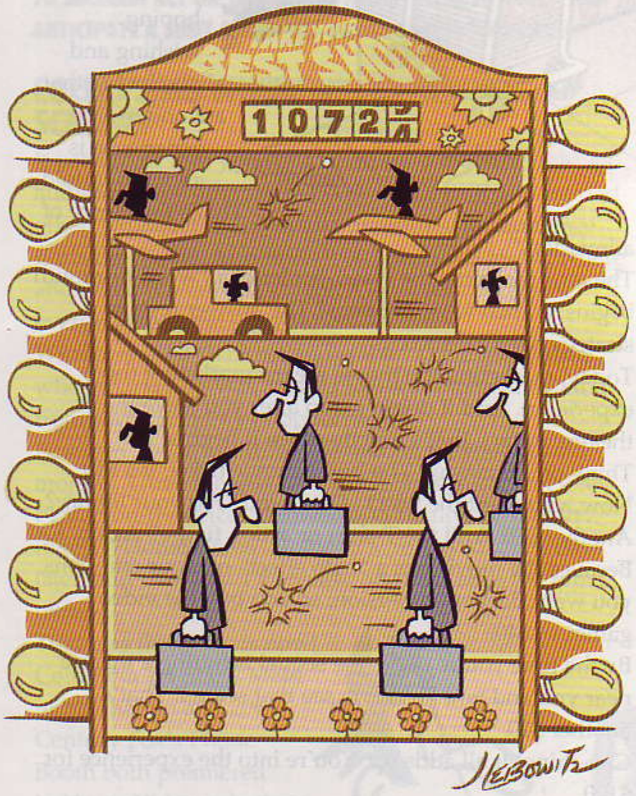
"Catch me if you can" . . . not the movie, the consumer. What makes things different now is the consumer. They have changed. They know what they want. And "they" are a moving target. But no one really knows how to find them because they have so many places to hide and we have all come to agree that they are not all the same.

It requires not just a different kind of process but a different kind of thinking.

The new marketing model focuses on consumers as individual targets, a strategy dictated by a "mission of objective." Rather than targeting consumers as a cluster, a "mission of opportunity."

Marketers not recognizing this change will be met by capricious consumers who are entertained and empowered by a culture that simultaneously demands and delivers "instant gratification" that doesn't come fast enough.

The new consumer defines a new social expression of values. It is powerful because it is so personal. They are fueled by a fusion of disparate (and opposing) fluid forces: Ubiquitous delivery systems and fragmented viewing habits; Media as entertainment and the need for personal access to information; Homogenized cultures

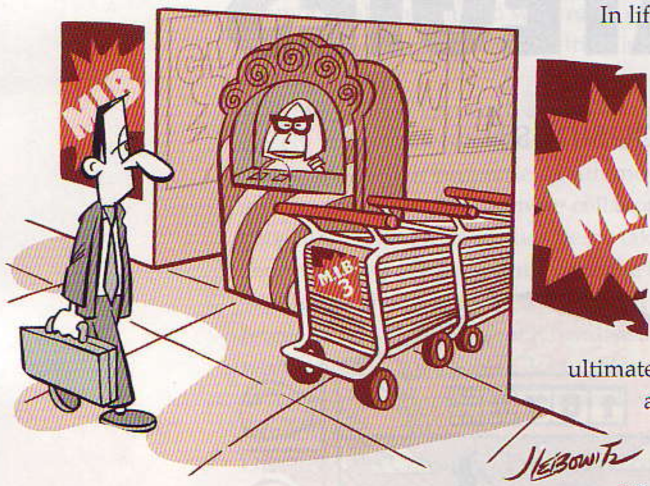


and individual identity; and Change and speed and consumption as habit-forming sport (think e-mail the game, acronyms the language, cell phones the social experience).

We cluster by demography but we consume by lifestyle; a connection that is tribal and expressive of an individual identity. Common interests not demographics define your new consumer. Marketing to them requires more than a narrower focus; it demands a singular vision.

TO SUCCEED: MAKE IT PERSONAL; EMBRACE EACH TARGET "ONE-TO-ONE."

THE 10 TO 1 SOLUTION: FRANCHISING THE ENTERTAINMENT EXPERIENCE



In life there are few things that are certain, but here is one of them. You buy a movie ticket. Waiting for the lights' to dim, you're hoping, wishing and ultimately believing that a wonderful experience is about to unfold. That's the "price of admission."

The next morning, the water-cooler-chat, word-of-mouth begins. . . then what happens? The answer rests in a strategy for total success.

Today, marketing the movie means marketing the experience. And it doesn't stop after you leave the theatre. In fact, that's exactly when it begins.

Think of it this way. You buy a movie ticket; it's $10. Now, you want the DVD. Don't you? For your library? Another $20. And the T-shirt or action figure? Again, $20. Because the movie has a "halo effect" on your emotions, you want deeper immersion; so you buy the video game . . . $40.

By the time you're done, the sequel is hitting a theatre near you and you HAVE to see that sequel! That's another $10.

Cha-ching! It all adds up. You're into the experience for $100.

Simple math tells us that extending a consumer's entertainment experience delivers a 10:1 return. The real "price of admission" is not a box office number but a total "brand experience" dollar cume.

So powerful is the entertainment-experience-effect that it has, for the first time, united three unlikely partners: The finance-guys, the marketing-gurus, and the producer-guns. All looking for a healthy return on their investments.

TO SUCCEED: EXTEND THE ENTERTAINMENT EXPERIENCE ACROSS MULTIPLE CONSUMER TOUCH POINTS, SEQUENCING AND LINKING THE 10:1 SOLUTION

THE $20 BILLION FACTOR: WHY HOME ENTERTAINMENT RULES

Not so long ago Studio Heads, in legendary "Motion Picture Studio Fashion," had all the answers and made all the decisions. Today they ask "the hard questions" to assess the likelihood of their studios' success.

And the answers they seek are largely coming from a group down the hall, who, until now, had little if any creative or business decision-making responsibility.

So vast is this group's influence that they have a seat at the boardroom table, and more importantly a vote in every "greenlight" meeting.

Who are these people running the show? The folks in home entertainment!

In 2002 the Home Video business bound past $20 billion: $12 billion attributable to DVD. Among the top 30 home entertainment titles in the first half of this year, 20 outperformed their theatrical debut. The top 11 titles generated at least $100 million in purchase and rental fees (three collected more than $200 million each).

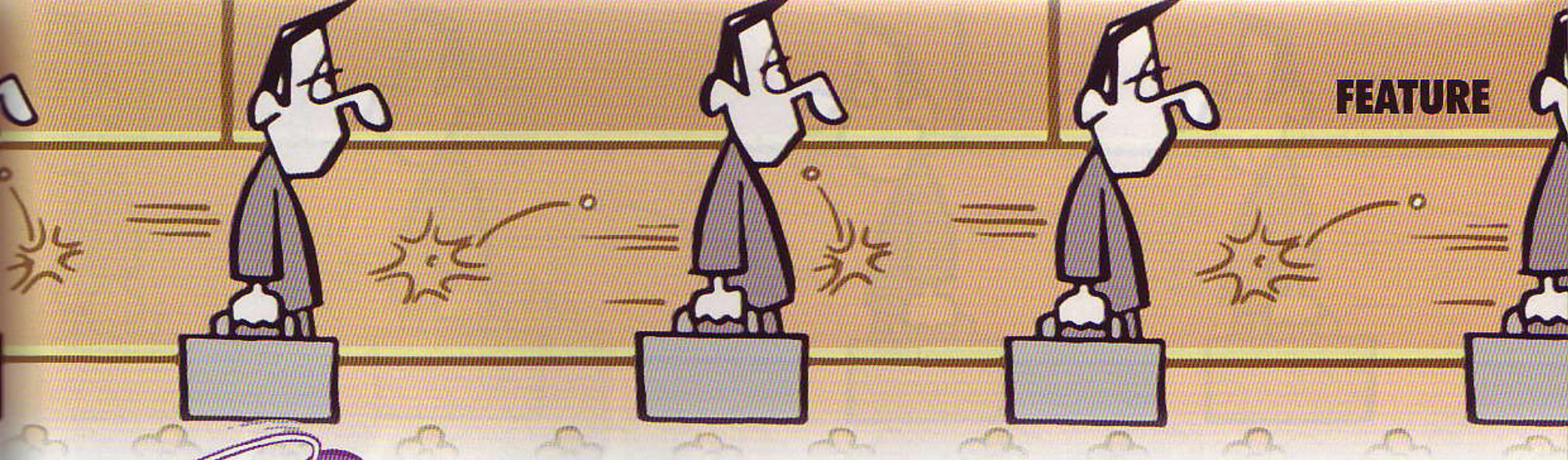
And several box office underperformers yielded extraordinary windfalls on video and DVD; in fact, some doubled their take at the box office.

Talk about power (the only thing Hollywood really respects).

While the box office is showing signs of decline, down 4.6% in the first half of the year, consumer spending in DVDs alone climbed 61.8%, delivering a first-half record of $10.2 billion. That's more than the domestic theatrical take for all of 2002!

According to both The Daily Variety and Video Business, "Video is saving the film biz."

TO SUCCEED: KNOW THAT IF CONTENT IS KING THEN HOME ENTERTAINMENT IS THE KEY TO THE KINGDOM.



THE BIG PROMISE: LONG AWAITING VIDEO ON DEMAND

It was all an accident; Hollywood, that is. A town so well suited for creating fake accidents to amuse, fascinate, or terrify an audience of billions is itself a serendipitous product of the right timing and the right location. A great accident, and nothing changed for about 100 years.

The movie industry had the public pretty much to itself during that time. Enter television . . . it changed everything.

Television, good old broadcast TV, rocked the studios' world. Realizing declines at the box office, the studios railed against the new medium. Then they began producing content for TV . . . a new Hollywood boon realized.

Then came the VCR (a good TV "add-on"), and with it a shiny new revenue stream. About the same time, cable networks such as HBO began providing more, new channels of distribution and attendant incremental revenue for the studios. For 25 years or so, things were pretty stable.

Hopeful (yet always struggling) Pay Per View and (still hopeful but not faring much better) Near Video On Demand services kicked some cash into the studios' coffers for the past 10 years, but more importantly, primed the pump for VOD. And, whereas the promise of VOD was aggressively lauded in (but not kept by) the industry over the past two years, this may be the year that the promise is kept.

Betting on consumers' switch from "Push to Pull." AOL Time Warner recently stated that its cable operation has amassed 500,000 VOD/Subscription VOD households. In fact, the VOD/SVOD services, coupled with Personal Video Recorder functionality, are being touted as providing the muscle to market all of Time Warner Cable's emerging digital services.

TWC's broad deployment is based on the belief that its customers are disposed and willing to pay for 24/7 access to movies from the major studios via VOD ($3.95 per title), and movies and original content from HBO via SVOD ($6.95 per month on top of the subscription charge).

In other words, TWC believes that consumers are willing to pay a premium to control how and when they will be entertained, pulling content of their choice and at their convenience.

TO SUCCEED: ACT ON THE SWITCH FROM "PUSH TO PULL," AND ANTICIPATE A SHIFT FROM "SIT-BACK TO LEAN-FORWARD."

COLLAPSING WINDOWS: EXPANDING SCREENS

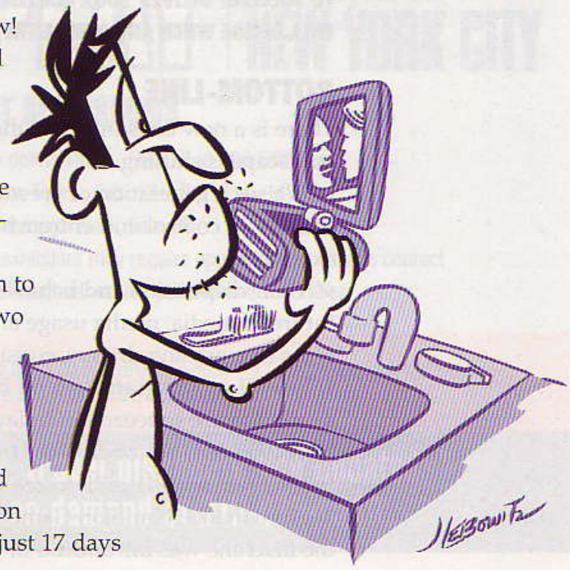
It used to be that you could wait for a movie to find its audience. Now, thanks to DVD, VOD, PVR and myriad other "alphabet soup" media platforms, the audience finds the movie. And finds it on their own terms, where and when it wants it . . . which is rapidly becoming everywhere at the same time.

Windows used to be set and stable. There was a time when marketing was created for, and money flowed in from each "window of opportunity."

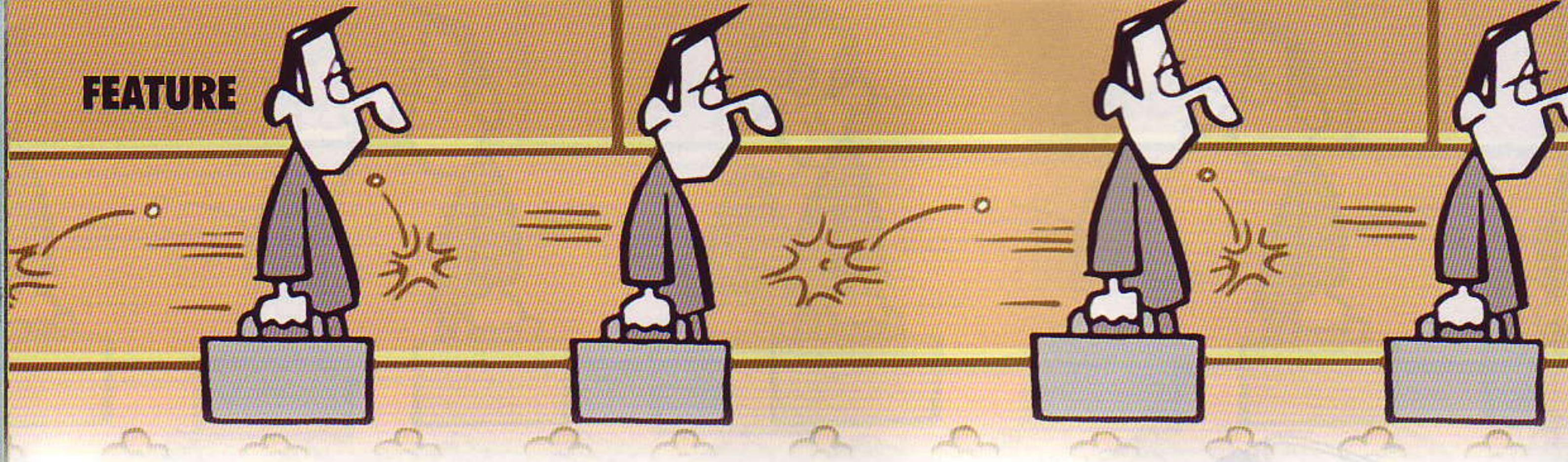
First-run Theatrical ruled the market for roughly 4-5 months. Three months later came Shut-ins, then Hotel PPV. Non-theatrical followed and finally, by month 7 (really!) Home Video. Home PPV followed 75-90 days later, and then Pay TV--nearly one year after the film's release.

That was then; this is now!

Columbia Tri-Star's Maid in Manhattan and 20th Century Fox's Phone Booth both premiered in Home Video only three months after their theatrical debuts. New Line released The Real Cancun to Home Video after only two months.



Wait, there's more: Cradle 2 the Grave bowed in theatrical on February 28, was released by Warner Home Video on August 12, and hit VOD just 17 days



later. In an even greater act of compression, WHV simultaneously released The Animatrix on DVD, VOD, and Movielink (the on-line delivery platform).

Think that's fast? We recently witnessed a number of window "reversals" whereby movies have gone Direct to DVD, preceding their theatrical bow; a strategy first seen with video games.

Windows, to be or not to be, that is the question! Driven by advances in digital technology, new media products and services are creating both the ability and the expectation on the consumer side to "pull" movies from a desired screen.

As screens proliferate and windows invert and compress you can no longer expect to "push" product at your audience through a "fixed" window or rely on old marketing and economic models.

Consumers are deciding when and where they want their entertainment; this more than anything is dictating the "price of experience." The old model: discriminatory pricing mandated holdbacks. The new model: Screens drive discriminatory pricing.

A movie ticket runs $6 (okay, $9-$10 in NYC or LA). It costs $4 for a Home Video rental (DVD or VHS) or $15-$20 to own a copy. For $4 you can experience the film on PPV or VOD. And for other "new media," an Internet download costs $5 and "portable" content runs $15-$20. For a fee, pay services like Starz will be more than happy to provide additional screens. And for an additional charge, the consumer can receive virtually unlimited screens in SVOD. And they do!

TO SUCCEED: DELIVER YOUR CONTENT KNOWING THE CONSUMER WILL DECIDE WHEN AND WHERE THEY WANT TO EXPERIENCE IT.

BOTTOM-LINE

There is a new consumer out there and the media landscape is shifting.

✔ We see a generation of "revolutionary consumers," actively in control and entrenched in their media experience.

✔ Their disposition and behavior will influence the future of media, media usage and consumer spending.

✔ As overarching drivers, consider the following:

1. In 1971 an integrated circuit held 2,250 transistors; over 42 million are squeezed in today.

2. In 1903 only 8% of all U.S. Homes had a telephone; today there are 141 million cell phone users in the U.S.

3. More than 150 million Game Boys have been sold since the machine was introduced in 1989. Today four electronics companies have developed technologies that use the Game Boy Advance SP's screen to play anything from cartoon shorts to full-length movies in full-motion video.

4. 45 million people (over half of U.S. adult Internet users) have a TV and PC in the same room; 15% report simultaneously visiting websites related to the shows they're viewing.

5. PlayStation2 users in England have found a way to turn the games console into a web browser.

6. A French firm has developed the "TV Brick." Using DSL technology, the device enables viewing and re-broadcasting of any channel on the planet.

7. DVR/PVR users increase their TV viewing by 20%, but 64% skip all the commercials on recorded programs.

8. Web logs are heating up the teen pop culture scene, with a recent Pew Internet study estimating that as many as one in four teens being a "blogger."

9. The Internet has surpassed television in overall time usage to become the primary medium of choice among teens and young adults (13-24).

10. A research study (commissioned by Yahoo! and Carat Media) revealed "control and empowerment,"--the ability to personalize and manage media and content --was the primary reason young consumers chose the Internet over other forms of media. Those of you hoping to succeed must evaluate and change how to communicate, connect, market, and distribute entertainment. Understand that the consumer will "pull and pay" when and where they want, in order to create an experience at a time and in the place they want to have it.

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