

**Welcome to *Inside EMA*...**

Released quarterly, *Inside EMA* highlights the current activities and core responsibilities of your Association.

**Inside this issue:**

Operations Committee Tackles Standards and Best Practices	2
EMA Welcomes New Members	2
Retailers and Studios Meet for EMA Retail Advisory Council	2
Game Retailing Council Identifies Opportunities for Growth	3
EMA Digital Council Nears Release of Metadata Standards	3
Project Lazarus Update: CapGemini to Forecast Benefits	3
Collaboration Breeds Collaboration	4

## The Entertainment Merchants Association (EMA)

### EMA Video Game Publishers Attack Supply Chain Inefficiencies

Enjoying rapid category growth, supply chain efficiencies haven't been top of mind in the video game industry. However, in today's economic environment there is urgency to minimizing all costs and expenses. And, industry executives agree that it's time to collaborate, working together to standardize and reduce inefficiencies in the supply chain.

Under the banner of EMA's Video Game Publishers Operations Committee, senior supply chain executives from Microsoft, Nintendo, Activision, THQ, Warner Interactive, Lucas Arts, NCSOFT, Ubisoft and Take Two Entertainment have been meeting for the past year to identify and prioritize objectives, including:

- Evaluating opportunities to improve sustainability (without increasing costs),
- Improving the consumer experience using transparent security

(ie. "getting games out from behind glass"),

- Understanding retail requirements, product coverage, and certification requirements under the new Consumer Products Safety Improvement Act of 2008 (CPSIA),
- Developing efficient case configuration/shipping standards,
- Improving retail in-stock position, and
- Evaluating the application of VMI/Auto-Replenishment solutions in video game retailing.

At its February meeting in Burbank, CA, this committee elected Warner Interactive's John Quinn as its Chair. Sarah Garrison of Microsoft will head up a task force to evaluate alternatives and identify the most efficient standard carton configuration for the video game supply chain to be recommended to retailers.

Kyle Tanger of Clear Carbon Consulting presented committee members with a roadmap to engage in a sustainability initiative including conducting a product lifecycle analysis, communicating results to retailers, identifying "quick wins" and defining medium and long term strategies. Publishers are currently evaluating how much in-box collateral material can be moved online, as well as reductions in both packaging and paper weights. And, Sony will be using a new chip in the PS3 featuring a marked reduction in power demand. Replicators will be brought into the process to work with this committee to determine next steps.

Subsequent to the February meeting, both Capcom and D3P have joined the Committee. Additional task forces are being established to drive these objectives.

## Court Overturns Game Law; Utah Attacks Ratings Enforcement

### VSDA vs. Schwarzenegger

On February 20, the U.S. Court of Appeals issued its ruling on EMA's challenge to the video game restriction law enacted by California in 2005. The appellate court agreed with EMA and a lower court that the law is an unconstitutional infringement of the First Amendment's guarantee of freedom of speech.

The California law attempted to restrict minors' access to "violent video games". In its ruling, the court noted that "the State has not produced substantial evidence that supports the Legislature's conclusion that violent video games cause psychological or neurological harm to minors.

Even if it did, the Act is not narrowly tailored to prevent the harm and there remain less restrictive means of forwarding the State's purported interests, such as the improved ESRB rating system,

enhanced educational campaigns, and parental controls," the Court said.

The court also struck down a provision of the law that would have required games that meet the law's definition of a "violent video game" to be labeled with an "18" sticker. In light of its ruling that the sale of such games to minors cannot be legally prohibited, the court found that the "18" sticker would not be factual and the law could not force retailers to carry a false notice.



The state has until late May to decide whether to seek review of

the ruling by the U.S. Supreme Court.

### Utah "Truth in Advertising" Bill

Utah House Bill 353 was approved overwhelmingly in both state houses and is awaiting action by the Governor.

This bill would declare that a deceptive trade practice occurs if a retailer advertises that it will not sell a product labeled with an age restriction or an age advisory – such as a DVD or a video game rating – to anyone under the age

specified and then in fact makes a sale to someone under that age.

EMA opposed the measure and has been a leader in a coalition of retailers, movie theaters, video game publishers, and others that worked to defeat the measure.

The coalition was successful in getting the bill amended to mitigate its most onerous requirements. The amended bill has an exemption for situations where the purchaser misrepresents their age, a "safe harbor" provision for retailers that train employees on ratings enforcement and take remedial action when a sale to an underage person occurs, and an extended effective date – January 1, 2010 – to allow retailers time to come in compliance with its provisions.



## Operations Committee Tackles Standards & Best Practices

The joint Operations Committee of EMA and NARM met in November at the Airport Marriott in Burbank, CA. Retail and distribution executives had an opportunity to discuss opportunities within their levels of the supply chain, and then met with executives from home video and video game suppliers.

First on the agenda was EAS Source Tagging on DVDs. To the surprise of both retailers and content providers, EMA demonstrated a problem with undersized cards being used to hold Checkpoint tags in Blu-ray discs cases, causing tag reads to be shielded by the discs.

Retailers and studios reviewed a first draft of *ASN Compliance Best Practices*, based on "best in class" retailers' existing policies. This document, which could assist in the development of retailer policies leading to better in-stock position, will be published by this Committee by summer.

Standardizing video game case configuration and use of inner packs continues to be an important point of discussion. The most effective scenarios to reduce store level stock may not be the most efficient and "green" scenarios. Game publishers will take the lead on studying alternatives over the next few months.

Game publishers were also asked to review and standardize the location of UPCs on packages. Retail and distribution preference is the upper right corner of the back of each package, but most important is one standard location.

Finally, CPSIA regulations were discussed. Retail, studio and game publisher interpretations and concerns were raised. Over the next several months, EMA will help retailers and content providers understand the legal requirements and their application within these industries.

This committee will meet next in August.

## EMA Welcomes New Members

EMA welcomes our newest members:

**Retailers:** More Than Movies, Nanaimo, BC  
Sandstone Entertainment, Page, AZ

**Associate Members:** Capcom Entertainment, San Mateo, CA  
Lucas Arts, San Francisco, CA  
Siras, Redmond, WA

**Distributors:** Anderson Merchandisers, Amarillo, TX

## Retailers and Studios Meet for EMA Retail Advisory Council

EMA's Retail Advisory Council met in February with home video studio executives to discuss topical industry issues.

Chaired by Cindy Holland (Netflix) and Mike Donohue (Alliance Entertainment), representatives of key retailers and distributors determined top priority topics to include (a) reviewing 2008 business and 2009 forecasts, (b) street date variations, (c) Blu-ray strategies, (d) Digital Copy strategy, and (e) DVD/Blu-ray replication capacity.

• Overall, 2008 was reported as a down year. Some project 2009 to show improvement, however most anticipate a drop of an additional 5-10%. Theatrical new releases and new release television DVD sets dropped the most in '08, partially offset by increases in

catalog theatrical and television. Home video, it was agreed, offers a great value proposition possibly offering unique opportunities in the current economic environment.

- Most studios recognized that last minute changes to street date announcements have been problematic and shouldn't be repeated in the future. However, irregular street dates will likely continue each Q4, as studios try to maximize sales based largely on which day of the week Christmas falls. In addition, some studios are considering alternative or secondary days of the week to street event titles, although most agree that Tuesday remains the best for in-store execution and minimizing supply chain costs.

• Blu-ray was a \$750 million dollar business in 2008 against a \$1 billion projection. Hardware was scarce to find, however there are 10 million units in the market today with growth anticipated to triple by year-end. Software sales should increase to somewhere between \$1.6 - \$2.0 billion in 2009. In fact, on some current new release titles, Blu-ray versions have represented 10-15% of total disc unit sales.

• Most studios plan to release Digital Copy versions on both special edition DVDs and Blu-ray SKUs. All agreed that a consistent logo and branding will improve consumer understanding of Digital Copy.

The Council will meet in April to review action items and determine next steps.

## Game Retailing Council Identifies Opportunities for Growth

Executives of GameFly, Blockbuster, Movie Gallery/Game Crazy, Trans World/FYE, Toys R Us, Wal-Mart, Amazon, Rogers Retail, and Ingram Entertainment, chaired by Target's Troy Peterson met as EMA's Game Retailing Council on February 23 in Scottsdale, AZ. Participating game publishers included Microsoft, Nintendo, Electronic Arts, Activision, Warner Interactive, Ubisoft, and THQ.

- Most agreed that 2008 was a good year, up somewhere between 3 and 10%. However, 2009 may dip primarily based on

a possible decline in the music performance genre (*Guitar Hero* and *Rock Band* series).

- Publishers universally supported adoption of benefit denial technology if and only if retailers commit to openly merchandising the video game category, and if costs are identified as reasonable compared to potential benefits.
- Most publishers discussed their "street date" planning on key titles. Many are expanding "street dates" to their second tier titles as well.

- Retailers' interest in participating in the revenue stream from digital sales was received openly by publishers. A group will be assembled to develop a roadmap to examine sensible models.

- Publishers are developing options for standardizing case configurations and to reduce packaging, including shrinking case density and manual sizes. Packaging for accessories is also becoming more standard.

Meetings will be held over the next few months to move forward on the defined initiatives.



## EMA Digital Council Nears Release of Metadata Standards

EMA's Digital Council formed just over a year ago with the primary objectives of establishing standards to support both supply chain efficiency and consumer acceptance of digital video downloading and streaming, as well as general education and networking.

Most key content providers and digital retailers, including Sony, Warner Brothers, Universal, Fox, Image, CinemaNow, Vudu, and Amazon, have participated in the development and review of an industry glossary and a standard metadata format for communication between individual content providers and their retail ac-

counts.

EMA's standard metadata structure addresses the current needs of digital retailers and content providers as well as their current and future capabilities. A standardized format should prove less costly and improve data integrity, and help retailers improve promotion, sales, and rentals of digital content. This structure will be supported with a controlled vocabulary.

Under the guidance of Work Group Leader and Council Co-Chair Mark Vrieling (Screenplay) and with diligent support from Karen Broome (Sony Pictures

Studios' Metadata Systems Designer) and SecurePath, the resulting standards should be published in Spring 2009.

At the same time, EMA's digital video distribution glossary should be finalized and published by the end of April on EMA's website. This will be a working document, and suggested additions can be submitted to the Digital Council, for review and posting to the document. This project has been led by Work Group Leader and Council Co-Chair Mitch Mallon (Image/Egami).

## Project Lazarus Update: CapGemini to Forecast Benefits

EMA's Project Lazarus is an initiative spearheaded by retailers, home video studios, video game publishers, and distributors to understand and test the feasibility of deploying "benefit denial" technology on retail optical discs (DVDs, Blu-ray discs, and video games).

"Benefit Denial" is the concept of denying a shoplifter or internal thief the ability to use stolen goods. Discs could be shipped to retail stores in a "locked" state and then automatically "unlocked" based on a point-of-sale transaction.

In December, EMA published "Threshold Standards" for such a

solution to meet the needs of retail and rental commerce. Technology providers were encouraged to align or design their systems to the extent possible to meet these industry needs.

As its next step, EMA has contracted with CapGemini to study and report on the potential benefits to the industry of deploying a "benefit denial" technology. Key retailers, content suppliers and distributors will contribute to an understanding of benefits across the supply chain from a variety of sources including sales lift based on open merchandising, reduced out-of-stocks, and sales into new channels of distribution; and decreases in costs from packaging, returns, inventory loss write-offs,

alternative protection devices, labor, handling, fixturing, and discrepancy settlements. A summary report will aggregate data and forecasts from industry partners and other sources to provide (a) a projection of benefit to the industry as a whole and to each level of the supply chain, (b) an individual benefit analysis for participating retailers, distributors, replicators and studios, and (c) a model for participants to project their individual benefit.

Future stages of this project include evaluating costs associated with potential technology solutions and, for those determined to be cost-effective, in-store pilots and lab testing.



Duccio, Resurrection of Lazarus



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**Collaboration Breeds Collaboration**

EMA collaborated with related industry organizations to offer two productive conferences in February.

*Future of Packaged Media*

This conference, held in Los Angeles on February 3 & 4, was a joint venture between Media-Tech, CDSA and EMA. Covering this broad topic, the conference addressed all levels of the food chain for the DVD, CD, and video game markets including technology, content and marketing challenges.

Business and financial issues were key topics, reflecting the economic concerns that optical disc replicators have been facing as DVD sales have leveled



*Hastings CEO John Marmaduke*

combined with the global recession. Panel sessions presented content providers, retailers, replicators and others along the packaged media

supply chain discussing the current state of packaged media – both standard and high-definition – and the sustained viability of physical formats in the future.

Keynotes included comments from both John Marmaduke, President & CEO of Hastings Entertainment and EMA Board of Directors Secretary, and Ted Serandos, Netflix Chief Content Officer. Each confirmed their commitment to supporting and growing the packaged media business.

Over 300 attendees and exhibitors attended.

*GameSupply*

GameSupply, the first ever supply chain academy for the video game industry, was a joint production by EMA and MESA (the Media & Entertainment Services Alliance). It brought together game publishers, retailers, service providers, research organizations, management consultants, and thought leaders in the interactive entertainment industry. Industry stakeholders explored opportunities for collaboration, particularly addressing the unprecedented challenges of today's turbulent economic environment, recognizing that supply chain strategies are fundamental to improving liquidity of enterprises and enhancing earnings.

The conference program was designed to bring together the experience and knowledge of industry executives and research organizations in order to focus on technology-driven solutions to reduce stock outs and in-store inventory losses, emerging digital solutions, execution challenges, and sustainability opportunities.

Pundits were unanimous in predicting that the interactive entertainment industry is poised for continued growth, albeit at a more modest pace than we've seen over the past couple years. While the industry is expected to continue to capitalize on technology, creativity, and innovation, it will, at the same time, explore opportunities to increase efficiencies, eliminate waste, and grow sales.

Attendees included executives from GameStop, Movie Gallery, Hastings, Target, Blockbuster, Amazon, Ingram, Ditan, Microsoft, Nintendo, Sony, THQ, Lucas Arts, Sega, Capcom, Ubisoft, D3P, Warner Interactive, and many others. The over-capacity attendance demonstrated that supply chain management is everyone's business.