

Welcome to *Inside EMA*...

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

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The Entertainment Merchants Association (EMA)

Video Game Violence Laws Unnecessary and Unconstitutional

EMA's activities to defeat unnecessary and unconstitutional video game violence legislation and to amend secondhand goods legislation continue.

Video Game Violence

U.S. Senator Roger Wicker (MS) recently introduced *Video Game Rating Enforcement Act* (S.3315) into the Senate. This bill would bar the sale of a video game rated "Mature" by the Entertainment Software Ratings Board (ESRB) to anyone under 17 years of age and of a video game rated "Adults Only" to anyone under 18.

EMA's Washington representative, Stuart Spencer, met with Senator Wicker's staff to explain

EMA's opposition to this bill.

EMA opposes this measure because it is both unconstitutional and unnecessary in light of the successful voluntary ratings education and enforcement programs of video game retailers.



Meanwhile, in California, the U.S. Court of Appeals for the Ninth Circuit has scheduled oral argument in the *VSDA v. Schwarzenegger* case for October 29. This case involves an appeal of last year's decision that permanently enjoined enforcement of the video game restriction law enacted by the state of California in 2005. It is the final outstanding legal challenge to a state video game law. The industry has prevailed in eight similar cases this decade.

A ruling from the appeals panel is likely in early 2009.

Secondhand Goods

A Utah state advisory committee has developed its proposed exemptions to the state's secondhand goods law, and EMA's suggested exemptions were not included in this draft.

EMA had recommended exemptions for video and video game specialty retailers that offer only store credit for trade-ins and for video and video game specialty retailers whose only involvement with used goods is the sale of previously viewed titles from their rental stock.

When the exemptions are formally proposed, EMA will comment and make the case again for our suggested exemptions.

Inventory Losses Plague Retailers

It's estimated that retailers lost over \$300 million to inventory losses from home video and video game products in 2007, based on extrapolating results from this year's EMA Loss Prevention Survey.

Seven chain retailers (Best Buy, Blockbuster, Giant Eagle, Hastings, Rogers, Target, and Trans World) responded to the second annual EMA Loss Prevention Survey, covering shrink metrics and operational practices during 2007.

DVD shrink as a percentage of DVD revenue was 1.47% in 2007, up from 1.27% in 2006. Shrink of rental inventory was 1.06% of rental revenue and shrink of sell-thru inventory was 1.79% of sell-thru revenue. Video game shrink as a percentage of video game

revenue was 2.2%, up from 1.8% the prior year.

Retailers that both rent and sell DVDs reported that half of their inventory shrink dollars are generated by the loss of rental product, while about 9% of video game shrink dollars in stores that both rent and sell come from stolen rental games.

Employee theft is believed to account for 50% of the losses of video games and 38% of the losses of DVDs, the remainder being primarily due to shoplifting.

DVDs are mostly merchandised with no anti-theft protection other than EAS tagging. About a quarter of all DVDs (both new release and catalog) are merchandised in no-sweep racks, as are 29% of DVD new releases. An equal

number of new releases are merchandised using individually locked security cases.

(Blu-ray disc shrink wasn't measured in 2007, but retailers have noted that shrink from this format is quite significant so far in 2008, with some threatening changes in their merchandising strategies.)

All new release video games are merchandised using some form of asset protection beyond EAS tagging. A third are merchandised in glass cases and nearly a quarter are kept behind service counters. About a third are stocked in no-sweep racks, and the remainder are housed in individual locked security cases.

A quarter of "budget" video games are merchandised using only EAS tagging for asset protection, while

over a third are housed in individual locked security cases and a third are merchandised in no-sweep racks.

While merchandising strategy is surely not the only factor in reducing shrink, the survey found that the lowest DVD shrink % was noted in one chain that merchandises all of its DVDs openly, in no-sweep racks, while the lowest video game shrink percentage was evidenced in two chains that merchandise all or nearly all of their new release video games in locked glass cases.

While retailers most directly feel these losses, content providers are impacted as well, since stolen products don't trigger automatic replenishment mechanisms deployed by many retailers.

EMA's Board Meets, Elects 2008/2009 Officers



Ingram's Bob Geistman has been re-elected as EMA Chair for 2008/2009.

EMA's Board of Directors met in Las Vegas on June 23, 2008 and discussed the following agenda items.

Board Membership – The Board welcomed David Cook, COO of CinemaNow, replacing former President Curt Marvis who recently accepted a position as Lionsgate's President of Digital Media, as well as Alan Milican (Marquee Video and iDEA Chair) and Todd Zaganiacz (Video Zone).

2008/9 Officer Slate – Ingram's Bob Geistman was again elected to Chair EMA's Board of Directors. Chuck Porter, Giant Eagle, will serve as Vice-Chair; Hastings' John Marmaduke as Secretary; and Marty Graham of Rentrak as Treasurer. Chairman Geistman appointed Bill Lee of Toys R Us to an at-large seat on EMA's Executive Committee.

Home Entertainment Events – The Board reviewed Home Media Expo 2008, supporting its emphasis on Blu-ray Disc technology. It was noted that, while all the ma-

ior studios were participating in this show, many exhibitors have taken smaller spaces and have brought fewer people than in past years. In addition, trade attendance was projected to decrease.

The Board discussed various options for fundamentally reimagining the show to make it more accessible and affordable while maintaining its value for the industry. Staff was instructed to work with selected Board members to develop a plan for rebuilding the Expo, evaluating options for format, location and timing.

Financial Report – The Board reviewed the Association's preliminary financial performance for the first four months of 2008. Trade show and dues income were both better than budget, due primarily to timing factors, and investment income was worse than budget due to unrealized losses in the Association's investments. It was noted that stock market trends continue to present a risk for the Association's financial performance for the remainder of this year.

Audited Financials – The Board was informed that the 2007 annual audit of the Association's financial statements has been completed and would soon be provided to all Board members. The audit opinion was unqualified and no management deficiencies were found.

Investment Policy – The Board approved a revision to the Association's Investment Policy Statement, which establishes parameters for the management of the Association's reserve funds.

Other Issues – The Board heard a presentation on anti-piracy initiatives from John Malcolm, EVP of the Motion Pictures Association and Director of MPA's worldwide anti-piracy operations. Additionally, the Board discussed federal anti-piracy legislation, other government affairs issues, and the status of iDEA's "Project Mercury" e-commerce network for independent video retailers.

Technology to Reduce Shrink (and Increase Sales) Examined

Though the term "Benefit Denial" is little known outside of circles of Loss Prevention gurus, you're likely to be familiar with such technologies in the retail marketplace. Simply defined, shoplifters are denied any "benefit" from stolen items.

For example, think about the alligator clip found on clothing which releases indelible ink when a thief tries to remove it in a dressing room or later at home, thereby ruining the stolen item. Or the openly merchandised gift cards that have no value to the shoplifter, and only have worth after being activated at the checkout counter.

On September 22 and 23, EMA hosted a Benefit Denial Summit for the DVD/Blu-ray and video game industries. About forty industry leaders participated including key retailers such as Wal-Mart, Target, and Best Buy, and content providers Disney, Fox, Lionsgate, Paramount, Sony (Home Entertainment), Universal, Warner, Sony (Playstation), Microsoft, Nintendo, Electronic Arts, THQ, Activision, and Ubisoft.

The first objective of the Summit was to discuss, identify, and prioritize "threshold stan-

dards and points of evaluation" for any benefit denial technology. This was accomplished during the first day among retailers, from



their perspective. Additions to this list were made by content providers on the second day – however additional input will be included from content providers and from a wider group of retailers. So far criteria include:

- security from hacking and defeating,
- transparency to the consumer,
- integrity of content over the life of the product,

- seamless and easy at in-store point-of-sale,
- flexibility across packaging types,
- no negative impact on retailers' business models, and
- meets safety standards.

A full list is available by request from EMA. (Email mfisher@entmerch.org.)

The second objective was to identify next steps. A project plan was developed which commits to:

- (a) publishing thresholds and points of evaluation by mid-November;
- (b) distributing a cost/benefit analysis by January 2009;
- (c) piloting and lab testing of solutions in Q4 2009;
- (d) a decision regarding "go-forward" in Q2 2010; and
- (e) widespread launch in Q4

EMA will coordinate this initiative on behalf of its membership.

Annual Report 2008 Now Available

All EMA members should have received a copy of our 2008 Annual Report on the home entertainment industry. This report provides a comprehensive overview and analysis of the home video and video game industries for the year 2008. It is a snapshot of DVD and video game hardware trends, consumer spending, product diversity, the retail marketplace and new and emerging technologies.

Here are some highlights from this year's report:

- The \$24 billion home video market continued to be the largest segment of consumer movie spending by far, accounting for 49% of all consumer movie spending in 2007.
- Video game software sales increased 34% in 2007, to a total of \$8.6 billion.
- Home video generated \$15.9 billion in sales and \$8.2 billion in rentals in 2007.
- Nearly 9 million high-definition discs were sold in 2007, for which consumers spent more than \$260 million.
- It is estimated that, in 2012, sales of Blu-ray Discs will exceed those of standard DVDs and will generate sales of \$9.5 billion.
- Home video spending is projected to increase to \$25.6 billion in 2012.
- Traditional rental stores, dominated by Blockbuster, accounted for 73% of the rental business in 2007. Online subscription rental (such as Netflix and Blockbuster's Total Access) were 25% of the market. Kiosk rental doubled its market share to 2%.
- In 2007 video game hardware sales totaled \$7.04 billion, which represented a 54 percent increase over 2006.
- Sixty-seven percent of American heads of households play computer games.

EMA members may order additional copies for \$19.95 each, and non-members can purchase copies for \$54.95. The report can be ordered in print, CD or PDF formats. To order, go to: <http://tinyurl.com/52thy3>.



Supply Chain Progress

EMA's Operations Committee held its semi-annual meeting with Operations executives from the studios' home video divisions and from both 1st and 3rd party game publishers.

Progress was made, with most studios agreeing to upload and update DVD catalog files regularly to NARM's database. Once populated, EMA member companies will be able to download standardized current title metadata for DVD and Blu-ray products (from participating studios) from one source location.

Recognizing the need for better visibility through the supply chain, retailers and distributors have agreed to standardize communication sent to content providers regarding the accurate timing and quantities of DVDs being returned.

Also to facilitate better visibility, as well as to increase speed to the shelf, the Committee is drafting a "best practice" document for ASN (Advanced Shipping Notification) receiving to be used for staff instruction and training at store level.

Game publishers were strongly encouraged to standardize the placement of UPCs on video game packages. The preferred location, for supply chain efficiency, is the upper right hand corner of the back of each video game.

Retailers and game publishers continue to discuss standards for carton packs and for inner packs for the most efficient shipping of video games.

The next joint Operations Committee meeting will be held in February in Los Angeles.

EMA's Digital Council Presents First "Digital Media Day"

EMA's Digital Council presented its first Digital Media Day Conference at EMA's Home Media Expo in June in Las Vegas. Nearly a hundred retailers, content providers, and other interested attendees packed the day-long sessions.

In one session, Both Centris and Home Video Essentials presented views on the digital video landscape and the future of digital video retailing. In another session, a panel of heavy video consumers (members of the Home Theater Forum) unanimously echoed that digital delivery has to be easy and seamless and it has

to be delivered to the television without adding another set-top box. In later sessions, executives from Universal, Paramount, Lionsgate, and Egami responded candidly to moderator Bruce Eisen's questions about release strategies and marketing digital video, while retailers from Vudu, CinemaNow, MOD Systems, and Zipidee described their approaches and business models.

EMA's First Annual "Digi" Awards were given to iTunes for "Digital Retailer", YouTube for "Innovation" and Paramount honoring "Cloverfield" for Digital Content/Marketing.

EMA's Digital Council is closing in on setting best practice standards for metadata associated with digital video content provided by content providers to retailers, and for standards for unique product identification. Next steps will include completing a glossary of terminology, establishing standards for reverse metadata communication (from retailers back to content providers), and possibly establishing a data synchronization network for digital video content.

The Council will meet in Universal City, CA on October 27.

EMA Welcomes New Members

Retail Members

Music Giants, Incline Village, NV
Video Essentials, Clermont, FL
Video Paradise, E Falmouth, MA
Zipidee, San Francisco, CA

Associate Members

Mozaik Multimedia, Redwood City, CA
Namco Bandai Games America, Santa Clara, CA



Egami's Mitch Mallon (Digital Council Co-Chair (left), presents DIGI Award to YouTube's co-founder and CEO Chad Hurley (center) and Kevin Donohue, responsible for YouTube's Strategic Partner Development.



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EMA Congratulates 2008 Retailers of the Year

Each year during its annual Home Media Expo, EMA recognizes retailing excellence through its Retailer of the Year awards. This year's awards went to:



HASTINGS ENTERTAINMENT, Amarillo, TX—EMA Video Specialist Chain 2008 (r)



VIDEO PLUS & TANNING, Rice Lake, WI—EMA/iDEA Single Store Retailer 2008 (above)

GIANT EAGLE, Pittsburgh, PA—EMA Mass Merchant/Grocer 2008 (above)



NETFLIX, Los Gatos, CA—EMA Online Retailer 2008 (r)

ISLAND VIDEO, Seattle, WA—EMA/iDEA Multi-Store Retailer 2008 (not pictured)