



MGM Direct: The future of our business

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Executive Summary

Objective

Set a path for MGM.com to revitalize its marketing role, increase traffic through user interaction and extend into the future of online media consumption.

Solution

The goals that must be reached to achieve this overall strategic objective are broken out into 6, 12 and 24 month time frames. The 6 month goal is the rebuilding of MGM.com to provide a solid marketing platform. The 12 month goal being to generate an increasing amount of new and repeat traffic. The 24 month goal requires being a player in online entertainment delivery. Below are the requirements and steps necessary to reach this objective.



The first 6 months

MGM.com rebuilt as a robust marketing platform

Rebuild MGM.com to create a strong base platform to market and sell MGM properties and titles. This will handle all ongoing marketing needs but in a more strongly designed and easily maintained way than we have with the current MGM.com. This should be considered MGM.com's base level of functionality. To rebuild MGM.com effectively, several things need to be handled: navigation, content, design. And a few decisions need to be made along the way.

Simplify navigation around major content types. Too much of the current site's structure is organized around lines of business. This creates too many pages which have a small subset of all the products available and overlap products in other categories. For instance, a title that has been recently released on DVD, such as Rescue Dawn, may also be in the PPV window. Having separate sections which each contain the same title is redundant and confusing - to the customer it is a movie and it should be found under the Movies section. To this end, the new site-wide navigation will be as follows with sub-pages listed beneath each top-level page.

1. **Movies** - Marketing page for all feature length releases regardless of delivery format or window. Will contain Theatrical, DVD, Blu-ray, DTV, PPV, VOD titles. Will also be used to expose more of the MGM library.
 - a. Format specific pages may be implemented should the quantity and quality of titles demand it
 - b. Historic/featured library titles
2. **TV** - Marketing page for all episodic titles regardless of delivery format. Will also be used to expose more of the MGM library.
 - a. Format specific pages should the quantity and quality of titles demand it
 - b. Historic/featured library titles
3. **HD** - Marketing page for upcoming stunts and premieres on MGM HD.
 - a. 30-day schedule
 - b. Channel availability and 'request service' functionality
 - c. Targeted information for networks & carriers
4. **Stage** - Marketing page for current and upcoming stage shows.
 - a. Ticket purchasing information
 - b. Multimedia history of MGM on Stage
5. **Store** - Promotes all releases in purchasable formats (disc, download, consumer products)
 - a. All current/upcoming products - Disc

- b. All current/upcoming products - Download
 - c. All current/upcoming products - Consumer Products
 - d. Best of the library page - features staff picks and classic titles
6. **Studio** - Overview page for the studio with links to corporate functions.
- a. Employment
 - b. Executive Management
 - c. Public Relations
 - d. Clips & Stills
 - e. Licensing
7. **Search** - Search field labeled as "Search the Vault".
- a. Browse functionality
 - b. Advanced search

Re-concept title pages. Currently, title pages are somewhat buried and require a user to search to find a particular title page. The new title pages should replace the need for micro-sites. Title pages for the most popular titles should feature high quality multimedia - video, audio, images - in all useful formats. For instance, images should be available in gallery format, wallpapers, hi-res downloads, etc. These pages can be customized to more strongly reflect a specific high-quality title than the current title page format. These pages should allow the user to "geek out" over the title. We currently provide only the briefest information - this is appropriate for casual viewers but it does not service the more engaged user. We need to build title pages that service both.

Content or commerce? Fundamentally, there are two types of revenue generating sites on the web.

The first is very simple - e-commerce sites. These sites exist with one goal in mind. To sell the user a product. Regardless of whether the product is a toaster or a book and whether it is sold by the manufacturer or an online retailer the process changes very little. There are two steps. 1. Tell the user about the product with effective marketing and information. 2. The user clicks 'buy' and completes the sale. The revenue comes directly from the end consumer in exchange for a good or service.

The second is a little less direct - ad-supported content sites. These sites provide content; it may be news, or video, or recipes or anything else. The goal is to provide content that is interesting or useful to the user, get them to spend time on the site (and come back repeatedly) and show them ads for products they might be interested in. Obviously, the revenue comes from the advertisers in exchange for impressions to their target market or actual clicks on the ads.

Where does MGM.com fit into this? Really, we can follow either model but it is very difficult to do both. As a studio, we have a tremendous amount of content so we could certainly fit into an advertising model. We can display content (be it movies, shows, clips, stills, etc.) with the goal of providing the user interesting enough content that they will take in ads at the same time. Alternatively, we can sell our content (be it DVDs, downloads, consumer products, etc.) and direct the user to purchase the product we are promoting.

The difficulty in trying to do both is that we need to send opposing messages to the user through site organization and messaging. In the advertising model, we simply encourage the user to keep looking at new bits of content while we show them ads. Ideally, an ad will match up to their interests and they will leave the site to learn more about the product being advertised. In the direct sales model, we should effectively promote and communicate the message to buy the product the user is interested in. At this point they leave the site to complete the purchase through Amazon.com. In either scenario, once the user leaves we have little

chance of getting them back until a future visit. So we must decide, do we prefer to increase sales of our products or use our content to generate ad dollars. The site structure, content we develop, messaging and flow is different based on this decision.

Redesign everything. The current design is simply a re-skinned version of the MGM.com site from 1999. This is not up to snuff. But a redesign can't just barrel ahead in search of beautiful layouts. It starts with understanding the audience, knowing what results in an effective site and forwarding MGM's goals.

1. **User-focussed.** Every page must be designed with the user in mind:
 - a. Users don't care about MGM lines of business. Organize the way the user thinks.
 - b. Users came to the site for a reason. Don't obscure major titles and releases.
 - c. Users like multimedia. Put it front and center.
 - d. Users gets confused and distracted by limitless choice. Focus the user on NO MORE than 6-7 promos on the home page and slightly more on marketing sub pages. The Store section can increase this number since users expect a broad selection of products when visiting an online store.

2. **Best Practices.** To ensure that the site performs its function these 'best practices' need to be followed:
 - a. An advanced recommendation engine should be developed to ensure that a user can always find an interesting product on MGM.com.
 - b. Pages should be scannable. Layout should be clean and uncluttered with navigation elements easily identified. This means that to the extent possible, automatically rotating promo spaces should be kept to a minimum. These spaces require users to wait to see additional content and can overload the user with options.
 - c. Flash use should be kept to a minimum. Flash is a compiled language which limits remote updates. It also is poor for usability (ignores site styles, breaks mouse scrolling, the back button and screen readers, text can't be selected, content is invisible to spiders, etc.). Flash should be used when it is the only solution that can solve a problem.
 - d. Reduce clicks-to-pages as much as possible. Users hate to wait. Use AJAX where appropriate for instant feedback.
 - e. Make sure all products that can be purchased are easily available to users.

3. **Branding.** Every page must reinforce the MGM brand, its message and its strategy.
 - a. As quoted from Travis Rutherford in a recent MGM press release, "The MGM brand and the iconic logo are synonymous with not only entertainment and creativity, but also a classic and timeless image of Hollywood." This message should be consistent through all pages, designs and communications.
 - b. MGM's strategy moving forward is that it is a player in the emerging entertainment markets whether it be MGM HD, Blu-ray discs or online media delivery. The site should always highlight these recent advancements over traditional products.
 - c. Don't encourage users to exit MGM.com by driving them to micro-sites. This offers little benefit to the user and considerably diminishes MGM's ability to interest the user in other available products. Note: This change will be most easy to overcome for titles outside the theatrical release window. Theatrical Marketing uses micro-sites solely for the benefit of their window and not as a tool to benefit the whole of MGM. This can and will be changed over time.

Summary:

Within the 6 month window, MGM.com will be rebuilt to handle its marketing duties. Decisions need to be made regarding the revenue model which will allow the site's direction to be implemented effectively. Users' needs will be taken into account along with industry best practices and MGM's brand and goals.



12 months out

MGM.com traffic growth and user interaction

Once MGM.com has a stable foundation - it allows MGM marketing divisions to feature their titles in an attractive and powerful manner while building the MGM brand - the next step has to be taken. At this point MGM.com must become more than a place where users simply come to be marketed to. All the studios missed the boat when the web was in its infancy and had the opportunity to own the 'movie fan' space on the web. While many movie sites have large user-bases, the king of all is IMDb.com. Amazon.com bought IMDb several years ago as it saw the natural link between keeping fans interested in movies and linking them to its large DVD store. While I don't believe that any of the studios can dethrone IMDb from its position due to its size and reputation (not to mention the fact that it can freely promote titles from all studios and does not need to tie into official marketing plans), I do believe that there is an area of opportunity where IMDb does not do the most effective job and we can gain some traction - at least for MGM titles. These places are as follows:

1. **Multimedia.** IMDb does have a few stills and a link to a low-res trailer for most titles but with the rapid escalation in broadband penetration, this is an area where MGM can move. High quality multimedia is the new baseline for a movie website.
 - a. Trailers and scenes pulls in DVD resolution for use on the web and in HD for download
 - b. Stills in gallery format, wallpapers, and hi-res download
 - c. Audio clips in MP3 format.
 - d. Original posters for hi-res download and as an internet connected screen-saver
2. **User-to-MGM communication.** Certainly IMDb has forums locked up. This is an area where their giant user-base creates an unfavorable position to launch a competing community service. Instead of a forum, MGM.com should be host to something less wide-open but which still takes advantage of dedicated movie fans and their passion and knowledge of the subject. This will also allow moderation to work for us instead of against us by culling the cream of the crop.
 - a. User essays on titles of their choosing
 - b. Contests allowing fans to create their own trailer for MGM titles
 - c. Polls where movie fans can voice their opinions and preferences
 - d. Trivia challenges (utilizing audio and video) where fans can compete and against friends and strangers
3. **MGM-to-user communication.** The walls are slowly crumbling between the customer and the companies they patronize. This means our marketing should change. While our traditional methods are effective for the broad audience, a more open, transparent connection to the company should be the goal when dealing with more dedicated fans. This communicates the message that the user is more involved with the process and thereby enhances their loyalty.
 - a. Reviews from the pits of hell - Tongue-in-cheek reviews of films from the American International catalog will help expose library titles to dedicated horror and b-movie fans
 - b. Celebrity Picks - Let celebrities announce their 3 favorite movies (at least one must be MGM owned)

- c. Blogs - an insider view of studio operations regarding upcoming releases, celebrity sightings, etc.
- d. Video-casts - put MGM staff in front of the camera to discuss their favorite movies, show trailers, etc.
- e. RSS feeds for the items above to make sure users know about new posts
- f. Twitters - micro-blog updates on moviemaking

Summary:

By strengthening the communication between MGM and film fans and providing high quality multimedia that users can't get elsewhere, MGM is in a position to grow its traffic and encourage repeat visits. Expanding traffic will not only be a boon to our marketing efforts but it will also enhance our ability to sell products directly or run advertising against our content. And this traffic puts MGM in position for the 24 month goals where media consumption will move online.



24 months from now

Utilizing the marketing platform and user-base for a true e-business model

After MGM.com has a more involved user-base created through the actions above, we must be ready to fully operate in an online business environment for entertainment delivery and consumption. While no one knows exactly how this will play out, it is commonly believed that the movie business will go through the exact same hurdles and opportunities that the music business has been going through. Until now our most successful means of holding back the tidal wave has been the pure size of our content. Where music files number in the low megabytes per song, movies number in the low gigabytes - much more for HD. This artificial barrier is rapidly evaporating as terabyte drives (and larger) and 10 megabit connections (and faster) proliferate. The obvious downside is this creates an environment where piracy can mushroom. But a tremendous opportunity lies in the fact that if we move quickly and intelligently, we can deliver straight to our customers while the middle men fight the changing marketplace. A direct to consumer operation allows us to reduce prices to spur adoption while simultaneously increasing profitability by vastly cutting distribution costs and overhead by retailers. Is this an easy path? No. We face hard choices but the opportunity to reclaim what is, in effect, our long-lost theatre ownership and presentation business. Regaining this direct to consumer channel means growing margins and an increasing reliance on brand. We don't know exactly how this will develop but we can make educated guesses.

To get there, we need to move forward on a few fronts to be prepared for the coming sea change.

- Have all movies encoded in a master HD format at 1080p/24. This will be the resolution and frame rate of choice since it reflects the actual recorded image. This will clearly take time to implement so we should start this production now. It is possible that this can piggyback on Blu-ray production since it uses the same spec. The 1080p/24 master can be transcoded to lower bitrate/more sophisticated codecs for online use and should be generated simultaneously. These files should be output in 1920x1080, 1280x720 and 854x480 progressive scan formats. Digital surround sound should be included.
- Distribution mechanisms needs to be in place for delivering much larger files than we do today. This should handle both full file downloads to be played by local offline clients and streamed for in-browser/online client playback. This will prepare us for both potential outcomes - that the display will be fed by a content playback device with local storage or that the computer will merge into the display and will connect to the internet directly.
- Currently, online video rentals mirror the VOD business model. This is an untenable position long-term. Users do not expect to have to think about the window that a title happens to be in. The power of the internet is that all content is always available. We must work through the issues regarding online rentals which would allow a permanent presence. This will require handling clearances and rights issues to make it happen. Not only is this good for the consumer, it is also good for MGM. This allows MGM to have a continuously available library of titles for the user to choose from. We never have to communicate the changing nature of the online catalog; once a title has been released, it will remain in inventory for perpetuity. This puts us in direct competition with our retailers. While normally this position would cause a great deal of conflict, now is the time to take

advantage since our minimum guarantee with Fox for home entertainment limits our potential downside. If DVD sales fall during this transition, we are insulated from any negative effects. Additionally, a direct to consumer approach benefits the studios with the strongest brands and largest libraries. MGM is a major player in both respects yet is small enough to move quickly.

- As an entertainment company we must be very sensitive to territorial boundaries. The internet is not. Certainly there are solutions to this problem from a technical perspective - geo-filtering and the like - but this is merely a hindrance to the consumer. The consumer does not care about business rules. To effectively sell to our worldwide audience we need to start changing the rules in regards to territorial boundaries. Whether this mean forming partnerships or writing addenda to contracts, we must begin to move on this immediately. Our reach and customers are now global and if we ignore this, we push customers to either a vendor who solves this problem or to piracy or to alternate forms of entertainment. We must see this as an opportunity.
- As witnessed by the music labels, DRM has broken their industry. In the movie industry, some note that we have always had DRM on home video formats and therefore the customer has grown used to it. If you look at the situation carefully however, you will notice that DRM was only an inconvenience to a small number of people. This is due to the fact that DRM only caused difficulty for those who wanted to pirate movies and TV. For the larger majority of paying customers there was already an inherent hurdle to tapes and discs - the physical media itself. The flexibility of the content was limited due to the physical size of the media along with the required playback devices. VHS tapes never worked on portable devices or for in-car playback. DVD has caught on more recently for the car due to the reduced size of discs and players but still plays a very small role in mobile consumption. The problem is that you need the playback device and must carry the media with you. As we move into the digital age, users need only files. These files are often synced to the playback device itself. No need to carry media *and* playback systems - a single small device handles both roles. Additionally the files can easily move between devices for the home, car and pocket. Now, the only thing getting in the way is DRM that was meant to be an obstacle to pirates, not paying customers. Users will become increasingly vocal about their dislike for DRM since it now stops them from enjoying the content they purchase in the way that works best for them.

There are no easy solutions to this problem but we must begin to contemplate DRM-free models or we can expect the same fate that befell the music industry. We either become victim to proprietary vendor lock-in or we face moving towards DRM-free media. This is what the music industry is now doing. The DRM-free route will enable vendors on both the sales side and the playback side to proliferate and customers to feel that they can purchase without fear of being beholden to a single vendor for the future or the possibility of unplayable files down the line.

Summary:

The internet is fundamentally changing the relationship between companies and their customers. Traditionally there has been a need for middle-men to take the content we produce and get it into the customers hands. The internet allows us to do this ourselves. It empowers us to communicate directly with the consumer. It reduces our costs. It increases our profits.

We must face the changing nature of our business in everything we do. We have business-to-business relationships that will suffer in the years to come. We must realize that it is not our industry that is being adversely affected, it is the business of the middle-men. Those that simply get our content to the consumer will see that their time in the sun is fading. This will be hard. We have partners at cable operators for PPV and VOD. We have partners in the retail space for DVD and Blu-ray. We have partners at the local affiliate level for syndication of TV and movies. All these models will fall away as we move direct to consumer.

We must begin to ramp up now. We must begin to shift staff and priorities toward online delivery and away from traditional models. If we don't begin now, customers will find other forms of entertainment that fits their lifestyle and usage patterns. The power is in our hands - we just have to commit to moving forward.



Making it happen

Realign MGM.com department into MGM Direct

Under the plan outlined above, the team that constitutes MGM.com will need to acknowledge an expanded role within the company. MGM.com should become MGM Direct. This will reflect the group's unique role within MGM of being the only group that is solely direct to consumer. This does not mean expanded costs or head-count. Just a realignment in priorities and responsibilities. This would encompass:

- **Carry out the plan outlined in the 6 and 12 month portions of the strategy.** This is the most urgent need for MGM. This will provide MGM with a solid foundation to build upon for all its online initiatives.
- **Take a leadership role in the 24 month plan.** The goals within this period will involve groups throughout the company including MGM Direct and can not be completed by any one team. However, MGM Direct will help to focus and advise the group in an ever-changing online marketplace and ensure that forward progress is being made.
- **Become the consumer advocate within the company.** Now that we must maintain a direct relationship with the end consumer, we must ensure that we are developing strategies and models that will work effectively. This role will be strictly advisory to any group that wants to begin reaching out to the end consumer with products or messaging.
- **Take on the role of brand management.** This function is not currently owned by any group within MGM. This has resulted in incorrect logo usage and treatments for MGM and its sub-brands on major releases. This role will mainly consist of preparing style guides and brand standards so all divisions will utilize consistent logos, colors and messaging in their promotions.

Summary:

To move forward into the changing internet-based entertainment industry, there needs to be a department with an expanded role to develop relevant online strategy, communicate with the customer directly, and maintain brand standards for the company. Clearly the most overlap is with the existing online group. These added responsibilities will not increase expenses to the company but will task the group with focussing on future online innovations and content alongside its role to provide a solid marketing platform. Realigning this group to become MGM Direct will deliver the outcome the company needs.