

DEG Home Entertainment Supply Chain Study

**Studios and Retailers Collaborate to Optimize the
“Last 100 Feet” of the DVD Consumer Experience**



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Executive Summary

The Home Entertainment industry operates in an ultra-competitive marketplace. Rapidly changing consumer preferences and socio-economic factors, shortening product life cycles, power shifts with retail and distribution trading partners, increasing numbers of SKUs, the blurring of category definitions, and unprecedented global competition all combine to create an environment where the ability to manage and leverage the DVD Supply Chain and flow of data is critical.

The major Home Entertainment studios maintain intricate global operations which require the effective use of global supply chains. Optimizing demand and supply across this global business is one of the most significant, ongoing operational challenges.

The Digital Entertainment Group (DEG) commissioned Capgemini and Teradata to perform an industry-wide assessment of the entertainment supply chain, analyzing the “last 100 feet” of the retail store level. The DEG Home Entertainment Supply Chain Study, the first of its kind to bring the entire home entertainment industry together, included participation from eight major home entertainment studios, five key retailers, and three merchandisers in an effort to reduce supply chain inefficiencies.

The study revealed several challenges and opportunities for improving the DVD supply chain, enhancing the relationship between retailers and the studios, and optimizing the purchasing experience of consumers. Some key challenges included:

- Inconsistent adherence to scorecard metrics:

- Studio improvements are not recognized by retailers
- There is a lack of scorecard alignment
- Inconsistent use of Advanced Shipping Notices (ASNs)
- Lack of sales and demand chain planning optimization
- Lack of collaborative forecasting
- Poor timing between merchandiser resource deployment and product arrival at the retailer
- Lack of item data synchronization
- Inaccuracy of on-hand, retail inventory levels

These obstacles, while endemic throughout the home entertainment industry, were not evident across several of the participants’ supply chains, demonstrating significant room for improvement within the industry as a whole and a few best practices.

Given the steep sales decline of the new release DVD (traditionally generating 50% of its life-cycle sales within eight days of the street date), this supply chain has a relatively, well-developed order placement and fulfillment process, compared to other consumer products with similar product lifecycle characteristics. The Study Team analyzed the Product Lifecycle Management (PLM) characteristics of key consumer products segments that utilize the same retail channels in order to identify best practices. Those included: luxury brand shoes, cosmetics, junior miss fashions, electronics, and grocers.

Additionally, the study uncovered exciting and unprecedented opportunities in Data Synchronization and Retail Execution to optimize the DVD supply chain across the “last 100 feet” of store floors, and thus, the consumer buying experience.

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According to the Video Software Dealers Association (VSDA) 2007 Annual Report, consumer spending on home video is nearly three times greater than that of theatrical box office with consumer spending on home video in 2006 exceeding \$24 billion. Sell-through accounted for over \$16.5 billion and rental generated \$8.5 billion. Mass merchants had a 43% market share of sell-through, while public chain video stores had a similar percentage. Online rentals accounting for 16% of consumer spending.

As 88 million U.S. households are DVD capable and 55% of those households have more than one DVD player, it is obvious that every opportunity to improve the delivery of the physical DVD and to create “perfect orders,” should be analyzed and evaluated. It is the hope of the Study Team that the contents of this report will help prioritize those action items.

The following report further defines the background of the DEG Home Entertainment Supply Chain Study, the methodology, and the critical findings and recommendations to help studios, retailers, and merchandisers maximize supply chain efficiencies, enhance the customer experience, and drive revenue growth.

**This document includes excerpted highlights from the comprehensive research report

Project Overview

Background

The DEG and the Entertainment Supply Chain Academy (ESCA) solicited the services of Capgemini and Teradata to conduct a unique assessment of the Home Entertainment supply chain. The fact that the study sponsors (the studios) were collectively interested in collaborating and exploring opportunities for improvement within their industry was noteworthy, as this type of study had never before been undertaken. The project was launched due to the DEG's recognition that optimizing the supply chain provides for an industry-wide benefit and does not infringe upon any studios' competitive advantage in the marketplace.

The fundamental purpose of the study was to identify specific recommendations that would generate significant improvement within the retail execution of the physical DVD. Throughout the course of the research, it was evident that there were numerous opportunities to

improve the relationship between retailers and the studios, as well as enhance the purchasing experience of DVD consumers.

The Study Team had two primary directives in conducting their research: 1) ensure all confidential information gathered on a particular studio, retailer, or merchandiser would be kept confidential, 2) study output would not betray the trust of the participants.

Particular attention was paid to both the Sherman and Clayton Anti-Trust Acts, specifically around avoiding any form of restraint of trade.

The Study Team entered into non-disclosure agreements with each of the 8 studios and adhered to the agreements through the duration of the study. All propriety

information collected has been kept confidential and will remain as such.

Approach

The Study Team commenced work with in-depth interviews across the senior management ranks of the studios' home entertainment divisions, retailers, and merchandisers.

The first round of interviews focused on defining the true scope and direction of the initiative, as well as uncovering any hesitation within the steering committee.

The DEG Steering Committee, which consisted of 10 senior executives from the 8 studios, was specifically asked questions regarding:

- Strengths and weaknesses of their individual supply chain
- Their working relationship with the various retailers and merchandisers in scope
- Perspectives on industry trends and concerns.

The Study Team then conducted operational interviews within the studios to uncover details around the studios' problems with the DVD supply chain.

From these initial interviews, a detailed "Interview Guide" was created for use with the retailers and merchandisers. The interviews were conducted in a manner that elicited straightforward, reliable feedback, detailed recommendations, and an honest appraisal of the current state-of-the-state between the studios, merchandisers, and retailers.

The feedback provided the foundation for the recommendations contained in this report. To confirm the results of the team's retail and merchandiser



Figure 1: Supply Chain Study Participants

Studios	Retailers	Merchandisers
<ul style="list-style-type: none"> ■ 20th Century Fox Home Entertainment ■ Image Entertainment ■ Lionsgate ■ Paramount Home Entertainment ■ Sony Pictures Home Entertainment ■ Universal Studios Home Entertainment ■ Walt Disney Studios Home Entertainment ■ Warner Home Video 	<ul style="list-style-type: none"> ■ Best Buy Co., Inc. ■ Circuit City Stores Inc. ■ Costco Wholesale Corporation ■ Target Corporation ■ Wal-Mart Stores, Inc. 	<ul style="list-style-type: none"> ■ Anderson Merchandisers, L.P. ■ Mosaic Sales Solutions Holding Company ■ SPAR Group, Inc.

Source: Capgemini

“The lack of ASN usage is a significant process failure in the last 100 feet of the supply chain and causes inaccuracies in on-hands counts, stock-outs, invoice discrepancies, and an increase in receiving time.”

findings, several in-store investigations were conducted. These “store walks” were held to increase the team’s understanding of retailer and merchandiser daily, in-store operations.

Following the data collection period, the team began its process of data synthesis, calling upon the collective experience of the team members, the data repositories of best-in-class supply chains, and leading practices found within other consumer products industries.

Several critical issues across the mega processes of retail execution and data synchronization were uncovered. Within each of the priority issues identified, the Study Team isolated the root cause. The team outlined the characteristics of the root cause and were then able to identify possible short and/or long term solutions.

At the end of the process, to maintain the confidential nature of the findings and observations, each studio, retailer and merchandiser received a customized report detailing the findings pertinent to their organization along with specific people, process or technology improvement opportunities.

Generic highlights and recommendations across the supply and demand chain relationship between studio, merchandiser and retailer are addressed in this report with the intention of generating industry-wide momentum to address and resolve some of these issues.

Findings & Recommendations

Data Synchronization: Standardizing Information from Studio to Consumer

Data synchronization issues generate problems throughout the supply chain. Figure 2 delineates just a few pieces of information most important to the Home Entertainment supply chain. The chart reflects the responsibility of each link in the supply chain (second column) and the most significant data synchronization problems that arise (shown in yellow) within each link.

Each segment is responsible for critical information, which adds to the complexity and difficulty in managing data synchronization. Figure 3 portrays the supply chain, with the yellow boxes indicating potential points of data synchronization failure covered in this study.

To alleviate this issue, the team developed the following four recommendations.

1. Encourage 100% Usage of ASNs by Retailers

During the course of retailer investigation, the Study Team saw numerous examples of inconsistent use of Advanced Shipment Notices (ASNs). In some cases, ASNs are systematically ignored in favor of manual inventory counting and reconciliation with shipping documentation. Also, in some cases, retailers will use the ASNs and manually count inventory to verify accuracy of the ASN. This causes even more bottleneck issues in the receiving process. The lack of ASN usage is a significant process failure in the last 100 feet of the supply chain and causes inaccuracies in on-hands counts, stock-outs, invoice discrepancies, and an increase in receiving time.

Using ASNs is not only a supply chain optimization strategy for today, but will also realize benefits when retailers fully embrace RFID technologies in the future. Establishing the proper supply chain procedures, including transactions from the studio, distributor, and retailer in both directions, will provide a simple transition when RFID data is integrated. Although RFID tracking will provide more accurate counts for on-hands and along the supply chain, verification of product counts at each point of potential failure will keep reconciliation issues simple and act as a standardized fact-checking procedure.

2. Standardize the Item Synchronization Process

The study showed that the lack of data

synchronization between the various trading parties is generating several thousand hours worth of manual intervention to correct human errors in data entry. The benefits of correcting these issues include the simplification of corporate reporting, fewer invoice disputes, improved visibility of stock level planning, returns reduction, and improved order accuracy. A manual approach to fixing inaccurate data is often costly and ineffective, resulting in receiving errors, ASN failures, invoice discrepancies, and lost sales. Both 1SYNC and Agentrics manage Global Data Synchronization (GDS) standards.

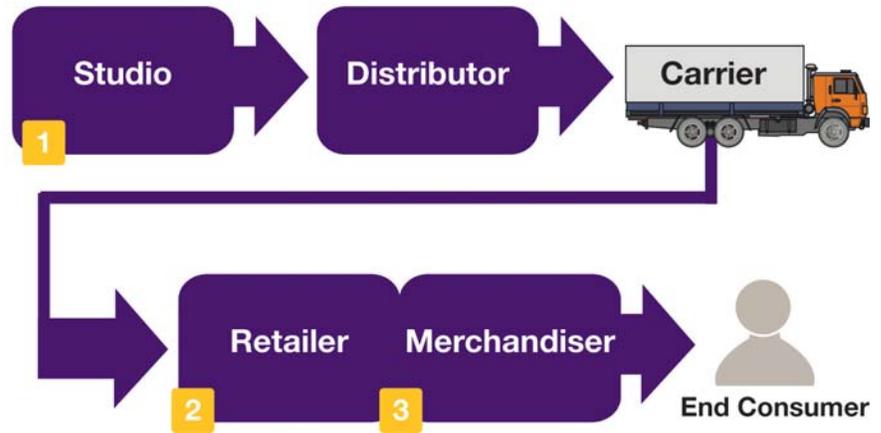
The study found that some studios use an 832 (Item Catalog) EDI transaction to facilitate the item set-up process for

Figure 2: Data Synchronization Examples

Segment	Data Uses & Responsibilities	Data Issues & Recommendations
Studio	Generate item info, sales order creation, invoicing	Issue: Inaccurate, untimely information Recommendation: Standardize item info through a centralized database
Distributor	Confirm orders via ASNs, pick & pack, and ship	Out of scope for the purpose of this Study
Carrier	Pick up order, provide status and deliver (POD)	Out of scope for the purpose of this Study
Retailer	Receive order, perform on-hand inventory and post POS data	Issue: Discrepancies between items shipped vs. items received Recommendation: Use ASNs to ensure 99.98% accuracy
Merchandiser	Scan shelf inventory levels	Issue: Discrepancies between merchandiser vs. retailer shelf counts Recommendation: Determine which count is more accurate to further address this issue

Source: Capgemini

Figure 3: DVD Supply Chain Flow



Source: Capgemini

“There are innumerable factors that contribute to retail on-hands inventory inaccuracy (e.g. shrink, inaccurate inventory adjustments upon receipt of products).”

some retailers, while other studios utilize Agentrics and/or 1SYNC to manage item synchronization. Some studios then send Excel flat files to a few customers for their retailer item set-up process. Overall, there are various paths that are being taken to manage this process and, as a consequence, there is confusion within the retail community. This ultimately leads to data failures that affect perpetual inventory counts.

3. Improve On-Hand Inventory Accuracy

On-hand inventory accuracy refers to whether the inventory levels reported by the retailer are correct reflections of their true inventory levels. The study found that retail on-hand inventory accuracy is their primary area of concern. Inaccuracy occurs when the reported inventory counts from various parties—the studio, merchandiser, and retailer—do not match. Several important questions arise such as:

- Which count, if any, is accurate?
- What factors are contributing to these discrepancies?
- What should be used as a trigger for re-order?

Without an accurate on-hand inventory count, many problems arise, with the two extremes being out of stock and excess inventory which often occurs simultaneously on different titles.

Inventory stock-outs result in lost sales or unrecognized revenues. Excess inventory results in returns and increases freight and distribution costs. Additional problems include increased processing costs, increased inventory costs, and potential for theft, among other risks.

The crux of this problem is its complexity. With thousands of SKUs to manage, each and every item may have a separate demand/decay curve, inventory accuracy, return rate, etc. The problem must be managed at the individual store/SKU level, not by average inventory statistics.

“Open-to-buy” limits are one such measure that masks inventory shortages. There are innumerable factors that contribute to retail on-hands inventory inaccuracy (e.g. shrink, inaccurate inventory adjustments upon receipt of products).

Furthermore, there are numerous stakeholders that contribute to this problem (e.g. merchandisers unable to locate products, carriers with delayed shipments).

4. Improve Forecasting Capabilities through Effective Global Demand Planning

The demand planning future state for the Home Entertainment industry needs to address several complicating factors including:

- Differences in the demand dynamics and structure of trading relationships between each studio and individual retailer
- The lack of consistent business processes across each retailer
- A need for more integration between pre-release demand forecasts through replenishment (VMI) forecasts, as well as between sales forecasts and real life, statistically-based forecasts



- Differing levels of maturity in organizational governance and KPIs
- A significantly complex IT environment with a variety of planning, execution, and business intelligence applications.

At the same time, it is important to recognize that simply upgrading a few technology solutions and standardizing some tactical business processes is not enough. It is fundamentally important that any Global Demand Planning initiative support the strategic bigger picture within the home entertainment division—from both a business and IT perspective with the business and IT communities aligned tightly to ensure success.

Retail Execution: Optimizing the “Last 100 Feet”

The most critical component of the DVD supply chain is retail execution—if the product is not on the shelf, there will be no sale. The ultimate success of the entire supply chain operation can be evidenced by whether or not the consumer can find and purchase the right DVD for their needs.

Unfortunately, retail execution is also one of the most complicated areas to streamline and improve upon, as issues originating from all facets of the supply chain flow downstream to inhibit retail execution. The following are excerpted findings from the study in relation to retail execution:

Stakeholder Involvement

Studios should continue to engage with retailers on sales calls, in planning meetings, and through technical developments to ensure that all stakeholders are present for oversight and facilitation. This will ensure that all parties are informed and up to date with the latest data.

Initial Stock Allocations

Initial stock allocations for new release titles are not always correct.

Using a Demand Chain Management solution instead of the current speculation-based forecasting methods would greatly improve the accuracy of initial stock allocation counts. Implementing intelligent solutions such as this across the supply chain for sales, manufacturing, shipping, and replenishment forecasting would avoid many issues regarding over-stocks and out-of-stocks.

Carton Labeling

Accurate carton labeling can be achieved by using data from price sticker to capture how many location traits/item combinations are packed in a carton, per order. This data flow can be incorporated into the order process (VMI, ERP, and EDI systems) and at the point of distribution generating a carton label that can facilitate proper product placement on the retail floor. Single product cartons, by contrast, will have only one title, but may have different locations listed on the label.

In the short term, focusing on the top 100 stores and instructing distributors to manage the labeling manually can facilitate efficiency gains while maximizing sales potential in fast moving stores. To assist in the manual labeling process, studios can review replenishment strategies and identify groups of traits that can be ordered together in their systems that will generate replenishment by traits.

ASN Usage

Improper ASN usage is another high-level theme this study has found to be common to many retailers. A 2003 Efficient Consumer Response (ECR) study of retail supply chains in Europe found that of all shrink experienced in the supply chain process, 27% was attributed to process failure. With the correct fact-checking transactions in place, such as ASNs, the studio and retailer can identify where product loss is occurring and focus their efforts to control those weaknesses.

Collaborative Planning

Respective departments (Marketing, Sales, Manufacturing, Distribution, Accounts Receivable, Information Technology, Customer Service, etc) must establish a process where stakeholders meet to plan all major initiatives to ensure “one collective voice” is heard by retailers. Using a collaborative approach, rather than simply sending a marketing strategy over to the supply chain and hoping for the best, will ensure that every stakeholder is involved in the decision-making and retail execution processes.

Standard Returns Scorecard

Studios might consider developing a standard returns scorecard, where the issues circulating around credit and collections management due to non-studio product and accurate information can be mitigated. Also, developing a standard returns scorecard will help retailers track their progress and can be applied to all retailers lacking a standardized returns management process.

Shrink

Studios can develop a tracking mechanism to help identify “hot spots” where there are potential points of failure in the supply chain that open opportunities for shrink. The development of a tracking mechanism that can inhibit the opportunity for theft when there is a way of monitoring the process failures is another approach that should be considered.

Merchandiser Partnerships

Studios should develop stronger partnerships with merchandisers. Getting merchandisers involved upstream can be advantageous to studio initiatives ensuring expectations are established in the early planning stages. Furthermore, the studios can consider an incentive program, with the merchandisers, with the appropriate disclosure to the retailers. Common goals can be agreed on based on in-

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stock percentages, returns accuracy, and percent of sales. With the merchandisers having a vested interest, they can also be part of the studios’ and retailers’ financial goals. The establishment of an incentive program can boost sales and also create efficiency.

Studios can review the possibility of subsidizing newer technologies to help create efficiencies and reduce mistakes. Studios can review the various merchandising companies’ technological shortcomings, assist in regards to their technology roadmap and demonstrate which capabilities are currently available and compatible to the supply chains needs. With all merchandiser recommendations in effect, a significant improvement in efficiency can be achieved in the last 100 feet of the retail floor.

Returns Processing

In the current state, the returns process is unorganized and inefficient. To illustrate this point, there continues to be issues with regards to studios receiving non-studio products. Moreover, there are also problems around dispute management, credit

and collections, and reconciliation. Furthermore, studios have no visibility from what is truly being returned.

Also, there are two different types of authorization policies in place: 1) an open return policy and 2) a returns authorization process. In theory, the returns authorization process was designed to minimize control and track returns. However, in reality, this process is laborious and time-consuming—from the point of the retailer obtaining a returns authorization, to the point of incorporating returns information to the returns processing center, to the point of credit and collections reconciliation during the dispute management process. As a result, an open return policy would actually be a more efficient and cost-effective approach.

Reverse Logistics

Reverse logistics technology is another area the studios can consider. There are 3PL companies, such as FedEx and UPS, who offer reverse logistics technology that will facilitate returns and create a greater amount of visibility early on in the returns process. This technology can assist in balancing perpetual inventories, managing inventories at the distributor, and efficiently managing credit and collections. Other additional innovations offered by reverse logistics technology:

- Investment recovery management
- Automated web pages
- Special returns software

Additional services can include proactive calls to arrange pick-up, validation of returns authorization numbers, screening of non-program products, audit and payment of freight bills, one master invoice, and specialized return pick-up management.

Corrugate

There are many existing areas of improvement for corrugates.

1. In-Store Displays should be dimensionally standardized. This particular improvement area was reiterated by both studio and retailer representatives.
2. Replenishment isn't executed in a timely manner. If not replenished by the Thursday of street date, corrugate tends to be removed prematurely.
3. Poor design can cause safety hazards and traffic flow impediments (e.g. certain corrugates with protrusions at the eye level of toddlers).
4. Overly complex design and setup deters store managers from displaying. A simpler design would tend to be utilized while others never see the light of day.

Furthermore, when the topic of corrugate was discussed with merchandisers and retailers, all participants expressed their willingness to be consulted on the physical design of the corrugate itself. The artistic design elements were also a major concern.

Replenishment Strategy

Studios and retailers should review the replenishment strategy for all stores and identify those that can be replenished by trays given the fact that small parcel carriers like UPS and FedEx can react faster than Less than Truck Load (LTL) carriers. Also, coordination with carriers to stagger pallet shipments to stores can help manage pallet-level replenishment. Carriers can pick up pallets and hold a reserve stock in the hubs which are logistically closer to the regional stores they service. This process can save up to 2 days in replenishment windows and pallets can be replenished with a short turnaround time.



RFID

RFID (Radio Frequency Identification) continues to be an undiscovered opportunity for the home entertainment divisions of the major studios. During the initial rush in the early 2000's to satisfy mandates from retailers (both in the US and Europe), each studio examined RFID and the potential it could have on the general supply chain at the case and pallet level. While some studios continued to support the case/pallet level adoption path, others (like many consumer products companies) have taken a less aggressive stance in early adoption. In a similar vein, the retail adoption curve of RFID has been slower than previously expected.

Packaging

The Study Team identified two major areas of improvement within packaging: 1) Amaray casing and 2) labeling and stickering.

Amaray casing can be reduced in size, which instantly lends itself to many advantages: easier to ship, ability to fit more on shelves, reduction in manufacturing raw materials, and reduction in waste. Similarly, the Amaray case can be designed to be thinner and more eco-friendly by using less and/or recycled material. This will save on materials costs, as well as address spacing, shelving, and shipping issues.

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Standardization of the following would have significant effect on making the last 100 feet more efficient:

- DVD shrink wrap
- Top or side spine labels for Widescreen versus Full Screen versions
- Front cover labels for Widescreen, Full Screen, and High Definition/Blue-Ray.

These standardizations will assist in the replenishment cycle, prevent titles from being placed in the wrong location, and facilitate the merchandising process.

Consolidated Shipments

Shipping products with similar traits together, will also streamline the retail replenishment process. To accomplish this, studios can adjust and improve upon their VMI/traits systems to generate orders by similar traits. This, in turn, will result in the products of similar traits being shipped together. The studios will need to work with their distributors as it relates to a pick & pack process that can manage the uniformity of product packed in the shipper box.

Conclusion: Moving Forward with Supply Chain Improvements

As the product lifecycle of the standard format DVD plateaus, the studios, and every company tied to the revenue stream, must take a hard look at the

cost structure of the DVD supply chain. While the studios have enjoyed the tremendous popularity of the DVD product over the past 12 years, sales over the last couple of years have leveled off, impacting the bottom line. Without increasing sales, the pressure to improve margins increases.

In previous years, negative impacts to profit margins were seen as simply a cost of doing business. However, today this is unacceptable, and every opportunity to improve margins, and understand the origin of unnecessary costs is being explored. These costs will have a negative impact on the ultimate longevity of the DVD product itself.

The DEG Supply Chain Study identified several key areas where improvement in the logistics, distribution and retail execution could be made. While the report identified specific areas for improvement within each studio, the far more important, and impactful recommendations were areas where the industry as a whole could work together.

The most substantive areas included inventory accuracy and the need for better demand planning to avoid costly and unnecessary reverse logistics. The industry agreed to tackle these major opportunities by working collaboratively through structured workshops. These results-oriented workshops were held in Capgemini's Accelerated Solutions Environment that utilizes high-performance group creativity and collaboration to accelerate key decision-making and develop breakthrough solutions and action plans in days rather than months.

As each studio has committed to working on the most critical issues together, significant improvement in the supply chain and the overall consumer experience is well within reach.

Digital Entertainment Group (DEG)

The DEG is a Los Angeles-based, industry-funded nonprofit corporation that advocates and promotes the many benefits associated with DVD and digital entertainment while providing updated information regarding the format to both the media and the retail trade. The DEG offers a forum for member companies to engage in ongoing discussions concerning various opportunities, which relate to other new digital technologies, the environment and other emerging topics. The DEG can be reached at 310-888-2201, via e-mail at getinfo@digitalentertainmentinfo.com or through its Web site at www.degonline.org.

Entertainment Supply Chain Academy (ESCA)

ESCA is made up of the Digital Entertainment Group, Divendra Mishra, and Martin Porter & Associates, dedicated to offering various forums to entertainment senior management with 3 objectives: 1) To educate on changing dynamics and technologies in the entertainment supply chain, 2) To provide networking opportunities, 3) To deliver best practices examples and case studies that can assist entertainment companies in developing their individual supply chain strategies and partnerships. Program director Devendra Mishra has been a senior executive at such companies as RCA-Ariola Records, LIVE Entertainment, VCL-Carolco, Lieberman Enterprises and Technicolor, Strawberries Records and Tapes and International Multifoods. Martin Porter has been providing information resources to entertainment technology professionals for more than 25 years. His company, Martin Porter Associates provides consulting services to a range of trade and consumer events including the Consumer Electronics Show (CES), Audio Engineering Society (AES), National Systems Contractor Association (NSCA), and the International Recording Media Association (IRMA).

Teradata



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through a global delivery model called Rightshore®, which aims to offer the right resources in the right location at competitive cost. Present in 36 countries, Capgemini reported 2007 global revenues of EUR 8.7 billion (approximately US\$12 billion) and employs over 83,000 people worldwide. More information is available at www.us.capgemini.com.

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