

From: Schwartz, Daniel
To: Frederick Foy; Shear, Matthew; Tallberg, Anne Marie; Baldacci, Matthew; Foy, Fritz
Sent: 11/19/2009 2:07:29 PM
Subject:
Attachments: Digital Trade Slides v43.ppt

Plaintiffs' Exhibit
US v Apple
12-cv-02826
PX-0088

Good morning,
Attached please find the digital trade board presentation from Tuesday.
Thanks

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Digital Trade

Discussion Document

Board Meeting
November 2009

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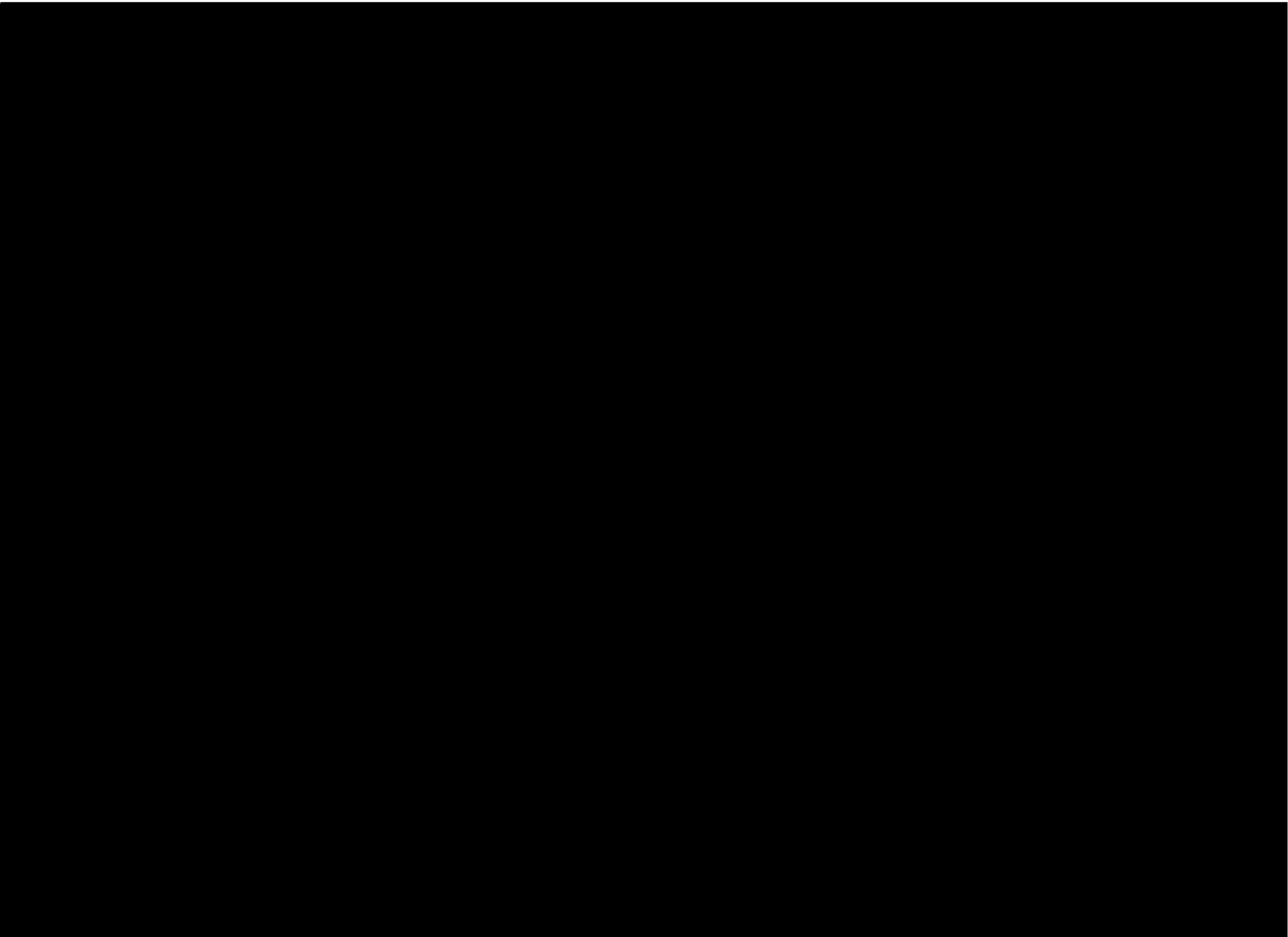
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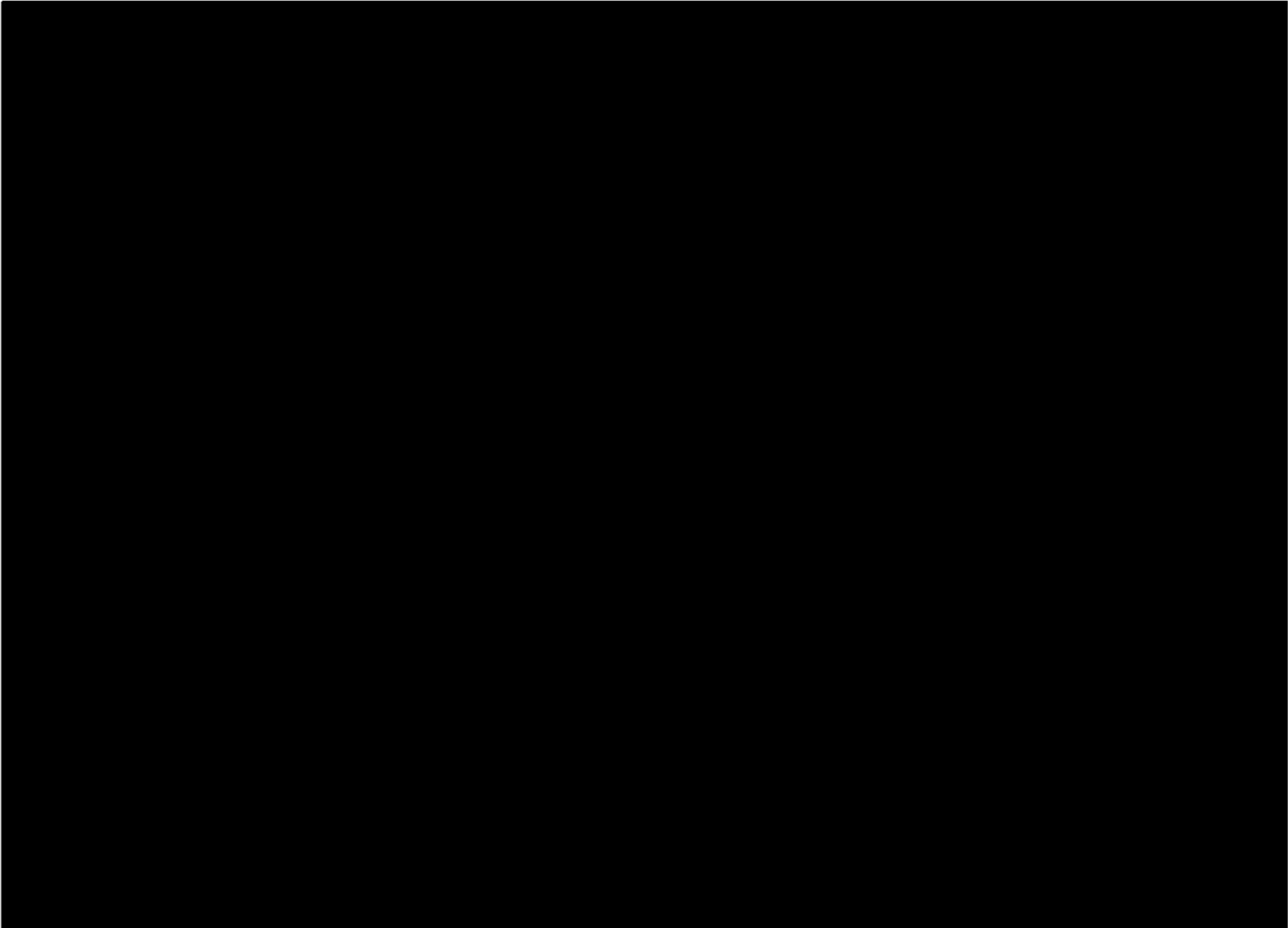
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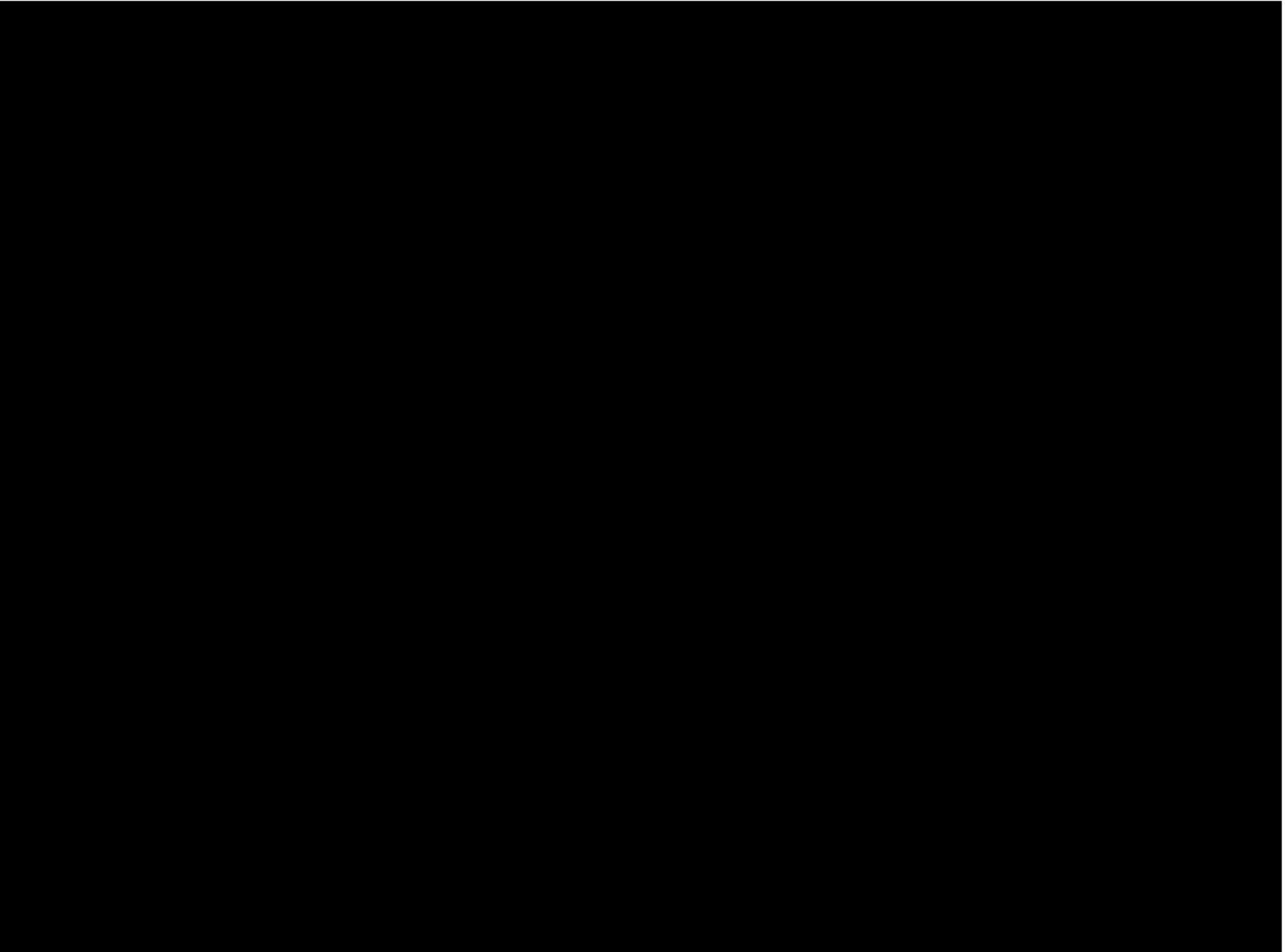




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Agenda

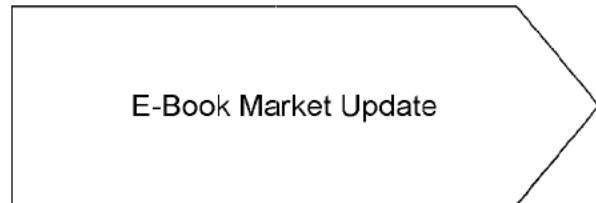
- Piracy
- Digital Strategy and eBooks
- Digital Workflow and Trade Efficiency



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Section 1: Market Dynamics

Market Dynamics



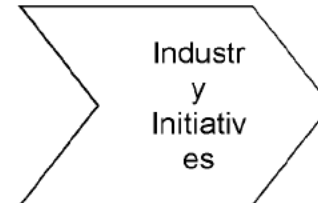
- Size and growth of digital book market in the U.S.
- Economic implications caused by dominance of Kindle platform for Amazon.com, other retailers and publishers

Macmillan Strategy



- Strategic goals for digital
- Strategic framework: progress to date and plan for 2010
- Digital infrastructure: progress to date and plan for 2010

Competitor Response



- Competitor market actions
- Discussion of proposed industry initiatives





Summary – Market Dynamics

- The eBook market continues to grow rapidly fueled by platform evolution and increased eReader penetration; Macmillan is participating in that growth
- The market remains in its infancy, and the rapid pace of change presents many challenges as the formats, platforms, channels, competitors, and “rules of the game” change almost weekly
- Amazon and the Amazon Kindle continue to aggregate market share; none of the commercial competitors appear to have gained much traction yet
- Retailers continue to pressure publishers to lower DLPs; Amazon has been most aggressive
 - Most publishers, including all of the Big 6, are holding the line on hardcover digital list prices
 - Amazon has subtly changed their pricing and is no longer losing money on every eBook
 - OUP has recently lowered DLP on some new releases to 55% of hardcover list
- A significant number of new devices, platforms, and retailers are poised to enter the market in 2010
 - Many of these enable easy consumption of free / inexpensive content
 - A new generation of high rez, color screens are expected within 12 months (iTablet, Mirasol)
- Most significantly, it appears that book piracy is a large and growing problem – and will only be made worse with the entry of more devices

To address the challenges and opportunities, Macmillan’s strategy must support the development of a viable “paid” market for eBooks based on a competitive retail environment

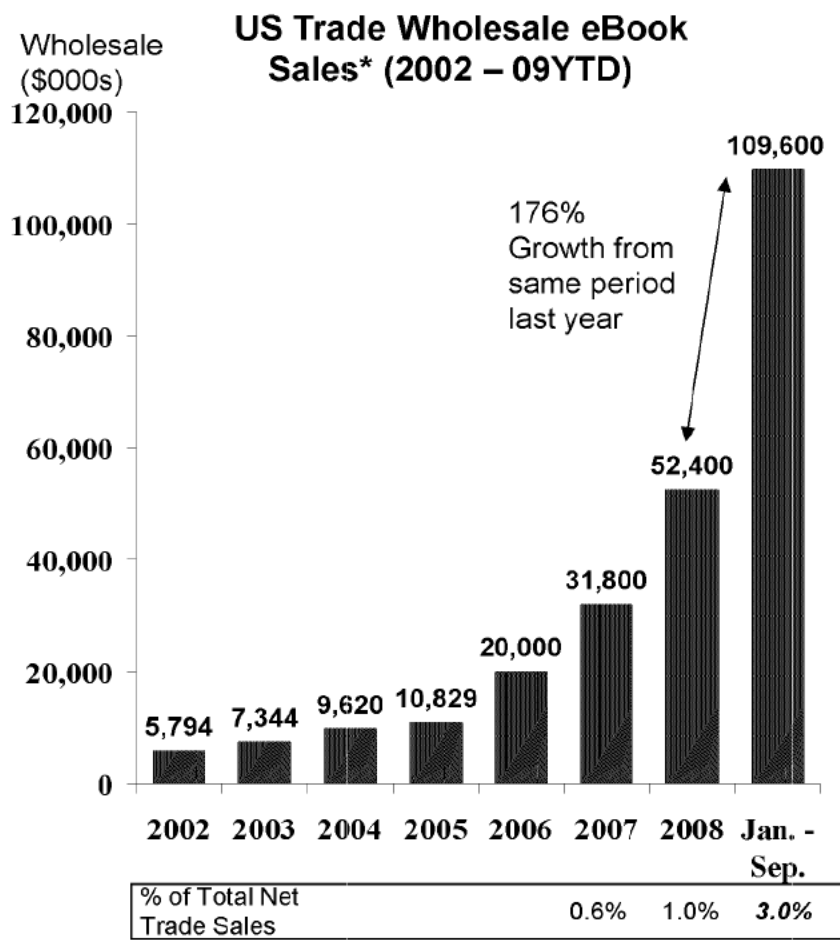




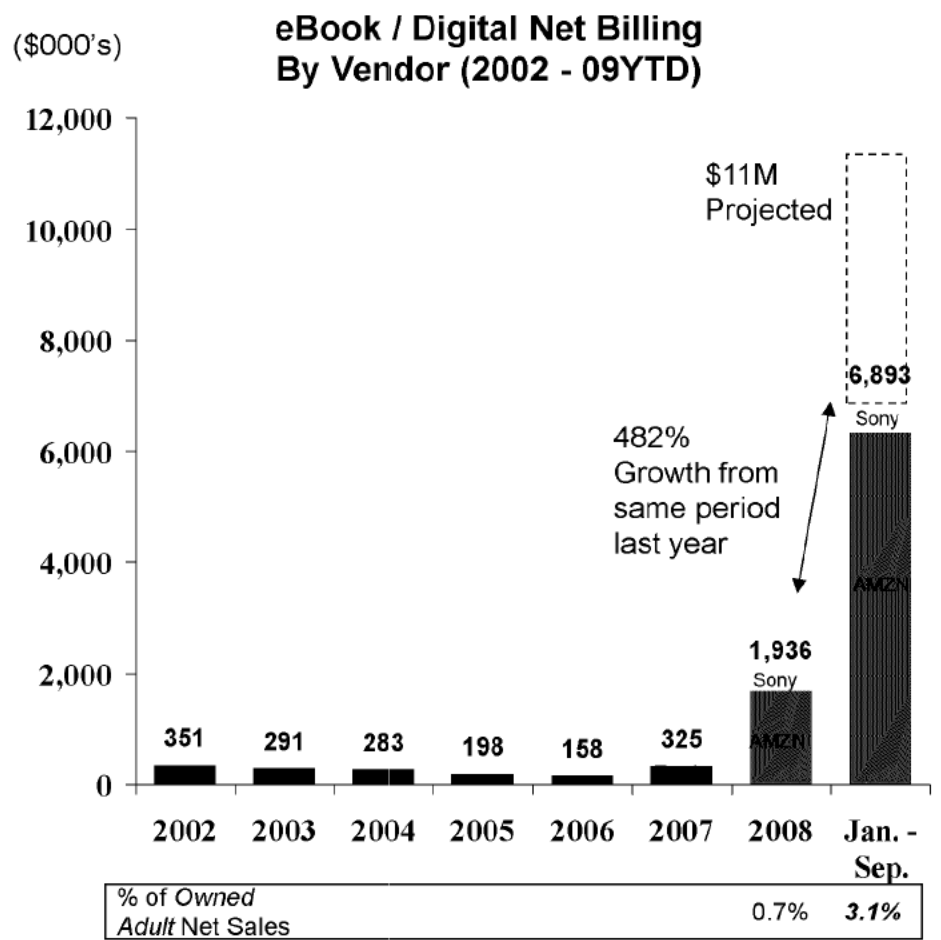
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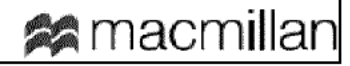
eBook sales for both Macmillan and the market as a whole have continued to grow rapidly



Note: *IDPF monthly tracking data, Trade eBook sales via wholesale channels as reported by publishers; Trade Net Sales Per AAP



Note: Owned adult net sales excluding eBooks and audio



A year ago I announced that I was optimistic that Kindle \$54K in sales in February. Hopeful. Can Amazon succeed at being a device company, or are they just the booster rocket?

Mac: Owned Adult Sales 336.6M in 08, and 64.3 in Q1

AAP: Adult 425.2 (3.6%) Trade 625.7 (2.5%) (Net Sales Jan/Feb could shade things with returns, don't have AAP gross sales numbers for jan/feb





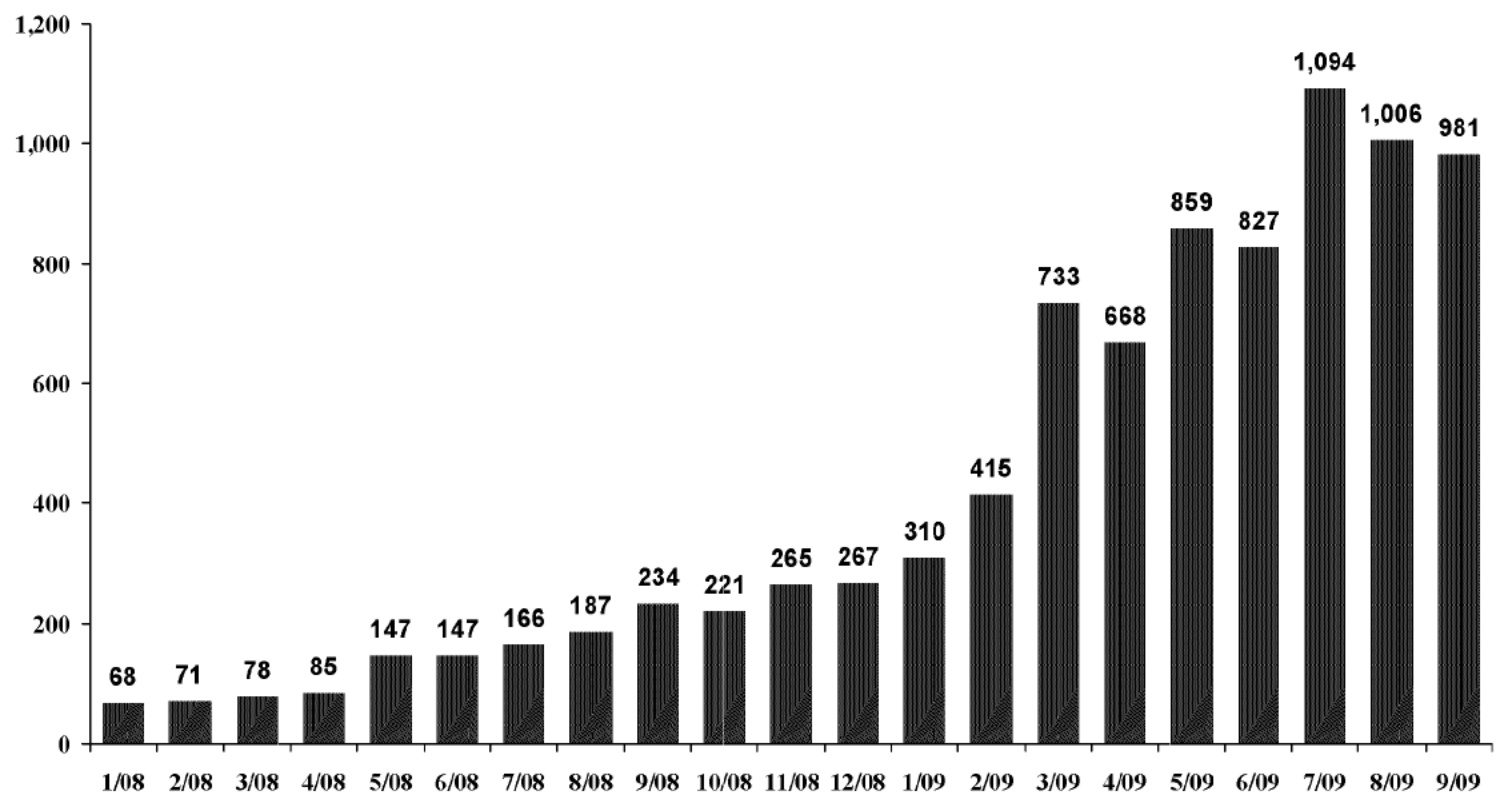
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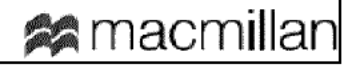
After months of rapid growth, e-book sales have steadied at approximately \$1M / month recently

Monthly eBook / Digital Net Billing (2008 - 09YTD)

(\$000's)



Note: July 2009 sales significantly impacted by release of new Janet Evanovich book





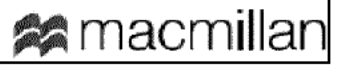
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20 of Macmillan's top 25 e-book authors fall into three genres: mystery, thriller and romance / paranormal romance

E-Book Rank	Physical Book Rank	Author	Unit Sales Year To Date	Genre
1	2	Evanovich, Janet	82,030	Mystery / General Fiction
2	5	Kenyon, Sherrilyn	34,233	Paranormal Romance
3	1	Cast, PC / Kristen	28,838	Paranormal Romance
4	20	de Rosnay, Tatiana	18,794	Literary Fiction
5	44	Finder, Joseph	18,708	Thriller
6	18	Leigh, Lora	17,576	Romance
7	Not in top 50	Scalzi, John	15,489	Science Fiction
8	12	Hannah, Kristin	13,252	Romance
9	19	Patterson, Richard North	11,485	Thriller
10	Not in top 50	Steinhauer, Olen	11,148	Thriller
11	14	Kleypas, Lisa	10,747	Romance
12	26	Friedman, Thomas L.	9,325	Non-Fiction
13	36	Sanderson, Brandon	8,904	Science Fiction
14	11	Archer, Jeffrey	8,773	General Fiction
15	Not in top 50	Castillo, Linda	8,660	Thriller
16	10	Giffin, Emily	7,860	Romance
17	Not in top 50	Harris, Charlaine	7,149	Mystery
18	40	Penny, Louise	6,095	Mystery
19	48	Hart, John	5,209	Thriller
20	32	Palmer, Michael	5,128	Thriller
21	7	Noel, Alyson	4,899	Paranormal Romance
22	34	Smith, Wilbur	4,825	Thriller
23	27	Wickham, Madeleine	4,691	Mystery
24	43	Robinson, Marilynne	4,231	Literary Fiction
25	41	Cain, Chelsea	4,122	Mystery

Mystery
 Romance / Paranormal Romance
 Thriller





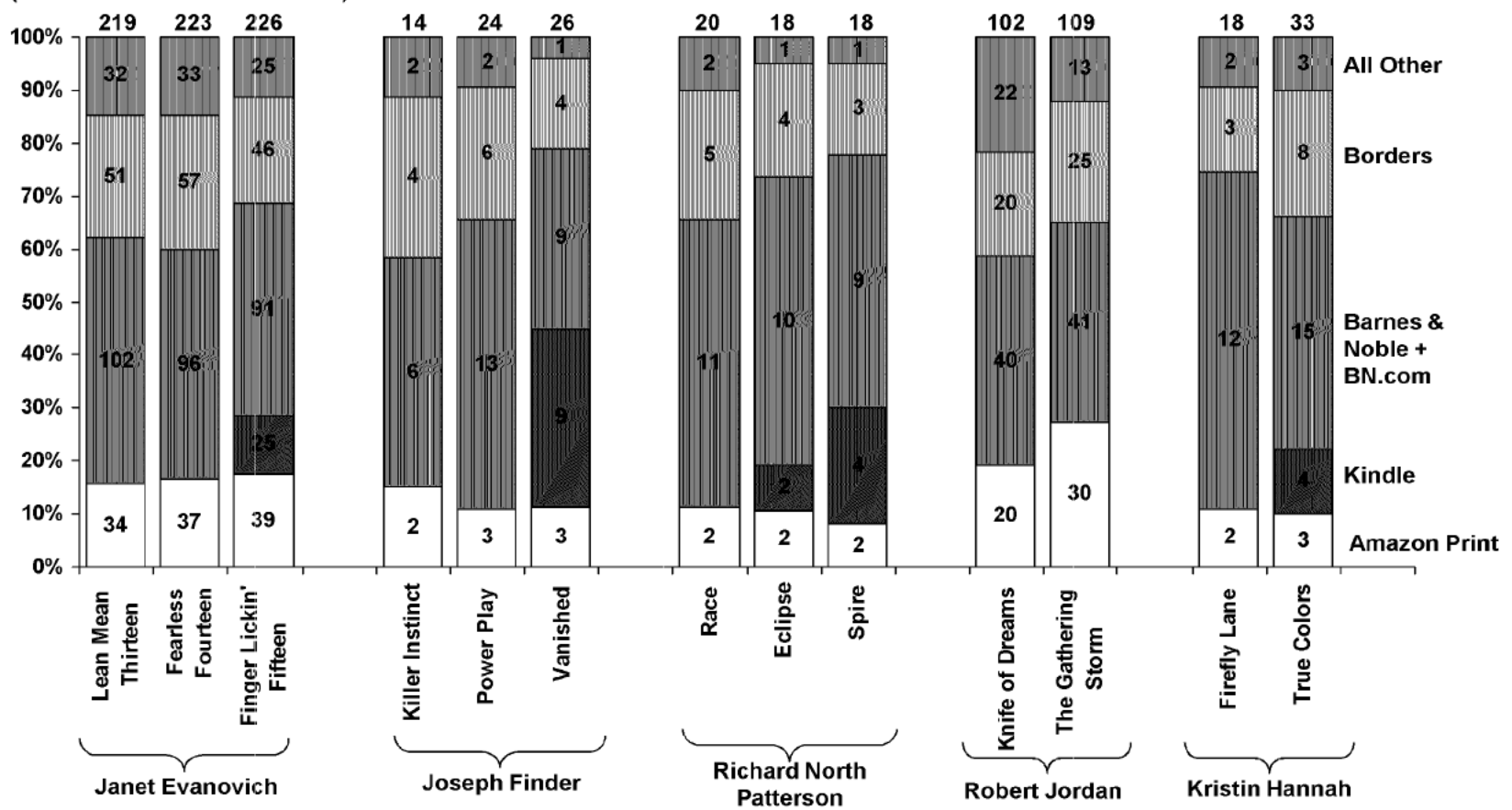
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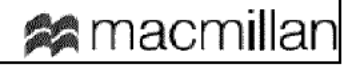
Kindle editions appear to be significantly increasing Amazon's market share on bestsellers

Market Share Analysis First Eight Weeks Point of Sale

Percent
(Labels in Thousands of Units)



Notes: * Represents sales from B&N, BN.com, Borders, Dalton, Walden, Amazon and BAM



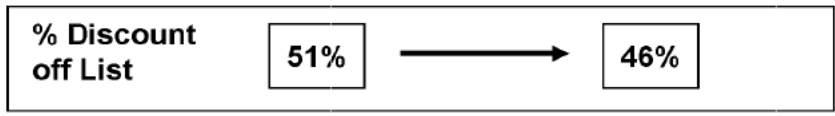
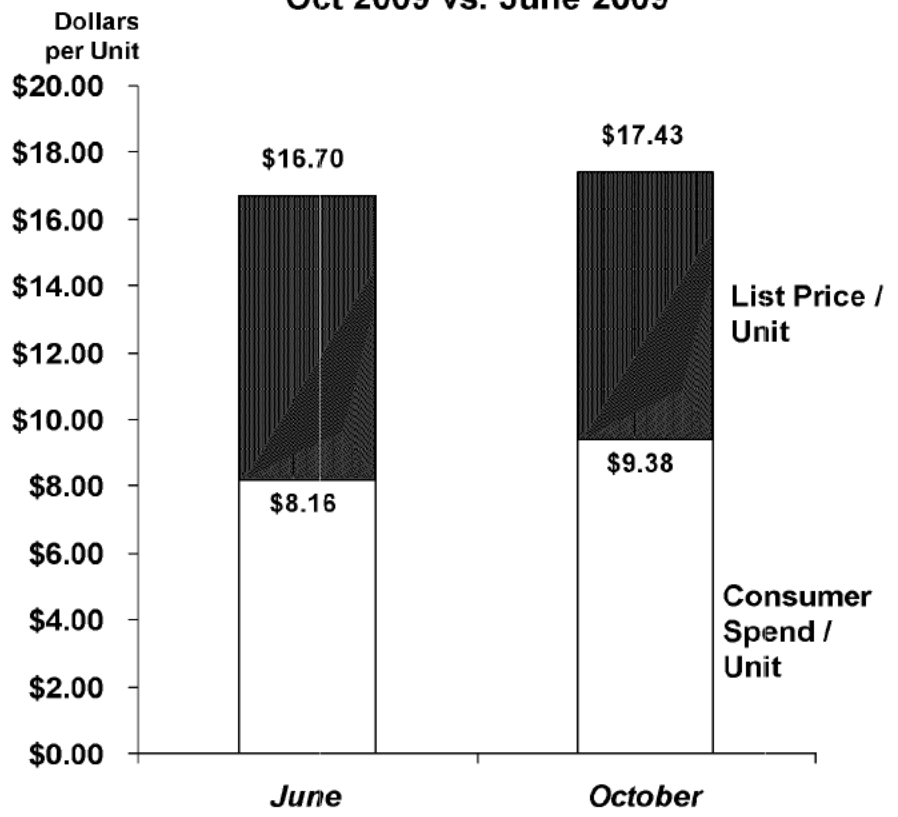


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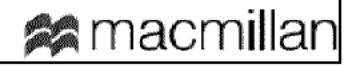
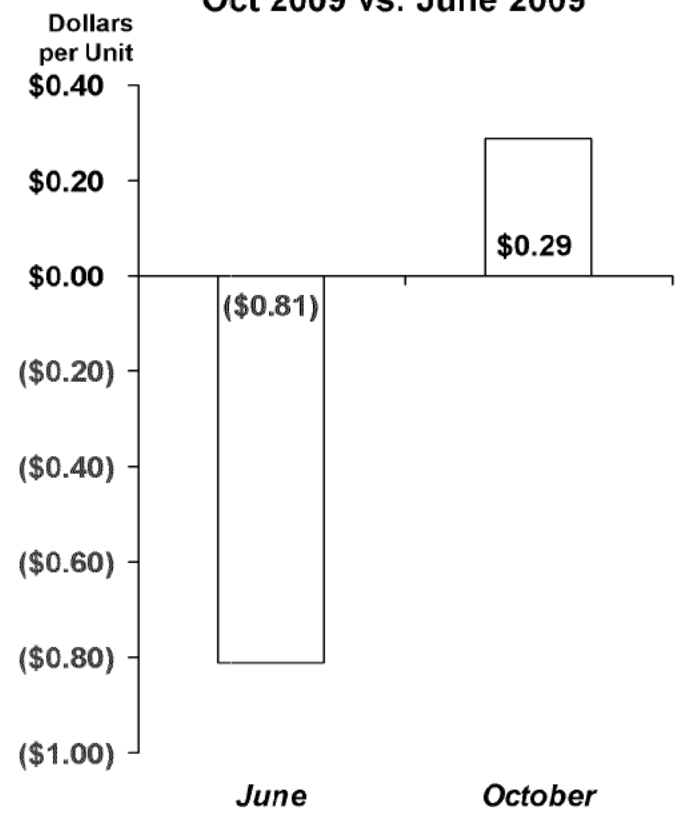


Over the past several months, Amazon has reduced its discounts on eBooks, improving their profitability

Amazon E-Book Economics Oct 2009 vs. June 2009



Amazon E-Book Profit / Unit Oct 2009 vs. June 2009

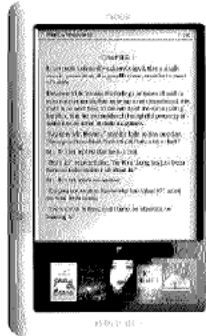


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Options for reading e-books are proliferating, many with substantial free content and/or capability to read pirated / pdf files

Dedicated Devices



B&N nook



Kindle DX



Alex



Sony PRS600



Mobile Apps



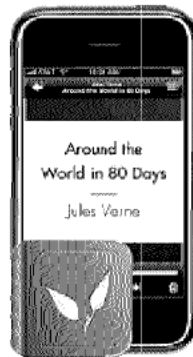
Stanza



eReader



Iceberg



Eucalyptus



Classics



Amazon

Desktop/PC



Adobe Digital Editions



Sony eBook Store



Kindle Desktop



 Free / Pirate-ready

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Rapid moves by existing and new competitors will ensure a fluid market for the next few years



- Acquiring digital rights directly
- Conducted meeting with book agents in Seattle recently
- Launched desktop reader software for PC and Mac
- Has cross platform mobile app library in beta at Stanza
- Pursuing college / international



- Launching new "Nook" e-reader
- Advertising cross-platform access, in-store browsing, and sharing/lending
- Now pursuing college eBook market with proprietary platform



- New / updated reader devices
- Upcoming device in December to have wireless capability
- Advertising its collaboration with libraries



- Launching new distribution platform in 1st quarter
- Cross-platform desktop and mobile device reader
- Consumer program: KNFB Reading Technologies
- Library program: Overdrive, Ebrary and Libre Digital
- Mass retailer program: Wal-Mart, Sam's, Best Buy, Tiger Direct, Overstock, Costco and Sears



- Launching Google Editions June next year
- Cross-platform desktop and mobile device reader
- Consumer program: Google Book Search
- Library program: Google Library
- Mass retailer program: Wal-Mart, Costco, Sam's Club, BJ's, Target and Tor.com



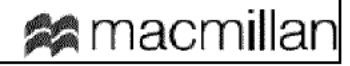
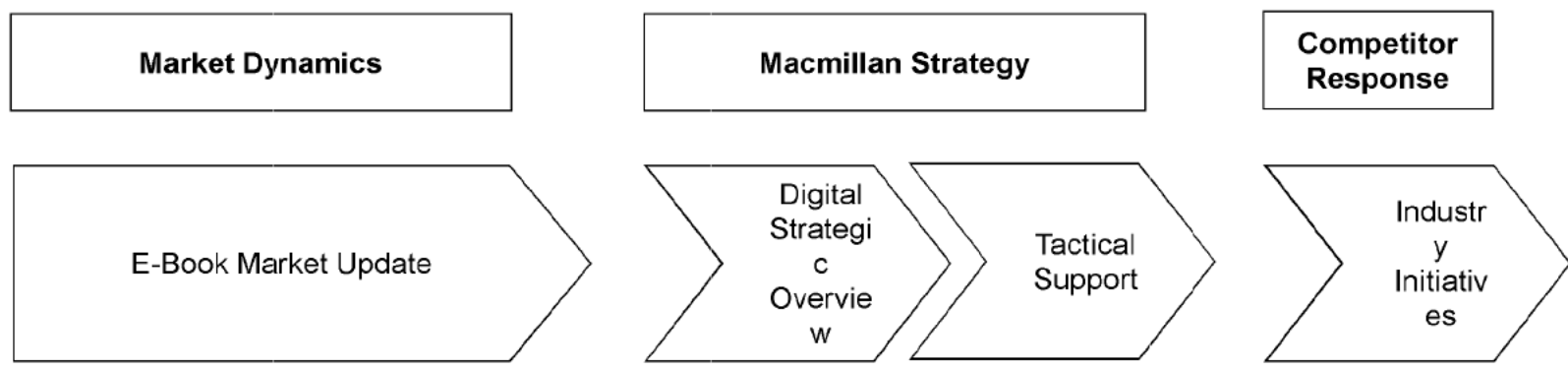
- Macmillan files given to ScrollMotion; SM announced at Apple Developer conference as first e-book storefront in App Store
- Apple entry into direct sales of trade books: ????????





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Section 2 – Macmillan Strategy

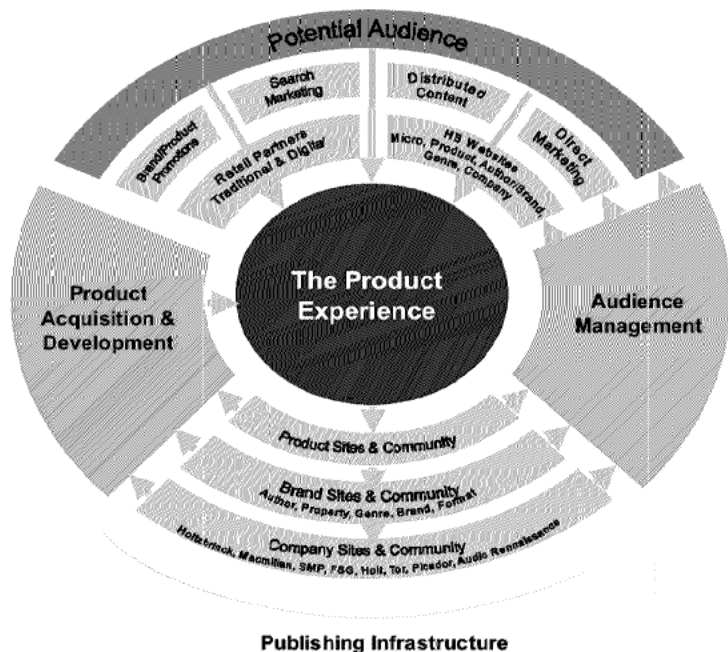




Macmillan has been executing against a Strategic Construct that was established May 2006

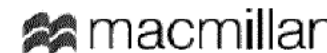
Strategic Hypothesis – Overview

At the core of the strategy is a durable audience relationship that will guide development and inspire trial, acquisition, and consumption of our brands and content through a variety of direct and intermediated channels



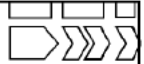
- Promote product discovery and trial
 - Brand development and promotion – web ads, blog promo, podcasts
 - Search engine marketing / search engine optimization
 - Distributed content – serials trial, snips, 1st chapters, audio samples
 - Microsites and websites for titles, authors, properties, and categories
 - Community development/promo, incl. d-base marketing
 - Imprint sites (trade focus)
- Inspire product purchase and consumption
 - Direct-to-consumer commerce and fulfillment
 - Robust retail relationships – traditional and digital
 - Trial-to-transaction conversion
 - New business models and channels – Subscriptions, rentals, ebook readers, and mobile platforms
- Encourage ongoing community membership/participation
 - Community features – UGC, forums, social bookmarking, blogs, networking
 - Additional content, author interactions, serialization, newsletters

HOLTZBRINCK
PUBLISHERS





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Macmillan is pursuing five sets of initiatives that use its core competencies to influence market development and maximize long term share

Core Strategic Goals

- Establish viable “paid” markets for our books in digital formats
- Encourage the development of a healthy and competitive retail environment

Other Strategic Goals

- Create, own and publish the largest possible content catalog
- Deliver content to readers in the formats they want at a fair price
- Influence positive development of formats, platforms, and channel behaviors
- Continue to build marketing capability needed to drive demand for books in the new media economy
- Protect intellectual property in-house and in the market
- Maximize revenue and profit for the overall business (print and digital)



1. Content Digitization

Fully digitize catalog – new release & backlist

2. Rights Acquisition

Acquire all available digital rights – Macmillan & 3rd Party

3. Channel Development

Sell eBooks in formats and on distribution platforms that are strategic, DRM'd, and profitable

4. Marketing Development

Build skills, platforms, and methods to find, interact with, and influence readers

5. Piracy Fighting

Protect content and combat digital piracy



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Progress to date

1. Content Digitization

Fully digitize catalog – new release & backlist

- Moved the majority of new titles to day and date
- Added 846 works this year to eBook program (20% increase)
- Improved scanning operations and reduced cost by 10%
- Improvements to e-book workflow

2. Rights Acquisition

Acquire all available digital rights – Macmillan & 3rd Party

- Developed common contract with standard amendment and got agreement from all Macmillan publishers
- Updated the Title Management contract module with e-rights; including territorial rights information for the top 100 authors

3. Channel Development

Sell eBooks in formats and on distribution platforms that are strategic, DRM'd, and profitable

- Signed new retailers with advantageous terms (B&N, Shortcovers, ScrollMotion)
- Tentative agreements with Google, Amazon International, and Baker & Taylor
- Rationalized digital pricing on mass
- Retain right to window if needed
- Reduced free book giveaways
- Pursued methods for non-disruptive distribution of free content

4. Marketing Development

Build skills, platforms, and methods to find, interact with, and influence readers

- Built core team of digital marketers and established knowledgebase
- Integrated Macmillan.com into the core marketing program
- Established Tor.com as a core marketing tool and platform for experimentation
- Drove sales and learned through innovative experiments: Jordan, Kenyon, etc.
- Developed strong knowledge of search and sampling techniques
- Established group wide email marketing system

5. Piracy Fighting

Protect content and combat digital piracy

- Created and began to execute Seven Point Plan designed to commit internal efforts and engage the industry



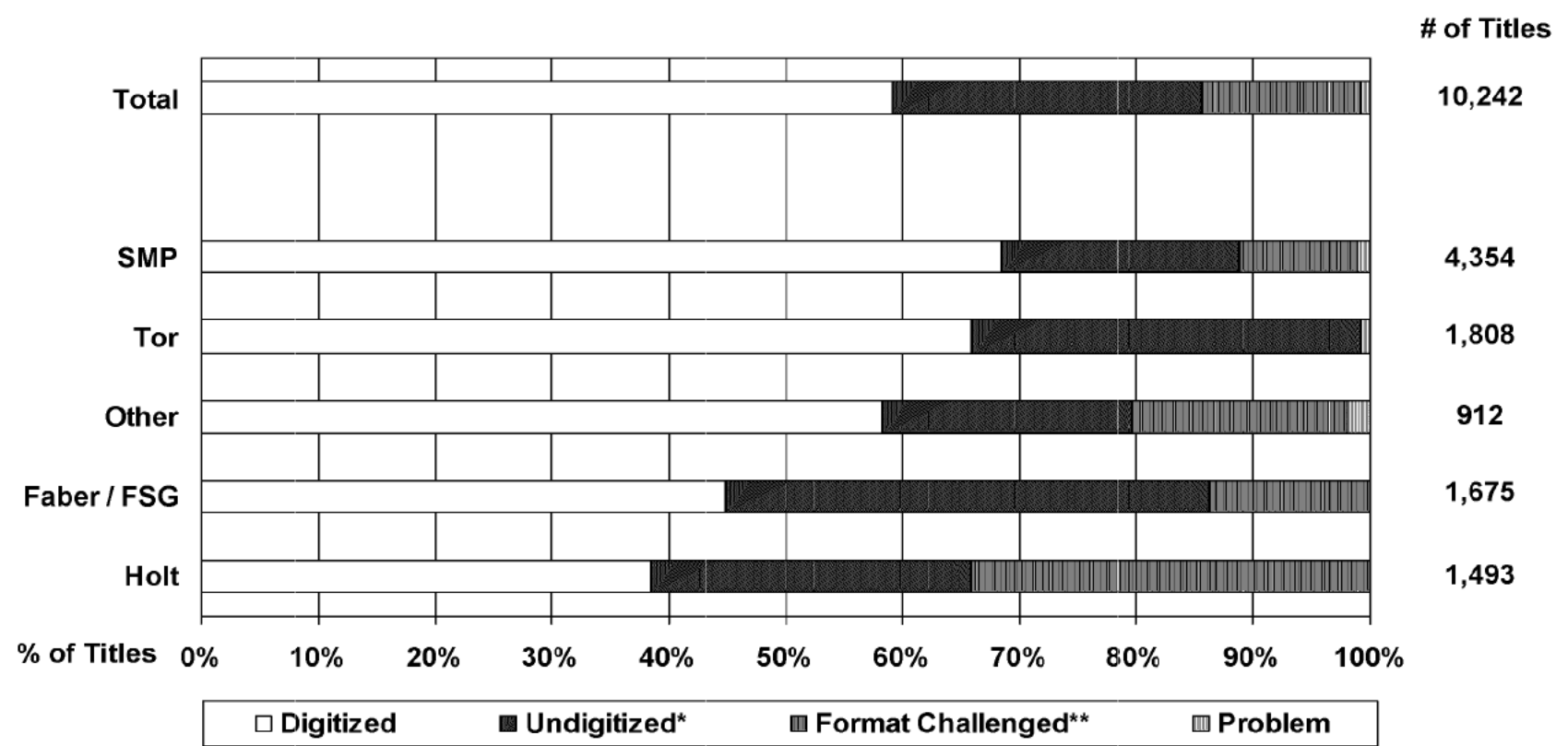


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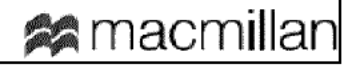


Digitization of Publisher Catalogs

Macmillan Catalog Digitization Percent of Titles Approved for E-Book Distribution by Publisher



Notes: * Titles are usually not digitized because contractual rights are silent
 ** Refers to genres / formats that are not conducive to e-ink reading (e.g., picture books, sudoku, etc.)





Macmillan has struck key deals in the most important eBook sector (Trade) and is pursuing agreements in the others

Trade

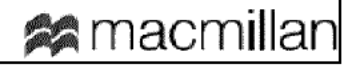
- All top players for worldwide trade eBook businesses are based in U.S.
- Macmillan has distribution agreements with all important vendors
- Likely to expand to include Apple and Google in 2010
- Increasing marketing / coop spend with Sony and Barnes & Noble to help buoy their platforms

Library

- All top players for worldwide library eBook businesses are based in U.S.
- Macmillan has no distribution agreements with top Library sector vendors due to business model concerns and inability to find beneficial deal structures

Mass Merchant

- All top players for worldwide mass merchant eBook businesses are based in U.S.
- Walmart.com, Costco.com, BJ's.com, Samsclub.com, Target.com will all be introducing eBook sales online in 2010
- Costco and Wal-Mart will sell Symtio cards in-store for consumer download in 2010
- Macmillan has no distribution agreements with potential mass sector partners, but should strike deals with Google, B&T and Symtio in 2010



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2010 Strategic Plan

1. Content Digitization

Fully digitize catalog – new release & backlist

- Continue to digitize all current releases as part of standard practice
- Aggressively digitize backlist through deal with Ingram (LSI) to digitize titles (\$200 per title)

2. Rights Acquisition

Acquire all available digital rights – Macmillan & 3rd Party

- Secure digital rights to Macmillan authors
- Secure foreign-language digital rights
- Pursue digital rights to Macmillan distributes and other 3rd party titles
- Pursue other digital rights

3. Channel Development

Sell eBooks in formats and on distribution platforms that are strategic, DRM'd, and profitable

- Maintain DLP at physical list price, but re-evaluate regularly
- Support access to Mac content through multiple retailers and distributors
- Create a set of vendor / partner requirements to ensure Macmillan is pursuing the most potentially beneficial options and review partner list periodically
- Bring list prices for eBook versions in line with mass market prices when available
- Expand direct eBook commerce capability
- Selectively pursue enhanced editions of content and early release

4. Marketing Development

Build skills, platforms, and methods to find, interact with, and influence readers

- Continue to build skills and transfer knowledge to publishers
- Continue to experiment with sampling and sale of early book content
- Enhance audience building efforts in support of direct marketing (e.g., CRM, newsletters, etc.)
- Evaluate development of additional vertical communities

5. Piracy Fighting

Protect content and combat digital piracy

- Continue to execute Seven Point Plan





Marketing efforts across Macmillan are increasingly coordinated and focused on experimenting and dissemination of successful tactics

- **Imprint Marketing Groups**
 - Executes title-level programs
 - Markets and promotes print books and eBooks using online and offline vehicles
 - Plans and manages advertising campaigns
 - Engages authors for marketing efforts

- **Digital Markets and Macmillan.com**
 - Provides publishers with online strategic marketing recommendations on a title-by-title basis
 - Manages foundational projects for all online properties
 - Manages Macmillan.com as primary online marketing vehicle for the organization
 - Investigates “new and cool” marketing technologies and disseminates learning
 - Works on special and innovative projects (e.g., mobile applications, etc.)

- **Tor.com**
 - Leading vertical science fiction and fantasy community
 - Provides a platform for broad-based experimentation of new content and delivery ideas (e.g., sampling text and audio, free content, author / reader interaction, etc.)
 - Working with Digital Markets, Tor.com coordinates marketing / publicity campaigns around big launches of science fiction / fantasy titles
 - May be used as a template for other genre-specific sites (e.g., mystery, thriller, romance, etc.)

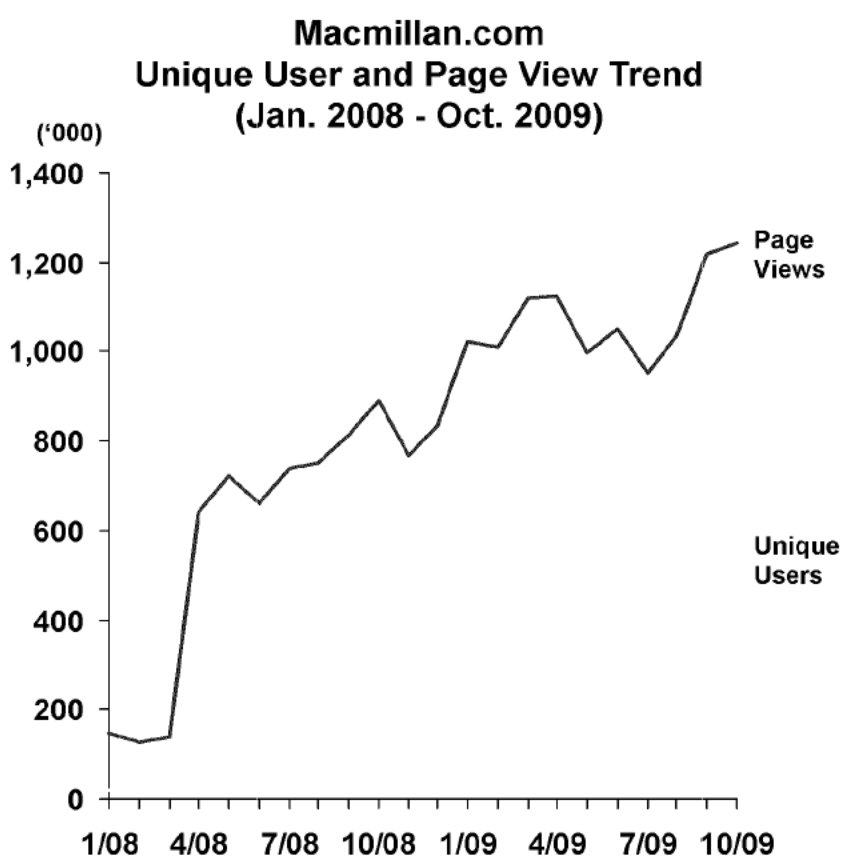




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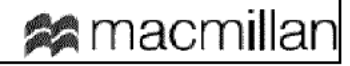


Traffic at macmillan.com continues to grow and the site is now part of all publisher marketing initiatives



Digital Markets: 2009 Accomplishments

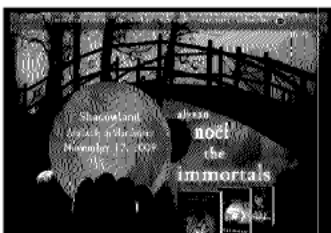
- Grew Macmillan.com average monthly uniques and pageviews (122%, 79% YOY respectively)
- Macmillan.com web traffic among the highest in the industry
- Improved functionality: site search, tours and events, printing, navigation, direct-to-consumer links, campaign tracking, desk/exam copy cart
- Created new employee training protocols to ensure publisher staff can independently publish content and track marketing campaigns
- Converted over to robust, enterprise-level email solution and trained publishers on usage
- Sourced SEO consultant to increase organic search referrals to Mac, Tor, and QDT sites



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Many publisher initiatives are supported by the digital marketing team



immortalseries.com
13K uniques, 191K pageviews (Oct '09)



Born of Night
Google Preview
(100 pages viewable)
44K visitors
1,132 Buy clicks



Email Marketing
13M+ Sends to 550K Active Subscribers. List size & email volume increased 84% YOY



Romance Title Blog
2K uniques, 7K pageviews (Oct '09)



Official Sanctuary Website
40K uniques, 234K pageviews (Oct '09)



Fahrenheit 451
Graphic Novel
iPhone App



Twitter List
Total list size grew 8X (11K)
Jan-Oct, 2009



Death of Bunny Munro App
1,500 apps sold,
2,200 free previews



Wolf Hall
Increased time spent 5X using Mac.com best practices



Mac Wiki
87 users, 215 pages, 178 attachments



Trade Books for Courses
5K monthly pageviews (Oct '09)





Digital Marketing's mandate has changed in 2010 to better meet evolving business needs

Business Need:

Related 2010 Projects:

- | | | |
|--|--|--|
| <ul style="list-style-type: none"> • More efficient and effective digital marketing across all publishers | | <ul style="list-style-type: none"> • Development short-term training curriculum • Development of role-based training protocols |
| <hr style="border-top: 1px dashed #000;"/> | | |
| <ul style="list-style-type: none"> • Automated tools and processes for communicating with customers | | <ul style="list-style-type: none"> • Improve collection, segmentation, marketing • Create database of record, consolidate data • Source enterprise CRM solution (if needed) |
| <hr style="border-top: 1px dashed #000;"/> | | |
| <ul style="list-style-type: none"> • More detailed data on digital marketing campaign effectiveness | | <ul style="list-style-type: none"> • Implement enterprise web analytics solution • Train publisher staff on use of system |
| <hr style="border-top: 1px dashed #000;"/> | | |
| <ul style="list-style-type: none"> • Continued increase in eBook revenue to offset potential losses | | <ul style="list-style-type: none"> • Continue conversion of backlist/frontlist titles • Expand online retail marketing activities |
| <hr style="border-top: 1px dashed #000;"/> | | |
| <ul style="list-style-type: none"> • Increase in traffic to core sites and conversion of traffic into registrants | | <ul style="list-style-type: none"> • Pursue organic traffic growth through SEO • Optimize conversion, expand newsletters |
| <hr style="border-top: 1px dashed #000;"/> | | |
| <ul style="list-style-type: none"> • Continued testing of new formats and digital distribution platforms | | <ul style="list-style-type: none"> • Pursue development of SmartPhone apps • Pursue emerging distribution platforms |



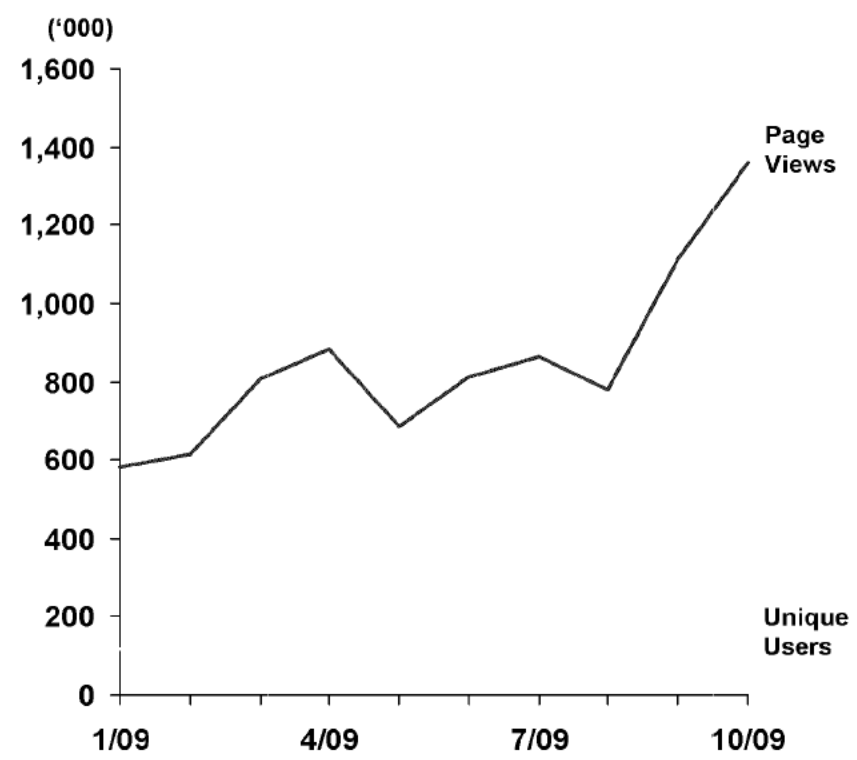


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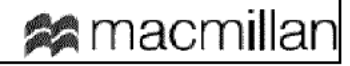
Tor.com has become a key vehicle for experimentation at Macmillan while traffic has grown significantly

Tor.com Unique User and Page View Trend (Jan. 2009 - Oct. 2009)



Tor.com: 2009 Accomplishments

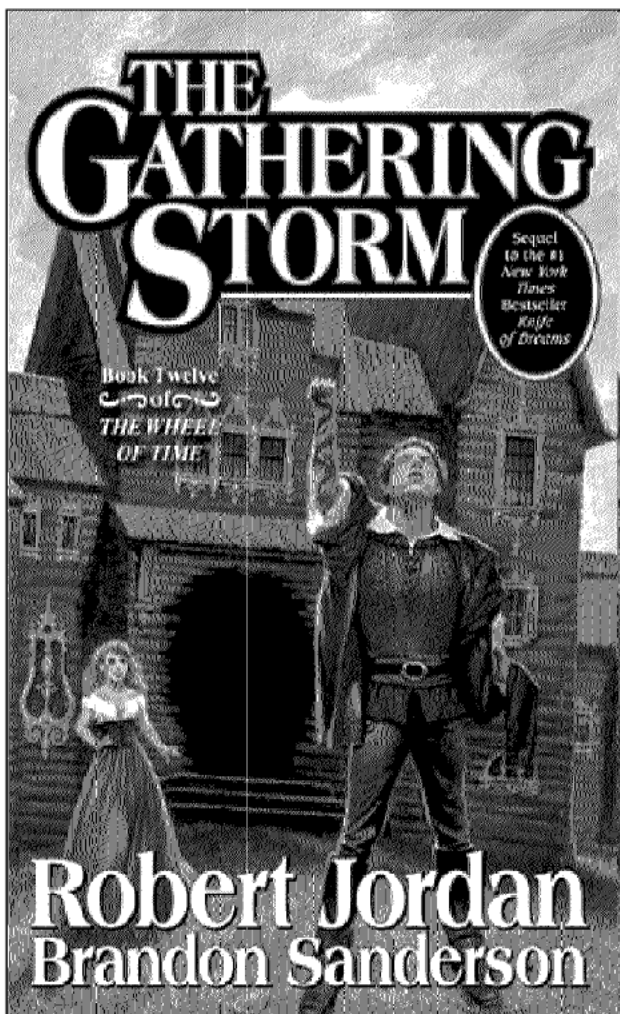
- Now a key part of marketing efforts in the science fiction and fantasy
- A core venue for Macmillan innovation and experimentation
- Continues to features original content and community
 - Original paid story content only 5% of all traffic; last year was 20%
 - Monthly promotions of Tor authors (Scholes, Slattery, Lindsfold, Weber, etc)
 - Monthly promotions of Tor sub genres (Steampunk, urban fantasy etc)
- Strong traffic growth and involvement
 - Over 200K monthly Tor newsletters being delivered to Tor.com registered users on a monthly basis. 45% or better open rate
 - 124% YOY improvement in organic referrals
 - Traffic statistics continue to grow with 200K unique visitors and 1.4M + page views in October 2009



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Tor, Tor.com and Digital Markets coordinated on a year-long marketing campaign around the release of *The Gathering Storm*



Wheel of Time Re-Read Index

MANAGEMENT SERVICES



Tor.com is pleased to present Leigh Butler's Wheel of Time Re-Read posts. Here you will find all of her posts to date, for easy reference.

Wheel of Time Re-Read: Introductory Post

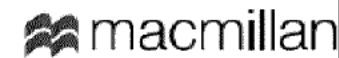
Book 1: <i>The Eye of the World</i>	Book 5: <i>A Crown of Swords</i>
Book 2: <i>The Great Hunt</i>	Book 6: <i>The Path of Daggers</i>
Book 3: <i>The Dragon Reborn</i>	Book 7: <i>Winter's Heart</i>
Book 4: <i>The Shadow Rising</i>	Book 8: <i>Dreamwalkers of Twilight</i>
Book 9: <i>The Fires of Heaven</i>	Prequel: <i>New Spring</i>
Book 10: <i>Lord of Chaos</i>	Book 11: <i>Knife of Dreams</i>



Chapter One: Tears from Steel

It takes to the reader of this chapter...

The Wheel of Time series, and Ages come and pass, having centuries that humans regard. Legend takes to myth, and even myth a long forgotten when the age that gave it birth comes again. In one age called the Third Age by some, an Age yet to come, an Age long past, a world rose around the shattered open heavens as the White Tower. The world was not the beginning. There was another. [Introduction: our authors](#)



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The Gathering Storm was our most ambitious initiative to date and tied together many of the elements of our digital strategy

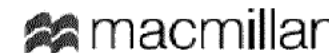
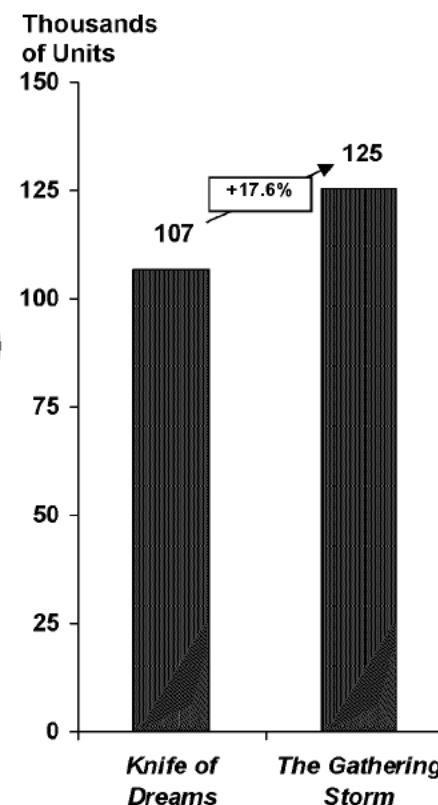
Marketing Issues

- New author
- Longest span between series volumes
- Less than stellar reviews on previous volume
- Extremely soft retail market
- Final volume split into three books
- Highly passionate fan base

Marketing Campaign

- **Tor.com foundation for campaign**
- **WoT Re-Read** (since January): 1.8M Pageviews Avg. and 300-400 Comments
- **eBook Giveaway of Mistborn** by Brandon Sanderson: 60,000 Downloads
- **Posted Short Story: *Firstborn***, by Sanderson: 12K Pageviews
- **Sanderson Blog Post:** Explaining why three volumes
- **Giveaway of Chapter 1 text and Chapter 2 audio** of *The Gathering Storm*: 96K Pageviews
- **Advance Review of TGS:** 43K Pageviews 2,100 Comments
- **Digital Prologue Sales:** 41K Pageviews – 6,400 units sales and \$10K net revenue
- **WoT eBook Announcements:** 4K Pageviews
- **Special Wheel of Time Landing page on Sony eBook Store**
- **Created Storm Leader Program** of fan assistants at book signing
- **Print advertising campaign**

Two Week Cumulative Sales Projection
The Wheel of Time





Tor.com: *Work Plan for Nov / Dec 2009 and 2010*

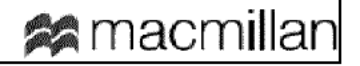
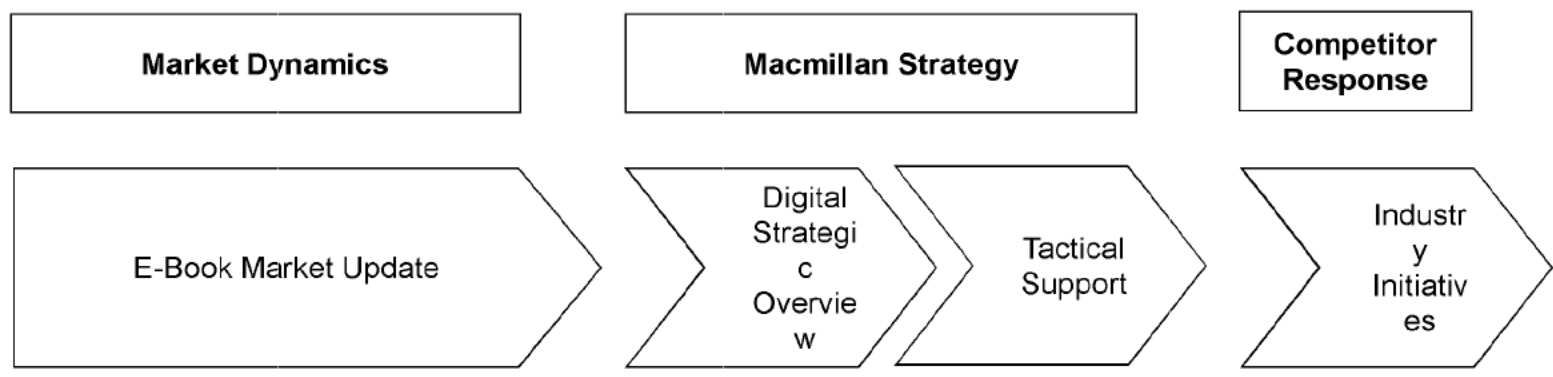
- Year-long promotional campaign around the launch of the next Wheel of Time novel
- Partnership with GoogleEditions for direct sale of eBooks, June 2010 (one of four retailers at launch: Wal-Mart, Target, Borders and Tor.com)
- New homepage design will continue to broaden community features and magazine like design
- Eve online partnership to bring gamers and game content to site
- Additional direct to POD physical book releases (Best of Tor.com, Steampunk, Greenpunk)
- Expansion of rereads program to include Graphic Novels/Comic Books (Sandman, Miracleman)
- Science Fiction TV related reviews based on approval to receive network screeners
- Annotated editions of eBooks
- Extension of Tor.com online brand to other genres (e.g., mystery, paranormal romance, romance, etc.)





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Section 3 – Competitor Response





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The major publishers are taking a wide range of approaches to digital distribution

Back to Basics



- Scanning titles
- Launched bare-bones Suvudu marketing site

Modestly Experimental



- Pursuing “Foreword” – An industry book discovery and marketing site
- Hired Attributor to monitor piracy
- “From the Publishers Office” – Online network that provides readers with a host of features about the publisher’s books and authors
- Announced the plan to have 14,000 eBooks available by year-end
- Pursuing “Project Adam” – A mobile platform-based distribution strategy designed to include other publishers
- Partnered with Syntio on eGalley

Heavily Experimental

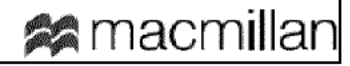


- Pursuing “Foreword” – An industry book discovery and marketing site
- Pulselt: Online teen book community with free book content
- Launched eGalley Program
- Atria imprint pursuing “Vook” partnership to combine video and text in an eBook
- Made deal to sell eBooks through Scribd
- Launched site for academic and library markets

Transformative



- Launched Disney DigitaBooks: 500 eBooks for kids 3-13 available for \$8.95 / month
- Hyperion created Kernl: “e-imprint” with short packages of text, audio & video





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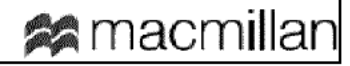


Project Adam, the HarperCollins initiative, targets the creation of an industry-wide enhanced eBook mobile publishing platform

Description
<ul style="list-style-type: none"> • Goal: create a set of mobile applications to deliver enhanced eBooks to consumers <ul style="list-style-type: none"> – Enhanced eBook reader app – Book search and discover app – Others to follow • Developing technical spec and RFP process to generate state-of-the-art applications • Initial focus on iPhone platform; to be extended to desktop and other eBook platforms • eCommerce functionality initially through iTunes store (30% fee), but then through all qualifying distributors • Acknowledges need for multi-platform strategy, and early content to drive traffic • Value proposition for consumers is industry standard app that delivers functionality not possible on the Kindle (video, social media, etc.) • Currently under cover developing app

Assessment
<ul style="list-style-type: none"> • Strengths <ul style="list-style-type: none"> – Takes advantage of perceived white space in mobile app-based distribution – Could succeed if publishers all published to this platform and delivered early, exclusive, enhanced books • Weaknesses <ul style="list-style-type: none"> – Appears too late now that many other robust platforms exist – Unlikely to generate uniform support from publishers – Lack of demonstrated mobile market at prices similar to Kindle version – Expensive enhanced content required – Potential backlash from Amazon – Potential entrance of Apple as competitor – Collective governance will impede speed and decision making

After having significant input on the original strategy, Macmillan is waiting to see how the initiative develops before proceeding



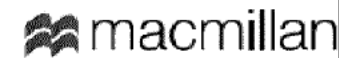


Project Foreword, the Simon & Schuster / Hachette initiative, targets the creation of an industry-wide book discovery website

Description
<ul style="list-style-type: none"> • Goal: Create a comprehensive web site for readers to go to find their next book • Key Features <ul style="list-style-type: none"> – Comprehensive catalog – State-of-the-art recommendation engine – Superior browsing and sampling experience – Early, exclusive content to draw traffic • Social networking functionality (online book clubs, Facebook / Twitter integration, etc.) • Requires all major publishers to participate • Revenue model based on advertising and ecommerce components

Assessment
<ul style="list-style-type: none"> • Strengths <ul style="list-style-type: none"> – Fulfills perceived untapped reader need to discover new books – Fulfills publisher need for a new marketing platform – Leverages core content to attract readers • Weaknesses <ul style="list-style-type: none"> – Does not solve core distribution problems of price, concentration, platform evolution – Unlikely that all pubs will join and commit – Ideal implementation requires publishers to drastically decrease internal marketing efforts – Ideal implementation would impede development of internal marketing capability – Implausible business model: levels of traffic, ad sales, and commerce are unlikely – Recommendation engine success is very risky – Competitors likely to copy all functionality – Collective governance will impede speed and decision making

Macmillan is in ongoing discussions with the Foreword partners



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Agenda

- Piracy
- Digital Strategy and eBooks
- Digital Workflow and Trade Efficiency



The Digital Workflow/Trade Efficiency Group continues to implement its mandate to save money and increase efficiency

Initial Project List

- Trade Adult Art and Design – Use implementation of InDesign to drive to in-house proofing
- Contracts – develop standard boilerplates for Adult Trade followed by Children’s; standardize system input and scanning; develop standard view of rights and territories.
- Editorial – review options for moving to digital workflow/in house composition.
- P&L – Develop common acquisition P&L and online editorial tracking system
- Digital Catalog – review options for digital catalog (internal, partnership with other publishers, third party)
- Review structure and purpose of launch meetings, integrate big book planning tool and process
- Re-imagine galley process (production, distribution, ordering, physical vs. digital)



Digital Workflow Status: Trade Art & Design

Trade Art & Design: Status

- Upgraded font libraries and font server, revised purchasing process, created guidelines and developed digital font book
- Increased digital archive to include multiple sizes of jackets and first pass and galley files. Automated process with desktop folders
- Standardized internal barcode creation and implemented in all imprints
- Implemented CS4, began process of retiring Quark
- Revised component codes and created monthly reporting package with online analytics and visibility
- Moved to in-house proofing with goal of 50% by summer 2010

Trade Art & Design: New Workflow

- Old way using Quark XPress
 - Application files sent to printer
 - Barcodes inserted by printer
 - Color Corrections at Printer with multiple proof iterations circulated back to publishers
 - Files archived on CD
- New approach leveraged move to Adobe InDesign
 - Installed calibrated Proofer matched to settings at jacket/cover vendor
- All fonts either Truetype or Postscript from central library
 - Installed Barcode Software
- Developed standards for digital mechanicals and pdfs with Phoenix
 - Now send PDFs rather than application files to printer
 - Archive jobs electronically at Coresource

Trade Art & Design: Savings and Next Steps

- Savings:
 - Font licensing – \$200K annual
 - In house proofing - \$685 per title, \$385K annual @ 50% (first year goal, est. 70% achievable in 24 months)
 - Fonts – 85 per title, \$105K annual (SMP and Tor only, other companies had already adopted)
- Next steps
 - Children's YA and Middle Grade Fiction 1st Quarter 2010
 - Picture Books
 - College – archive source Indesign and Quark files in Ingram archive



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Digital Workflow Status (Cont'd.)

Common Contract Status

- Worked with legal to develop common structure
- Common contract launched 10/26
- Reviewed and are in process of updating TM
- Agreed on one standard for entry in contracts
- Agreed to one standard for scanning
- Developed standard digital amendment for rights acquisition
- Developed initial view of rights and territories across three systems

Acquisition P&L

- Editorial Tracking System launched in 2009
- Draft of Acquisition P&L completed in October
- Programming and implementation will be handled by CSIT and Finance in 2010

Editorial Initiatives

- New guidelines for author submission, editing and final submission to production editorial drafted
- Training with editors for guidelines, fonts, purchase book procedures, jacket copy, new contract and digital amendment to be conducted in first quarter 2010
- Experimentation with internal composition using InDesign templates to occur in first quarter 2010

Other Initiatives

- Digital Catalog: Test with edelweiss in 2nd quarter 2010
- Re-imagine Galley Process
 - Project being shepherded by CSIT and Finance
 - Test with Ingram/Lightning in process
- Amended Westchester composition agreement:
 - 10% reduction in rate
 - Inclusion of FSG
 - Delivery of first pass and galley files at no cost
- Launch Meeting / Big Book Planning Process