



**THE CHANGING
MEDIA MARKETPLACE**
Driving growth beyond the transactional models

1 September 2006

Time Warner
GLOBAL MARKETER

MEDIA MARKETPLACE POVs

Chief Marketing Officer...

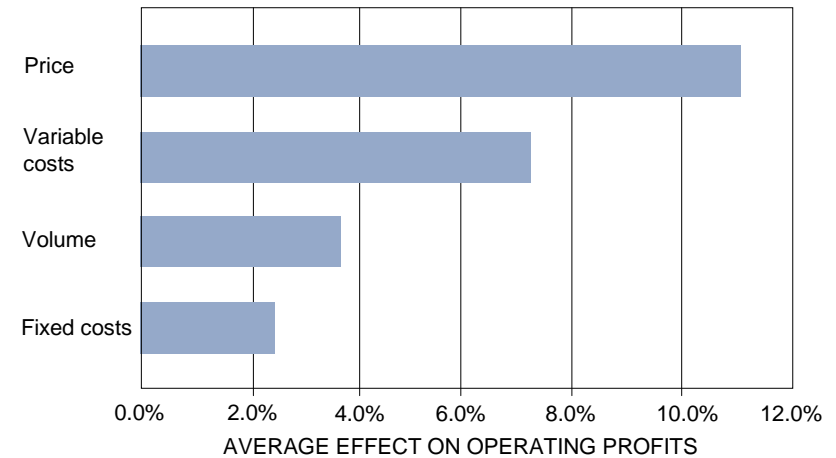
- Advertising must be a vehicle for **MEASURABLE GROWTH**
- Advertising = An investment that needs to out-perform alternative investments...
 - trucks, call centers, product features, packaging, etc.
 - Cost of capital (~ 4-5% annual return on T-bills)

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COMPARISON OF PROFIT LEVERS

IMPROVE BY 1%...



Source: Columbia University, estimated for Global 1200 companies

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THE CREATIVE ECONOMY

“The knowledge economy is being eclipsed by something new...call it the Creative Economy. What was once central to corporations...price, quality and much of the left brain, analytical work is fast being shipped offshore. Increasingly, the new core competence is creativity...the right-brain stuff that smart companies are now harnessing. It isn't just about math and science...it's about creativity, imagination and above all...innovation.”

– *Business Week*, 8/1/05

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GROUP MANAGEMENT

MEDIA MARKETPLACE POVs

Media Agency...

- Advertising = Predominantly efficient transaction that works within the system
- CPM driven

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GROUP MANAGEMENT

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General Agency...

- Advertising = Creative, impactful ideas
(expansionist vs isolationist ?)
- :30 spots

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MEDIA MARKETPLACE POVs

Media Company...

- Advertising = \$\$\$\$ to fund content development
- Highly Transactional

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MEDIA MARKETPLACE DRIVERS

To achieve growth, marketers are pursuing two seemingly diametrically opposed concepts...

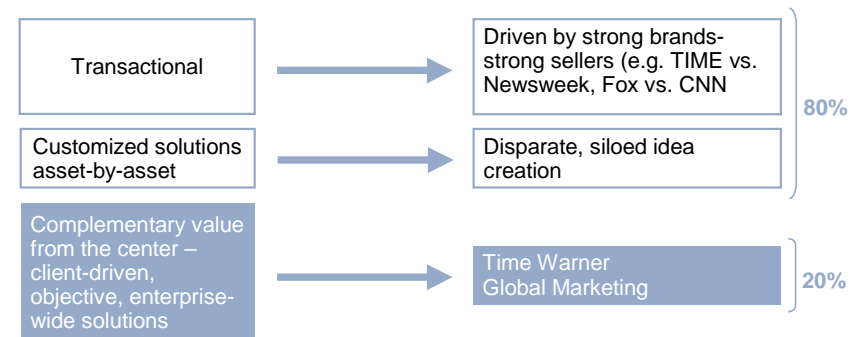
- Advertising as a science
 - Digital media generating real-time data
 - Increasingly, media footprints established through modeling/software – growing emphasis on ROI
- Advertising as an art
 - Increased focus on customized solutions and ideas

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ENGAGING WITH THE MARKETPLACE

Marketplace engages with Time Warner predominantly through three channels:



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THE ART

To create ideas, innovation and revenue for our clients by uniquely leveraging Time Warner assets:

- Insightfully
- Creatively
- Collaboratively

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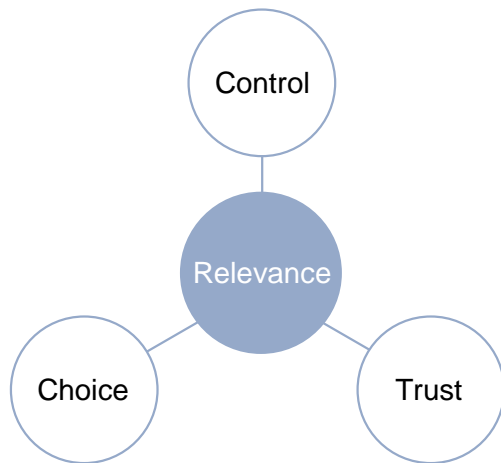
THE SCIENCE



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FUTURE OF ADVERTISING



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ADVANCED ADVERTISING

Advanced Advertising is about leveraging new technology developments in media to deliver more customized, accountable, and relevant advertising solutions.

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VIDEO

THE VIDEO CASSETTE RECORDER THAT LETS YOU WIPE OUT MR. WHIPPLE.

The Toshiba VCRD performer video cassette recorder has a charming new feature: a remote wipe control. It lets you edit out commercials when you tape the show you're watching. Without leaving your armchair.

This remote wipe feature is also compatible with barbeta color and 800-line video cameras, so you can create your own TV shows, editing as you go.

And with the VCRD's built-in connector panel, only one cable to hook up to the camera. No head or frame.

These Plus 1000-444-4444 form
TV-140-1000-444-4444

The VCRD has up to three hours of programs, whether you watch one channel. And even if you're watching a different channel from the one you're editing.

And because our three-hour cassette can longer than you think, there's no change to slower speeds, or slow up with some other long-playing recorder.

The VCRD has an auto dubbing system, so you can dub your own tapes and avoid effects. A built-in digital equalizer and automatic memory only for instant replay of favorite sections of tape. And, unlike some other recorders, the VCRD looks like it belongs in your living room. It has a handsome wood-grain finish and handsome controls. The stand looks great, too. Just \$999.99* for the Toshiba VCRD. You'll have a lot of fun with it.

Answer the video to get rid of the commercials around the color and the pain covered by special commercials.

NAME
ADDRESS
CITY
STATE
ZIP

TOSHIBA
Alpha-Ultra

© 1987 Toshiba America Electronic Components, Inc. All rights reserved. *MSRP. Tax and shipping charges extra. See dealer for details.

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Quality. Always. True.

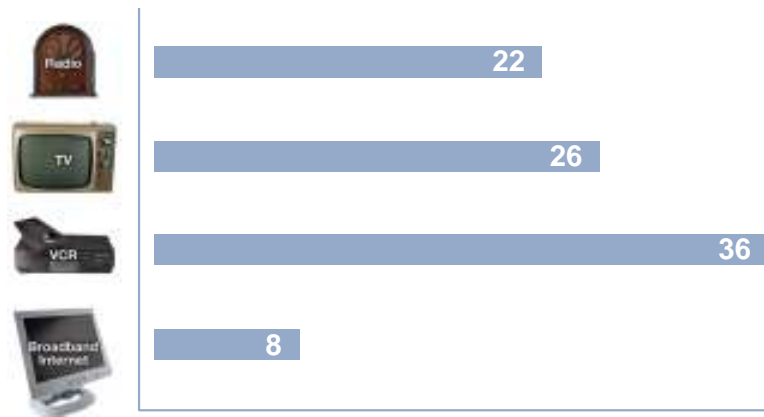
EMERGING VIDEO DYNAMICS

- Online video consumption is growing
- Audiences are shifting
- Long Tail is lengthening
- Media is social; consumers are producing

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BROADBAND REACHES MASS MARKET



(Years it took to reach one quarter of consumer households)

Sources: Dallas Federal Reserve Bank, Pew Internet & American Life 17

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ONLINE VIDEO GROWTH



Source: Paidcontent.org

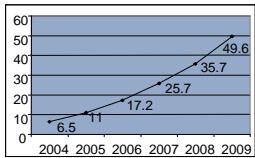
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AUDIENCES ARE SHIFTING...

TIME SHIFTING

DVR Household Penetration



"TiVo twitch sufferers are often seen reflexively pressing a nonexistent seven second replay button, even when they're not in front of the television."

- D. Pogue, NY Times

PLACE SHIFTING

Mobility of content:

- The ability to access and play public and private media on any device at any time.
- Ex. Slingbox, Orb, LocationFree TV, PSP, VCAST

DOWN SHIFTING

Media Consumption habits are becoming atomized:

- Network > show > segments
- Music albums > tracks
- Websites > posts (RSS)

Source: Forrester "What Next for TV Advertising"
Dec 2004, NY Times, 2/04

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THE LONG TAIL



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THE VIDEO LONG TAIL IS LENGTHENING



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MEDIA IS SOCIAL; CONSUMERS ARE PRODUCING, DISTRIBUTING, SHARING

TOOLS	CONTENT	DISTRIBUTION

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WHAT THIS MEANS FOR VIDEO...

- TV is dominant but not the only video outlet
- Consumer control is more than ad-skipping
- Fragmentation is a challenge but a good thing because we learn about consumer preferences
- Consumer involvement in media goes beyond content creation to include the democratization of the distribution of all content

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IMPLICATIONS FOR ADVERTISING

- CMO
 - Transition from brand guardian to brand host
 - More fragmentation leads to more levers to drive growth
 - More complexity and variables in managing investment
- Media Agency
 - Business as usual = existing planning/buying models
 - Growth = more complex conversations (more choice, more risk = more reward)
 - More complexity in audience measurement
- General Agency
 - Create work that people want to seek out voluntarily (invitation over intrusion)
 - Need to “let go” – ideas come from those most knowledgeable/passionate about a brand/product (e.g. consumers as producers)
 - New ad formats emerging – Long-form, really short-form
- Media Company
 - Tap into consumers as producers
 - Build consumer trust through “managed choice”
 - For advertisers, business solution oriented and less transactional

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ADVERTISING THAT WORKS

Wal-Mart *Voices of Color* Film Series

Challenge

- To establish an emotional connection with the African American community in a way that is authentic and credible.

Solution

- Tap into target's passion for film to create a custom, year-long film series leveraging key Time Warner brands and businesses.

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Q&A

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