Growing the Business thru Conversion from Piracy

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COST

Spend $ to Reduce Actual Loss
or Perceived Loss

OPPORTUNITY

Spend $ to Make $$$

COST

Spend $ to Reduce Actual Loss
or Perceived Loss

Hard to Get $

OPPORTUNITY

Spend $ to Make $$$

They Give You $

Page 1 (left)

In the first of a 3-part series, noted anti-piracy expert **Richard Atkinson**, chief piracy specialist with Anti-Piracy Worldwide Consulting and strategic advisor to the Content Delivery and Storage Association (CDSA), provides a look at the real issues behind fighting piracy.

Pirates are our BEST customers? How could this be? Aren't pirates those people that want everything for free and steal from us? Well, simply NO, they aren't. In fact, the majority of 'pirate consumers' are real customers too...who tend to BUY MORE of our products than the average consumer. This common misunderstanding is at the heart of the piracy issue, and of the general lackluster, sometimes inappropriate, and overall INEFFECTIVE responses from our businesses.

The first step in better 'responding' to piracy is in understanding that an appropriate response will be focused on reducing piracy's impact on the business (note business/revenue orientation, and not just piracy in general), AND increasing business revenue by competing better with piracy. So, I am really talking about the aspects of a BUSINESS-ORIENTED response (versus legal, legislative, or technical, which is really a different subject).

This business approach is where I have found, as an industry, there is the least understanding of the issues and the highest reluctance by the businesses leaders to accept that their actions are sometimes directly at the heart of both feeding piracy AND in creating that consumer demand that creates the piracy monster in the first place.
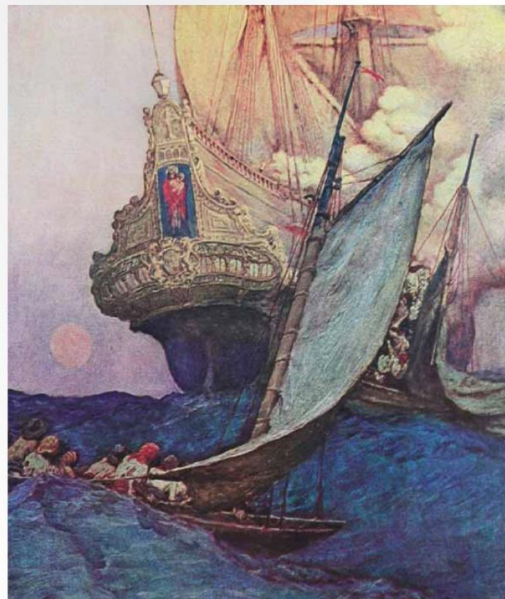
BUSINESS INSIGHT 1:
pirates are our best customers

SWITCH HITTERS: THE DUAL CONSUMERS
In a fairly recent study of pirate-consumers of motion pictures, over 25% admitted to being both purchasers of legal products, while at the same time also being consumers of pirated/illegal products. We call these Dual-Consumers.

Of that Dual-Consumer group, 21% of them were Light Pirates (consumed less than five pirated movies per year), 49% were Medium Pirates (consumed between six and 31 pirated movies per year, and the remaining 30% were Heavy Pirates (consumed over 32 pirate movies per year). But the most interesting aspect is the relationship between legal and pirate/illegal consumption. Those light pirates consumed six times more legal product than illegal product (which puts their purchase of legal products around the average pure legal consumer), while the medium pirates purchased two times more legitimate product than pirated/illegal product (which puts their purchase of legal products substantially higher than the pure legal consumer).

Heavy pirates consume half the number of legal products as illegal products (but due to the large number of illegal, their legal consumption is about the same as the average pure legal consumer). So,

A Balanced Approach

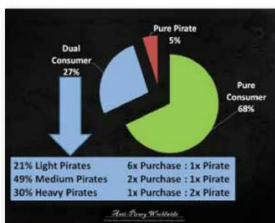| Reduce Piracy's Impact on the Business	Increase Business Revenue by Competing Better with Piracy
Make it more difficult to obtain source material (supply)	Help the business make "better" decisions, and avoid "poor" ones
Make it more difficult for pirated to be distributed (supply)	Enhance the consumer through noting existing ones to meet consumer expectations
Make it less desirable for people to consume pirated content (demand)	Conversion of pirates to customers through "gap closing" and incremental offers

Taking a balanced approach to piracy

Understanding that 25% of your customers are also 'pirate customers' is important to know. But the details are where it gets interesting.

Who consumes what

21% Light Pirates — 6x Purchase : 1x Pirate
49% Medium Pirates — 2x Purchase : 1x Pirate
30% Heavy Pirates — 1x Purchase : 2x Pirate

overall, these pirates actually purchase more than typical good loyal pure customers. And overall consumption is SIGNIFICANTLY MORE...meaning that business growth hinges on finding ways to get these Dual-Consumers to convert from some of the non-monetized consumption to a model
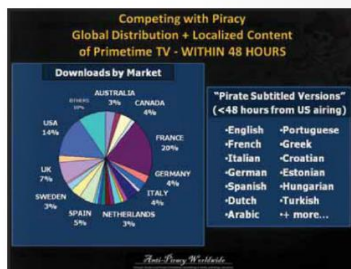

BUSINESS INSIGHT 2:
piracy shows what people want

In the second of a 3-part series, noted anti-piracy expert Richard Atkinson, chief piracy specialist with Anti-Piracy Worldwide Consulting and strategic advisor to the Content Delivery and Storage Association (CDSA), explains how piracy can be a way of tracking business opportunities.
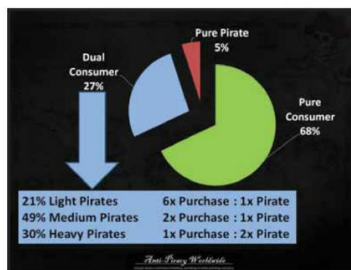
It was October 10th, 2006...at the MIPCOM conference in Cannes, France. Keynote speaker Anne Sweeney (then and still president of the Disney-ABC Television Group) proclaims "Piracy is a Business Model". WHAT? Give the pirates legitimacy? Especially by using the words 'piracy' and 'business' in the SAME sentence? What was she - and Disney - thinking?

Having been a part of the Disney organization at the time, and one of Anne's business advisors on the subject of piracy, I saw this as the biggest leap forward by the industry to-date: to stop viewing piracy as theft, and

Competing with Piracy
Global Distribution + Localized Content of Primetime TV - WITHIN 48 HOURS
Downloads by Market

"Pirate Subtitled Versions" (<48 hours from US airing)
- English · Portuguese
- French · Greek
- Italian · Croatian
- German · Estonian
- Spanish · Hungarian
- Dutch · Turkish
- Arabic · + more...

instead begin to view piracy as a business competitor. A competitor that competes very effectively, primarily because we as an industry have not responded to this customer demand. Anne had it right, and this proclamation reinforced a much more strategic way of thinking about piracy within Disney.

Let's back up for a moment. In the first article of this 3-part series (Issue 8, page 31), I provided insights into how to understand 'pirate consumers'

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as customers: their different segmentations, motivations, and likelihood of converting to legitimate products. In doing so, I illustrated how a large percentage of our customer-base are 'Dual-Consumers' (meaning that they

consume BOTH legal products and illegal/pirate products). And that these Dual-Consumers in many cases are actually our BEST customer group, as they tend to purchase MORE legal product than our loyal pure-customers. These are our avid fans, our passionate high-volume consumers, who are using piracy as a way to supplement their consumption desires due to a range of motivations - the most prevalent being convenience and availability versus cost.

Now that we know a bit about these 'pirate-consumers', let's come back to Anne Sweeney's keynote speech. She continued, "Disney cannot find any evidence that putting programs online cannibalizes the broadcast audience" (she was speaking to television specifically in this case). "Quite the opposite in fact, it might actually drive viewers to on-air programming. There are different ways to serve viewers that do not overlap...viewers missed an episode on TV, but want it quickly so they can be a part of that water-cooler moment" (remember this was 2006, pre-Facebook!). "When we looked at when TV programs were watched online, the bulk of the viewings were in the first 24 hours after it aired...so making the content broadly available in the first 24 hours would respond to this demand and also make us highly competitive with the pirates".

PIRACY TRACKING METRICS
When Anne said "online" she meant both the legitimate online channels (like abc.com), AND the piracy downloads. The results were the same for both globally; it was clear that consumers wanted the content in the first 24 hours. When this 24-hour piracy-distribution window was compared with the USA distribution of those shows, the legitimate options needed enhancement, but competed well. However, the same cannot be said of the major international markets, where there was a complete disconnect. Pirates were supplying the consumers through online and physical goods within 24 hours (we could monitor the huge numbers of downloads online, and it was

Worldwide P2P Downloads of major primetime TV show
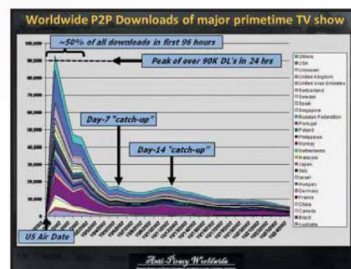
also easy to see when the pirate hard goods hit the streets in these markets). But, when the conventional distribution options and timing were compared with this 24-hour piracy-window, they were weeks, months, or even YEARS late!

The obvious response was to focus on getting content available as close to this 24-hour window AND as broadly as possible across all the major distribution channels and platforms. Not a simple feat given the complexities of the business and technical environments, and constantly shifting landscape that within 12 months can create 'killer' platforms, like the iPad, that tend to radically alter consumer expectations. But that is our

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Page 3 (right)

PIRACY DEMAND
The business bullseye

In the third and final part of his series on how piracy can and should be a part of any business strategy, **Richard Atkinson**, Chief Piracy Specialist with Anti-Piracy Worldwide Consulting, and strategic advisor to the CDSA, discusses how piracy shows what potential customers want.

Knowing where your potential customers are is one of the fundamental rules of business. But, knowing where they are is normally as far as you can go. But what if those potential customers could DEMONSTRATE THEIR DEMAND so you could know exactly where they are and what they want? Through piracy, consumers do exactly that. The odd thing - yet again - is that few are taking advantage of this fact...and HUGE business advantage.

Let's back up for a moment. In part 1 of this 3-part series, I focused on how pirates are actually our best customers, as they tend to be avid fans that both purchase and pirate at the same time...and the amount they purchase tends to be more than the average non-pirate customer.

Message: as a business, stay focused on these high-value pirate consumers.

In part 2 of the series, I covered how the desires of our customer base are increasingly

40% of GLOBAL DOWNLOADS WERE CHINESE-SUBTITLED VERSION
15% WERE FROM NON-CHINA MARKETS
Downloads of Chinese Version

Failure - the China experiment

being satisfied by piracy due to the conventional businesses choosing not to respond to these changing desires (note: the key driving motivations for piracy are availability and platform, not price/free) ...creating a larger and larger gap over time until the customers adopt piracy as their MAIN source for media as we have seen with much of the music business.

Message: businesses need to start understanding piracy as a business model, and competing with it.

In this, the third part of the series, I will focus on how to LEVERAGE piracy as 'demonstrated demand'. Through third party piracy-tracking companies, we can see WHERE this piracy-based demand is (location, right down to the city block), WHAT they want (product, language/localization, format/platform), and WHEN they want it (demand timing)...and together you can get a sense of their demographics and other aspects that we tend to think only are important in understanding our 'real, legitimate' customers. Well, not so. I would argue that these 'pirate-consumers' are exactly what you want: consumers with DEMONSTRATED DEMAND for your products, who in many cases are higher-end demographic consumers who already purchase.

Said another way, in your struggle to find incremental business growth, you are staring right at it.

Said yet another way, Piracy Demand is the Business Bullseye in terms of a rich business opportunity. But enough of opinion. Let me make my case with some facts and examples where this demand has been recognized and responded to...or in other cases was clearly identified and the business chose - for one reason or another - to not respond to it.

FAILURE: THE CHINA EXPERIMENT
A couple of years ago, a major Hollywood studio released a major blockbuster title worldwide, in all the usual ways: moderate window/distribution delays between markets, and localized through dubbing or subtitles to most major languages. But one aspect that was slightly different

was the degree and type of piracy tracking done on the title by a company called Peer Media. Through the piracy tracking, we could see how many unique people downloaded (aka: potential customers) at least one full copy of the movie, when they did it, where they were, how long it took them, what language/subtitle version it was, and what 'quality' of pirate product it was.

(While I know most of you will say you already track pirate downloads, coming from an expert in this field and knowing exactly how most of these vendors describe what they do compared to what they do actually do and what it REALLY means, I would not jump to the conclusion that the data you are getting is actually very accurate for business-based decisions. Not an endorsement for Peer Media, but rather just expert advice on the real state of the piracy-measuring/tracking solutions landscape.)

While we saw all of the usual patterns in the data around rapid and significant piracy consumption across Western Europe and
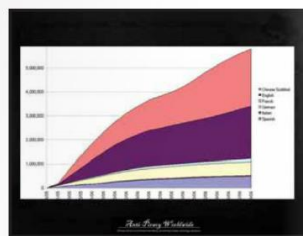
Piracy fulfils consumers' desires

much of Asia, one aspect was particularly interesting: almost 50% of ALL the downloads across the world were the movie version with Mandarin-Chinese subtitles! Now, you might jump to the conclusion - as we did initially - that this must be being driven by the huge population of Chinese downloaders located within China. Yes, there was a large component of those, but the most interesting aspect was that there was a large number of downloads of this Chinese-subtitled version from Australia, Japan, Taiwan, and the US. Obviously there were large numbers of people in these countries that preferred the Chinese-sub version over any other version...and piracy was fulfilling this desire (and we knew there was no formal distribution of a legitimate Chinese-sub version to these markets either).

How big is this opportunity? Let's look at the numbers. In the tracking of pirate downloads, we saw approximately 5.8M globally of this title over the first 18 weeks of opening. Of those, ~2.4M were Chinese-subtitled versions, versus ~2.3M English, ~500K German, ~400K Spanish, and ~100K French. Yes, MORE Chinese-subtitled downloads than English, and if we eliminate the ~1.5M of those that came from China we still had ~882K individual downloaders spread across Australia, Japan, Taiwan, and the US. Inefficient if you had to try
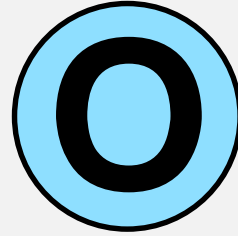
Key = User Motivation

Consumers who have Pirate/Counterfeit Adobe Software fall into 3 groups:

P

"Pirate-Inclined"

- **Limited Motivation or Capacity to buy genuine**
- **Will not purchase legitimate under their current beliefs of Value-Prop/Cost**
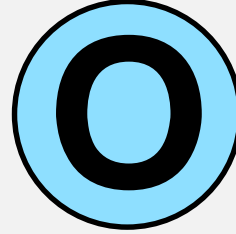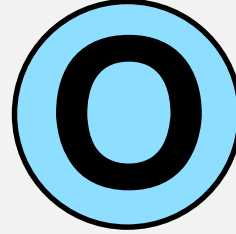- **Know or assume they have pirate**

O

"Opportunistic"

- Price Sensitive
- Looking for a Discount
- Try to avoid "Too Good to be True"
- Believe they have genuine product

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Customers that Did Pay / Will Pay

Pirate-User Demographics, as % per market
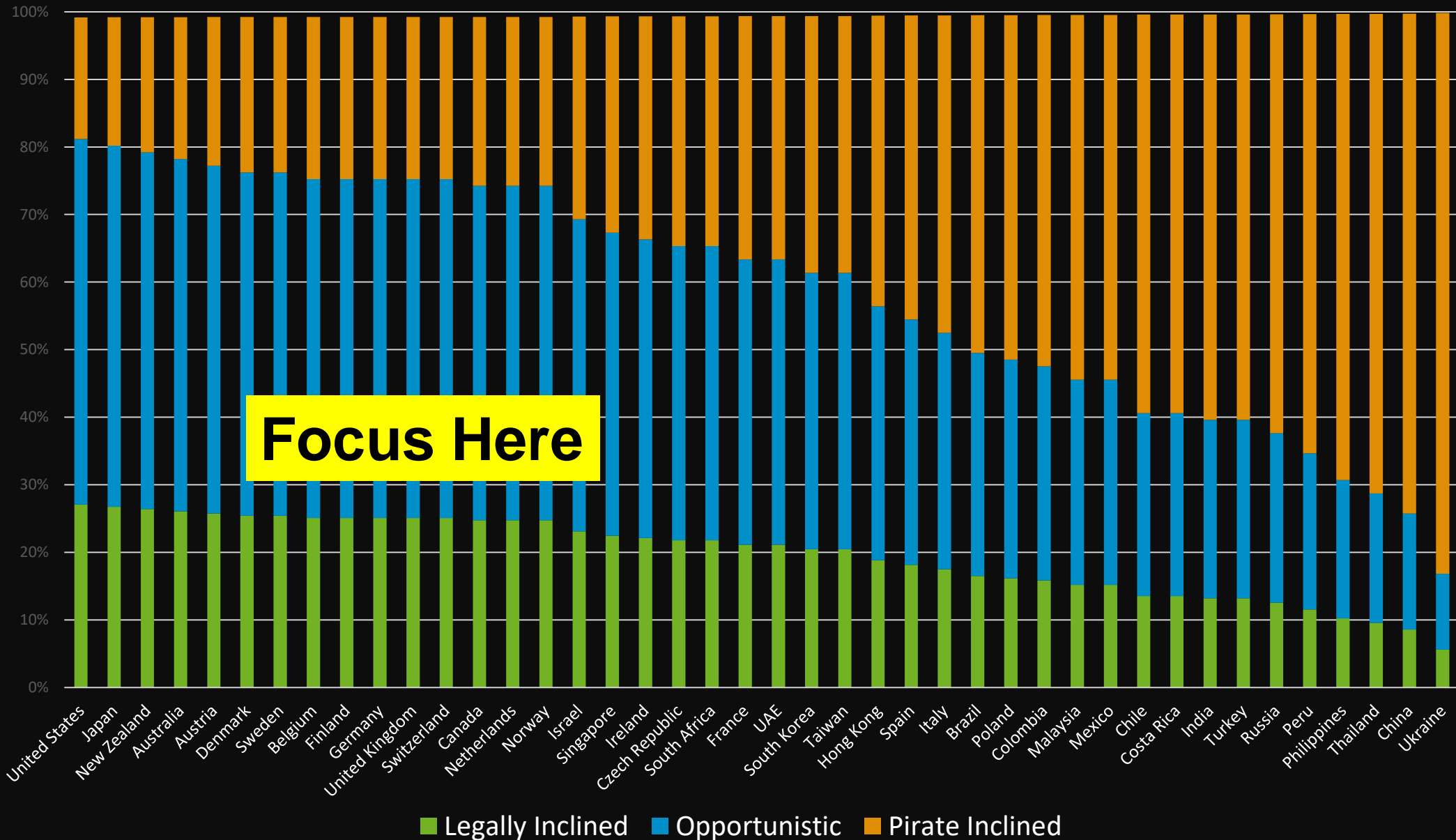
A Shift in Orientation

Company as Victim
- Prove to us that you are compliant
- Licensing is the priority
- You are a thief

A Shift in Orientation
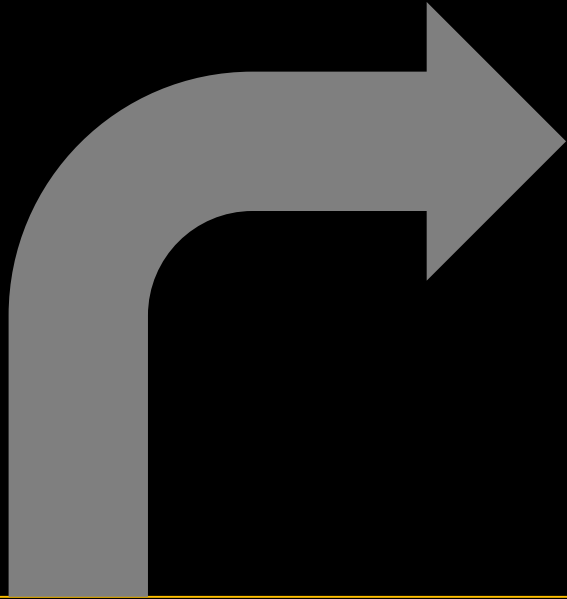
Customer/User as Victim
- We are here to help you
- Business & Security as a priority
- Assume you are well-intentioned

Help the Customer
Protect them
Inform them
Convert them

Focus on those who want to pay us

Company as Victim
- Prove to us that you are compliant
- Licensing is the priority
- You are a thief

Piracy Conversion Strategy Elements

SHIFT in core principles

Piracy is a BUSINESS PROBLEM: *Requires business shift, not traditional Anti-Piracy*

CUSTOMER (not company) is Victim: *Many well-intentioned, focus on those inclined to pay or did pay*

CAPTURE more of the demand we generate by making better business decisions

Business Intelligence: *Data on what Non-Genuine Users are doing and thinking*

Investigations: *Eliminate exploits of our Business Decisions & Processes*

GoCart Data on Installed Base   *Actual installed base, Genuine & Non-Genuine*

PROTECT our customers from being victimized

Online Enhancement (OLE):   *Eliminate Bad Guys Online to capture ALL the sales intended for us*

Partner Accountability: *Prosecution of Cheating Partners & Non-Partners*

Product Key Management: *ID compromised Volume & Retail Product Keys*

CONVERT non-genuine users to genuine products

GoCart *Customer Conversion:*   *Direct messaging of users on non-genuine products*

GoCart **Customer Referrals:**   *Data on key customer installed based shared to Sales/Account Teams*

Enterprise & SMB Cust Compliance: *Customer engagement on under-licensing, directly as Adobe or Associations*

Association Partnerships: *Special Deals in conjunction with Sales for their Members*

DRIVE an improved environment for business and partnering

Advocacy & Legislation: *Directly and through industry associations*

Industry Leadership: *Expand the strategies and partnering across industry*

Our Online Sales Channel was mostly Counterfeiters (as of July 15th, 2013)
A Google Search for Adobe Acrobat 11 Full Version

Our Online Sales Channel was mostly Counterfeiters (as of Dec 15th, 2013)
A Google Search for Adobe Acrobat 11 Full Version

From this…

…to this

Q&A

**Hand UP
Get Mic
Name + Company
Question**