

Whither Redbox? Hollywood studios are conflicted

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Student Efren Enriquez rents a DVD movie at a Redbox, a \$1-per-night DVD movie rental kiosk, outside a 7-Eleven store in Silver Lake area of Los Angeles on Friday, August 7, 2009. Redbox has 17,900 kiosks in the U.S. and expects to add up to 8,500 more this year, nearly one every hour. (AP Photo/Damian Dovarganes)

(AP) -- Hollywood studios are split over Redbox, the \$1-per-night DVD rental kiosk company: They could supply it with cheap wholesale discs and ride its massive growth, or starve it in the hopes of preserving higher-priced purchases.

News Corp.'s 20th Century Fox fell on the side of starvation this week, joining [General Electric](#) Co.'s Universal Pictures, whose withholding of discs prompted a lawsuit.

On the flip side, Sony Corp.'s movie division signed a five-year deal just last month to supply Redbox. As part of the deal, Redbox would get discs more cheaply but would have to destroy copies after their rental lives ended rather than sell them as "previously viewed" for \$7 apiece, as it had done in the past.

Many other studios are taking a wait-and-see approach.

Although fans of the self-service vending machines won't notice a difference, the approach is crucial to both Redbox and the studios.

Lack of studio supply forces Redbox to buy discs from regular retailers - just like an individual might go to Wal-Mart or Best Buy - cutting into profits and stifling its growth. The studios want to keep their consumers happy, but are concerned the cheap kiosks could erode demand for higher-priced DVD purchases, which are the lifeblood of the industry.

"I do not think this will destroy the film business, but it's certainly a major issue over the next few years, especially if it continues to grow at the rate it's growing," Pali Capital analyst Rich Greenfield said.

"Whether or not the titles get sold at the end of it, \$1 a day does not help the entire movie industry."

On Wednesday, Fox ordered its wholesale distributors to stop supplying Redbox until 30 days after movie discs are released for sale. The policy takes effect Oct. 27.

The studio said the move was intent on "maintaining the quality image and value perception of Fox movies." [News Corp.](#) Chief Operating Officer Chase Carey said \$1 rentals were "grossly undervaluing" its product.

Like Fox, Universal Pictures insisted on a 45-day delay, which Redbox

refused, and the studio cut off Redbox's supply last December. Redbox, a subsidiary of Bellevue, Wash.-based Coinstar Inc., sued to prevent Universal from stopping its supply, claiming antitrust laws had been broken. A federal judge in Delaware is expected to rule soon.

Redbox has 17,900 kiosks in the U.S. and plans 8,500 more this year. Netflix Inc. CEO Reed Hastings has said Redbox and other low-cost kiosk renters such as DVDPlay Inc. would be the biggest competitors to his mail-order [DVD](#) rental company by year's end.

Redbox President Mitch Lowe is trying to convince studio executives that the machines help sell more movies and says more than a third of his customers rent movies before deciding to buy.

"From the studio executive's perspective, they've always had an issue with the dollar price point," Lowe said. "I think it's been very positive to expanding consumers' interest in film again."

Redbox can still obtain DVDs without a studio's cooperation. The "first sale" legal doctrine gives it the right to use the discs as it sees fit after buying them, just as someone buying a book at a retail store can resell it, lend it or simply throw it away (The law is different for intangible property like movie and music downloads).

"Redbox will employ alternative, proven acquisition channels to provide our customers with the same level of service, convenience and value they've come to expect," the company said in a statement.

When Universal turned its distributors' tap off last year, Redbox just bought the discs at retail outlets and rented them out anyway. The "first sale" doctrine isn't in contention in the case with Universal. Rather, Redbox accuses Universal of breaking antitrust law in commanding distributors to withhold the sales.

With Fox now imposing a delay on wholesale copies, Redbox plans to simply buy discs at regular retailers. But because Redbox makes a little more than \$25 per disc in revenue, buying from retailers for close to that price can eat into profits.

Fox's decision comes nowhere near to bringing Hollywood into consensus on low-cost kiosk renters.

Last month, Sony agreed to sell its movies to Redbox for about \$460 million over five years - far less than it would have to pay at retail outlets - as long as Redbox destroyed previously viewed copies. Because Redbox's price of \$7 is generally lower than what Blockbuster Inc. and others charge for previously viewed movies, the studios worried that fewer people will want to buy new copies at regular prices, typically \$15 or higher.

Sony Pictures Home Entertainment President David Bishop said the deal supported the studio's objective of "eliminating a key source of previously viewed product in the marketplace."

The resale business is something Redbox is not interested in anyway, as it makes up less than 1 percent of revenues, Coinstar CEO Paul Davis said. "We don't like being in that business, so, in fact, we're very aligned with the studios," he told analysts Tuesday.

Other studios are on the sidelines or have arrangements with the kiosk company already.

Walt Disney Co. Chief Executive Bob Iger told analysts last week that limiting the number of used discs that end up on discount sales bins was key to a deal it struck with kiosks including Redbox several years ago.

Paramount Pictures parent Viacom Inc. is in talks with Redbox and other

kiosk companies "in how we can together improve and move forward," CEO Philippe Dauman said last week.

Jeffrey Bewkes, CEO of Warner Bros. parent Time Warner Inc., said he would "probably" prefer having some delay, or time "window," between the sales date and when Redbox rents discs for \$1. But he didn't view kiosks as a killer of the studio's business.

"We think that there may well be a role for \$1 rental kiosks or pricing in that range, just like there are \$1 movie theaters," he told analysts last week. "We think it's a question of the right window."

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