

Redbox to expand movie rentals to Web

October 29 2010, By Ben Fritz

As more consumers leave DVDs behind for digital downloads, the company that brought movie vending machines to grocery stores nationwide is following the audience.

[Redbox](#) unveiled Thursday a new digital strategy that by next year will expand the number of movies offered to consumers directly in their homes -- a move the Illinois-based company hopes will set the stage for longer-term growth and soothe investors anxious about its prospects.

The company is in talks with several potential partners for this expansion, which will include a Web-based service that works in conjunction with its \$1-per-night movie kiosks, said Chief Executive Mitch Lowe.

"The disc business is still very strong and will continue to be for quite some time, but we need to get into this space to take advantage of the gradual transition to digital," Lowe said.

The news came on the same day that Redbox's parent company, Coinstar Inc., released its financial results for the third quarter ending Sept. 30.

The largest contributor to Coinstar's overall performance was continued strong growth for Redbox, which has risen from practically nowhere in 2006 to become one of the two largest rental companies alongside Netflix.

Revenue from DVDs grew 54 percent from the previous year to \$305.5

million, while [operating income](#) rose 149 percent to \$29.7 million. While some of the improved financial results came from the growing number of kiosks, which now total 28,900, existing kiosks saw their revenue grow 17 percent on average.

Redbox's growth is slowing, however, as it is having a tougher time finding new locations to install kiosks.

Those market pressures make it appealing for Redbox to go online and reach more consumers, particularly a younger crowd that prefers to access movies with Web-connected devices. A digital service will also allow Redbox to expand its film catalog: Kiosks typically contain about 600 DVDs, most of which are new releases.

Redbox officials declined to discuss how much it would charge consumers for the online service, saying the company had yet to finalize its pricing plans for digital. But Redbox could find it difficult to maintain the \$1-per-night price of its kiosks, which have lured consumers and built the core of its business.

In the physical world, companies like Redbox can acquire discs at standard prices and then rent them out for any fee they wish. Online, however, movie studios control access to their content and can charge a high price to distributors for each time the film is viewed. Internet rentals of new-release films typically now cost consumers between \$4 and \$6.

Lowe said his company is focused on developing a pricing plan consistent with what it has charged in kiosks.

"The way we're going to deliver this product is going to match the value consumers associate with our brand," he said.

One person at a major studio, who has had talks with Redbox about its online venture, said the company has discussed a monthly subscription plan similar to Netflix. If a subscription plan allowed enough rentals per month, the average price per consumer could be as low as \$1 per film.

While Redbox is the dominant player in the kiosk business, well ahead of those operated by NCR Corp. with the Blockbuster brand, online movie rentals are already a very crowded space, with major players including Netflix and Apple's iTunes.

While Lowe declined to identify which potential partners could help run Redbox's digital offering, analyst Eric Wold of Merriman Capital recently said in a research note that Wal-Mart and Amazon.com are top prospects.

Amazon, which already sells digital downloads of movies, is preparing to launch a streaming movie subscription service similar to Netflix's, according to people familiar with the situation. Earlier this year, Wal-Mart acquired online movie distributor Vudu.

Wall Street investors and analysts have been pressuring Coinstar to explain its plans for the Web to allay concerns that Redbox will wither as the industry moves online.

"I think explaining their digital strategy is even more important than what they say about their performance," Wold said on Thursday before Coinstar announced its financial results.

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