

Video rentals top sales for first time since 2000

August 6 2011, By RYAN NAKASHIMA , AP Business Writer

(AP) -- Americans spent more money renting home movies than buying them in the second quarter, marking only the second time that's happened in the DVD era. The big switch in consumer behavior shows the rising popularity of cheap alternatives like Netflix and Redbox and suggests people are pinching pennies in this economy.

Rental revenue rose 11 percent from a year ago to \$2.06 billion, while sales of discs and digital purchases fell 15 percent to \$1.93 billion in the three months through June, according to a report released Friday by The Digital Entertainment Group, an industry consortium of studios and electronics makers.

The resurgence of rentals is noticeable mainly because the DEG started including subscription plans such as Netflix's in the rental category this year, said executive director Amy Jo Smith. Still, she said [consumer behavior](#) is changing.

"It's not just from sell-through to rental. But people are looking at different ways of consuming media at home," she said.

The last time rental revenues beat purchases was in 2000, before people slowed their rentals of VHS tapes from shops like Blockbuster and began buying more DVDs - which at around \$20 seemed like a bargain. The DVD first came out in 1995 and led to a revolution where people replaced their home libraries of video cassettes for the thinner, lighter discs that lasted longer. That gave a huge boost to movie studios' profits.

Now, broadband Internet access and connected devices put high-definition movies onto the big screen in people's living rooms. That has left the DVD looking quaint, and DVD sales have steadily fallen. Gains in sales of high-definition Blu-ray discs haven't made up the shortfall. Brick-and-mortar store giant Blockbuster went bankrupt before being bought by [Dish Network](#) Corp. in April.

Alternatives such as [Netflix Inc.](#)'s [streaming service](#) or \$1-a-night rental kiosks such as [Redbox](#) have "taken a pretty big (bite) out of purchasing," said Tom Adams, principal analyst and director of U.S. media for IHS Screen Digest.

Adams said purchases will make a comeback around the winter holidays, however.

He expects purchases, including of movies, TV shows and video on Blu-ray discs to amount to \$9.9 billion this year, versus \$8.1 billion for all rentals. The rise of rentals is not slowing down, though. Adams sees rental revenue topping purchases on an annual basis in 2014 by \$9.3 billion to \$8.5 billion.

It's a trend that Hollywood would like to stop, because studios make more profit from direct sales of discs or digital copies than they do from rentals.

Several major studios have adopted a standard called UltraViolet, which will soon allow consumers to access digital copies of movies on distant servers known as the cloud when they buy DVDs or Blu-ray discs. The system is expected to launch this fall. Several studios hope the system will help spur digital sales, which have been growing very slowly and made up just 3 percent of the \$3.99 billion of U.S. home entertainment spending in the second quarter.

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