

Warner Bros. to impose 56-day delay on DVD rentals

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Prepare to have your patience tested if you prefer to rent DVDs rather than buy them.

In a precedent other major movie studios are likely to follow, Warner Bros. is poised to announce that its latest DVD releases won't be made available to rental outlets until nearly two months after the discs can be bought in stores and websites.

A person familiar with the matter explained the new rules to The Associated Press on Friday. The person spoke on condition of anonymity because the changes won't be announced until Jan. 10 during a major electronics show in Las Vegas.

The expanded delay was first reported by the All Things D website.

[Time Warner Inc.](#)'s Warner Bros. declined to comment Friday.

The new restriction will double a 28-day delay on DVD rentals that Warner Bros. reached with Netflix's [video subscription service](#) two years ago. After that breakthrough, several other movie studios adopted similar moratoriums, although many DVD releases still remain available to rent on the same day they go on sale in stores.

The increased wait for DVD rentals exposes the competitive tensions that are shaking up [home entertainment](#). In the past seven years, movie studios have seen U.S. sales of DVDs and Blu-ray discs fall by a third -

from \$10.3 billion to roughly \$7 billion. Netflix's growing popularity during the past decade helped put a major dent in one of the movie studios' biggest moneymakers - because its service enables people to watch as many mail-delivered discs as they want for a flat monthly fee.

DVD rentals didn't hurt studios much before Netflix existed because the market was dominated by [Blockbuster](#). That chain charged consumers for every title taken off their shelves and shared revenue with the studios.

To make matters worse for studios, Redbox's concept of renting DVDs -from kiosks set up in thousands of stores- gave movie lovers another cheap and convenient way to avoid buying the discs. Coinstar Inc.'s Redbox had been renting the DVDs for just \$1 per day until recently raising the price to \$1.20.

Netflix Inc. conceded to Warner Bros.' demands for the 56-day rental delay to ensure that it can still buy the discs at a discount. Netflix expects to suffer a loss this year, largely because its own U.S. price increases backfired in 2011 and triggered far more customer cancellations than management anticipated.

It doesn't appear Redbox is going to bend to Warner Bros.' will. "The current agreement Coinstar has with Warner Bros. is to receive movie titles 28 days after their release," Coinstar spokeswoman Marci Maule said in a written statement. "No revised agreements are in place."

Redbox could conceivably rent Warner Bros. DVDs on its own timetable by buying thousands of discs from stores, although that hard-ball tactic would drive up its expenses.

In a late October conference call with analysts, Coinstar CEO Paul Davis raised the possibility of finding "work arounds" if Warner Bros. or other

[movie studios](#) tried to impose further delays on DVD rentals.

Netflix's cooperation with Warner Bros. and Coinstar's resistance underscore the different priorities of the two services.

In many ways, Netflix is just keeping its DVD-by-mail service on life support and leaving it up to each customer to decide when to pull the plug. Meanwhile, the company is pouring most of its money and energy into building up its service that delivers movies, TV shows and a growing amount of original programming to TVs and other devices with high-speed Internet connections.

Netflix's Internet video service has more than 20 million subscribers. Its DVD-by-mail business ended September with nearly 14 million customers. The DVD-by-mail subscribers could have dropped to as low as 10.3 million by the end of December, based on projections Netflix issued in October.

Investors also see Internet video as the key Netflix's future, although they became less confident about the company's decision-making after last year's U.S. price increases drove away hordes of customers. The backlash caused Netflix's stock to drop by more than 60 percent during calendar 2011. The shares have gotten off to a hot start this year, rising 25 percent during the first trading days on positive news about subscribers' Internet video viewership and takeover speculation. The stock rose \$6.99 Friday to finish the week at \$86.29, its highest closing price in nearly two months.

In contrast, DVD rentals remain Redbox's financial lifeblood, although it too is looking to expand into Internet video streaming. For now, [Redbox](#) probably can't afford the potential customer alienation that would come with additional delays in the availability in new DVD releases. But having to pay more for DVDs will squeeze profit margins. Either way, it

might not bode well for Coinstar's stock. Coinstar shares shed \$2.39, or 5.5 percent, to close Friday at \$40.98.

For Warner Bros., longer delays in DVD rentals could provide another away to promote UltraViolet. That's a new system, backed by [Warner Bros.](#) and several major Hollywood studios, that allows consumers to access movies they have purchased on discs over multiple devices including tablet computers and smartphones.

UltraViolet is seen as a way to prod more people to buy DVDs and possibly reverse a slump in disc sales.

To avoid cutting into its own sales, Time Warner is trying to push Netflix and other rental services to the back of a long line of services, while moving DVD and Blu-ray purchases to the front of the line alongside its HBO pay TV channel. To protect its franchise, HBO has steadfastly refused to license its material to Netflix's Internet video service and this week confirmed it will no longer sell DVDs of its shows to Netflix. Unwilling to be completely walled off from HBO content, Netflix plans to buy the DVDs of the pay channel's shows from other sources.

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