Are Studios Seeing Red with Envy or Green with Dollars?

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Are Studios Seeing Red with Envy or Green with Dollars?

Posted on September 1, 2009 by Editor

By Lynda Irons

Though economic conditions may appear to be slightly improving, Hollywood motion picture studios nervously gaze into their crystal balls to determine how their futures will look in light of Blockbuster’s recent announcement that their same-store DVD sales have been dropping substantially the past few quarters, and given Redbox’ and Netflix’ increasing dominance in the DVD-rental markets. Seemingly, it would appear that the studios would be gaining a revenue stream that should make them very positive about their sustainability in the entertainment industry. However, even though box office receipts are up 7.2 percent this time last year [1], consumers are changing their viewing habits at home. They are not buying DVDs but renting them, as evidenced by Redbox and Netflix.

Several studios recognize that DVD sales are going to continue to be unstable. “We can no longer afford to give away money when we can’t be sure what the DVD sales are going to be,” says Sony Studio Chief Michael Lynton [2]. And Walt Disney’s CEO Robert A. Iger concurs that “Hollywood can no longer count on a cash cow that has yielded billions in profits.” [3] While the economy is likely a factor, it’s also clear “that audiences are bypassing DVDs because they have a range of other options, from watching movies and TV shows online to playing video games.” [4] According to recent report on CBSNews.com, “Warner Brothers, the largest distributor of DVDs in the United States, says sales are down 4 percent for the year. Since global DVD sales can now account for as much of 70 percent of revenue for a new film, any industry-wide decline is cause for alarm.” [5]

Additionally, all is not well between the studios and particularly Redbox. In fact, lawsuits have been filed by each against the other. What’s at stake? The studios are “concerned that Redbox’s $1-per-night rentals are undercutting more lucrative rentals from other services and DVD sales.” [6] These studios are concerned that in view of global declines in DVD sales, they can no longer continue to sustain losses without looking toward other sources of increased revenues; as a result, studios want a bigger piece of that lucrative rental/Internet pie.
Redbox has approximately 15,000 kiosks and are planning to increase its market to over 22,000 locations by the end of the year.[7] Consumers are attracted by low-cost rentals on recently released films with no late fees. As such, Redbox has seen its revenues increase at least 110 percent in the last quarter; Netflix, 20 percent. However, Warner Brothers has recently announced that they, like Twentieth Century Fox and Universal Studios before them, will delay releasing films to Redbox until 28 days after they go on sale. [8] Warner Brothers continued this trend by announcing that they would “impose the same the same restriction on Netflix and other DVD-by-mail subscription providers unless they agreed to “a day-and-date revenue sharing option.” [9] Wikipedia defines revenue sharing as “In business, revenue sharing refers to the sharing of profits and losses among different groups.” [10] However, such a revenue sharing movement could have negative impacts on the profitability of both Netflix and Redbox. Redbox argues that Warner’s move is detrimental to consumers who wish to view recently released DVDs in a timely manner.

In a note to investors, William Blair analyst Ralph Schackart raised concerns that Warner’s recent announcement “could have a negative impact on Netflix.” In one case, Mr. Schackart said, Warner could force less favorable terms, including “longer periods of limited access to new release titles and higher prices.” [11] Netflix has seen its subscriber base increase from 4.1 million in 2005 to over 9.4 million in 2008, representing over 124 percent. Its revenue has increased from $682 million in 2005 to over $1.3 billion in 2008, a 100 percent increase. [12] Reed Hastings, Chief Executive Officer, President, and Co-founder, attributes these increases to their “core DVD-by-mail offerings” and their “growing Internet streaming, contributing to their faster subscriber growth and lower subscription acquisition costs.”

Even as Redbox has filed a lawsuit against Warner Brothers (and previously against Fox and Universal) protesting the 28-day delay, they have signed a 5-year agreement with Lionsgate. “The multi-year agreement with Liongate underscores our commitment to creating winning relationships for our customers and studio partners,” said Mitch Lowe, President, Redbox. [13]

Paramount is considering negotiating with Redbox, and Lowe estimates that it will get more than “20 percent of the shelf space in the kiosks.” Even if the rest of studios commit to Redbox, there are just 700 slots in each kiosk. Given the space guaranteed to a previously negotiated agreement with Sony and the recent Lionsgate arrangement, that means only about 50 percent of the approximately 700 slots in each kiosk will be available to the rest of Hollywood, which includes three of the most dominant studios. [14]

Just like VHS gave way to DVD (interestingly enough, the Blu-Ray market has yet to really take off), DVDs are giving way to alternative viewing options. This means the studios have to face yet another industrial upheaval in the wake of changing consumer preferences.

Endnotes

24 THOUGHTS ON "ARE STUDIOS SEEING RED WITH ENVY OR GREEN WITH DOLLARS?"

Pablo Giza  
on January 30, 2014 at 5:18 PM said:

Hi there, You have performed a great job. I will certainly digg it and for my part suggest to my friends. I’m sure they will be benefited from this website.
Samira  
on January 31, 2014 at 9:41 PM said:

Thank you for the good writeup. It in fact was a amusement account it.  
Look advanced to more added agreeable from you!  
By the way, how could we communicate?

Adele  
on January 31, 2014 at 9:59 PM said:

I’ve been exploring for a little bit for any high-quality articles or weblog posts on this kind of area.

Exploring in Yahoo I finally stumbled upon this site.

Reading this info So i’m happy to express that I have a very just right uncanny feeling I found out exactly what I needed. I so much indisputably will make certain to don’t disregard this web site and give it a look regularly.

network marketing opportunity  
on February 1, 2014 at 7:01 AM said:

I’ve been browsing online greater than 3 hours nowadays, yet I never discovered any fascinating article like yours.

It’s beautiful worth enough for me. In my view, if all web owners and bloggers made excellent content material as you probably did, the net will be a lot more helpful than ever before.

online success  
on February 1, 2014 at 10:03 AM said:
You are so awesome! I do not believe I’ve truly read through something like this before. So good to find someone with a few original thoughts on this subject. Seriously.. many thanks for starting this up. This website is something that’s needed on the web, someone with some originality!

**Dining rooms**

on **February 1, 2014 at 2:10 PM** said:

Hello, all is going nicely here and ofcourse every one is sharing facts, that’s truly fine, keep up writing.

**affiliate marketing**

on **February 1, 2014 at 4:17 PM** said:

Hey there! Would you mind if I share your blog with my twitter group? There’s a lot of folks that I think would really appreciate your content. Please let me know. Thank you

**Alma**

on **February 1, 2014 at 10:15 PM** said:

Someone essentially lend a hand to make severely articles I would state. This is the very first time I frequented your website page and so far? I amazed with the analysis you made to make this particular put up incredible. Magnificent job!

**Marketing znz**

on **February 1, 2014 at 11:18 PM** said:
Hey I know this is off topic but I was wondering if you knew of any widgets I could add to my blog that automatically tweet my newest twitter updates. I’ve been looking for a plug-in like this for quite some time and was hoping maybe you would have some experience with something like this.

Please let me know if you run into anything. I truly enjoy reading your blog and I look forward to your new updates.

Thanks on your marvelous posting! I genuinely enjoyed reading it, you may be a great author. I will remember to bookmark your blog and may come back later on. I want to encourage one to continue your great work, have a nice afternoon!

I will right away grasp your rss feed as I can not find your e-mail subscription hyperlink or newsletter service. Do you have any? Please allow me understand in order that I could subscribe.

Thanks.

When I initially commented I clicked the “Notify me when new comments are added” checkbox and now each time
a comment is added I get three emails with the same comment. Is there any way you can remove people from that service? Cheers!

**Weight loss zumba success stories**  
**on** February 2, 2014 at 11:21 AM **said:**

I really like your blog.. very nice colors & theme. Did you design this website yourself or did you hire someone to do it for you? Plz reply as I'm looking to construct my own blog and would like to find out where u got this from. 
cheers

**money fast in pokemon x**  
**on** February 2, 2014 at 1:36 PM **said:**

Great weblog here! Additionally your website quite a bit up very fast! What web host are you the use of? Can I get your associate hyperlink to your host? I want my site loaded up as quickly as yours lol

**facebook privacy policy**  
**on** February 2, 2014 at 8:03 PM **said:**

Hi there colleagues, how is the whole thing, and what you would like to say concerning this post, in my view its really awesome in favor of me.

**employment opportunities**  
**on** February 3, 2014 at 8:09 PM **said:**

Thanks a lot for sharing this with all of us you really understand
what you are speaking about! Bookmarked. Kindly also consult with my website =). We will have a link trade agreement among us

Scott  
on February 4, 2014 at 9:54 AM said:

Hi there friends, its fantastic paragraph about teaching and completely defined, keep it up all the time.

Isidra  
on February 5, 2014 at 6:00 AM said:

Hey! I know this is kinda off topic but I was wondering which blog platform are you using for this website? I’m getting tired of WordPress because I’ve had problems with hackers and I’m looking at options for another platform. I would be fantastic if you could point me in the direction of a good platform.

internet marketing blueprint  
on February 5, 2014 at 1:08 PM said:

Why people still use to read news papers when in this technological world all is accessible on net?

Antone Knorp  
on February 5, 2014 at 3:15 PM said:

Je suis ravi d’essere passé par ici. tres bonne discussione ....
Julius Pritts  
on **February 5, 2014 at 4:46 PM** said:  

Me encantó la forma en que usted describió sus experiencias en el segundo párrafo.

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**signs lyrics rush**  
on **February 5, 2014 at 5:55 PM** said:  

You have made some really good points there.  
I looked on the net for more information about the issue and found most individuals will go along with your views on this site.

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**earn online**  
on **February 5, 2014 at 9:12 PM** said:  

Hello! I could have sworn I’ve visited your blog before but after looking at some of the articles I realized it’s new to me. Anyways, I’m certainly delighted I found it and I’ll be book-marking it and checking back frequently!

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**Melony Veloso**  
on **February 6, 2014 at 6:17 AM** said:  

Hoffe, ihr seid eine tolle Gruppe von Leuten! Ich werde versuchen zu helfen, wo und wann ich kann!