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Strive to Survive: The Redbox Example

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Strive to Survive: The Redbox Example

Cover Page Footnote
STRIVE TO SURVIVE: the redbox. example

BY JAKE CONLIN

Blockbuster was once valued at $4.7 billion and dominated the in-home entertainment industry. In 2010, Blockbuster declared bankruptcy and now serves as a model of what happens to companies that don’t adapt to rapid changes in technology.

Can Redbox Adapt?

The primary cause for Blockbuster’s decline was the rise of Redbox. Now, Redbox faces the rise of streaming companies such as Netflix, Vudu, Amazon Prime Video, and Google Play. These video-on-demand services are “heralded as the future of cinema distribution.”

Many people doubt Redbox’s ability to survive in this new streaming age. As shown in Figure 1, the total revenue of the DVD rental industry is expected to drastically decrease in the next few years. Some skeptics are starting to question if Redbox will be the next Blockbuster. Analyst Michael Olsen says that Redbox’s downfall is certain. Now, the company must manage the decline.

Despite the decline in demand for DVD rentals as shown above, Redbox CEO Galen Smith is optimistic for the company’s future. In a recent interview, Smith said, “No one can do what we do better in terms of providing consumers the latest movies at the best value.” Smith also discussed some of the company’s recent initiatives, including testing 4K movie rentals, building a streaming service, and launching a new ad campaign. Clearly, Redbox does not plan to decline alongside DVD rentals.

The future of Redbox will depend on how well the company can adapt. While DVD rentals might be dying, the industry for home entertainment is not. Redbox can survive if it follows a strategy including (1) satisfying the hard-copy renters, (2) claiming the streaming market, and (3) aggressively advertising.

PHYSICAL RENTERS

The Disc Rental Market Still Exists

No matter how fast streaming is growing, a market for physical movie rentals still exists. In fact, a recent survey shows people still believe Redbox delivers better value than any other platform renting out new release movies. Redbox’s prices are half the cost of streaming a movie and the company’s kiosk locations are quite accessible. More than 70% of Americans live within five minutes of a kiosk. Redbox is in a position to continue dominating the physical rental market but must continue to adapt kiosk renting.

Adapting to Disc Renters’ Needs

Physical-movie renters are looking for more than just DVDs now. The market for Blu-ray and 4K movies is growing rapidly. In the U.S., 31% of households own a 4K TV. Renters crave higher-quality movies.

The physical renting market is much more lucrative than the streaming market. Disc rental’s profit margin is five times bigger than streaming.

For Redbox to hold on to existing hard-copy renters, the company needs to adapt to the changing wants of consumers. Redbox seems to be aware of the need to adapt. In March of 2019, Redbox almost tripled the number of cities renting out 4K movies. This update is a good sign for Redbox, the company dominates the disc renting market and must continually adapt to maintain its market share.

Why Leading this Market Matters

Keeping control of hard-disc rental market is crucial for Redbox. Disc rentals have a 52% profit margin compared to a meager 11% profit margin for streaming services. Redbox will make the most money by keeping the physical rental market alive for as long as possible.

The second reason for Redbox to maintain the disc rental market is this market contains Redbox’s most loyal customers. If these customers ever swap to streaming, they will be more likely to choose Redbox’s streaming service. Thus, maintaining the disc rental market is a good way for Redbox to finance and promote the new streaming service.

Figure 1

Projected Revenue in Millions
Of DVD Rental Industry
Data Courtesy of Megan Graham

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STREAMING

Streaming is the Future

Although profit margins are bigger for disc rentals, Redbox must accept that streaming movies is the growing trend. Fifty-five percent of Americans subscribe to at least one streaming service. To survive, Redbox must claim a significant portion of the streaming market.

After two years of preparation, Redbox launched a streaming service called Redbox On-Demand. CMO of Redbox, Ash Eldifrawi, said, “We really wanted to take the company from a DVD company to a broader content play for Americans to get the content any way they want it.”

Winning the Streaming Battle

Redbox will have to compete for the pay-per-view streaming market primarily through content and price.

The battle for content will be over which service can provide new-releases the fastest and which service offers the largest selection. Ash Eldifrawi of Redbox said, “No other brand is as recognizable with new-releases movies as Redbox.” Redbox On-Demand offers new-release movies faster than other services but needs to differentiate itself.

The most important thing Redbox can do to claim the pay-per-view streaming market is offer the best prices. Even if doing so means decreasing profit margins even further, Redbox must be the least-expensive service if the company is going to attract more customers. Currently, Redbox’s streaming prices are almost identical to the prices offered by other streaming services. Figure 2 shows the average cost of streaming a new-release film on several platforms.

As shown in Figure 2, the average cost to stream a high-definition movie through Redbox is the same as streaming with any other company. Redbox’s customer base would grow faster if the company charged just 50 cents less per movie.

ADVERTISING

Advertising is Essential

The final technique that Redbox must ramp up to survive is advertising. Up to this point, Redbox has only launched one major ad campaign. The campaign started at the end of 2018 and consisted of several short television commercials that aired during the college football bowl season.

Previously, Redbox relied on word of mouth and prominent kiosk locations to build its business. That worked when kiosks were the “new idea.” Now that kiosks are “old news,” Redbox must advertise to remind people that it offers the best value in the rental industry and (2) Redbox now offers a streaming platform.

No matter how good a service is, people won’t use it if they don’t know it’s there. Redbox must increase advertising efforts to attract new customers and raise awareness of Redbox On-Demand.

One easy way for Redbox to spread the word about the new streaming service is to have search engines include Redbox On-Demand as an option for streaming when someone searches for a movie. Currently, Redbox is not an option for streaming in Google searches.

CONCLUSION

Redbox stands at an important crossroad right now, it must choose between adaptation or extinction. The company can either follow Blockbuster into bankruptcy or launch into “the future” – streaming – by utilizing the company’s existing strategy, but rather shouldn’t be seen as threats to a company’s existing strategy, but rather opportunities to better meet the needs of the customer.

The needs and wants of the customer – not just the company’s past successes – must direct a company’s strategy. Advancements in technology shouldn’t be seen as threats to a company’s existing strategy, but rather opportunities to better meet the needs of the customer.

Redbox has the potential to change the way the world will determine how long the company will stay around.

Renting a Lesson from Redbox

Even though new technology changes the way that customer needs and wants are satisfied, society’s deeper needs and wants are mostly constant. Successful companies will be the ones that adapt with technology to meet people’s needs and wants faster and better. In Redbox’s situation, society clearly still wants home entertainment. People just want entertainment delivered directly from the internet to their TV set.

Companies in every industry can learn from the example of Redbox. The needs and wants of the customer – not just the company’s past successes – must direct a company’s strategy. Advancements in technology shouldn’t be seen as threats to a company’s existing strategy, but rather opportunities to better meet the needs of the customer. The “Redbox Lesson” is that in the business world’s survival of the fittest contest, the fittest company is the one that best adapts to fit customer needs.

Notes

8. Mike Judge. “Gold strikes, bad vibes follows with your Uncle.” wax on wax off. jamaica. magazin... redbox-ondemand.com/blog/mike Judge/2018/12/14/6