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## Strive to Survive: The Redbox Example

Jake Conlin

Blockbuster was once valued at \$4.7 billion and dominated the in-home entertainment industry.<sup>1</sup> 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?

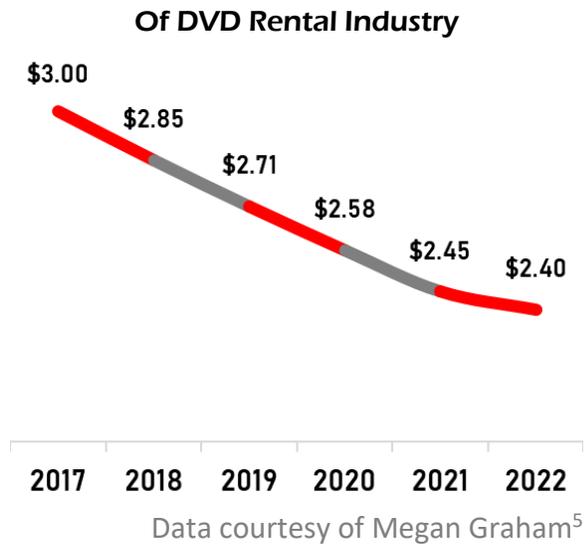
Redbox, the primary cause for Blockbuster's decline, now faces the rise of streaming services such as Vudu, Amazon Prime Video, and Google Play. These video-on-

demand services are "heralded as the future of cinema distribution."<sup>3</sup>

[about.redbox.com/media-gallery](http://about.redbox.com/media-gallery)

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.<sup>4</sup>

**Figure 1, Projected Revenue in Millions**



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."<sup>6</sup> 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

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.<sup>7</sup> 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.<sup>8</sup> 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 DVD's now. The market for Blu-ray and 4K movies is growing rapidly. In the U.S., 31% of households own a 4K TV.<sup>9</sup> Renters crave higher-quality movies. For Redbox to hold onto 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 owns the disc renting market and must continually adapt to maintain the market.

### Why Maintaining this Market Matters

Keeping the hard-disc rental market is crucial for Redbox. Disc rentals have a 52% profit margin compared to a meager 11% profit margin of streaming services.<sup>10</sup>

Redbox will make the most money by keeping the physical rental market alive for as long as possible.

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

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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.

## 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.<sup>11</sup> 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."<sup>12</sup>

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"The new streaming service... is less like an all-you-can-eat Netflix plan and more like the pay-per-view services offered by Apple iTunes and Vudu."

- Dan Rayburn, principal analyst at Frost & Sullivan<sup>13</sup>

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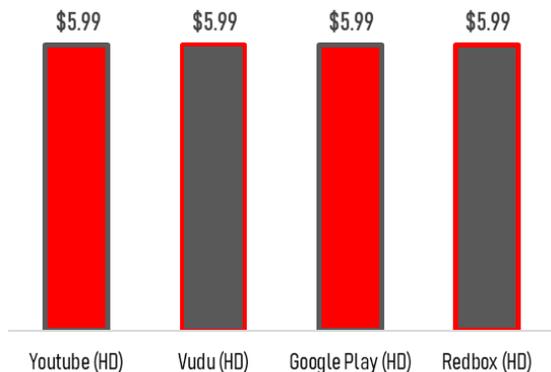
### Winning the Streaming Battle

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 closely associated with new-release movies as Redbox.”<sup>14</sup> Redbox On-Demand offers new-release movies faster than other services but needs to expand the selection of movies.

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.

**Figure 2, Cost of Streaming a Popular New-Release Film**



Data Courtesy of Google

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

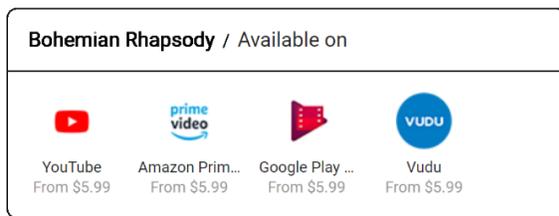
The final technique that Redbox must vamp up to survive is advertising. Up to this point, Redbox has only launched one major ad campaign.<sup>15</sup> The campaign started at the end of 2018 and consisted of several short television commercials that aired during the college football bowl season.

Previously, Redbox relied on word of mouth and prominent kiosk locations to build their business. That worked when kiosks were the “new idea.” Now that kiosks are “old news,” Redbox must advertise to remind people that (1) kiosks still provide 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 (See Figure 3).

**Figure 3, Options for Streaming Movies on Google**



Courtesy of Google.com

## Conclusion

Redbox stands at an important crossroad right now. They must choose between adaptation or extinction. The company can either follow Blockbuster into bankruptcy or launch into “the future” – streaming – by utilizing the remaining revenues from kiosks rentals and advertising on a large scale.

The market for home entertainment continues to change but isn't going away any time soon. How well Redbox can change with the market 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 as opportunities to better meet the needs of the customer. The “Redbox Lesson” is that, in the business-world survival of the fittest contest, the fittest company is the one that best adapts to fit customer needs.

## Notes

<sup>1</sup> Laura Alunni and Nicolás Llambías. "Exploring the Digital Transformation from the Inside." *Palermo Business Review* no. 17 (07, 2018): 11-30.

<https://search-proquest-com.erl.lib.byu.edu/docview/2154971245?accountid=4488>.

<sup>3</sup> "Motion Picture Production & Distribution - Quarterly Update 2/18/2019." Fort Mill, South Carolina: Mergent, 2019.

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<sup>4</sup> Todd Spangler. "The Slow Death of Redbox: Why the Kiosk Colossus Is the Next Blockbuster." *Variety*, February 17, 2016.

<https://variety.com/2016/digital/features/redbox-business-model-doomed-1201706612/>

<sup>5</sup> Megan Graham. "Redbox gears up for its first major ad campaign." *Crain's Chicago Business*, July 31, 2018.

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<sup>6</sup> Elliot Maras. "Redbox pushes back under new ownership." *Kiosk Marketplace*, June 5, 2017.

<https://www.kioskmarketplace.com/articles/redbox-pushes-back-under-new-ownership/>

<sup>7</sup> Elliot. "Redbox pushes."

<sup>8</sup> James Willcox. "With Redbox On Demand, Kiosk Company Gives Streaming a Second Shot." *Consumer Reports*, May 22, 2018.

<https://www.consumerreports.org/streaming-video-services/with-redbox-on-demand-kiosk-company-gives-streaming-another-shot/>

<sup>9</sup> Mike Snider. "Cold outside, but warm indoors with your new 4K TV. Now, what to watch? Some suggestions." *USA Today*, December 30, 2018.

<https://www.usatoday.com/story/tech/talkingtech/2018/12/30/4-k-tv-video-movies-shows-watch/2420546002/>

<sup>10</sup> Megan Graham. "Redbox gears."

<sup>11</sup> Christine Wang. "More than half of US homes now subscribe to a streaming service, spending \$2.1 billion a month." *CNBC*, March 20, 2018.

<https://www.cnb.com/2018/03/19/streaming-services-americans-spend-2-point-1-billion-a-month-in-55-percent-homes.html>

<sup>12</sup> Megan Graham. "Redbox gears."

<sup>13</sup> James Willcox. "With Redbox On Demand."

<sup>14</sup> "Press Release: Redbox Launches on Demand Service." *Dow Jones Institutional News*, Dec 13, 2017.

<https://search-proquest-com.erl.lib.byu.edu/docview/1976327901?accountid=4488>

<sup>15</sup> Pearl, Diana. "Redbox Drops First National TV Spot About a Multitasking Man With Fingers for Toes." *Adweek*, December 26, 2018.

<https://www.adweek.com/brand-marketing/redbox-drops-first-national-tv-spot-about-a-multitasking-man-with-fingers-for-toes/>