**Redbox Inc.**

**MGMT 489: Strategic Management**

**New Mexico Highlands University**

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**Executive Summary**

Redbox enhances the entrainment experience at discounted prices, they continue to pilot and scale new products and services where consumers go every day. Redbox offers retail option that adds more value, more immediacy and more convenience than any other video and entertainment provider. During more than 20 years of business, Redbox have developed expertise in kiosk technology and network operations. Since then, they are committed to help their retail partners reduce costs, increase traffic, focus on their core business and tap into new markets and locations.

**DVD and Game Rental Industry**

Redbox provides several different genres to appeal to different audiences. Redbox is a nationwide video distribution service that offers rental or purchase of DVD, Blu-Ray discs and video games for Xbox360, Wii, and PlayStation 3. They offer categories of action, comedy, drama, family and horror movies. They also entered a joint venture with Verizon called Redbox Instant by Verizon. They have entered into joint venture arrangement with Verizon Communications called Redbox Instant. This joint venture was formed to develop, launch, market and operate a nationwide “over-the-top” video distribution service to provide consumers with access to video programming content, including linear content, delivered via broadband networks to video enabled viewing devices and offering rental of physical DVDs and Blu-ray discs from Redbox kiosks.

Redbox Instant subscription provides a free 1-month trial then rebills for $8/month. This is similar to Redbox’s competitors like Hulu plus and Netflix, which both charge $7.99/month for unlimited streaming. One advantage Redbox has over its competitors is that the $8/month fee includes unlimited streaming but also gives customers 4 credits towards physical DVD rentals at their local Redbox kiosk. Each credit is equivalent to a one-night rental of any DVD or Blu-Ray, but you can lose a credit for each additional day you keep it past the next-day return date.

**Growth Rate and Statistics 2013:**

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| Redbox Statistics | |
| Total number of discs rented out of Redbox per minute | 1,700 discs |
| Redbox market share of the physical DVD rental market | 47.8 % |
| Total percentage of Redbox users who rent another movie upon return | 25% |
| Total number of discs dished out by Redbox | 3,000,000 |
| Number of Redbox locations or kiosks nationwide | 42,000 |
| Number of Redbox movies rented per week | 9.5 million |
| Number of Redbox movies rented per day | 1.2 million |
| Number of Redbox movies rented per hour | 54,000 |
| Number of Redbox movies rented per minute | 900 |
| Number of Redbox movies rented per second | 15 |
| Number of new Redbox’s that opened every minute in 2010 | 1 |

**Major Competitors- Netflix and Hulu Plus:**

When Blockbuster Franchises closed down, Redbox was one of the few companies that entered the media rental market and soon had a monopoly over the industry. When Hulu Plus and Amazon Instant Video came out, Redbox’s business suffered significantly which caused them to reconsider their strategy. Redbox Instant is strictly a provider of movie content and does not include TV shows like their competitors. This may be a major disappointment to consumers since the competitors offer both for the same monthly price, but to others it might be less of a problem. The main factor that puts Redbox in the running is their combination is unlimited streaming as well as the 4 DVD credits per month, which in the end makes the selection of movies at your disposal to be as competitive, than Netflix.

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| **Competitors** | **Description of Company** |
| **Netflix** | High market share in the outline streaming industry |
| **Blockbuster** | Expanding it’s online services by a technological shift from physical DVD’s to digital streaming |
| **Hulu Plus** | Very similar to Netflix, but more TV series based (monthly membership fees with live streaming) |

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| **Companies** | **Market Shares** | **Strengths** | **Weaknesses** |
| **Redbox** | 45.3% | Affordable and easy to get DVD rental | Offers only popular movies |
| **Hulu Plus** | 7% | Current season TV programs | Limited Movies/TV show selection includes ads. |
| **Netflix** | 89% | Offers over 100,000 movies & TV episodes; its collection is unmatched | Does not show current TV shows |

**Major Consumers**

Casual Youth Renters and Family Oriented Renters and Gamers: All consumers are powerful they demand new releases, convenience, speed, and unbeatable prices.

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| --- |
| **High Frequency Renters**- visit at least four times in a quarter and represented over 25% of the total customer base.They count for 60% of revenue with more room to grow. They value New Releases and Blue-ray and are most likely to have a “movie night”. |
| **Redbox Renters-** 47% of Home Entertainment consumers have tried Redbox, and nearly 70 of these are current customers. |
| **Home Entertainment Consumers-** Non-Redbox users spend less on Home Entertainment or not near a kiosk. |

**Major supply-Movie Production Studios-** Redbox depends on their ability to obtain adequate content from movie studios and video game publishers through revenue sharing agreement and license agreements. Most studios licensed under the agreement allow Redbox to access movies and games on the same day and date as the retail release date. Redbox and certain studios licensed such as Universal Studios and Warner Bros are under the agreement delaying Redbox’s ability to access movies or games after a certain number of days following the retail release date to the public

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Sony** | **Liongate** | **Paramount** | **Warner Bros.** | **Universal** |
| **Start Date:** | July  2009 | September  2009 | August  2009 | February  2010 | April  2010 |
| **Payment:** | $487 million | $160 million | $550 million | $124 million | unknown |
| **End Date:** | September  2014 | August 31, 2014 | December 31, 2014 | January 2012 |  |

**Entry Barriers that exist -** Redbox may jeopardize DVD sales and rentals for major movies suppliers.

**Stakeholders and Broad Environment**- Redbox is a subsidiary of Coinstar Inc., it is also a movie rental business for self-service kiosk.

**Laws and Regulations:**

There are some specific laws and regulations under which the movie rental business like Redbox should operate. But due to the growing popularity of renting videos through mail, online and kiosks, most of these laws will probably have to change or modified to fit the new way of people renting and watching movies.

**Age of Renters** – This law for who can rent specific videos follow the same guidelines set by Motion Picture Association of America. These guidelines are based on their content, language, sexuality, violence and themes.

**Privacy Laws** – This law protects the video rental records of individuals as the records can be damaging to a person’s reputation and they cannot be disclosed without written consent.

**Public exhibition** – Videos and DVDs are not allowed to be publicly exhibited outsides of a persons home unless for non profit use or educational purposes without a license.

**Federal Copyright Act** – This law governs how copyrighted materials can be used and distributed. The movie studios who own copyrights are the only parties who are authorized to license sites to display movies for protection of their intellectual properties.

**Antitrust laws** – these laws promote or maintain market competition by regulating anti-competitive conduct by prohibiting agreements or practices that restrict free trade and competition between business.

**The Economy**

Redbox is in the movie rental business. The present state of the economy may have actually increased Redbox’s business as more people rent a movie instead of going to the theater or buying the movie. Redbox’s rentals are reasonably priced at one dollar a night making it very affordable to rent it even in this bad economy. This type of entertainment is a main attraction for many families, making it easy for families to enjoy themselves without the other costs of going to a theater. No one can say outright that the success of the Redbox is directly related to the economy, but one can say that the downturn has given Redbox, which rents movies for a dollar a night, the ability to thrive as Americans hold on to every hard earned cent. Redbox has been a thriving business even before unemployment and foreclosures have plagued many Americans. Redbox has been in a good place financially even before the downturn in the economy. Today, Redbox seems to be the right service at the right time."

Political/ Legal Trends: It is now legal to download and stream movies

Sociocultural Trends: Growing trend to online media consumption

Technology Trends: Shift From physical media to online streaming

**Internal Environment**

Outerwall (Nasdaq: OUTR) is the mother company of Redbox and leading the next generation of automated retail and making it possible for more businesses to follow and profit from these types of services. On March 17, 2014, Mark Horak joined Redbox as its new president. The company mission is to create a better every day by delivering breakthrough kiosk experiences that delight consumers and generate revenue for retailers. In 1991, Jens Molbak and Dan Gerrity started Coinstar and in 2002 acquired Redbox. In 2013, the name Coinstar was changed to Outerwall and was selected as an umbrella corporate brand that encompasses the current operations of the company and currently has approximately 2,900 employees. Redbox has over 35,900 locations nationwide in neighborhood grocery stores, drug stores, and other retail locations in the United States, Canada, Puerto Rico, the United Kingdom, and Ireland.

**SWOT Analysis-Strengths**

Redbox had a unique advantage of knowing where to place their kiosks where customers frequent visit to make renting a DVD, game in more convenient profitable locations. Customers recognize the iconic red metal vending machines that simple and easy to use with no commitment or late fees. Redbox has developed a strong and familiar brand. The easy step by step screen instructions guide customers through the rental process. Also customers can reserve movies or video games online or through the Redbox iPhone or Android app. Besides the easy convenience, Redbox is affordable too. The cost for renting a movies start at $1.20 and $1.50 a night and video games are $2.00 a night.

**Weaknesses**

Movie studios have very powerful because they are the supplier of DVD can choose not to use Redbox as a distribution channel. Redbox kiosks can only storage a fixed amount of DVD and games limiting movies and game selection. Only so many varieties of profitable and popular movie and games can be maintained and available at any one location. They also have less content than their competitor on their online streaming Redbox Instant. The delayed rental gap can decrease consumer satisfaction and consumer demands therefore, Redbox may lose consumers to their competitors that offer greater or more attractive inventory. Another weakness is seasonality. The amount of rentals fluctuates depending on the season. December and the summer months reports the highest amount of rentals. The lowest amounts of rentals are during September and October. The reason for September and October to report the lowest amount of rentals is because school begins and new fall television shows.

**Opportunities**

Redbox has recently invested in business, products and technologies to expand their brand and business of entertainments such as including closing the delay gap of renting newly released movies and offering more pc game rentals. Redbox’s kiosks should have the same titles available at the other kiosks too. Redbox will expand their use of social media to drive awareness of offerings and promotion deals. Redbox can develop technology infrastructure to recognize customer’s preference and react to consumers demand. Redbox also needs to develop and enter lower density markets and offer their services to new distribution channels such as rural areas.

**Threats**

There are many threats to Redbox presence, and one treat is the declining demand of DVDs. Online streaming and video on demand services continue to expand and offer better services such as Netflix, Hulu Plus and Blockbuster Express. Netflix is the biggest threat. These competitive threats may have more experience, greater or appealing inventory, better financing, better relationships within the movie and game industries and mail-delivery and online retailers. Redbox has fees for rentals that are late or not returned at all whereas Netflix only has a monthly charge. Other threats are movie programmers like HBO and Showtime which views pay-per view events. Also other video game rental providers like GameFly and other entertainment competition such as television, movie theaters and sporting events. In the past year, Redbox has lost key personnel of three executive leadership positions. This can disrupt operational and can harm the ability to implement business plans. Catastrophic events can also destruct & disrupt business. Redbox could take steps to protect the security of the business processes and system. They should establish back up plan such as a disaster recovery plan.

**Capabilities**

The core capabilities is being the dominant force in physical DVD distribution, which are linked with customer satisfaction, convenience, value, technology, user-interface, and content management. The current capabilities made them a strategic partner for Verizon's entry into the streaming business. The Redbox Instant by Verizon is not entering into any area of business outside their existing capacities. Redbox is an industry innovator and their national brand stands for convenient entertainment that proves extremely valuable, popular and simple for consumers, studios, retail partners, joint ventures and their company. Redbox’s brand is a key factor in the new venture with Verizon. Redbox offers customers the newest releases at great value, coupled with Verizon's leadership in On-Demand and Digital Distribution of movies, has set the foundation for how Redbox Instant will generate strong growth in the years ahead and is expected to be profitable in 2014.

**Resources**

**Technology resource**- Redbox allows consumers to reserve DVDs or video games online or smart devices for rental at any kiosk and return it to another kiosk. Kiosk automatically installing the DVDs in the machine after someone has delivered the DVDs to the kiosk in a storage unit.

**Physical resource**- Redbox has is the structure of the kiosks. Since Redbox has built a partnership with Flextronics, their new redesigned kiosks can have a capacity of 500 DVDs.

**Financial resources**- Redbox has maintain solid agreements with movie studios to access new tiles in a timely manner. The agreement allows Redbox to purchase DVDs or Blu-rays from the market and have the right to re-sell, rent or dispose of them.

**Competitive Advantage**

Redbox is capable of dominating in physical DVD distribution with their low cost strategy for New Releases. They deliver value to customers by locating their rental boxes in strategic locations where there is a great influx of people 24 hours a day. They also focus on customer service and experience and using low cost leadership without minimal labor.

**Performance Evaluation**

Redbox accounts for 85% of total Coinstar revenues. Redbox segment revenue increased to $515.7 million in the first quarter of 2014. The revenue increase is primarily due to newly installed or relocated kiosks. The comparable performance of the content library is continually affected by the timing of the release slate and the popularity of titles in a particular quarter or year. Redbox generated approximately 200 million rentals in the quarter, an increase of 1.2% compared with the first quarter of 2013. The total disc rentals increase net revenue to $0.02 to $2.58, which is an 8% growth from last year. Blu-ray is a key focus for future revenue growth as it has higher revenue and margin dollar per rental and offers consumers a better viewing experience due to superior picture and sound quality. Redbox had been able expand their brand in the marketplace and continue to improve profitability year after year. Redbox appears to be maturing, so generating strong growth may be challenging because the platform is declining as online streaming becomes the norm, so the kiosk business is a cash cow.

**Strategic Plan**

*Network Optimization*- Redbox can increase performance and profit by finding attractive locations for kiosks, including through redistribution of underperforming kiosks to lower kiosk density or higher consumer traffic areas

*Customer Strategy* There is opportunity to grow consumer base by addressing the changing needs and preferences of their consumers

* *Customer Relationship Management Strategic* enables Redbox to understand their consumers’ rental cycle by effectively track traffic, rental patterns and use that information to drive consumers to Redbox assets through the personalized title recommendation engine delivering more relevant to consumers.
* •*Vertical Merchandising Zone Enhancement Project (VMZ)* enables Redbox to increase the capacity by maintain discs in the kiosks longer allowing them to provide greater title selection and copy depth to enhance the ability to provide the right inventory at the right locations.

• **Growth Strategy**-

*Content Management -* Redbox Instant plan to develop and expand service availability on more devices and gaming consoles, increase customer acquisition levels and service engagement through monthly increases in time spent and frequency in viewing content through streaming.

Blu-ray content differentiates Redbox and extends life of physical rental market. Redbox plan to add features to the kiosk to make it easy to rent and watch movies in the best format and capitalize on increasing Blu-ray device penetration.

Video game industry transition to new consoles and Redbox plans to shift to the new platform by maintain customer engagement on current consoles with smaller quantity of new release. The price of current consoles will drop, enabling new, price sensitive consumers to enter the marketplace. Redbox is a great entry point for these consumers who want to try new games before purchasing them. Redbox should continue to offer a mix of games across different consoles.

**Recommendations for Future Endeavors**

Redbox will keep their attention on the current and expected future of the company, as well as provide recommendations for the critical challenges of continued growth in the company’s market share of the DVD rental business. The DVD rental business is rapidly changing due to the continuing and sure advancement in ways consumers watch movies. For this reason, the recommendations for Redbox include both the continued development and expansion of DVD rental kiosks as well as developing a web based service to continue to compete in the highly competitive movie rental industry. The recommended actions are as follows: Increase the number and distribution of DVD rental kiosks through creating strategic partnership like Redbox Instant; it is diversifying risk and revenue by extending opportunity through strategic alliance. Redbox brand should be extended to a new date entertainment market with a familiar online web-based partner as Amazon, iTunes or other cloud technology to offer customers the ability to watch movies from the internet. This new venture will utilize several core capabilities, create profit and provide a new potential market. Work well with studios to form a strong foundation and collaborate with studios to drive inventory growth to have an infinite of supply of copies available. Expand distribution channel by offering mailing services and increase kiosk density with international partners to determine the right foreign market to enter.

**Implementation**

A short-term promotion goal is permanent downloading. The focus of this strategy targets customers who enjoy keeping movies, whether it’s a favorite movie or a good movie to share with friends and family. The promotion’s time is limited and requires a certain amount of rentals to acquire a code which is sent to the email to allow one free permanent download of a movie from Redbox. This will increase Redbox’s sales because of the increase of rentals from customers who want a permanent copy of a DVDs and Blu-Ray.

Long-term goals include expanding services internationally. Redbox can pursue this opportunity by using local implementation. Redbox would select one country such as India, Japan or France. Adjustments to the business strategy to meet local needs would have Japanese films in the kiosks in Japan and Italian films in the kiosks in France. Another long-term goal is DVD by mail services which can offer next day shipping to best meet customers’ expectations. Also the arrival time of latest movies should release to kiosks sooner. Achieving this goal can be possible if Redbox increases the portion it pays the movie studios but in return Redbox’s sales should increase because of the increase of rentals.

Redbox delivered a strong finish in 2013, generated over $11.97 billion in revenue from over 775 million rentals. As Redbox moves into 2014, the new leader for Redbox is committed to drive value creation as they manage the business.

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