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COMPANY TOWN

Movie fans might have to wait to rent new DVD releases

Some major studios, grappling with sharply declining DVD revenue, are considering a policy to make new releases initially available for purchase only.

By Ben Fritz

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For those who like renting movies, Hollywood may soon have a message: Prepare to wait.

In an effort to push consumers toward buying more movies, some major film studios are considering a new policy that would block DVDs from being offered for rental until several weeks after going on sale.

Under the plan, new DVD releases would be available on a purchase-only basis for a few weeks, after which time companies such as Blockbuster Inc. and Netflix Inc. would be allowed to rent the DVDs to their customers. The move comes as the studios are grappling with sharply declining DVD revenue, which has long propped up the movie business.

Reed Hastings, chief executive of DVD-by-mail company Netflix, revealed that he had discussed delayed-rental proposals with several of his biggest suppliers. People close to the situation at several studios confirmed that such plans were under consideration and probably would take effect next year.

"The studios are wrestling with declines in DVD sales while the DVD rental market has been modestly growing," Hastings said on a conference call Thursday with analysts after Netflix reported impressive 24% revenue growth last quarter. "One of the mitigating steps some are considering is introducing a DVD retail sales-only window for a few weeks."

DVD sales have been hurt by the recession, which has caused tapped-out consumers to opt for cheaper rentals. But Hollywood studios prefer that consumers buy DVDs because that generates significantly higher profits than rentals.

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20th Century Fox, Universal Pictures and Warner Bros. have all tried to impose a no-rental period of about a month on Redbox, the operator of kiosks that rent movies for \$1 per night. Those studios believe Redbox's steeply discounted price undercuts DVD sales.

Redbox has responded by suing the studios, seeking to force them to sell it DVDs simultaneously with competitors. Meanwhile, the company is stocking its kiosks with DVDs it can't otherwise obtain by buying them from retailers.

Hollywood's concern about Redbox is heightened by the company's rapid growth. In the first six months of the year, Redbox's revenue soared 113%. Industrywide DVD sales, however, were down 13.5% in the same period, according to the Digital Entertainment Group, in part because consumers are embracing low-cost rental offerings.

There is also growing concern among studios with Netflix, which reported Thursday that subscribers increased 28% from last year to 11.1 million as of Sept. 30. Netflix and Redbox account for virtually all of this year's growth of about 9% in DVD rental revenue.

Studios considering the plan are betting that a sales-only window would push some consumers who currently rent DVDs into buying them, thus boosting profits.

"The studios might try to implement something like this to increase demand for sales," said Wade Holden, an analyst at SNL Kagan, "because they need to protect that revenue stream the best they can."

Such a move would undoubtedly decrease revenue for DVD rental companies. That might not only crimp the growth of Netflix and Redbox, but also further depress struggling rental chain Blockbuster, whose revenue fell 20% in the first half of the year.

Depending on the details, however, a sales-only window might not hurt the bottom line of major rental companies. To get them on board, studios probably would have to offer them a lower wholesale price than that paid by retailers, currently \$18 for most standard DVDs and \$25 for high-definition Blu-ray discs.

"If we can agree on low-enough pricing," observed Hastings, "delayed rental could potentially increase profits for everyone."

A universal delay for all rental companies might also end the ongoing dispute of three studios with Redbox. A company spokesman implied that Redbox would go along with a sales-only window if it wasn't singled out: "We must have a level playing field and the right to buy movies at the same time as any of our competitors," he said.

Whether consumers go along with it, however, may be another matter entirely.

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