

The DVD industry uses different pricing strategies than the CD industry

It may be instructive to look at the pricing model of DVDs for insight into what has happened in the CD market. In case you were unaware, the film/TV industry uses a very different pricing strategy than the music biz.

Studios release far less product each year than the labels, with major film releases numbering in the 100s versus 25,000 or so annual CD releases.

Films have a model where they typically are released from the highest revenue generator down to the lowest. Another way to describe that progression is a dynamic pricing structure going from highest paying users to lowest. Starting with theatrical release (movie theatres), moving next to pay-per-view, and then premium cable (i.e, HBO). After the premium cable run has begun (or ends) is when typically DVDs get released for sale (or rental) to the public. Eventually, movies make their way to basic cable, and lastly, to broadcast TV. (Somewhere in the middle is overseas release, but for our purposes, that's more of a parallel track).

DVD sales do not rely on a static pricing model. They are initially released at a price point consistent with expected demand. After a short period of time, prices drop, and in some cases, significantly.

A few recent film and TV examples may be instructive. The Seinfeld Collection ([Seasons 1&2](#), and [Seasons 3&4](#)) were originally released before Thanksgiving (November 29, 2004), and sold for \$49.99 at retail. As the Christmas holidays approached, prices were no less than the \$44.99 level. Shortly after the holidays, sales as low as \$39.99 were seen. Towards the end of March, [Amazon](#) (AMZN), [Target](#) (TGT) and [Circuit City](#) (CC) all advertised both sets for \$29.95 a piece.

Pricing is a combination of popularity (demand) and age (supply). The older a release is, the more its available on the secondary markets. Let's look at a few recent animated films: Older movies, such as [Shrek](#), [Ice Age](#) and [Antz](#) are all \$10 today. More recent films, such as [Finding Nemo](#) or [Shrek2](#) are \$14.99 and \$15.99 respectively. Films fresh out of the theatres, such as [The Incredibles](#), are \$20.

Traditional films (live action) are priced similarly. Older releases such as [School of Rock](#), [Titanic](#), or [Forest Gump](#) are \$7.50. We see more recent features such as [Kill Bill 1](#)(and [Kill Bill 2](#)), [Lord of the Rings](#), [Bourne Identity](#), [Gladiator](#), and [Master & Commander](#) sold for \$10.

But its not just a function of age: Certain older titles never seem to drop below \$10 -- recently films of acclaim like [Pulp Fiction](#), or [Saving Private Ryan](#), or older classics like [Ben Hur](#) or [Ten Commandments](#) -- despite their age. It's a function of popularity and hence, demand.

Ironically, many of the films mentioned here now sell for less than their soundtracks. Two hours (or longer) of a movie, plus additional audio commentary, a documentary of the making of the film, outtakes, special features etc., all cost less than a mere 45 minute audio only songs from the film.

We've stated this before, but it bears repeating: Consumers have very quickly figured out that CDs are a peculiarly weak value proposition. Is it any surprise that CD sales have slid while DVDs have grown explosively? How is it that the widespread availability of films on Bit Torrent has not dented their sales? A simple possible explanation is pricing structure.

By pricing DVDs strategically, the film and television industry captures *marginal sales* and maximizes revenue. The only comparable pricing structure in the music industry are budget CDs. These are typically much older than the DVD price discounts (6 months versus many years). Even worse, they are packaged differently, specifically marketed as "budgetline" -- with less desirable cover art and labelling. (There's nothing quite like sending a message to your price sensitive clients that you are 2nd rate consumers, and we hardly value your business).

Compare the different approaches the two industries take. DVD sales are dynamically priced. Sellers are aware they have price sensitive consumers. They offer the exact same product -- albeit on a less timely basis.

CD sales are static, maintaining the same price over the life of a disc. On those select discs when price discounts do occur (budget line), the industry purposefully makes changes to make the product less desirable.

DVD sales in the secondary market have grown dramatically, paralleling the explosive growth of DVDs themselves. But the ongoing discounting process continues, with prices sliding as low as \$5 per DVD. This dramatically reduces the impact of the secondary market.

Discussion Questions:

1. Illustrate the price change over time for music CDs and for movies (Movies take the formats of movies in theater, pay per view, DVDs, and movies on TV, etc.).
2. How do movie producers (for example, Warner Brothers) make money?
3. Identify the parties who determine the prices of movies of all the formats?
4. Why are DVDs priced differently from music CDs?
(you may find that a couple of frameworks/terms we discussed in lectures are useful :)