

Riddle me this Batman. If Redbox can offer DVD rentals from Kiosks for \$1 per movie, then why can't online download services offer movies for overnight rental for the same \$1 ?

The answer isn't quite so obvious. Redbox does two things very well.

First, they offer consumers an incredibly easy way to rent the most popular movies. They are the path of least resistance for movie consumption for many. You run by your 7-11, grocery store, whatever. There are the movies and they are only a dollar. Easy and breezy. You watch your movie on your TV.

Second, they do something for the movie industry that for the most part only Netflix also does. They pay minimum guarantees with no returns. In other words, a movie distributor can take an order from Redbox for say 500k units at \$10 a DVD, with no returns and no resale of the DVD into the aftermarket. Redbox will actually destroy the DVDs. That's a quick and easy \$5,000,000 in hassle-free revenue. With the emphasis on hassle-free. From the studio perspective, that's \$5mm in net margin that doesn't require the overhead and actual costs of distribution and returns, along with the opportunity to spend less on marketing and advertising to promote the title. Redbox takes care of all of that.

Doing business with Redbox, despite the fact that it can negatively impact retail DVD sales can be good business for some movie distributors. Particularly for bigger movies. The brilliance of RedBox is that they reduce the revenue risk and increase the revenue for every title they take. That's hard for any studio to walk away from.

Which begs the question of why don't online movie rental companies do the same thing ? As I mentioned, Netflix is the ONLY company with an online offering that offers material minimum guarantees for movie titles. **Everyone else offering online sales and rentals does so on a consignment basis.** They put no cash upfront. They don't reduce the risk for movie studios, they actually increase the risk. The big box retailers place an order for an actual number of titles, and then they do everything they can, along with the studio's help to sell those titles. Online does nothing. They tell you that if you get lucky and it sells, you get paid. What's worse, some of them will try to charge you to promote the titles. So you could actually owe them money for ads they place, and still not sell or rent any titles.

Which leads to the paradox.

Why don't any of the pure online rental or sale companies offer the minimum guarantees that would allow them to be the Redbox of the online world ?

If anyone wanted to come in to the space and beat the hell out of Amazon, iTunes and every other "leading" movie and tv show download for sale or rental site, it would be expensive, but it would be easy. Go to the leading movie studios and production/distribution companies and offer them some big guarantees in exchange for online exclusivity. Content would disappear from the other sites and run to the new site faster than they could cash the check. The same could apply to Youtube and Hulu as well.

In these uncertain times, the certainty of money in the bank vs the absolute uncertainty of selling or renting content on consignment is of incredible value to studios and production companies. As is the certainty of money in the bank vs the uncertainty of advertising revenue around content is a powerful aphrodisiac. It's an amazing opportunity for someone with cash to turn the industry upside down. They could even take it one step further and create output deals that lock up the EXCLUSIVE online exploitations of movie and tv content at the time it's being released. The money paid could be based on box office revenues for movies and ratings and longevity for TV shows.

So why hasn't an existing pure online vendor stepped up and made the commitment ? Because they aren't very good at selling or renting content. Walmart knows how to sell DVDs. Best Buy knows how to sell DVDs. Blockbuster knows how to rent and sell DVDs. Netflix knows how to "rent" DVDs. Redbox knows how to rent DVDs. **They all make commitments to product. Online vendors will only buy on consignment. To me that means they have no idea how to monetize content.** Amazon, iTunes, Hulu, Youtube all know how to aggregate huge volumes of content and create volume in total. None know how to monetize specific titles like their offline competitors do. Netflix is the only company in the aggregation business with the ability and brains to offer guarantees, but they have the foundation of their subscription business to carry them. They also have the risk of a huge infrastructure that could hold them back.

The first pure online company to come along that can demonstrate a reliable ability to monetize content online and can offer guarantees, will turn the industry upside down. Just as Redbox has done.