

Redbox: What's Next?

Redbox History

Redbox launched in 2002 as a venture initially funded by McDonalds. McDonalds was an early investor because it saw the potential of video rental kiosks as well as McDonald's stores as a key distribution channel. Redbox's innovative strategy centered on a distribution network of low-cost, self-service vending kiosks. The kiosks allow customers, with a swipe of their credit card, access to a limited selection of the hottest new releases for \$1.20 per night (previously \$1.00 for the company's first eight years). A customer may return the title the next day, or keep it with daily rental charges accruing until the customer owns the DVD outright after 25 days. The kiosks were placed in high traffic locations to encourage impulse rentals and make planned rentals as convenient as possible. Retailers were incentivized to place kiosks by receiving a share of revenue, which was typically based on the retailer's appeal (e.g., Walmart would receive a larger share than a mom and pop store).

The customer rental experience was kept simple and convenient. The selection process was simplified by the limited choice of titles (70–200 at most locations,) all of which are prominently displayed on each kiosk. Redbox's non-subscription model allowed customers to rent without the hassle of paperwork or membership fees. DVD's could be returned to any kiosk, adding a final touch of convenience to the rental process.

Redbox grew quickly from 2003–2005 adding over 1100 kiosks throughout the United States.¹ In 2005, Coinstar paid \$32 million to acquire 47% of the company and four years later they purchased the remaining equity from McDonalds for approximately \$170 million.² Redbox's low-cost kiosks model allowed rapid expansion and by 2012 the company had 43,700 kiosks (see Table 1). The average cost of a Redbox kiosk was only \$15,000 with an additional \$6,720 for DVD costs to initially fill the kiosk³ With Redbox fully onboard, Coinstar market value rose from an estimated \$800 million in late 2009, to a peak of \$2.1 billion in mid-2012.⁴

By 2012, 68% of the US population lived within a 5-minute drive of a Redbox kiosk⁵ and the company controlled 47.9% of the physical rental market.⁶ Redbox's footprint continued to grow throughout the US and Canada with almost 44,000 kiosks in operation in 2012 and more planned. This vast network of kiosks was enabled by a network of regional operations supervisors who were responsible for the maintenance and operation, including stocking, of all kiosks in their assigned geographic region.⁷

Redbox partnered with Verizon in 2013 to launch a video streaming service called Redbox Instant, a streaming service similar to the one offered by Netflix. For \$8 a month, customers enjoy unlimited streaming of more than 4,600 titles and up to four disk rentals from kiosks. The service was offered through Android and iOS mobile apps and on Xbox and PlayStation 4 gaming platforms.⁸

On October 19, 2014, Redbox entered into an agreement with Verizon to withdraw from the Redbox Instant joint venture due to the service not being "as successful as either partner hoped it would be."⁹ During that same year, for the first time in its history, Redbox also shuttered 320 of its kiosks and experienced a decrease in sales.

Looking ahead, Redbox faces a number of challenges. The decrease in total kiosks and total rentals seems to indicate that its traditional kiosk rental business model has reached its saturation point in the U.S. market and its venture into video streaming met with unsatisfactory results. These failures present Redbox with its biggest challenge yet: When traditional and digital growth strategies have both failed, what can Redbox do to keep itself afloat in the future?