

## **Video Case: Redbox**

Redbox currently has over 27,800 kiosks across the country dispensing DVDs, Blu-Ray, and video games. According to company executive Gary Cohen, Redbox began in an effort to solve a problem, and the problem focused on customer needs. Cohen puts it this way: "The consumer was asking, 'Why can't I rent a movie where I shop every day and why is rental so expensive?'" Redbox is the answer to both of those questions. Located conveniently in over 400 retail partnerships, consumers can rent a DVD for only \$1 per day.

Convincing retailers to partner with Redbox has been challenging. McDonald's, for example, had an excellent breakfast and lunch business, but did not have a very robust dinner business. Redbox's research showed that over 90% of the households in the U.S. watch movies; further, movies are typically rented between the hours of 4 and 9 p.m. McDonald's, typical of most retailers, is interested in same store traffic. By having a Redbox kiosk at McDonald's, individuals renting from that location would tend to return the DVD to the same location, thus increasing the probability that the customer would also purchase food or other products from the retailer at the kiosk location.

Redbox initially had difficulty partnering with retailers, so it sought out a business partner, Coinstar, that already had established relationships with retailers across the country. Redbox's business strategy focuses on success at every step. For example, the company first focused on making a single kiosk profitable, then moved to a region of kiosks, and finally expanded to the rest of the country. The key is to succeed at one step before moving on to the next one.

Customers are Redbox's primary stakeholders. The product mix in each kiosk is largely determined by the type of retail partner where the kiosk is located. For example, at a grocery store the mix tends to focus on women, middle age or older, whereas at a 7-Eleven, the mix would be oriented toward a younger demographic.

Redbox is a technology intensive business. Each kiosk has more than 800 components that are required to identify and vend the selected DVD. The company also maintains a diverse workforce that mirrors its customer base. It feels it learns about its diverse customers through its diverse workforce. While the company was not profitable in the first two years due to the capital intensive nature of the inventory, it has emerged as America's number one video rental business.