

DVD Kiosk Rental Business

RENT DVDS NOW

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RENT DVDS NOW (www.rentdvdsnow.com) is a independent DVD kiosk rental business. The kiosk will contain movies and/or video games with kiosks strategically located in high traffic locations such as supermarkets, convenience stores and apartment buildings.

EXECUTIVE SUMMARY

This is a business opportunity to become an independent-owner of a DVD Kiosk Rental Business/ Franchise for movies and/or games.

There are currently several players in the industry who provide kiosks to corporate entities directly such as supermarket chains, convenience stores, apartment complexes and college campuses. These corporate distributors work with very high traffic locations (usually a minimum of 15,000 customers per week).

There is another distributor, DVDNow Kiosks which sells kiosks directly to independent operators/ entrepreneurs. The business opportunity is to run your own DVD rental kiosk in select locations. It is a fairly simple business to set up. The most important component is selecting a high traffic, return customer location; purchasing the kiosk; setting up Internet access and credit card processing capability; and reaching a deal with the location owner. Then the operator needs to have an agreement to obtain all movies (new releases usually are the best sellers; with some older classics). The owner can also sell advertising to local vendors which will display on the kiosk.

The owner can rent these movies for \$1/night which is a very attractive price.

Depending on revenue and expense predictions, the average profit per kiosk can average in the mid \$30,000 range.

INDUSTRY ANALYSIS

The DVD rental market is a nearly \$10 billion North American market. DVD and video rentals totaled \$8.16 billion in 2008. This number is very consistent with the 2007 figures which were \$8.18 billion in rental revenue. This is seen as encouraging given that the sales of DVDS and Blu-ray discs fell 23.4% during the same period according to Adams Media Research (New York Times, March 2, 2009). There is an emerging trend toward consumer rentals rather than outright purchases, particularly in a difficult economy.

DVD KIOSK RENTAL BUSINESS

According to *Video Rental 2009: Innovations Halt Long Decline*, a report from Adams Media Research, “Though consumers put the brakes on most discretionary spending during the second half of the year [2008], the video rental segment wasn’t hit as hard as other retail businesses. The main reason: new and attractive forms of rental—online subscriptions and \$1/night kiosks—are making up for continued declines in traditional specialty-store rentals.”

The reports conclusion is that “As the rental business reached its 30th birthday, it is still the most popular way to watch movies at home, with a total of 2.5bn rental turns in the U.S. last year. Coming in virtually flat in a year when everything else was down, the video rental market continues to be the target of innovative business plans ranging from Netflix and Redbox to iTunes and the Xbox Live Marketplace.”

According to Adams Media Research, kiosks average 49.1 rentals per day and \$37,457 a year in revenue (*The Washington Post*, April 28, 2007).

Facts about the Home Video Market:

- DVD players are found in 81.2% of United States households (2006 Nielsen Media Research). According to The Digital Entertainment Group, 33 million DVD players were sold to U.S. consumers in 2007.
- Blockbuster forecasted 2 million subscribers to Blockbuster Online by Q1/06. Blockbuster intends to invest \$120 million in their online business.
- Netflix had 3.2 million subscribers by end of June 2005.
- Video rental is a \$8 billion industry, on 3.2 billion transactions. DVD sales totalled 1.1 billion transactions. VOD and PPV totalled fewer than 350 million purchases.
- Redbox machines are made by Flextronics (based in Singapore). In 2008, they doubled their machine count to 9,600 machines.
- McDonald’s reported that they estimate each Redbox machine yields \$2,000 to \$4,000 per square foot per year and each unit is profitable 3 months of launch. McDonald’s charges \$1 a day per title and offers top 40 DVD titles. McDonald’s has 30,000 stores.

Outlook for DVD Rental Kiosks

In a recent interview, Chuck Berger of DVDPlay told Video Business that he estimates that by 2010 or 2011 DVD kiosks will grow to more than 20 percent of the market (it was between 2 and 5 percent in 2008).

The formula for success for a DVD kiosk is a mix of high-traffic locations and lower prices for rentals than the traditional brick and mortar stores charge. “The person we are going to attract is the person who is not motivated to go out of her way to rent a DVD—or to take back a DVD,” said Chuck Berger of DVDPlay (www.kioskmarketplace.com).

Russ Crupnick, a senior industry analyst at consumer research firm NPD, said that the kiosks target impulse shoppers. (*The Washington Post*, April 28, 2007). The question of evolving technologies will not affect the efficacy and success of the kiosks because they will be able handle all technologies (including Blu-Ray discs and DVD to burn downloading).

A recent conference on the Future of Packaged Media found that according to retail participants physical discs (DVDs) make consumers feel more comfortable than movie downloading. At this point in time, there are too many steps to have a seamless movie downloading experience; therefore, physical discs will have a place for sometime in the future.

As the economy falters, inexpensive DVD rentals become even more attractive. Consumers are feeling more and more at ease using self-service kiosks. Rebecca Chan, Director of Marketing at MovieMate, said that “consumer attitudes towards these kinds of purchases have changed to the point that kiosks

can be viable in just about any location with enough customer traffic to support a reasonable volume of sales.” (www.kioskmarketplace.com). DVD rental kiosks can be located almost anywhere. They are relatively small and they are idea for supermarkets, malls, gas stations and other retail outlets. College campuses and corporate offices also have kiosks.

The Internet provides a backbone for servicing kiosks. Kiosks can be monitored and serviced 24 hours a day. Real-time inventory updating and rental trends/reports can be monitored constantly. From a customer perspective, web sites can be used for online reservations and advance decision-making.

Market Analysis for DVD Rental Kiosks

The market for kiosk rentals is booming. In 2007 the market for Kiosk Rentals doubled according to the Entertainment Merchant Association, 2008 Annual Report from 1% of the market to 2% of the overall video market. The forecast by 2009 for kiosks can be as high as 20% of the overall rental market.

The growth has been significant as one can see below, in 2006 kiosks represented about .9 percent of the DVD rental market according to Adams Media Research. Chain video stores had approximately 43% of the market, while online companies such as Netflix were at about 16% of the market.

Video Rental Market Share by Type of Outlet—2006

The following facts were reported from Adams Media Research, Online DVD Subscription: Reinventing Video Rental

- There were approximately 10,000 DVD rental kiosks operational in the U.S. at the end of 2007.
- Traditional rental stores, dominated by Blockbuster, accounted for 73% of the rental business in 2007. Online subscription rental (such as Netflix and Blockbuster’s Total Access) were 25% of the market. Kiosk rental doubled its market share to 2%.
- Redbox has now surpassed Blockbuster in its number of locations. Blockbuster is testing express kiosks at various Papa John’s and Family Dollar locations in the Lexington, KY area. The company plans to roll out the kiosks to other rural areas. The Blockbuster kiosk holds 250 titles.
- Over the last three years, Redbox has averaged 300 percent annual growth.
- The market for Interactive Game Sales showed considerable and stead growth over the last 11 years.

Interactive Game Sales 1995—2006

According to data from The NPD Group, Inc. sales of entertainment software included 65.3 million units in 1995 equating to a total of \$2.4 billion in sales. This number steadily increased since that time, and rose to a high of 241.0 million unites, or \$7.4 billion in sales, in 2006. Adams Media Research reported similar findings with rentals and sell-through spending, a market that increased from \$0.5 billion in 1981 to \$24.9 billion in 2006.

INDUSTRY PLAYERS

The DVD Rental Kiosk industry is dominated by companies who sell to corporate entities such as Redbox. There are a few companies, DVDNow a leading one, who sell directly to independent operators. This is the business opportunity for the entrepreneur to create an independently-owned DVD rental kiosk franchise.

The competitive landscape in the movie and game rental business includes traditional video stores such as the Blockbuster chain, online players such as Netflix and the kiosks located in high traffic areas.

Kiosks will generally attract impulse shoppers who are looking for a good deal and when they see they can rent a movie for \$1 they are drawn in.

Players in the DVD Rental Kiosk Industry

Company–Operated Kiosk Vendors

Redbox Automated Retail, LLC (Redbox)

Redbox is the leading renter of DVDs through self–service kiosks in the United States. Redbox currently has 35 million customers and 12,000 locations. Redbox rents movies for \$1 per night. Customers can rent in one location and return in another location. Redbox kiosks can be found in grocery stores (including Giant Food and Stop & Shop), McDonald’s restaurants, Walmart and Walgreen’s stores. There is tremendous competition among these company–operated kiosk vendors for the large chain stores. Redbox generally looks to place kiosks in businesses who have at least 15,000 customers each week.

Coinstar, Inc. used its option to purchase their remaining stake in Redbox in February 2009 because they feel so strongly about the growth potential of the DVD rental market.

“Redbox has been a great addition to our 4th Wall product portfolio, and we are very enthusiastic about the DVD rental kiosk market having seen tremendous growth and acceptance over the past few years,” said Paul David, Chief Operating Officer of Coinstar, Inc. (Reuters, February 12, 2009).

TNR Entertainment Corp.—The New Release (moviecube)

The New Release is a Houston–based company with approximately 2,100 kiosk locations in the United States and Canada. The company currently has deals with grocery chains including Albertson’s, Dillon’s, Kroger, Publix, Ralph’s, Schnuck’s and Overweitea and Sobey’s in Canada.

TNR is backed by an institutional investor group led by MCG Capital Corporation.

DVDPlay

DVDPlay established its first kiosk in the Silicon Valley in 2002. The company is based in San Jose, California; and has several venture capital partners including El Dorado Ventures, Emergence Venture Partners, Palo Alto Venture Partners and Vanguard Ventures.

DVDPlay has kiosks located in supermarket chains including Safeway, Albertson’s, Kroger, Von’s, and others throughout the United States and Canada. There are currently 1,400 kiosk locations.

DVDXpress

DVDXpress has been operating since 2001. They are headquartered in Manhattan, NY. They currently have deals with A&P, Pathmark, and King Kullen, among others. They also have machines in residential buildings, office buildings, and college campuses. In 2006, DVDXpress operated about 250 kiosks in the United States.

The company has experimented with an online subscription model similar to Netflix where a customer can subscribe for \$12.99 per month and rent unlimited movies during the month with no due dates and no late fees.

Manufacturers

The information provided below is on the DVD Kiosk manufacturers; however, they generally sell to a distributor such as Redbox or DVDNow and not directly to an individual.

iMOZI

iMOZI, a Vancouver, British Columbia based company, is offering DVD kiosks for direct ownership. The kiosks are state–of–the–art technology that allow for rentals of physical discs but also on–demand DVD burning and downloading to a portable flash–memory storage device. Each kiosk holds 1,000 DVDs.

iMOZI is a leader in providing automated and digital media self–service solutions. With an end–to–end offering that merges traditionally packaged media with digitally delivered content, iMOZI offers “best of best” kiosks to enable automated DVD rental and sales, as well as DVD–on–Demand, video games, music downloads, digital photo print and mobile content. As innovators, our experienced management team continues to develop the concept with the integration of future technologies that leverage new

delivery methods and revenue channels. As a technology development and distribution company, iMOZI's automated DVD kiosks are currently distributed in USA, Canada and Australia.

iMOZI currently has a deal with United Supermarkets in Texas.

MovieMate

MovieMate is a New York-based manufacturer of automated DVD vending and rental machines. MovieMate is a leading developer of DVD Rental Kiosks, Digital Signage, and Cashless Technology for the out-of-home self-service and retail market. The company specializes in the development of reliable DVD kiosks systems that are designed, verified and manufactured to perform optimally in the retail environment, delivering a superior customer experience. With a proven track record of technical excellence, superior quality and on-time delivery, the market is turning to MovieMate to deliver selfservice retail solutions that must perform reliably in the field. Working since 2004 with the focus on self-service DVD Rental technology, MovieMate has developed the engineering and software capability, vendor relationships and valuable manufacturing partnerships and can support a manufacturing capability of myriad of products. Today MovieMate's expertise extends across the full breadth of internet connected retail technologies, from remote device management, self-service retail kiosk, smart digital signage and electronic payment software.

Flextronics

Flextronics is based in Singapore and manufactures machines for Redbox.

Independently-Operated Kiosk Opportunities**Own your own DVD Kiosk Rental Business Opportunity**

To date, only a handful of large operators have led the explosion of DVD kiosks sprouting up at the front of stores and quick-service franchises across America. In fact, the overwhelming majority of all installed DVD kiosks are currently owned and operated by such companies (predominately Redbox) through standard "hosting placement agreements" with the retailer or restaurant, which receives a small portion of the revenue. ("Enabling the Solution: The Benefits of Owning and Operating a DVD Kiosk" by Christopher Hall, www.KioskMarketplace.com).

Direct-Owned, Independently-Operated DVD Rental Kiosks

DVDNow, Kiosks Inc. based in North Vancouver, BC sells rental kiosks for movie and/or video game rentals to corporate as well as independent entrepreneurs.

There are other DVD rental kiosk distributors who sell directly to independent operators such as DVmatic Kiosks by ELO Media. ELO Media is based in Piscataway, NJ and is a smaller distributor than DVDNow.

As an entrepreneur you can not own a Red Box or DVDPlay distributorship for any amount of money, just like you can't buy a Starbucks franchise they are almost wholly corporately owned. However, there is a way that you can participate in and profit from this massive rental paradigm shift and be on the forefront of the DVD rental kiosk revolution. The DVDNow automated rental kiosk enables entrepreneurs to capitalize on the over \$20 billion DVD industry by allowing them to participate in this exploding market. With our program, independent operators are able to establish a network of state of the art DVD rental kiosks in locations such as grocery and convenience stores, fast food restaurants and large apartment/condo complexes.

DVDNow kiosks generate revenue through four primary sources.

1. The rental of DVDs and video games
2. Late fees from overdue movies
3. The sale of advertisements (onscreen and positioned within the DVD jewel case)
4. The sale of previously viewed DVDs

PRODUCT AND SERVICES

DVDNow Rental Kiosk

Each DVDNow kiosk can hold 150 movie/game titles. DVDNow kiosks provide transparent glass doors so customers can easily pick titles and see the physical package before selecting. Movies are rented in their original packaging minimizing labor and maximizing sell-through potential.

The owner of the kiosk can price movies however he/she deems fit; but generally, \$1 for the first day is customary in a high traffic, return customer setting such as a supermarket. The owner may be able to charge a higher fee such as \$2 if the kiosk is in a setting such as an apartment complex where the customer may pay up a little for the convenience of not having to leave home.

Kiosk Specifications

- Dimensions: 26' x 19' x 69'
- Weight: 363 pounds
- Capacity: 110 DVDs
- Payment: VISA, Mastercard, American Express, or Discover
- Electrical Requirements: 120 VAC
- Environment: Indoor
- Communication: Any broadband connection

How To Set Up A DVD Kiosk

1. Locate a high traffic, return customer location. This is usually a supermarket, convenience store or apartment building complex.
2. Negotiate price per machine with distributor such as DVDNow Kiosk. The price of a DVD Kiosk is generally between \$18,000 and \$19,000. If you buy multiple machines you may be able to negotiate better pricing.
3. Negotiate agreement with a movie distributor such as VPD.
4. Set up a web site (the distributor supplies a template) so that customers can see inventory online. Operator can then also manage reports and machines online.
5. Set up a merchant account (with company like First Data Corp.) to process credit card transactions. You will also need back-end processing with a company like 3C International.
6. Set up an Internet Hookup which can be either a DSL or a cable connection.
7. Negotiate deal with location owner. The usual deal is that the location owner receives 10%—20% of net revenue.
8. Purchase RFID (radio frequency identification) tags that will be put on each DVD for tracking purposes.
9. Usually operators buy about 6 new releases for the kiosk each week which will need to be loaded.
10. As movies get less use and get older, the operator will try to sell the DVDs outright to customers for reasonable prices.
11. Movies that don't get sold through the kiosk can be returned through a buy-back program with VPD or sold on EBay or other sites.

REVENUE

Revenue from the kiosk is generated from rentals and late fees. The monthly average generated between these two revenue streams is \$1,369 per kiosk. An additional \$433 can be generated from the sale of previously used DVDs, and \$100 per month can be earned from the DVDs that are returned to the movie distributor. Advertising is another significant revenue opportunity. Sales of kiosk side panel ad space and multimedia advertising can amount to \$1,600 per month. All of these sources of revenue total \$3,502 per month per kiosk.

Monthly expenses per kiosk total \$692 and include such costs as location commission, inventory costs, and the price of the internet connection for the kiosk.

The net income per kiosk is expected to be \$2,810 per month, or \$33,720 per year.

CUSTOMER SERVICE

The independent operator will likely provide customer service instructions clearly on the actual kiosk. There will be references to the operator's web site where further information is available. In addition, there should be a toll-free customer support number.

MARKETING AND SALES

The operator will need to "get the word out" that the kiosk exists. This can be done by placing flyers around the location and in local stores; or by purchasing local newspaper ads. In addition, the operator may place flyers or special coupons (for free nights for example) in the supermarket circulars and in other locations.

ADVERTISING REVENUE

The DVDNow kiosk provides slots on the kiosk for advertising. As the operator, you can seek local businesses to buy advertising rights for either print or video ads.

RESALE MARKET FOR USED KIOSKS

If the operator decides to opt out of the business, there is a generally strong resale market for the kiosks. Particularly in a weak economy, there are people looking to buy the kiosks used rather than new ones. Used kiosks may sell for about \$13,000—\$15,000 depending on the age and condition of the kiosk.