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Depth versus breadth in video rental kiosks

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ABSTRACT

We examine data from video rental kiosks for clues about how changes in the video rental industry have altered competition. Traditional video stores competed in availability, with consumer search costs determining the optimal probability of stock-outs. We find evidence that Redbox, the only major renter of physical discs in today's market, competes in either availability (depth) or variety (breadth) depending on the mix of moratorium versus day-and-date titles released each week. Moratorium titles are those for which Redbox has agreed to wait a month or more beyond the street release date before adding them to kiosks, whereas day-and-date titles can be added to kiosks as soon as they are released on DVD. When there are relatively more day-and-date titles, Redbox competes against on-demand services by focusing on providing depth of hit movies at a much lower cost. As the mix of releases turns towards more moratorium releases, Redbox can no longer win over customers willing to pay the higher cost of on-demand streaming to avoid the moratorium. In this situation, Redbox competes with

subscription-based services like Netflix which are also subject to studio moratoriums by offering a greater breadth of titles.

KEYWORDS:

Competition depth | competition breadth | multichannel distribution | market segmentation | video rental industry

JEL CLASSIFICATION:

D22 | L82 | L11

Disclosure statement

No potential conflict of interest was reported by the authors.

Notes

[1] ‘Time Warner May Consider Longer Delay for Netflix, Redbox,’ by Sarah Rabil, Bloomberg.net, 3 November 2010.

[2] On the first day of data collection, there were 14 brick-and-mortar video stores operating in the two cities.

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