

Indiana University-Purdue University Indianapolis

Kelley School of Business

Digital Movies (Sales and Rentals)

Secondary Data Assignment

Rachel Hetrick

M303 Marketing Research MW 12:00

Kyle Anderson

13 February 2013

Digital Movies (Sales and Rentals)

Digital Movie Sales and Rentals is a very large and rapidly growing industry. In 2011, digital movie sales and rentals totaled \$4.2 billion. Revenue in this industry has seen continuous growth, including a 52.4 percent increase from 2010-2011, and according to Mintel's *Digital Movie Sales and Rentals- US- Market Size and Forecast* report, they are expected to "increase tenfold in the 10-year period 2007-17" (Digital Movie Sales). This report predicts sales of \$12.5 billion in 2017.

Although the digital film industry is seeing great progress, it is years behind the development of digital music. Business Insight: Essentials industry essay "E-Commerce: Online Music and Film Distribution" chalks this up to the much more complicated design of the film distribution network. The essay explains that there was a large "web of contracts" already in place when digital movies really came into play. Because film distribution has already been offered through so many different mediums, these contracts needed to be sorted out and taken care of in order for the digital movie industry to really take off. These mediums included theater, pay-per-view, video and cable (E-Commerce).

When digital movies first entered the market, the public was widely uninterested as they did not see much value when DVD players had already become so affordable and many models were portable. However, there was a jump in renting DVDs through online services, particularly Netflix, around the time when digital movies were initially introduced. As broadband popularity increased rapidly in the mid-2000s—reported to be up 28 percent in 2005 from the previous year—the digital movie market became more and more accessible. With new technology introduced, such as the Apple iPod with video capability released in 2005, it became even more realistic to begin replacing traditional physical movie rental and sales with digital formats. Around this time, "explosive growth" of the industry was foreseeable; Insight Research Corp. predicted that revenue from sales of digital content and corresponding advertising revenue would reach \$27 billion in 2011 (E-Commerce).

According to MediaMark's Fall 2011 Electronics Product report on *Movies & Other Video (Rented or Purchased)—Where rented/purchased Internet Download or Stream*, the market for this product consists primarily of adults aged 25 to 34. Although the current generation is generally thought to be the most tech-savvy, it is likely the parents of these children and young adults who are paying for the movies. As expected, age 65 and older contributes the least in this market at 3.73 percent, with ages 55 to 64 trailing closely behind at 9.43 percent. This is assumed to be because the elderly people tend not to know how to use the technology needed to purchase or rent digital movies. Men rent digital movies more often than women. Across all measured websites for renting, an average 52.75 percent of downloaders were men and 47.25 percent were women. Women, however, purchased more digital movies at 56.6 percent of all digital movies purchased compared to men's 43.4 percent. Overall, movies were rented significantly more often than purchased, with only about 0.7 percent of the population purchasing digital movies while 17.1 percent rented. Especially with a service like Netflix where

a monthly fee is applied and any available movie can be streamed as often as desired, it is currently much more cost effective to rent digital movies than it is to purchase them. A person can pay the monthly fee for the service, which is about equivalent to the typical price to purchase a digital movie, and repeatedly rent the same movie (Movies & Other Video).

This report also revealed that digital movies were rented or purchased most by those who graduated college, at an average 40.58 percent, and least by those who did not finish high school, averaging only 7.63 percent of all digital movie renters/purchasers. Regarding household income, about 35.13 percent of digital movies are rented or purchased by adults with a household income of \$75,000 to \$149,999. Based on these components, it is likely that people who did not graduate high school do not hold jobs that afford them the luxury of devices like computers, smartphones and tablets on which digital movies can be downloaded or streamed. Those who graduated college likely have the higher-paying jobs now and are able to afford those electronic devices. While only about 16.04 percent of digital movie sales and rentals come from adults with household income of \$150,000 or greater, this can be explained by the fact that these adults likely hold very demanding jobs that do not allow as much free time to watch movies. Another interesting measure from a marketing standpoint is that digital movies are rented or purchased most by currently married adults, suggesting that couples enjoy watching digital movies together. This MediaMark report also showed Netflix.com as the top medium to rent digital movies and iTunes.com the top medium to purchase (Movies & Other Video).

Plunkett Research article “Internet Film and TV Content Grows/Netflix Evolves to Focus on Online Delivery” also identifies Netflix as the top player in the digital movie rental industry. One of the greatest concerns in the digital music and movie industry is piracy and illegal downloading of content. Netflix battles this problem by offering very affordable movie and television program streaming services. Streaming through Netflix or other legitimate companies also offers significantly faster download speeds than most illegal downloading sites. The industry battles the issue of piracy by offering these advantages, but will be able to better prevent illegal downloading and streaming when they can offer a wider selection of movie titles. Other major competitors in this industry are identified as Blockbuster, Real.com, Amazon’s Video on Demand and CinemaNow, Apple TV, Google TV, Hulu Plus, Comcast Streampix, Apple iTunes and HBO Go (Plunkett).

An RDS Business Suite article emphasizes the importance of differentiation within the digital movie industry. Companies are developing all sorts of new technology with new advances in movie viewing possibilities. Some examples are the ability to share content across a maximum of twelve devices and a hardware-to-software platform. The article suggests that companies who do not have a unique edge will not fare well for long in the industry (Worldview).

It is obvious from the data relayed in this report that the digital movie industry is a very large market right now that does not appear close to its peak. With affordable service providers such as Netflix, it is believed that the digital movie content is not taken advantage of as much as digital music is known to be. The market appeals to young or middle-aged, well-off adults who

can afford and have time to stream movies on their computers, televisions, smart phones, tablets, and other devices. Netflix is the clear dominating company in digital movie rental. Though a number of other businesses are present in the market, Netflix offers a competitive advantage on the affordability and convenience of paying a monthly fee versus paying per movie.

Works Cited

- "Digital Movie Sales and Rentals- US: Market Size and Forecast." *Mintel (Oxygen)*. Mintel Group Ltd., Aug. 2012. Web. 10 Feb. 2013.
<<http://academic.mintel.com.proxy2.ulib.iupui.edu/display/634121/>>.
- "Movies & Other Video (Rented Or Purchased) - Where Rented/purchased Internet Download or Stream." *MRI Reporter*. MediaMark, 2011. Web. 10 Feb. 2013.
<<http://ureporter.mriplusonline.com/selectdemo.asp>>.
- "Worldview." *RDS Business Suite*. Gale Cengage Learning, Feb. 2011. Web. 11 Feb. 2013.
<<http://search.rdsinc.com.proxy2.ulib.iupui.edu/tehis/rds/suite/%206deKJYteGxibtqco1coxe6lwhp1oewx1qmwwwewhanmev5J0edk1www/showdoc.html?thisTbl=BNI>>.
- "E-Commerce: Online Music and Film Distribution." *Encyclopedia of Emerging Industries*. Ed. Lynn M. Pearce. Detroit: Gale, 2012. Business Insights: Essentials. Web. 11 Feb. 2013.
<http://bi.galegroup.com.proxy2.ulib.iupui.edu/essentials/article/GALE%7CRN2501500026/0b6c8b170b1cfa161ec3f50b29b7459c?u=iulib_iupui>.
- Plunkett, Jack W., Martha B. Plunkett, Jill S. Steinberg, Jeremy Faulk, and Isaac Snider.
"Internet Film and TV Content Grows/Netflix Evolves to Focus on Online Delivery."
Entertainment & Media Industry. Plunkett Research Online, 31 Jan. 2013. Web. 10 Feb. 2013. <<http://www.plunkettresearchonline.com>>.