Economics and Finance of Entertainment (Film!)

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And now for crazy...
Despite the guidance revision, we remain convinced that the splitting of our services was the right longterm strategic choice. The strategy behind the split of our services is four-fold:

(1) to create a dedicated DVD rental division that takes pride in great execution and maximizes the opportunity for disc rental over the coming decade;
(2) to enable us to improve our global streaming service even more rapidly, because it is not meshed with a domestic DVD business;
(3) to enable us, with the growth in revenue, to license more streaming content and thereby improve our streaming service even more;
(4) to remain very price aggressive, with $7.99 per month for unlimited streaming of a huge library of TV shows and movies, and $7.99 per month for unlimited DVD rentals, 1 out at-a-time.

We know our decision to split our services has upset many of our subscribers, which we don’t take lightly, but we believe this split will help us make our services better for subscribers and shareholders for years to come.
Impact

• Price increases by 60% (from $10.00 to $16.00)

• Demand decreases from 25M to 24M

\[ \varepsilon = \frac{\% \Delta Q}{\% \Delta P} = \frac{-4\%}{60\%} \]
Maybe...not so fast...

Guidance July 25th:
- 22m Streaming
- 15m DVD
- 10 million Streaming Only
- 12 million Both
- 3 million DVD Only

Current Expectations:
- 21.8m Streaming
- 14.2m DVD
- 9.8 million Streaming Only
- 12.0 million Both
- 2.2 million DVD Only

$79.9M $119.8M $23.9M
$78.3M $192.00 $17.5M
Questions

• Short-run versus long-run
• Market power
• 28-day window
• Strategy
Outline

• 3-days (Thursday, Friday & Monday)
• Industry based – industry data
• Deliverable is data driven
• Guest Speakers
  – TBS
  – NCR
  – Sun Trust
  – Other???