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Target, Disney in DVD truce

The upcoming release of 'Pirates' prompts the retailer to back off in a dispute over terms.

By Joseph Menn, Times Staff Writer
November 18, 2006

With the holidays and the DVD release of the blockbuster "Pirates of the Caribbean: Dead Man's Chest" approaching, Target Corp. and Walt Disney Co. appear to have reached an uneasy truce in their standoff over terms in the rapidly changing home-video business.

Target made Disney testy in September, when it fired off a letter demanding the same low wholesale prices on DVDs that Apple Computer Inc. is paying Disney to offer movie downloads over iTunes. At the time, Target threatened to cut back on its efforts to sell Disney's DVDs.

Disney countered that DVD buyers get something different from what iTunes customers get: an actual disc packed with commentary, deleted scenes, trailers and other extras. Disney charges conventional retailers about \$16 for new DVD releases, between \$1 and \$2 more than Apple pays.

The dispute set off a game of chicken that, at least for now, has eased, according to accounts provided by people familiar with the details. They asked not to be identified because the subject remains tense. Disney declined to comment, and Target executives didn't return numerous calls over the last two weeks.

Shortly after sending its letter, Target ordered its stores to take down a multitude of internal signs steering customers to Disney products. Target also bumped an end-of-aisle display of Disney DVDs to a less favorable location, store employees said. In its place went displays of new children's releases, the vast majority of them distributed by Disney's competitors.

"Everybody sort of assumed that Target would retaliate," said a former top Disney competitor who has been following the dispute.

But Target had a dilemma. It didn't want to bury "Cars," the hit animated film made by Disney's Pixar Animation Studios. Retailers count on hit DVD titles to bring customers into stores, hoping they'll spend money in other departments. "Cars" has had the strongest DVD debut this year.

Disney tried a gentle approach to appease Target, but it also hinted at more dire consequences if the retailer didn't cooperate with the Burbank entertainment giant.

Disney suggested sealing a deal that was in the works to license a Disney character for a product line made exclusively for Target. Target was hoping to build on the success of a 2-year-old contract that gives it exclusive use of an older rendering of Winnie the Pooh on infant clothing, strollers and lotion containers.

But Disney also indicated that it could play rough if pushed, inviting Target to contemplate a Christmas season without "Pirates," the No. 1 film of the year, due on video Dec. 5.

After that, the negotiations turned a corner. Target even agreed to put a display of "Cars" DVDs in a much-prized position in front of its checkout lanes. Target is expected to get its new character license this month, and negotiations on other issues are said to be continuing in a conciliatory vein.

In Disney's quarterly earnings conference call with investors last week, Chief Executive Robert Iger acknowledged "some tension" with Target and Wal-Mart Stores Inc., the largest seller of DVDs.

"We ultimately believe that that tension is going to dissipate over time," he said. "Have we had discussions? Yes, absolutely. In general, though, I think our relationship with these retailers is in good shape."

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Executives have said Disney is working with Wal-Mart on that company's plans for its own download service, alleviating the pressure from the biggest retailer.

Although apparently resolved, the fight underscores the continuing tensions between studios that are trying to move to the digital age by offering their movies for download and retailers that have been important partners in turning DVDs into a gold mine for Hollywood.

If Target had imposed drastically reduced shelf space on Disney, other studios would have been more reluctant to make their own cut-rate deals with Apple, which wants uniform pricing in its catalog. Rival studios are suspicious of the deal because Apple CEO Steve Jobs has become a major Disney investor and director — thanks to the sale of Pixar to the company.

A rapprochement was the best outcome for both sides, analysts said.

"It's like jockeying for positions in a long-distance race," said retail industry analyst Mark Husson of HSBC. "You throw some elbows, but you can't win if you're jockeying the whole time. A natural commercial accommodation is made."

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