The Rise and Fall of Blockbuster

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Before the rise of streaming services and online movie renting, the most prominent form of video entertainment came in physical copies. The most prominent video rental business from this era was Blockbuster, which started off providing VHS tapes before eventually transitioning to also carrying DVDs. Blockbuster quickly became a household name due to the sheer amount of titles the stores provided, far exceeding its competitors. However, as digital technologies advanced, Blockbuster stores would become obsolete and the company would eventually face bankruptcy in 2010. Things turned around in a negative way for Blockbuster due to a combination of factors. They were outcompeted, had poor customer satisfaction, had an unsustainable business model, and were unable to successfully adapt to the shifting landscape. By understanding how Blockbuster, who at one point was at the top of the game, became bankrupt, we can take away valuable lessons that are useable for current and future entrepreneurs.

Blockbuster was founded in 1985 in Dallas, Texas by David Cook, who first noticed the opportunity in the video rental industry after his wife suggested the business to him. Cook saw that many video rental stores at the time were smaller stores owned by families, and only carried big-name movies from previous years. Seeing the opportunity for a franchise with a larger selection to be successful, Cook would open up the first Blockbuster store in 1985 and two more the following year. Since Cook had a background in software and data management, he devised a computer inventory system that could handle the large amounts of rental checkouts to customer accounts. The first Blockbuster greatly outshone its nearby competitors, boasting an impressive selection of 6500 different titles.

Another important aspect of Blockbuster's rise is its rapid expansion across America. Blockbuster became a household name due to the vast amount of stores that popped up in a short amount of time. At the company's highest point, there were 9,000 stores open globally which an impressive feat is over only 20 years. This large number of stores leads to higher brand recognition, which is an important part of a successful business. The fact that the company was recognized by people all over the country can increase business via word of mouth.

A big name that comes up in the discussion of Blockbuster is Netflix. Before becoming the largest streaming service in the world with 260.28 million subscribers worldwide, it started as an online video rental service in 1998. This service would allow you to select videos online which would then be sent to you through the mail. There were no late fees or due dates, and the customer would simply have to send them back after watching them to receive new DVDs. This service would become very successful, and Netflix would hit a billion shipped DVDs by 2007. With Netflix now being credited as the Blockbuster killer, there is an infamous story of how Blockbuster could have come to own Netflix. In 2000, Blockbuster would deny Netflix's offer to be bought out for $50 million, which is pennies compared to their price today.

In addition to Netflix, Blockbuster also had many other notable competitors such as Hollywood Video and RedBox. Hollywood Video stood in direct competition with Blockbuster, sharing a similar renting experience that customers could turn to. Redbox also would become a threat to Blockbuster with their kiosk-based rental services. Customers could rent DVDs from kiosks placed outside of grocery stores, convenience stores, or gas stations without having to make a separate trip to a physical store like Blockbuster. Redbox could afford to have lower prices because they didn't have to rent or own an entire physical store, something that Blockbuster couldn't afford to do. These competitors along with rising digital markets would be a deadly blow to Blockbuster's market share.

Another reason Blockbuster failed is that it had an unsustainable business model. A large part of Blockbuster's yearly revenue was derived from their late rental fees. When customers were late when returning their rented movies, they would be charged a considerably large late fee. Customers would be charged a fee equal to the original price of the rental, meaning that if they pay $2.99 for a five-day rental, they would be charged another $2.99 even if they were just one day late returning the rented video. This model of charging late fees accounted for a large part of Blockbuster's revenue, and in 2000 they received nearly $800 million in late fees alone. This number would account for 16 percent of their revenue for that year, but over time this would be found to be unsustainable when completion arises. Once Netflix started to grow and gain more of the market share, Blockbuster would be forced to lower these fees to remain competitive. By 2009, the revenue gained from late fees would drop to $134 million, which is only 3 percent of their revenue compared to the previous 16 percent not even 10 years prior.

The late fees also provided another negative aspect of Blockbuster in the form of negative customer feedback. The fact that Blockbuster made a large amount of money from late fees left customers with poor satisfaction and drove them to look for similar businesses with better customer service. It was not an uncommon sentiment that customers were unhappy with Blockbuster's late fees and prices, so when RedBox and Netflix started to rise in popularity with better prices and fees, many customers turned to these businesses instead.

Leadership decisions were also a key factor that led to Blockbuster's bankruptcy. The decision mentioned earlier of Blockbuster's fast expansion would also be a negative to the business. The business leaders decided to invest in expanding or maintaining their physical stores when digital alternatives were also starting to rise. As customer preferences started to lean towards digital, the large number of Blockbuster stores would be a liability and cause Blockbuster to not have enough capital to invest in the digital market as much as Netflix did.

Internal conflict amongst leadership would also ultimately lead to Blockbuster's downfall. In 2004, John Antioco, who was CEO of Blockbuster at the time acknowledged Netflix as a threat to the company. To compete with Netflix, Antioco decided to sacrifice short-term profits for long-term gains. He chose to cut back on Blockbuster's late fees and also invest in the launch of Blockbuster Online, which would be similar to Netflix's online platform. Blockbuster's board would eventually fire Antioco in 2005 and reverse his proposed changes because they felt that the cost to commit to these actions was too high. In hindsight, the decision to not invest in the online space can be seen as a huge mistake. Had Antioco been allowed to commit to his plan, Blockbuster could have competed with Netflix early on and potentially could have been a major player today.

In 2010, Blockbuster would come to an end when they filed for bankruptcy. The company would try to restructure to relieve their debt, but ultimately they would close down their stores and sell their remaining assets. As of 2024, only one store remains open and is a tourist destination for those with nostalgia for the once massive business.

Blockbuster's rise and fall can offer valuable lessons for entrepreneurs, such as the importance of innovation and how fast technology can impact businesses. Blockbuster's failure to adapt in time to the digital market changes would lead to its closure. Another lesson is the importance of customer satisfaction and how valuable it is to understand their preferences. Even before video rentals shifted entirely towards digital, Blockbuster faced major problems when their revenue relied so much on customer late fees. Netflix was able to create goodwill with its client base by having better customer service and by being more convenient. Today streaming is becoming more frustrating to consumers due to the increasing number of streaming services. This causes more TV shows and movies to be scattered across different platforms and become more expensive while being less convenient. It might be only a matter of time before the video rental space is shaken up again and new competitors arise to meet customer demands.

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