A Critical Analysis of Business Failures

Company: Blockbuster

Kunal Patel

Entrepreneurship_14999

Rob Batchelder

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Introduction

Business history contains numerous tales of companies that once ruled over their industry and then quickly fell apart. Such firms serve as an important cautionary tale illustrating how even the most successful businesses can fall short if they fail to adapt to either change or customers, or make bad strategic decisions. One of the most famous cases of this is Blockbuster, a once cultural phenomenon and entertainment institution of the 1990s and early 2000s. Blockbuster's climb was hastened by unprecedented growth and insatiable demand for in-home movie rentals, but its fall was equally as fast. Blockbuster's story represents the notion of innovating, being flexible, and adapting, and customers should always be a focal point. Business innovation is readily available, but may be an afterthought once visibility has disappeared. Anyone looking to start or manage a business can glean important ideas from Blockbuster's tale regarding complacency and maintaining ongoing relevance within a rapidly evolving market.

Company Background

Blockbuster was started in 1985 by David Cook in Dallas, Texas. Cook's initial intent was to create a video rental chain that allowed customers to have more titles than smaller independent mom-and-pop businesses could offer. Convenience and a bigger selection were a recipe for getting customers who wanted to enjoy easy entertainment options at home. The plan worked. After two years, Blockbuster had expanded to more locations, and by the late 1980s, was a brand name that many recognized and trusted. In 1994, Viacom acquired Blockbuster for $8.4 billion with the thought process that video rental would remain popular for an indeterminate duration (Satell, 2014). The beauty of Blockbuster was that it had a recognizable brand name, had a tremendous amount of title inventory, and offered a retail experience for families to enjoy entertainment options before there was ever a streaming service or digital platforms.

The Rise of Blockbuster

In the 1990s, Blockbuster achieved dramatic success. The company even experienced massive expansion, once opening thousands of stores in the US and international markets. By the late 1990s, Blockbuster operated over 9,000 stores and employed over 80,000 people (Harvard Business Review, 2013). Blockbuster store locations were synonymous with family movie night and weekend search for movie and video game selection. Blockbusters did well financially, producing billions in annual sales revenue and cornering the home entertainment market. In 2004, Blockbuster's revenues peaked near $6 billion (Satell, 2014). Blockbuster was so large and swept so far and wide that it appeared to be invulnerable, as the one-of-a-kind market leader in video renting. All this said, the success was skin deep, and there were warning signs of attrition underneath it.

Factors Behind the Fall

Blockbuster's collapse can be traced back to a series of strategic flaws, market change, and technology disruption. First and foremost, the significant reason was Blockbuster’s failure to embrace digital technology. In 2000, Netflix approached Blockbuster with a proposal to partner to create an online rental service together. Blockbuster executives turned down Netflix's offer, underestimating the future potential in streaming video and online rentals. This horrible mistake would turn out to be very consequential, as Blockbuster ignored the market that Netflix would come to own (Harvard Business Review, 2013). Another issue was Blockbuster’s organizational model, based on late fees. Loading customers with late fees made a lot of revenue initially, but that started to upset customers. When a customer accidentally forgot to return a video, how could they possibly be penalized with a late fee? In 2005, Blockbuster scrapped late fees altogether, but customers were already miffed (Satell, 2014). In the early 2000s, other competitors entered the market; Redbox had a different, simpler, cost-efficient kiosk model. Debt also contributed to Blockbuster's downfall. After Blockbuster was spun off from Viacom, the company took on billions of debt, limiting its flexibility to innovate or change direction (Satell, 2014). A lack of leadership only contributed to the predicament as well; Blockbuster was primarily focused on physical stores, not streaming tech. It was not until the company went online and digital in 2007 that Blockbuster created its online and digital efforts. By then, Netflix had a massive subscriber base and streaming was driven, no longer by blockbusters (Harvard Business Review, 2013). Disconnected competitive threats started to emerge quickly. Streaming networks, like Netflix, Hulu, and later Amazon Prime, redefined how customers consume their entertainment. A customer no longer had to leave their home to rent a movie, and Blockbuster's vast store real estate was more hurtful than helpful. As a result, Blockbuster filed for bankruptcy in 2010, and all retail outlets closed, except for one independently owned store that remains open today in Bend, Oregon (The Guardian, 2013).

Lessons Learned

The lessons of Blockbuster's story for businesses and entrepreneurs are plentiful. First, adaptability is key in tech- and trend-focused industries. Without gaining ground for a chance to innovate, companies are missing the boat; you can't discard competition coming on the scene while being more millennial than your present space. Secondly, the customer experience matters. Even while late fee policies may initially generate high revenue, they may, over time, generate a lack of faith and disloyalty in your product (Satell, 2014). Thirdly, solid leadership with an appetite for a new perspective on change is critical. Blockbuster had inherent brand recognition and capital enough to counter Netflix, but leadership wasn't quick enough to act. Fourthly, businesses have to do more than just rebound. Once a new market is taken, it's just about impossible for laggards to recover (Harvard Business School, 2016).

Personal Assessment

I believe Blockbuster's demise did not need to happen. The company had so many advantages—brand equity, loyal customers, and ample resources—that they could've leveraged to capture the digital rental and streaming market. If Blockbuster had partnered with Netflix and invested in online sooner, it could've continued as the leader in the home entertainment space. Blockbuster ultimately went the way of oversight and a lack of desire to dethrone the old way. Blockbuster can be remembered less as a success story and more as a cautionary tale. Their demise is an example of how quickly market share can dissipate when one is not innovating or able to pivot.

Conclusion

Blockbuster is a classic example of the company's complacency that went out of business; on the other hand, a case that shows the necessity of innovation in the business realm. The firm enjoyed a perfect run throughout the 90s, but eventually died a slow death because of its failure to accept the new technological trend and the changes in customers' preferences. To avoid a similar fate, startup founders today ought to draw lessons from the errors of Blockbuster and bring to the fore the values of adaptability, client service, and futuristic management. The plot of Blockbuster conveys the message that no enterprise is safe from downfall, yet those who recognize it from history can steer clear of the same mistakes.

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