Blockbuster: A Case Analysis

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# I. Strategic Profile and Case Analysis Purpose

Blockbuster L.L.C., as it is known today, was opened in October of 1985 before access of the internet had become hugely successful (Blockbuster, 2013). By the end of the century, the video rental industry was seeing signs of extinction. In 2004, Blockbuster offered its first online DVD rental, and attempted to offer its own streaming by purchasing Movielink (Hitt, Ireland, & Hoskisson, 2011). Per this case analysis, the Movielink strategy failed to attract the immediate cash-flow Blockbuster had expected which resulted in bankruptcy. By April of 2011, Dish Network, with14 million subscribers, [acquired Blockbuster for $320 million](http://latimesblogs.latimes.com/entertainmentnewsbuzz/2011/04/dish-network-to-acquire-blockbuster-for-320-million.html) in a court auction (Blockbuster, 2013).

Products and services include; Blockbuster, Blockbuster Video, Blockbuster online, Blockbuster Night, Blockbuster GiftCard’s, Blockbuster Game Pass, Blockbuster Movie Pass, Blockbuster Rewards and in 2006, the Blockbuster Total Access Program. The strategy of this program was based on returning the disc through a prepaid envelope or exchange at a retail location. The retail stores offer rewards and special promotions for visiting retail stores. Blockbuster Movie Pass is tied to a Dish subscription; “the company can offer content to which it already has the rights to through program deals for its satellite TV business” (Fritz, 2011).

The purpose of this case study is to analyze the current internal and external factors of the evolving home entertainment industry. As a result of the environmental analysis, several strategies and alternatives to meet these demands will be explored.

**II. Situation Analysis**

## A. General environmental analysis

A general environmental analysis studies the following six segments of a respective industry; technological changes, demographic changes, economic conditions, political/legal trends, sociocultural trends and global trends

To begin, technological changes within the home entertainment industry have been dramatic. “The newer technologies that are emerging for high speed wireless video delivery are WiHD, WHDI and WiDi” (S., 2011). This wireless technology allows the speed and definition that traditional cables provide, to offer a crisp, clear defined picture with no waiting times or cords. Also, DVD’s are outdated due to the popularity of BlueRay technology. This prompted Blockbuster to gain a competitive advantage by creating a cost cutting benefit by *not* charging for a BlueRay rental, as competitors do.

Demographic changes have left the country with more seniors than ever before in U.S. history. This matters greatly to online rentals, because regular use of the internet declines as ages increase.

With the 2006 downturn of the economy, changes in consumer behaviors add a plus to the labor market for the new digital landscape. Marketing skills and information technology workers will have to remain flexible and knowledgeable to see Blockbuster into the future. Discretionary funds are down, while gas prices are rising, Industries that offer product delivery are more popular than those who do not.

Political /legal trends in the home entertainment business are focused on piracy. The lack of government response, leads several large industries out of revenue. Special divisions are created within organizations to oversee illegal copies of movies or games. It is a large workload to maintain a legal competitive advantage

## B. Industry analysis – Home Entertainment

The Five Forces of Competition Model include; threat of new entrants, bargaining power of suppliers, bargaining power of buyers, threat of substitute products, and rivalry of competing firms.

There are several reasons the threat of new entrants is high. Because the products are homogenous, entrants pose large threats. Unlike unique tangible assets, with the proper capital outlay, purchasing rights to rent newly released movie titles is possible, with older releases being even more cost efficient.

The bargaining power of suppliers is low because of the homogenous products. The consumer is unaware of *who* they received the rights to rent a specific movie title. The important part is that they get anticipated new releases for consumer demand.

The bargaining power of buyers is reversely high because of the many firms that offer movies on demand. This includes websites such as Hulu and Amazon. Also, the price point for movie rentals and aggressive market demand, leave “value” obsolete.

The threat of substitute products may include movie sales. Entertainment is a large category, which depending on discretionary funds may be adjusted to exclude a movie rental.

Finally, the threat of competitive rivalry is intensely high. Because there are several large competitors (Netflix and Comcast), innovation and adaptability are the key to remaining competitive in this industry.

## C. Competitor analysis:

## The current value of Blockbuster All Access is valued at $20.00 monthly. When a customer of DISH network pays the minimum fee of $39.99 a month, Blockbuster is included. Netflix’s current strategy involves dividing the two entities of streaming videos and the physical mail (Farvaro, 2012). Their strategy involves renaming the DVD mail division Qwikster. This allowed for more specific strategies for both divisions and proper talent pools for skills needed. Netflix maintains their leadership in the world of video rental and intends on increasing market share. Netflix believes that rentals by mail were simply in place to offer more titles, and because the strength of the digital and streaming markets, leaves Netflix as future thinkers. The capabilities of Netflix extend into their technological advances and innovation. As a response to the unattractiveness of mail rentals, Netflix added a price increase to those consumers who choose to rent both online and by mail to detour the costs of ground transport. Comcast is focusing their strategy on developing XFINITY. “XFINITY will “offer 100+ HD channels, 50 to 70 foreign-language channels, approaching 20,000+ VOD choices, incredibly fast Internet speeds (50 Mbps growing to 100+ Mbps) and thousands of TV shows and movies online for our customers to watch whenever and wherever they want” (Comcast, 2013). The helpdesk is another competency that sets Comcast apart from competitors. Highly trained technical staff, 24 hours a day/7 days a week, is there to assist members with any product issues, while one time fees are issued to repair malware, or viruses for non-customer devices. Comcast has also responded to rivalry by creating a sole division to focus on maintaining their current customer base by offering “deals” to keep their market share strong. It has been proven that it is much more cost efficient to maintain a current customer than acquire a new customer.

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## D. Internal analysis

## Blockbuster Inc. core competencies lie within their longevity, regardless of their poor strategic decisions; they seem to continue to rise like a Phoenix. Although customer relations were tarnished in the past by their outrageous fees, Blockbuster has large brand awareness and a mutually beneficial relationship with parent company, DISH network. DISH network made their bundle of 200 channels more attractive by effectively using the superior distribution channel of Blockbuster, to offer more brand value.

Weaknesses with Blockbuster can be seen by their retail challenges. They have consistently chosen to keep the retail experience afloat. What once was a company with over 4,000 domestic stores is not down to 500. Innovation and stability within industry seem to elude Blockbuster.

The core competencies of Blockbuster include the ability to survive through the economic downturn, brand recognition, and the strong partnership with DISH Network, which adds highly skilled employees and a larger market cap.

# III. Identification of Environmental Opportunities and Threats and Firm Strengths and Weaknesses (SWOT Analysis)

A SWOT analysis is part of a company's strategic planning process. This process draws a relationship between objectives and strategies, turning into promising tactics. Weaknesses and threats should be leveraged against strengths and opportunities. The following chart shows the internal strengths and weaknesses, as well as the external opportunities and threats.

|  |  |  |  |
| --- | --- | --- | --- |
| **Blockbuster** | **SWOT ANALYSIS** | **February 1** | **2013** |
| **Strengths** | DISH Partnership | **Opportunities** | Gaming Industry |
|  | Brand Recognition |  | Redbox Managed Kiosks |
|  | Multiple Product Channels |  | Streaming Videos |
|  |  |  |  |
| **Weaknesses** | Adapting to Industry Trends | **Threats** | Internet Piracy |
|  | Customer Relations |  | Lack of Government Regulations |
|  | Poor Retail Sales |  | Changing Consumer Trends |

# IV. Strategy Formulation

## A. Strategic alternatives

There are several strategic alternatives that can be formed by analyzing the data that resulted from the internal and external data collected in this paper.

The first strategy results from the relationship with parent company Dish Network to expand into the gaming area. This would change the landscape of their product offerings and gain new competition such as GameStop. This would be a moderate level of diversification by creating value. This includes sharing technical and marketing resources, the market power of both DISH and Blockbuster, and the restructuring of product offerings made by this acquisition.

A second strategy, a business level strategy, could balance the weakness of retail sales to the opportunities of Redbox managed kiosks. The Blockbuster brand will still be visible on the actual Kiosk without the high costs and loss of profits through the high fixed costs of traditional retail stores. Blockbuster has always held onto their retailing presence, yet seems to have little to no advantage with this strategy.

A business level marketing strategy could also pit the strength of Blockbuster’s brand recognition, against the threat of continuous changes with entertainment rentals and consumer trends.

# V. Strategic Alternative Implementation

The strategy that is more feasible for Blockbuster is to use their new relationship with Dish Network to focus sales in the gaming industry. Current retail stores can be revived by keeping movie rentals online exclusively, while attracting the gaming industry.

## A. Action Plan

* Launch An Exclusive Blockbuster Marketing Campaign
* Division of Blockbuster/DISH, and Blockbuster/Gaming Retail
* Restructuring of Management, Technical Support
* Hiring & Training of Elite Gaming Staff
* Research & Design Current Retail Stores – Modern Upgrades

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