Blockbuster: leadership and strategic failures

Business

Blockbuster: Leadership & Strategic Failures Scott E. Morris MGT 460 Professor Robin McCart-Brown May 30th, 2011 Abstract This research paper will explore and analyze the leadership and strategic failures that occurred within Blockbuster Incorporated.

The paper will look at leadership and strategic theories that could have assisted Blockbuster. In addition the paper will discuss the importance of leadership within an organization, and its necessity for the company to survive. Blockbuster: Leadership & Strategic FailuresOverview Blockbuster started as an idea by David Cook who owned a company called Cook Data Services that provided computer software to the oil and gas industry in Texas. In the early 80’s the oil and gas industry took a turn for the worse in Texas, and Cook decided to attempt a venture into the movie video rental business. The current video rental marketplace was primarily small privately owned business that had a small inventory of movies that was kept locked up and behind the counter. Cook’s idea was to offer a wide selection, allow the videos to be on the shelf, provide excellent customer service, and integrate his computer software programming background to create a software system to track inventory.

On October, 19, 1985 Cook opened his first store in Dallas, Texas. After opening up three additional stores, Cook sold a large portion of the business to a group of investors with Wayne Huizenga, the founder of the world’s largest garbage disposal company, Waste Management, Inc. to finance expansion. Growth During the years of 1987, and under the management of Wayne Huizenga, Blockbuster began to seek expansion. Huizenga and his team began to seek out small independent video rental stores across the

country as a means to expand their business. “ To expand a company’s geographic coverage—One of the best and quickest ways to expand a company’s geographic coverage is to acquire rivals with operations in the desired locations.

” (Gamble, Thompson, 2011, p. 120) The video rental marketplace was still relatively new and growing venture, Huizenga’s fear was that this concept could be easily copied and in was necessary for them to saturate the market. It was not uncommon that a family would go to a rental store on Friday nights to enjoy a movie at home during the weekend. A video movie during the 80’s retailed for almost $50-60 per tape, so most Americans would look to rent and not purchase the movie. During this time frame, Huizenga and his group of investors felt that acquisitions was the fastest, and most cost effective way to achieve rapid growth and expansion in the marketplace.

In mid-1987 Cook had left the company, there was mounting tension between him and the group of investors led by Huizenga on the future of the company. Cook had believed that expansion would best be made by franchising the stores across the nation and not assume on debt. Huizenga had felt that it was not necessary to franchise but build and manage their own stores. By the end of 1988, the company was running 700 stores, their sales had tripled, and profits almost quadrupled. The only technological competitive issues that faced the company were the video standard wars of VHS, and Sony’s BetaMax. This presented an inventory challenge of what format to stock.

The solution was each store would stock the format mix that best represented their local clientele. This strategy of listening and reacting to what the consumer wanted that proved successful to them strategically, would later fall on deaf ears. Continued Growth & Technology In the 1990’s Blockbuster continued explosive growth, Huizenga was still acquiring other small chains of video rental stores. Blockbuster made the decision to open up a store in London. In early 1991, Blockbuster had seen their growth slow down as families across the nation were entranced by the Persian Gulf War on TV and family movie night took a second set to watching the developments on the international news. During this time a new technology immerged into the area.

Pay-Per-View movies were now being offer by many cable companies. Pay-per-view first originated as a means to offer closed-circuit premium sporting events into the home. The cable company’s strategy was to start offering movies to their customers without the need for them to leave their home to purchase or return the movie. In addition the pay-per-view marketing strategy used an “ always in stock”, to indicate that the new popular titles would be available, and going to your local rental store, they could be out of stock. Blockbuster aimed to combat the pay-per-view by offering more titles, and claiming convenience by having the ability to “ pause” the movie for bathroom breaks which was not available to pay-per-view.

This problem brought about an inventory nightmare for Blockbuster. They had to increase their inventory holding on what they believed to be strong movie titles, and after the spike of popularity, the stores had an abundance of inventory that they had to sell off at significantly reduced prices. The

management of Blockbuster never viewed pay-per-view as a viable competitor and continued with their expansion plans. Although Blockbuster rapidly expanded nationally and experienced astronomical growth (company earnings in 1988, 1989, and 1990 were 113%, 93%, and 48% respectively), the rental industry was beginning to reach maturity. ” (Hit, Ireland, Hoskisson, 2009, p278) This technology advance of pay-per-view and the ignorance of their executive management towards technology would be the only one they would ultimately survive.

NetflixIn the mid 90’s the VHS format was declining as the Digital Video Disc or DVD was being introduced. This DVD offered a better picture and zero degradation in picture after thousands of uses, which VHS’s tape could not provide. Netflix began as an idea that took form in 1997, after Reed Hastings a silicon valley software engineer stated, “ There has to be a better way”, after getting a $40 late fee on a video rental. His concept was to provide a mail order rental business where the customer could rent a movie, keep it as long as they wanted without late fees and when mailed back, would get their next selected title. This strategy offered a customer friendly, customer cost-efficient, and company low overhead model.

Blockbuster ignored this first entry change to their business model. In an effort to be competitive they eliminated the late fees to their renters. “” For the past year, the company has been testing a variety of rental options in markets across the U. S…In no-late-fees test markets, the increased rental transactions and retail sales offset the lower level of revenues resulting from eliminating late fees. ” (CNN, 2004) This decision back fired with Blockbuster, as their revenue dropped for no longer harging those fees. “ While a number

of Blockbuster's franchise stores opted to keep the fees in place, the company-owned stores in the U.

S. didn't, taking a big bite out of what Bear Stearns analyst R. Glen Reid says was a contribution of $250 million to $300 million a year for the Dallas-based company – about 15 percent of annual revenue when the fees were still in place. " (Richardson, 2006) Another strategic failure on behalf of the Blockbuster executive leadership was their ability to acquire Netflix. In a 2005 Variety Magazine article a former executive with Blockbuster stated, " Yet [Former CEO, John] Antioco isn't seen as the saviour who's going to reinvent Blockbuster.

He's a tough negotiator, a strong manager. " But management and vision are two separate things," says a former high-ranking Blockbuster exec, who recalls, " We had the option to buy Netflix for $50 million and we didn't do it. They were losing money. They came around a few times. " Instead, in 2000, Blockbuster inked a 20-year exclusive video-on-demand pact withEnronas the energy conglom launched into telecom.

Blockbuster canned the pact after nine months. " (Goldsmith, 2005) Why did the executive management not take advantage of this vertical integration opportunity? " The two best reasons for investing company resources in vertical integration are to strengthen the firm's competitive position and/or to boost its profitability. Vertical integration has no real payoff unless it produces sufficient cost savings to justify the extra investment, adds materially to a company's technological and competitive strengths, and/or helps differentiate the company's product offering. (Gamble, Thompson, p.

122) It was only until 2006 when they began to offer a by mail service, allowing their customers to switch over and lose their market share.

This statement from their 2006 Annual Report to their Shareholders clearly identifies their inability to meet the customer's needs in the wake of technology. " We operate in a highly competitive home video and home video game industries, which include in-home movie (i. e. , theatrical movie, television series, and direct-to-video product) and game entertainment offered primarily by traditional (i. e.

" in-store") retail outlets, online retailers, cable and satellite providers and via digital distribution over the Internet. We believe our offering of both in-store and online movie rental, in-store game rental, and in-store retail products has uniquely positioned us to meet the entertainment needs of our customers. However, the increasing availability of in-home entertainment through delivery methods other than traditional models and other leisure activities had led to significant challenges for us and resulted in the continued decline in the in-store home video rental industry. (Blockbuster, 2006) " According to social exchange theory, innovation is not only accepted but expected of leaders when necessary to deal with serious problems and obstacles. A leader who fails to show initiative and deal decisively with serious problems will lose esteem and influence, just as a leader who proposes actions that are unsuccessful. " (Yukl, 2010, p165) On September 23rd, 2010, Blockbuster filed for bankruptcy with totaled assets of $1.

02 billion against debt of $1. 46 billion. On March, 2011 a court approved a bidding procedures to auction the company off. Dish Network won the

auction on April 6, 2011 and purchased the company for $320 million dollars to diversify their own marketing strategy. Conclusion The important lesson that is to be learned by the former executive leadership team of Blockbuster is that if you do not reinvent your business as consumer trends and technology changes, someone else will. It is a necessity to both innovate and operate.

Blockbuster continued to stay cemented to their core in-store business and allowed Netflix and others to take their market share while they watched and did little to nothing to protect their company. They were not quick to respond to the technology changes, and customer demands. Instead they continued to expand upon a non cost effective model that was producing lower and lower profits each year. Blockbuster was too slow to change and implement the necessary strategies to keep their existence. They allowed Netflix to operate almost 10 years prior to offering a comparable solution to their customers.

This myopic business strategy was the nail that hammered all over the coffin of Blockbuster. Granted it is difficult to change a large business, one must be open to change for the continuation of their existence. The difference between effective leadership behavior and being a manager is the ability to reinvent and innovate. The executive team of Blockbuster merely managed their operation into extinction. References Blockbuster, (2006), 2006 Annual Report – 10k to Shareholders, retrieved from http://investor.

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