

Block buster essay



**ASSIGN
BUSTER**

I. DISCUSSION QUESTIONS, CASE INTRODUCTION AND KEY POINTS

Introduction The case covers Blockbuster's emergence in the video rentals market. After detailing the intricacies of the video rental market, the case takes a deeper dive into Blockbuster's business model, based on brick-and-mortar locations throughout the US. This costly infrastructure has slowed the entertainment giant's growth in an industry that has rapidly transitioned from the traditional store-based model, to mail rental and video-on-demand alternatives.

The rapid transition of customer demand and the emergence of Netflix (Blockbuster's main competitor) has incited Blockbuster's rapid entrance into the video-on-demand market through the acquisition of Movielink. The key challenges that Blockbuster faces in 2009 include: rising consumer expectations, increases in media piracy, the impact of rising fuel costs on systems based on the distribution of physical media, and the intricacies of competing in a rapidly changing technology industry where new entry is enabled by low infrastructure costs.

Summary of key learning points and strategic issues

1. Understanding the challenges associated with a rapidly changing technology based industry
2. Flexibility in the face of a evolving market with high competition and new technology
3. The role of acquisitions in company growth
4. The importance of brand image and marketing in an increasingly tech-savvy market
5. Adjusting business-level strategy in light of disruptive business models

Discussion Questions

1. Perform a STEEP analysis to understand the general environment facing Blockbuster. How will Blockbuster be affected by external factors?
- 2.

Use Porter's Five Forces Model to analyze the mail rental and video-on-demand industries in the US. Given this analysis, are these industries attractive or unattractive? 3. Entering the video-on-demand business requires Blockbuster to shift its corporate business strategy and compete in a new space. Discuss this shift and the key challenges associated with it? 4. Who are Blockbuster's main competitors and how does Blockbuster measure up against these competitors? (It may be helpful to chart competitors and product offerings) What advantages does Blockbuster have and what advantages do competitors hold? 5.

What are the main capabilities of Blockbuster? Does Blockbuster have a core competence? 6. Create a SWOT analysis to understand Blockbuster's strengths and weaknesses. Does Blockbuster have a sustainable competitive advantage in the mail rental and video-on-demand industries? If so, what is the source? What about Blockbuster's evolution and current business strategy may pose problems going forward? 7. What is Blockbuster's business-level strategy? Is the strategy appropriate to offset the forces in the industries? How has Blockbuster attempted to overcome obstacles posed by being a late player in a rapidly changing marketplace?

Do you recommend any changes and/or foresee any challenges? II.

EXTERNAL ENVIRONMENT ANALYSIS Summarize the external environment, including conditions in the general, industry, and competitor environments.

a. The General Environment Definition: The general environment is focused on the future and can be analyzed by considering the STEEP framework: Social/demographic, Technological, Economic, Environmental/geographic and Political/legal/governmental factors at play. 1. Social/Demographic 2.

Technological 3. Economic 4. Environmental/Geographic 5.
Political/Legal/Governmental

Discussion Question 1: Perform a STEEP analysis to understand the general environment facing Blockbuster. How will Blockbuster be affected by external factors? Social/Demographic: • Rising customer expectations and IT literacy prompt a need for Blockbuster to digitize its entertainment offerings for customer convenience. • Increases in consumer access to pirated media through online resources and bootlegs has put substantial strains on the media sales and rental industries. • Increased environmental awareness among customers will likely be a way to promote the 'green' benefits of digitized offerings. Technological: Increases in the amount of entertainment content offered on the web make market entry a must for Blockbuster to survive in a rapidly changing market environment. Economic: • Rising fuel costs will put a substantial strain on Blockbuster's distribution network and costs • The beginning of the subprime mortgage crisis is starting to decrease consumer discretionary spending, forcing Blockbuster to offer more economical alternatives to maintain sales volume.

Environmental/Geographic: • Globalization allows for access to increased customer base by using online media and multinational brand presence.

Political/Legal/Governmental: Increased concerns about piracy and digital rights management issues make the offering of entertainment content through new media legally complicated and costly. Overall Assessment: The changing customer needs highlighted in the social/demographic section will offer Blockbuster the most opportunity but also the most threats.

Blockbuster needs to respond to changing customer needs and technology

improvements in order to remain competitive. This will be challenging given Blockbuster's history as a brick-and-mortar store as it will be both a strategic shift for the established Blockbuster and also economically challenging. . The Industry Environment Definition: An industry is a group of firms producing products that are close substitutes. In the course of competition, these firms influence one another. Typically, industries include a rich mixture of competitive strategies that companies use to pursue above-average returns. In part, these strategies are chosen because of the influence of an industry's characteristics. Compared with the general environment, the industry environment often has a more direct effect on the firm's strategic competitiveness and above-average returns.

The industry environment is the set of factors that directly influences a firm and its competitive actions and competitive responses. Porter's 5 Forces Model is a powerful tool for understanding the dynamics amongst the five key factors that determine an industry's level of rivalry and profit potential. [Outlined below, High= H; Medium= M; Low= L] 1. Threat of New Entrants (or barriers to entry) 2. Supplier Power 3. Threat of Product Substitutes 4. Buyer Power 5. Intensity of Rivalry Discussion Question 2: Use Porter's Five Forces Model to analyze the mail rental and video-on-demand industries in the US.

Given this analysis, are these industries attractive or unattractive? The below Porter's 5 forces analysis shows that the rental industry is not an particularly attractive industry because competition, substitutes, and supplier power are high. Threat of New Entrants (or barriers to entry): Medium • Mail rental infrastructure costs are much lower than those of brick-and-mortar

alternatives • VoD service providers can build infrastructure at a relatively low cost and often spring out of new web-based delivery technologies • Relationships with media producer are difficult to establish when trying to attain rights to their productions

Supplier Power: High • High supplier power due to concentrated movie studio and game industries • Specialized products such as movies and games which cannot be substituted with lower grade productions Threat of Product Substitutes: High • Large number of substitutes compete for customer attention within the media delivery space. (VoD based enterprises may have a competitive advantage due to increased convenience over other substitutes) Buyer Power: High High price sensitivity among consumers constrained by subprime crisis, low switching costs between alternatives Intensity of Rivalry: High • Low customer loyalty • Large number of competitors within the media delivery industry • Competition within the industry is based on price, ease of use/convenience, selection, and service Discussion Question 3: Entering the video-on-demand business requires Blockbuster to shift its corporate business strategy and compete in a new space. Discuss this shift and the key challenges associated with it?

Blockbuster has traditionally been a brick-and-mortar business and it has dominated the video rental retail space, however moving into the video-on-demand business will require Blockbuster to switch gears and also swallow a bit of pride. Customers will no longer travel to Blockbuster to rent movies, rather Blockbuster must transition from physical to virtual media, bringing the product directly into its customers' homes. Begun in 1985, Blockbuster

has proven agile in the face of changing technology, but has never been required to change its business model in the past.

Blockbuster has upgraded from VHS tapes to DVDs and has responded to new markets by renting video games. However the new threats from VoD providers require Blockbuster to invest more heavily in an IT infrastructure and move its business from brick-and-mortar locations to online sites.

Blockbuster faces challenges in shifting its business model. It is an established leader in its field, making it vulnerable to agile disruptors redefining the marketplace through new product offerings. Blockbuster's current model requires heavy investment in real estate and inventory.

However, these core competencies do not translate into the online space. Blockbuster's high overhead costs put it at a disadvantage as it seeks to move online where competitors have much lower cost structures. In addition Blockbuster's traditional retail expertise is insufficient in moving into the new industry which requires technology knowledge, innovative marketing, and partnerships with cable operators.

c. The Competitor Environment Definition:

The competitor environment is the final subject of analysis required to gain a full understanding of the company's external environment.

A competitor analysis focuses on each company against which a firm directly competes and involves gathering and interpreting information about Blockbuster's competitors. The intense rivalry of the movie rental and VoD industry creates a strong need to understand competitors. Competitive rivalry is the ongoing set of competitive actions and responses that occur among firms as they maneuver for an advantageous market position.

Especially in highly competitive industries, companies constantly jockey for advantage as they launch strategic actions and respond or react to rivals' moves.

It is important to understand competitive rivalry because it influences a firm's ability to gain and sustain competitive advantages. 3 I's Framework
Leveraging the 3 I's framework provides a thorough overview by grouping competitors into three buckets: immediate competition, impending competition, invisible competition. 1. Immediate Competition: Immediate competitors to Blockbuster are other brick-and-mortar entertainment rental stores such as Movie Gallery and the increasingly popular Redbox. Blockbuster is currently outperforming competitors due to its much broader range of services and entertainment delivery methods.

Within the mail rental industry, Blockbuster's main competitor is Netflix which was the first company to enter the mail rental space. Netflix capitalized on its first-mover-advantage to gain significant market share. 2. Impending Competition: Impending competitors to Blockbuster are smaller VoD providers such as Vudu who operate on a much leaner cost base by delivering content only over the internet and do not rely on costly brick-and-mortar operations. These businesses are also much more focused on the technology as their core competency. 3. Invisible Competition:

Blockbuster's invisible competitors consist of actual entertainment producers and studios which can rapidly form third party joint ventures to enter distribution markets. An example of this is the creation of Movielink by a number of movie studios. Discussion Question 4: Who are Blockbuster's main

competitors and how does Blockbuster measure up against these competitors? (It may be helpful to chart competitors and product offerings) What advantages does Blockbuster have and what advantages do competitors hold? See Below for a chart of Blockbuster's key competitors and their product offerings.

In-store rental: Blockbuster has a clear advantage in the in-store rental category, as it is an established brand with premium locations. Mail rental: Blockbuster has established itself in the concentrated mail rental space, but Netflix remains the market leader due to its first mover advantage. The Netflix brand is synonymous with mail rental whereas Blockbuster is struggling to make a name for itself in this business (despite nearly identical offerings and pricing) Blockbuster does offer the convenience of in store exchange, but it is unclear of the customer appeal of this offering given Netflix quick delivery time.

Sales: The sales market is extremely fragmented as many players in different spaces (online, retail, video rental) are competing to sell media content in both physical and virtual form. Blockbuster probably has an advantage in selling previously viewed films, thereby reducing inventory, however it has no advantage in retail sales and customers are more familiar with Apple and Amazon with regards to online sales. VoD: Blockbuster is entering the VoD space through its purchase of Movielink, however due to movielink's origins, customers will not be able to burn downloaded/streamed movies to DVDs.

This puts Blockbuster at a disadvantage because customers want to watch movies on their TVs and not on their computers. Netflix, Vudu, and Apple sell VoD through boxes that customer can plug directly into their TVs. While customers do not want an additional box, they prefer this to watching movies on their computers. Sony/Universal/Warner Bros have partnerships with cable companies allowing customers to watch movies on their TVs without an additional box. Perhaps Blockbuster would be in a better position if it had formed partnerships with cable operators directly instead of purchasing Movielink. [pic] III.

INTERNAL COMPANY ANALYSIS Summarize internal company factors including: capabilities and weaknesses, value chain activities, strategy, and financial situation. a. Outline the company's internal capabilities and weaknesses. Definition: Capabilities exist when resources have been integrated to achieve a specific set of tasks and are frequently developed within a specific functional area. In addition to identifying the company's opportunities and threats from the external environment, another important objective of the situation analysis is to evaluate strengths and weaknesses as input for developing the company's strategies.

Discussion Question 5: What are the main capabilities of Blockbuster? Does Blockbuster have a core competence? Blockbuster's main capabilities include its abilities to serve customers with physical movie and game rentals through access to large selection, premium locations, and a well established, national brand. Its core competency is physical movie rental through an expertise in retail strategy and know-how (location, selection, branding)

Blockbuster was able to move into the online mail rental space because it developed distribution capabilities and marketed the new service.

However the move to Vod will likely be more challenging given the necessary technology infrastructure, competition, and customer desire to watch movies on TV rather than computers. Discussion Question 6: Create a SWOT analysis to understand Blockbuster's strengths and weaknesses. Does Blockbuster have a sustainable competitive advantage in the mail rental and video-on-demand industries? If so, what is the source? What about Blockbuster's evolution and current business strategy may pose problems going forward?

Strengths	Opportunities
<ul style="list-style-type: none"> Strong reputation and brand recognition Opportunity to renegotiate DRM restrictions with movie studios Ability to leverage brick-and-mortar stores for customer convenience 	<ul style="list-style-type: none"> Opportunity to increase marketing of VoD offerings to new and existing customers Offerings across range of media delivery services (mail rental, VoD, sales, and in-store rental) Opportunity to create and rent set top box system Room to grow in international markets, through low infrastructure VoD offerings
Weaknesses	Threats
<ul style="list-style-type: none"> Brick-and-mortar stores come with high expenses Decreased customer disposable income encourages cuts to non-essential Large corporate structure limits agility spending Late player in online VoD and mail rental market Highly competitive and innovative market space in VoD technology Small market share of above markets 	<ul style="list-style-type: none"> Increased piracy DRM restrictions Within the brick-and-mortar space Blockbuster has a sustainable advantage through its locations, brand, and relationships with movie studios. However it does not seem to have a sustainable advantage in the mail rental and VoD spaces.

In

the mail rental business Blockbuster's locations, brand and supplier relationships along with its distribution network give it a competitive advantage over new entrants. However Blockbuster's primary competitor, Netflix has a stronger brand in this space and has equally robust supplier relationships and a distribution network.

The only competitive advantage that Blockbuster has is its locations, offering customers the ability to exchange mail rental DVDs which Netflix cannot offer. Blockbuster continues to leverage its brand and supplier relationships in the mail rental space, but it must increase marketing in order to increase publicity around its new business expansion. Competition is stiff in the VoD space and Blockbuster appears to have no identifiable competitive advantage in this space. While Blockbuster can leverage the Movielink brand and supplier relationships, competitors too have strong brands and supplier relationships. In addition Blockbuster is at a disadvantage due to Movielink's restrictions regarding DVD burning, disallowing customers from viewing movies on their TVs.

Blockbuster's focus on its retail locations and failure to enter the mail rental and VoD spaces sooner have put it at a disadvantage. As a result the Blockbuster brand is clearly associated with its retail spaces rather than its new business units. Blockbuster must increase marketing efforts in order to break free of its legacy business. Finally, Blockbuster's decision to acquire Movielink which has DRM restrictions, is likely to further inhibit the company's ability to make a place for itself in the highly competitive VoD market unless it is able to overcome this obstacle. b. Conduct a Value Chain

analysis to identify value-creating activities. Definition: By exploiting its core competencies, a competitive firm creates value for its customers.

Value is measured by a product's performance characteristics and by its attributes for which customers are willing to pay. Companies with a competitive advantage offer value to customers that is superior to the value competitors can provide. Value is created by innovatively bundling and leveraging resources and capabilities. A value chain analysis provides information relative to primary (inbound/outbound logistics, operations, marketing & sales, and service) and secondary (firm infrastructure, human resources mgmt, technological developments and procurement) activities. A value chain representation of Blockbuster's primary and support activities is presented in the diagram below.

This information can be used to establish a business strategy which targets select activities to create a sustainable competitive advantage. [pic] Primary Activities

- Inbound/Outbound Logistics: o 23 distribution center across the US allow Blockbuster to offer 1 business day delivery to its customers, enhancing their experience and effectively competing with Netflix and other mail rental companies o 4, 500 brick-and-mortar stores that Blockbuster owns provide an additional platform for its sophisticated distribution network as the company has allowed customers to return their mail rental DVD's to any store across the US
- Operations: Blockbuster likely has an extensive inventory management and routing system to ensure quick processing of movie rentals and returns.
- Service: o Blockbuster offers customers the ability to exchange movies at its physical locations.
- Marketing and Sales: o Joint promotions with fast food outlets such as Domino's Pizza and

McDonalds increase exposure of the Blockbuster brand o Printable e-Coupons for free movies, game rentals, etc. entice customers to remain loyal o Blockbuster now offers an online movie suggestion tool to increase customer loyalty and rentals. This system is akin to that developed by Amazon. com to suggest purchases to customers Support Activities • HR Management: N/A • Technology Development: Blockbuster's website offers a user friendly web interface, a movie queuing service, and an extensive database, for mail order rentals o The company recently purchased Movielink, a provider of video-on-demand (VoD) services, to offer its customers increased convenience to watch their favorite entertainment content online o Due to the mail rental offerings, Blockbuster has built an extensive logistics and inventory management IT infrastructure that must be kept up-to-date and adapt to changing customer demands and expectations • Firm Infrastructure: o Increased piracy concerns and digital rights management issues make the rental of entertainment content, particularly through online media, increasingly difficult and costly to manage from a legal aspect • Procurement: Along with the Movielink acquisition, Blockbuster acquired the rights to the movies of Movielink's previous owners (Warner Bros. , MGM, and Paramount), increasing the selection the company has to offer its customers and making it increasingly complicated for new entrants to compete in the market c. Product-Market Growth Using the product-market growth matrix developed by Ansoff, it is possible to outline the possibilities that a company has to expand its product offerings and markets strategically to increase sales. [pic] Conducting this analysis for Blockbuster reveals that the media delivery giant has room for growth in both its markets and product offerings at a relatively low cost. Products/Markets | Present

Products | New Products | | Present | Increase marketing of VoD and mail rental | Offer integrated platform for online and mail | | Markets | products through rebranding efforts to appeal | order gaming services | | | to younger, tech savvy segments | | | New Markets | Market VoD services to growing international | Expand service offerings to provide online gaming | | | markets including UK, Germany, France, and | services to international markets | | | Scandinavia | | d. Financial Analysis Definition: Financial analysis is used to assess the viability, stability and profitability of a company or operating division. The analysis is done using quantitative historical performance found in the financial reporting documents (Balance Sheet, Income Statement, Statement of Cash Flows). The goal of the analysis is to understand a company's financial health through its profitability, solvency, liquidity, and stability.

Given the financial information provided in the case, it is clear that Blockbuster is facing operational issues that span beyond the current financial downturn. Net income has suffered substantially over the last four quarters as both operating revenues and costs have fallen. As can be seen in the chart below, COGS + SGA expenses have fallen at a slower rate than operating revenue, placing substantial strain on the company. [pic] An analysis of Blockbuster's COGS and NI as a percent of revenue reveals that even though efficiencies have been achieved (COGS as percent of revenue is steadily declining), net income is not improving. [pic] IV. STRATEGY FORMULATION Summarize Blockbuster's strategic position as it relates to its current strategy and the components thereof a.

Summarize Blockbuster's current strategy. Blockbuster's current strategic objective is to dominate the VoD and mail rental markets by leveraging its size and current infrastructure. Although Blockbuster is a household name for entertainment content rental, it fell behind its main competitor Netflix by arriving late to both the mail rental and VoD markets. These late entries have forced Blockbuster to invest significant resources and capital to catch up, the most recent of these investments taking the form of the acquisition of a VoD service provider, Movielink. b. Strategic Analysis Definition: Conduct an analysis of Blockbuster's business strategy by using the 4 P's Framework.

The 4 P's Framework is used to understand a company's strategy based on its Position (Mission, Values, and Vision), Priorities, Payments (what it will spend its money on to reach those priorities), and Performance (how it will measure success). By completing the framework, we can analyze a company's current, future, or recommended priorities as well as set forth a path in order to achieve goals and measure accomplishments. Use the 4 P's Framework to analyze the firm's past/current/future strategy. 1. Position a. Mission: Offer customers an expanding array of convenient ways to access entertainment content b. Values: Infinite selection, broad customer appeal, convenient access c. Vision: US leader in online entertainment content 2. Priorities: 1.

Build a flexible and agile online content delivery system 2. Lower costs and improve efficiency 3. Capture greater share of VoD and mail rental markets 3. Payments: 1. Continue to invest heavily in IT infrastructure 2. Rebrand Blockbuster as premium provider of VoD and mail rental services 3. Invest in negotiating DRM for Movielink VoD service 4. Performance: 1. Market share

growth in online rental and VoD space 2. Customer and revenue growth 3. Increased profit due to ability to spread costs over larger customer base In order to gain a market leader position within the mail rental and VoD markets, Blockbuster must: 1. Build a flexible and agile online content delivery system by: i.

Creating a web platform that offers integrated online movie sales, rentals, and downloads to provide maximum customer ease of use ii. Negotiating DRM terms to allow for burning of entertainment content to DVDs until the linking of TVs and PCs becomes more commonplace 2. Lower costs and improve efficiency by: i. Increasing investment in IT infrastructure to ensure optimal inventory management, rapid and cost effective routing, and a seamless customer experience ii. Continuing to close unprofitable brick-and-mortar stores and move its focus to the less infrastructure intensive mail rental and VoD markets iii. Achieving economies of scale through new customer acquisition in both new and existing markets 3. Capture greater share of VoD and mail rental markets by: i.

Rebranding Blockbuster to appeal to younger, tech savvy users that view Blockbuster as a legacy brand famous for its brick-and-mortar locations ii. Expanding marketing efforts beyond the US to capture growing international markets (UK, Germany, France, Scandinavia) through the use of VoD technologies. Discussion Question 7: What is Blockbuster's business-level strategy? Is the strategy appropriate to offset the forces in the industries? How has Blockbuster attempted to overcome obstacles posed by being a late player in a rapidly changing marketplace? Do you recommend any changes

and/or foresee any challenges? Blockbuster's strategy for the mail rental and VoD businesses does not seem, to be particularly unique.

It is attempting to match competitor offerings, but does not seem to have any distinctive products or services to set it apart from other players in the market (aside from the flexibility to exchange movies in physical locations which may or may not be important to consumers). Thus Blockbuster's strategy is not appropriate in order to offset the competitive forces in the industry. Blockbuster has attempted to overcome the obstacles posed by being a late player by matching Netflix offerings and prices and also by acquiring Movielink to offer Blockbuster quick entry into the VoD market. Blockbuster could increase its chances of success in the mail rental business through an aggressive marketing campaign and perhaps some free trial subscriptions. However it is unclear the extent to which this market is growing relevant to the VoD market.

In the VoD space, Blockbuster can only succeed if it can overcome the DRM restrictions allowing customers to burn DVDs or by developing technology that will enable TV viewing. This said, the competitive obstacles in place in this space seem quite high, and Blockbuster may not be able to overcome its late market entry. Blockbuster's main challenge in the mail rental and VoD markets will be creating a name for itself and differentiating services/product offerings from competitors. Given Blockbuster's current trajectory its chances seem to be grim. Discuss possible recommendations that Blockbuster could follow going forward to improve the performance of the company. Determine the decision criteria and also analyze the pros and cons of each recommendation. a.

Key Questions and Recommendations | Question | Option / Hypothesis |
 Decision Criteria | Pros | Cons | | International market | Expand into growing |
 Market access | Growing markets offer large | High cost | | strategy | markets
 through the | Costs/Benefits | upside potential | FX exposure and DRM
 regulations | | | use of VoD | Regulatory barriers | Opportunity to dominate |
 No trial period | | | technologies | Int'l. ompetition | fragmented marketplace |
 Language and integration logistics | | | | First-mover advantage | | |
 Domestic market | Grow market share in| Market share growth | Opportunity
 to become major | Unknown cost (may have to offer more | | strategy | VoD
 and mail rental | Brand recognition | player in VoD space | extensive
 services) | | | markets by | Cost analysis | Appeal to greater customer base|
 Turn off loyal customer base | | | rebranding | Ability to compete | Rejuvenate
 the brand | Incite price war with lower cost | | | Blockbuster | | | competitors |
 | New product offerings | Offer online and | Costs/Benefits | Diversify risk
 through broader | High cost associated with additional | | | mail order game |
 Ability to compete | portfolio | infrastructure | | | rentals and sales | Tech risk
 | Appeal to younger audience | Lack of market expertise | | | | First mover
 advantage | Undeveloped supplier relationships | | | | | Relatively small
 market |