

Blockbuster

Business



It has been gone through few major strategic changes in the first decade. These changes opened the market for Entitle and helped Entitle grabbed opportunities along the way.

At the end of 2006, Entitle reached annual revenue of 1 billion. In this paper, I will fully exam the strategic velveteen of Entitle in these ten years and then discuss how did Blockbuster fought back. Lastly I will lists the opportunities and challenges these companies face on the emerging video-on- demand market. Rise of Entitle: Nineteen’s goal was being the ultimate online destination for movie enthusiasts’.

It started by focusing on a niche market which are early-technology adopters who owned DVD players at home.

Entitle brought the rental business online and worked with U. S. Postal Service for on average 2 days delivery. The company overcame many difficulties over time and made five major adjustments to combat these situations. Entitle created a new pricing system; it established its own recommendation and rating system; it built long term relationship with its supplier; it created distribution centers; and last but not least, Entitle allowed online inscription without penalty.

I will then elaborate each changes in detail.

First, Entitle pioneered the ‘ no late fee’ pricing system and then evolved to an unlimited monthly plan quickly. In 2000, the adoption rate of DVD almost tripled. The rapid growth eroded the convenience advantage of Entitle and

generated lots of complains. Entitle tried to invest more in marketing to save sales, but the payoff was not promising.

Under such circumstance, Hastings came out with the new pricing model: no-late-fee subscription model. Customers could keep up to 4 movies each month, therefore the merit of keeping movies at home all the time offset the equidistant of delivery time.

Very soon after that, ' unlimited' rental has been offered. After paying a fixed amount of fee, subscribers could rent as many movies as they want in a month and are being able to hold 3 movies at one time. This move definitely attracted a significant amount of regular DVD watchers who found the traditional per-day fee structure troublesome. This pricing system has continuing been used until today, It helped Entitle dullness's Itself from other companies In the Industry and saved the company from a huge challenge brought by the growth of

DVD market.

Second AT all, Entitle worker on Its own recommendation Ana rating system Trot a very early time. The intention was to stimulate demand on the older and less known movies, but when the system generated more reviews and matured over time, it became an important asset for the site. The original system was operated by several employees and they posted recommendations which were same to all users on the homepage each week. Hastings found that these movies were out of stock fast.

To solve this problem, engineers from Entitle built this new personalized commendation system, and they made sure the recommendations fit each customer's preference and were in stock and could be delivered within days. The strategy was successful because it did what its competitor (IEEE.

Blockbuster) could not with their part-time employees. Hasting identified a vital feature of internet which is providing 'personalized experience', and he well utilized this feature in his business. It created special value to its subscribers and helped retained them for long term consumption.

The next big move for Entitle was to figured out their own way to cooperate with ajar studios. As a startup company, Entitle had no relationship with big studios before 2000. As a result, Entitle could only fill the video library from those smaller distributors with premium price, and the selection was very limited which caused dissatisfaction among subscribers.

To fix this problem, Ted Sarandon, the newly hired chief content officer leaded Entitle to sign revenue-sharing agreements with major studios.

Although Entitle actually paid more in dollar value in this way, but they earn consumer satisfaction in return and a long term stable relationship with their appliers. In 2006, Entitle changed strategy again. It began acquiring distribution rights through its Red Envelope Entertainment subsidiary. One intention for the acquisition was that Entitle striver to bring more movies into DVD's and became a reputed source of independent film.

Also I believe it's the right move for Entitle since the acquisition would in some extend weaken the supplier power.

The core business was heavily rely on the sources that studios provide them, and Entitle apparently could not afford if anything goes wrong in the supply chain, the best way to secure he supply was owning it. Entitle also switched its distribution method from direct channel to indirect channel. Because the use of national inventory, Entitle could meet customer demand with only one third of the inventory on hand compare to retail stores. But with the expanding business, it was difficult for Entitle to keep every request delivered overnight.

Therefore in 2001, Entitle built its first distribution center in Sunnyvale and it worked out very well. In the following 5 years, Entitle built 44 distribution centers in total and 90% of the subscribers can be reached overnight. The convenience brought by these low cost distribution centers further increase customer satisfaction and the quality of Nineteen’s service. Last change for Entitle was allowing online inscription without penalty. Although its business was heavily rely on subscription and customer churn could cause a lot of trouble Tort ten Dustless.

Hastings Delve Tanat an easy unsupportable moment lead to more return visitors, thus being easier to deal with.

The formation of customer’ queue and profile were also ways to increase switch cost so that customers loud be unlikely to leave, and even if they leave, Entitle made sure that it remained all the same when they returned. Blockbuster’s Responds: Not until 2004, Blockbuster officially responded to Nineteen’s threat. It launched Blockbuster online to directly compete with

Entitle. The system provided similar features as Entitle but with greater selections of movie and lower price.

The only problem was that they entered the online business too late. By 2004, Entitle already built stable relationship with major studios and started constructing distribution centers.

It had a large amount of loyal customers and a unique rating system. What Entitle did in the past six years cannot be imitated easily and instantly, and followed what Entitle has already done was not a good way out. Blockbuster cancelled the late fee as well in 2005 to stay competitive. However, regardless the marketing costs implanted in the program, the 5% growth in rental revenue was far less to cover the forgone revenue from late fees.

Because Blockbuster had a long history in its own business model and its model was rely on the late fees.

It is not wise for Blockbuster o cut this portion of the revenue and followed Entitle blinded. It should rather use its existing resources to queue Entitle. A good example was the cross-promotion it did. Blockbuster gave coupons to online customers to stimulate rent and used each retail stores as distribution centers for online request. The integration of massive retail stores and online mailing system could create something new and unique to Blockbuster and that's how they should compete with Entitle.

Also, keeping open eyes and move quick are crucial in the industry.

Entitle perfectly suite itself in the DVD wing market, but the rapid growth of demand on video market further dilute Blockbuster's revenue. Therefore,
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when video-on-demand market emerged, Blockbuster started to fall. It is quite obvious that Blockbuster had experienced a market myopia and ignored the trend of the industry. Blockbuster had a chance to react early and beat Entitle with its abundant resources, however, Blockbuster underestimated the competition and wrongly believed in the longtime of the rental business.

In 2005, Blockbuster actually had a chance to buy Entitle with 50 million dollars, but it bypassed the opportunity because the CEO of Blockbuster considered the business that Entitle was in had no future.

Quoted from Keyes who was the CEO at that time, “ I’ve been frankly confused by this fascination that everybody has with Entitle... Entitle doesn’t really have or do anything that we can’t or don’t already do ourselves. ” In 2006, Entitle reached 6.3 million of subscribers and 1 billion revenue, where Blockbuster’s profit kept decreasing.

It was already too late for Blockbuster to acknowledge the competition and make reactions.

I would definitely short the stock of Blockbuster at that time, because there was ‘ no future’ for their traditional and stubborn business model. Video-on-Demand: As early as 2007, Hastings detected the opportunity in the VOID market and striver to compete in the online video rental and pay TV segment of Internet video. There were three forms of delivery channels existing in the market back then: 1) Stand-alone online VOID, 2) set-top box that bypass the computer and bring films directly to the user’s television, 3) traditional cable and satellite providers.

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Since the time was too early, the technology and content availability could not keep up with the demand, but Entitle chose to focus on what they could do and hoped to be ready when limitations on VOID market were eliminated. Hastings named 3 alternatives for his company in the VOID market.

First of all, Entitle could cooperate with cable companies. Entitle could provide the soft technology such as recommendation system and outsource delivery to cable companies. Although it sounds like a win-win solution. Hastings was concerned about working with competitors would eventually diluted its own business and it is for sure not a long term plan.

The second alternative was to integrate the treating feature into their core offering.

The intention was to penetrate the VOID market using Nineteen's brand and other sources. The biggest concern was the increased cost caused by launching the new feature. It worked the other way from company's goal of reaching positive cash flows. The last alternative was to build a stand-alone online video business. Although it could cause some internal confusion about company's ultimate goal, the problem could be solved by creating a separate department in charge of VOID market development, but this is still the most costly and risky alternative.

Each of the alternatives had its merits and disadvantages, Entitle eventually chose to fight the battle on its own and went for the second alternative. It started offering streaming on the site in 2007, and it led to a big success.

Conclusion: After a decade of declining, Blockbuster shut its last store in 2011 and finally filed for bankruptcy. At the same year, Entitle successfully
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adapted to the VOID market and reached 3.6 billion in revenue. A fatal mistake made by Blockbuster was narrowly focusing on the success of its own business regardless the trend in the macro environment.