The Rise and Fall of Blockbuster Empire

David Cook, the Blockbuster founder, opened his first store in Dallas in October 1985. His vision was to turn Blockbuster into international video superstores. In doing so, he created the following strategic concepts:

- **Location** - Blockbuster stores to be located in neighborhood shopping centers with ample parking spaces and brightly lit with yellow and blue signs.

- **Size** - Blockbuster stores to standout from their competitors with structures ranging between 3,000 to 12,000 square feet.

- **Convenience** - Blockbuster stores operate 7 days a week with daily hours from 10 A.M. to midnight.

- **Variety** - Blockbuster stores offer genres such as adventures, children’s, and sports with a holding of 7,000 to 13,000 titles. New releases to be placed against the back walls to standout from the rest of the selections.

- **Price** - Blockbuster stores offer 3-day rentals at a price of $3.00 per title.

- **Family Orientation** - Blockbuster stores serve adults 18 to 49 years of age and children between 6 and 12 years.

The Rise of Blockbuster

Blockbuster was an immediate success and expanded rapidly throughout the 1990s. With its size and volume, Blockbuster gained market share by taking business from local video stores. Subsequently, it opened a 25,000 square feet warehouse and distribution center in Dallas and opened stores in the United Kingdom, Canada, and Puerto Rico. By January 2010, Blockbuster operated 5,200 stores worldwide, of which 3,500 stores were located in the United States.

Emerging as the leader in the home entertainment industry in 2001, Blockbuster expanded its selections by adding video games. It made game consoles like GameCube, Xbox, and Play Station (both software and hardware) available to customers to rent or buy. With positive feedback from customers, Blockbuster introduced Game Rush, a store-in-store concept in 2003. The purpose of Game Rush was to provide customers with unlimited video game rental as an accommodation for paying a membership fee.
Blockbuster gained greater advantage over its competition by offering new release rentals as soon as the next day they are available, whereas other video stores had to wait 28 days. However, Blockbuster had to pay big money for making new releases readily available. This expensive strategy added to the high cost of maintaining stores, which ranged between $80 and $100 million per year, and growing labor and capital costs. As a result, Blockbuster began to operate with losses despite large revenues.

**The Fall of Blockbuster**

Netflix, emerging in 2003, posed as an immediate threat to Blockbuster. To compete with Blockbuster, Netflix established a plan for its customers to pay a membership fee of $17.99 to receive unlimited DVD rentals throughout the month, where DVDs were shipped directly to their houses. During this period of time, the Internet was making its way into every household across the United States. Seeing this expansion as an opportunity to increase business, Netflix created an Internet-based market by enabling some of its customers to stream movies online at no additional charge. With further enhancement of the Internet, the number of Netflix patrons viewing movies online increased.

In addition to Netflix, Redbox began to take away revenues from Blockbuster by specializing in kiosk rentals. Redbox’s placed kiosks in grocery stores across the country to attract shoppers to renting movies at low prices (e.g., $1.00 per night).

The rental industry, including Blockbuster, also faced stiff competition from Video On-Demand (VOD) systems, which have increasingly gained share in the home entertainment market because of convenience and affordability. The VOD systems stream content through a set-top box to view in real time, or downloads it to devices such as computer, digital video recorder, or portable media player to view at any time. Cable and other television providers offer VOD streaming, including pay-per-view and free content, whereby a user buys or selects a movie to play on the television set instantaneously. In 2010, nearly 80 percent of American households had access to VOD systems.

Blockbuster faced serious threats in its foreign operation. With increased movie piracy in Southeast Asia, Blockbuster had to close 24 stores in Hong Kong in 2005. Pirated DVDs went on sale all over China for a cheap price of $1 each. In 2006, Blockbuster had to close stores in Germany because they did not generate enough profit. Likewise, Blockbuster closed several unprofitable stores in Portugal.

Between 2005 and 2009, Blockbuster had only one profitable year is 2006. While Blockbuster’s revenues fell gradually from $5.9 billion to $4.1 billion, its losses accumulated to more than one-half of one billion in 2009.
In March 2010, speculations of Blockbuster filing for bankruptcy erupted throughout the media. Blockbuster began to hold discussions with its senior shareholders about reorganizing its debts in order to avoid filing for Chapter 11 bankruptcy. Subsequently, the company attempted to talk with potential investors, but the deal fell through as its debts became too large to carry. In July 2010, Blockbuster was forced to delist its stocks from the New York Stock Exchange. On September 23, 2010, Blockbuster finally declared bankruptcy. Although bankrupt, the company continued to have its surviving stores operate without interruption.

**Historical Trends**

In 1993, Blockbuster proposed a merger with Viacom. With their stocks stumbling in 1994, Viacom acquired Blockbuster. After the acquisition, Blockbuster began a series of reorganization. In 2004, however, Blockbuster announced its split from Viacom and paid more than $900 million to buy back its shares. After separation, Blockbuster tried every method to raise revenues and minimize losses. Nonetheless, the split from Viacom marked the beginning of Blockbuster’s journey toward becoming a penny stock.

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$5,860,000,000</td>
<td>-$588,000,000</td>
</tr>
<tr>
<td>2006</td>
<td>$5,520,000,000</td>
<td>$54,700,000</td>
</tr>
<tr>
<td>2007</td>
<td>$5,540,000,000</td>
<td>-$37,800,000</td>
</tr>
<tr>
<td>2008</td>
<td>$5,290,000,000</td>
<td>-$374,000,000</td>
</tr>
<tr>
<td>2009</td>
<td>$4,060,000,000</td>
<td>-$558,000,000</td>
</tr>
</tbody>
</table>
The above graph illustrates Blockbuster’s stock prices from January 3, 2005 to November 8, 2010. Throughout this 5 years period, stock prices plummeted from $9.31 to only 5¢. Coincidently, on September 23, 2010, the day that Blockbuster declared its bankruptcy, Blockbuster’s stock volume increased to 33,597,000 shares (the highest volume of shares it has ever been since April 19, 2010), but its price fell to 4¢.

The next graph suggests that Blockbuster’s stock price is not a fair match when compared to Netflix. On January 3, 2005, Netflix’s stock price was $11.92, while Blockbuster’s stock was worth $9.31. Indeed, it was the only time that Blockbuster’s stock was worth anywhere close to that of Netflix. While Blockbuster’s stock price kept decreasing, Netflix’s stock has had a sharp rising trend. Over the previous 52 weeks, Blockbuster stock lost 95 percent of its value, while Netflix gained 184 percent. On November 8, 2010, Netflix closed at $169.13 with 4,116,500 shares traded, while the Blockbuster shares were worth just a few pennies. Netflix’s stock is being bought at great volumes because the company is dominating the industry right now and it might be at its peak, therefore its stock prices are expected to continue to increase.

The final graph compares Blockbuster’s share price against the NASDAQ and S&P 500 over the past 5 years. As suggested by this graph, Blockbuster’s price is 80 percent below the industry average, which is not a good sign for Blockbuster. Since its split with Viacom in 2004, Blockbuster’s stock has never been worth a lot, but they were still within the positive range in the early 2005, but starting in mid 2005, its stock price has been declining. On the other hand, NASDAQ and S&P 500 do not fluctuate much and remained parallel with each other, representing stabilization.
**Strategies for Redemption**

It has been two months since Blockbuster filed for bankruptcy, and according to the company, everything is still under control as stores continue to operate. Bankruptcy does not necessarily suggest the end of business activity. Blockbuster can still bounce back. However, it will take time to do so. The main priority for Blockbuster at this juncture is to close most of its unprofitable stores across the globe. Blockbuster did close its stores in Hong Kong in 2005 due to strong trends in piracy. Yet, it let stores in Taiwan and Thailand to operate even though piracy is still widespread in these countries. Blockbuster should consider closing stores in these countries because they do not generate enough revenues to cover expenses.

During the recent economic slump, the more stores Blockbuster operates worldwide, the greater is the risk of being exposed to foreign exchange rate variations. Therefore, it is in company’s interest to downsize its foreign operations and mobilize its resources in the United States. Moreover, Blockbuster must consolidate some of its 3,500 stores operating in the United States in order for them not to compete with each other.

Following the recent trend of kiosk rental, Blockbuster did start to set up what is known as the Blockbuster Express in early 2009 and it received some recognition. The company must continue to increase the number of its kiosks in grocery stores in order to gain maximum exposure and greater market share at the expense of Redbox. To compete with Netflix, Blockbuster must invest heavily in its online rental programs in order to increase revenues, reduce costs, and improve convenience.

By closing down unprofitable stores in the United States and foreign countries, Blockbuster should be able to save resources and reduce some of its expensive operating costs. Over the next decade, Blockbuster must pay back its debt, which was nearly one billion at the time of bankruptcy. In order to achieve this primary goal, Blockbuster must set and achieve attainable sale and cost targets each year.
References
De La Merced, Michael J., "Blockbuster, Hoping to Reinvent Itself, Files for Bankruptcy."


[http://www.yahoofinance.com](http://www.yahoofinance.com)
[http://www.googlefinance.com](http://www.googlefinance.com)