



In Front of the Curve™

Can Blockbuster Be Saved?

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One of the most powerful brands in home video and a stalwart industry player once capable of bending the will of Hollywood studios may be on its last breath. The language could not have been clearer, with auditors stating that there is [“substantial doubt about \[Blockbuster’s\] ability to continue as a going concern.”](#) TDG made similar comments about the future of Blockbuster and brick-and-mortar movie rental stores – some five years ago.

During a June 2004 interview with American Way magazine for a story titled “Coming Soon to a Living Room Near You,” TDG’s president, Michael Greeson – who the reporter characterized as “less sanguine about Blockbuster’s future” – stated that Blockbuster’s model was “dated” and would “slowly fade away” as new Internet-based competitors emerged that would deliver greater choice and convenience. “I wouldn’t want to be a video store owner right now,” he said.

These comments gave a clear indication of Blockbuster’s position today, but in reality the peril may be worse than even we predicted.

When TDG was founded in 2004, one of our first meetings was with several senior Blockbuster executives in Dallas. At that time, the company had just launched its “Blockbuster Direct” service as a response to the success of Netflix’s DVD-by-mail service. We offered the team a stern but concise message: Blockbuster had four years to figure out a digital strategy before the walls would start to collapse. How was the message received? Let’s just say the meeting ended abruptly and we were escorted to the door – literally. The corporate elite knew better than a couple of hack industry analysts. The hubris displayed that day was a reflection of the culture that had long ago overtaken the company. You did not question the “received wisdom” of the elite, but instead acknowledged how fortunate you were to be in their presence.

Fast forward five years. Though the CEO and other senior executives have been flushed out, Blockbuster is bleeding more cash, closing more stores, and losing more customers. In March, it was revealed that the company was considering bankruptcy; a rumor which, though

originally denied, was publicly confirmed in an April SEC filing. Blockbuster is hurting in a bad way and it's only going to get worse.

Why is this happening? No, it's not because of the economic crisis. Blockbuster's problems began years before the recent financial mess and were simply accentuated by the economic downturn. This is happening because of the bad decisions and missed opportunities of the last five years. For example, Blockbuster missed the boat on:

- PayTV video-on-demand – Blockbuster should have branded a VOD service for cable operators when it first got rolling, a one-stop-shop for operators who wanted to get into the business;
- DVD-by-mail – after laughing off Netflix as a flash-in-the-pan, Netflix ate its lunch and Blockbuster was forced to introduce a too-late-to-market DVD-by-mail service of its own;
- Online retail services – a market Blockbuster hoped to penetrate via the purchase of Movielink but which has yet to make a dent in market dominated by the likes of Apple and Amazon (with a myriad of big-brand competitors set to enter the space in the next 12-18 months); and most recently
- Online streaming services – Netflix beat Blockbuster to the punch yet again.

The company's inability to foresee key market shifts, to innovate accordingly, and to develop a plan to ease the pain of transitioning from physical to virtual media (a lack of foresight, innovation, and vision) has left the company on the verge of bankruptcy.

So what can Blockbuster do to reverse course, to curtail the hemorrhaging, to emerge from all this as the market leader it once was? Good question. Many of us at TDG doubt that Blockbuster can pull off such a feat. Then again, it is worth taking the time to examine some of their possibilities.

At its core, Blockbuster is facing many of the same challenges as other media retailers, including the impending demise of physical media. While this process will be incremental and take a decade or more to manifest itself completely, no one doubts that physical media will eventually be overtaken by digital formats. As this happens, DVD-dependent retailers such as Wal-Mart, Best Buy, Target, Sears, and others will be forced to change their own business models and shift to digital distribution strategies. (For more, see [Retailers and Over-the-Top Video Services: Missed Opportunity?](#)) Of course, these retailers sell much more than DVDs, giving them a bit more time to come up with a new media offering. The luxury of time may be evaporating for these larger retailers, but for Blockbuster the clock has pretty much run out.

Despite recent hints at a meaningful digital strategy, Blockbuster has yet to recognize the urgency of developing and deploying a first-rate digital video service. This is not an option for the company, but a necessity if it is to survive long term. The inevitability of [quantum media](#) is a foregone conclusion and Blockbuster should muster what brand strength it has left to stake a claim in this marketplace. What specifically should Blockbuster focus on? Regardless of whether the format is physical or digital, there are three specific components to any successful media distribution service: a wide variety of compelling content, a great location (be it physical or virtual), and a great entertainment experience.

Content is Still King

The Achilles' heel of today's over-the-top video services is the lack of compelling content; a thorn in their side long before they began targeting the TV instead of just PCs. This is a supply-and-demand driven business, and without consistent and timely access to high-value post-theatrical content, the use of digital video services will remain limited to a handful of early adopters.

But what can Blockbuster do to change these dynamics to the benefit of itself and its customers? By using the power it still has to negotiate a more aggressive release schedule, Blockbuster could offer day-and-date delivery of the hottest Hollywood titles. Though wounded, the company still enjoys a tremendous amount of clout with Hollywood studios (it still touches tens of millions of customers through its 7,000+ global outlets). It appears, according to some early reports, this is precisely what Blockbuster has been trying to do. Should the company be successful, it would have a competitive advantage over competitive services and provide a key differentiator to help reenergize the company and set the stage for a major expansion of its digital efforts.

But Location is Queen

In thinking about location, there are two distinct meanings we need to mention: there are physical locations (as in the brick-and-mortar store) and virtual locations (as in a presence online, on the TV, or wherever the consumer browses and buys the content). In terms of physical locations, Blockbuster continues to be weighed down by the enormous overhead associated with supporting these soon-to-be-extinct dinosaurs. Nonetheless, having a local physical presence is at this point still an exploitable resource, one which the company should use to help drive awareness of new digital services and ease the transition of mainstream consumers to digital delivery.

In terms of virtual locations, Blockbusters initiatives have been woefully inadequate; a reflection of the fact that digital initiatives are still not viewed with the same importance as brick-and-mortar sales. Yes, in the short term both physical and virtual locations will be needed to resurrect the company. Blockbuster must make its content available on any platform – and in any format – the consumer wants to use. But it can/should/must take a leadership role in the digital transition and become a branded agent of change instead of denying its inevitability.

Similarly, reaching the TV with digital video delivery must be a priority. To Blockbuster's credit, it has announced support of the Yahoo!/Intel Widget Channel, a TV solution that extends web-based services and applications directly to the living room. With LG, Roku, Samsung, and Toshiba (to name but a few) set to introduce Widget Channel-enabled hardware, this could expose millions of consumers to Blockbuster's digital video service and provide a branded living room presence. However, the recently released Blockbuster / 2Wire box leaves much to be desired.

Focus on the User Experience

The third component of a successful video service is delivering a high-quality experience that glues consumer to the brand and the service. Most of today's OTT solutions are rife with complexity, difficult to set up and hard to use, and thus damaging to the quality of experience. Take, for example, streaming a Netflix movie through an Xbox 360, which requires as many as 12 steps using multiple platforms and in some cases traversing multiple rooms in the home. While some over-the-top video delivery systems may be easier to use, there is much work to be done before these services can deliver the quality of experience to which TV viewers have become accustomed.

So what can Blockbuster do to improve this experience? First, it can reduce the complexity of installing, configuring, and using the service. For example, it could take a bite out from Apple's iPhone and make accessing digital movies as simple as downloading an application. It should also look more closely at Vudu's elegant user interface and its unique remote control. Ultimately this will require Blockbuster to dump its current solution and start over (which it should do, period).

Second, it should incorporate the best features of best-of-breed online video sites such as ABC.com and other advances in web streaming. The ability to start programming instantaneously, quickly fast forward using a DVD-like interfaces versus the Netflix's stop/rebuffer/start, and to use Adaptive Streaming to throttle up or down depending on the speed of connection – these are just a few of the features that make this site easy and enjoyable to use. The experience of watching a digital movie must be as seamless and hassle-free as watching a DVD. If Blockbuster could provide this quality of experience on the TV, it would have a leg up on the competition.

Make the Model Match the Business

Simply, the revenue must be aligned with reality. We believe that digital delivery will be less about "ownership" and more about rental models - think DVD versus HBO. As noted in an April 2006 Billboard article titled "Movie Downloads: Why this Model Will Fail", TDG strongly believes that download-to-own models will ultimately give way to rental and subscription arrangements. At this stage of the game, however, why not offer all of the above? Given the limited content currently licensed for online streaming via Netflix (which features more than 12,000 titles of which most are between one and five years old), a download and single rental offering is needed to complete the offering. By combining a subscription streaming service with a selected number "Latest Release" VOD rentals and, yes, even purchase options, Blockbuster could offer a single integrated digital video service with an optimized balance of all available options (the value of which should not be underestimated).

As previously mentioned, the physical stores become a valuable tool for educating consumers about the digital transition while addressing their current needs for physical DVDs. Innovative companies that can help bridge the gap between "now" and "then" are most likely to survive the transition and emerge as leaders in the new media world. Imagine the benefit to the company, to the brand, and to the customers if Blockbuster could become this trusted agent of change.

Final Thoughts

Despite these opportunities, TDG believes it is highly likely that Blockbuster will end up declaring bankruptcy. Should this happen, however, the opportunities outlined above would only increase in relevance. Bankruptcy would permit Blockbuster to liquidate immediately unneeded/unprofitable physical locations and set the stage for the transition to virtual operations. A leaner, meaner company will likely emerge, but its ability to succeed is contingent upon coming to terms with the very challenges it has so long ignored.

Let's hope Blockbuster executives pay a little more attention this time. If not, they'll be the ones shown to the door.

About TDG

TDG is the leading voice in the digital video ecosystem providing market planning and research services to keep our clients In Front of the Curve™. Since 2004, TDG has helped more than 250 technology leaders, media companies, and service providers to master the quantum shifts impacting how consumers access, navigate, distribute, and consume broadband media - whenever and wherever they may be.