Why did Blockbuster fail?

The external forces at play in an industry undoubtedly shape a company's success. However, in a dynamic world where the industry landscape is constantly shifting, companies looking to maintain success must focus on building robust, sustainable internal capabilities that can adapt and cater to evolving industry needs. Blockbuster's decline from a 5 billion dollar industry leader to bankruptcy can be attributed to its failure to periodically reevaluate and re-invent its value-generating resources and capabilities.

Initial Success

To understand Blockbuster's failure we must understand its initial success. In the 1980s, video cassette recorders (VCRs) created a new market for video rental services. Blockbuster was able to successfully compete in this niche. It differentiated itself through its rental tracking system which kept an accurate account of which videos had been rented and when. The tracking system allowed Blockbuster to maintain a large inventory of rental videos which drew customers to its stores. Capitalizing on its popularity, the company rapidly expanded, gaining market share and establishing its presence throughout the country with more than 4000 stores by 1998. From this we understand the company's core value-generating resources at the time included the following:

1. Its large video inventory of VHS cassettes
2. Its rental tracking system
3. Chain of stores countrywide

Analyzing Blockbuster's Competitive Advantage through VRIO

In applying the VRIO framework that analyses the competitive advantage that a company's resources and capabilities offer, we find that the competitive advantage achieved through Blockbuster's resources was unsustainable in the long term as its competition evolved.

Blockbuster's resources outlined above, when viewed through the lens of VRIO, started declining in value towards the late 90s. This decline can be attributed to the impact of innovation in technology, the ease of imitability of blockbuster's resources, and lack of agility within the organization. Two technological advancements are of particular significance. The invention of DVDs and the growth of internet usage and quality.

According to Frank T. Rothaermel, Austin Guenther (2017), when DVDs were invented in the mid 90s, rather than seeing an opportunity to offer customers videos of higher quality, Blockbuster looked at it as a threat and refused to adopt it. Subsequently, DVDs increased in popularity and the value of Blockbuster's large VHS inventory declined. Netflix, meanwhile, recognized the potential of DVDs and launched its online DVD rental business. In 2001, Blockbuster did eventually switch its entire inventory to DVDs but this was at a huge cost to itself and after giving a head start to competitors such as Netflix.

The growth of the internet was another opportunity that blockbuster failed to capitalize on. It did not have the acuity to foresee that this could lead to the potential digitization of the video-on-demand market. It did not take seriously the advantage of an online website or of online streaming services. It chose instead to treat these as supplementary services and keep its focus primarily on improving its physical presence. Netflix, in contrast, placed its bet on digitization and turned down the offer to open physical kiosks, preferring to be an online presence. In 2007, Netflix launched its online streaming services that shot it into its current fame. In 2008, Blockbuster was still opening kiosks. The eventual popularity of online streaming services led to a decline in the popularity and ergo value of Blockbuster's chain of stores.

The imitability of its resources was another cause for losing competitive advantage. Blockbuster's rental tracking system, for example, was easy enough to adopt as more companies embraced IT. Redbox's Kiosks and Netflix's online website are instances of substitutes used by rivals to successfully compete with Blockbuster's national chain of stores.

In the above paragraphs, we see a repeated pattern of Blockbuster turning a blind eye to market trends and only adopting change when it was inevitable, often too late. This points to a lack of agility within the organization in adapting to consumer needs. Had Blockbuster been more agile, it could have made use of the financial capital derived through its initial success to re-invent itself and create new avenues of competitive advantage.

Conclusion

According to concepts of VRIO, a resource is valuable only as long as it serves to exploit an opportunity or neutralize a threat. As the industry landscape changes, so do opportunities and threats and with this changes the value of the resource. Blockbuster's failure could have been avoided by building organizational processes such as periodic study and forecast of market trends, reviewing core competencies based on study outcomes and investing in innovation and new resources for growth.

REFERENCES:

1. Frank T. Rothaermel, Austin Guenther. "Netflix, Inc." McGraw-Hill Education MH0043-PDF-ENG, February 2017