Failure Analysis/Change Strategy

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Netflix and Blockbuster are two prime examples of businesses that experienced a change in the industry; however only one of them continued to exist afterward. Through looking at their objectives, structure, leadership style, and communication, it becomes clear as to why. Organizational failures and successes are contingent upon strategies, leadership, culture, and profitability. Netflix and Blockbuster are good examples of companies who have succeeded and failed within the last five years. Finally, we exam a virtual organization called Star-Cups and how change should be driven when problems arise.

**Business Failure Analysis**

“At January 2, 2011, Blockbuster Inc. was a global provider of rental and retail movie and game entertainment, with over 5,300 stores in the United States, its territories, and 15 other countries” (Blockbuster, 2010). Despite having a large influence the video rental industry, they failed to early on establish similar control to industry trends.

For example, Netflix was first to gain broad adoption of a mail-based rental service. This reduced the costs structure and improved their margins. Later Netflix was able to incorporate video streaming services, which further reduced costs. Since their customers already had a subscription based payment model the “up sell” was easily accomplished.

Another challenge with Blockbuster’s brick and mortar-based model is that it inherently has a more complex organizational structure. First, these building hand long term fixed costs associated with them through either lengthy lease terms or the land owned outright. Second, to handle the day to day operations of these physical stores requires several layers of management. Additional levels of management are introduced so are costs and complexities of communication (Robbins & Judge, 2013). Challenges within the communication will be bidirectional.

For instance, as the CEO points the company in a direction their message becomes distorted as it passes through each level, similar to the children’s game telephone (Lopp, 2012). Without a strong leader, the message is lost in the bureaucracy (Gerstner, 2002). At the same time, communication from the bottom-up becomes more challenging to collect and implement. For Blockbuster, being a global company operating in 15 countries further compounded these challenges. These issues hindered their ability to make changes as the market was first beginning to change.

Structuring the business to have a large global presence introduces complexities, especially if those locations have lots of customer interactions (Casio, 2013). This comes from the need to define policies and standardization that are acceptable to the ever growing audience. Training the employees also becomes costly, due to the need to recreate materials in multiple languages. In contrast, businesses such as Netflix only needed to train factory workers, which is a cheaper task. Eventually, Netflix will be able to replace those factory workers with automated robots to improve efficiency and continue reducing costs; something Blockbuster would have a significant complexity to implement in their stores.

The leadership of Blockbuster did react to the change of marketing by introducing services such as Vending Kiosks, Digital Streaming Services, By Mail rentals, and franchising stores (Blockbuster, 2010). However, many of these services were not readily available until competitors such as Redbox and Netflix became dominate leaders. For the franchise locations, only fees were returned to the business, most of the proceeds stayed with private owners. This lack of foresight does not reflect positively on the leadership’s ability to drive the enterprise in an ever changing world.

**Blockbuster Leadership Management**

Blockbuster’s biggest fail in its leadership was the inability to lead employees in a manner that would create success for the company. In addition, Blockbuster did not implement change management or help to smooth the transitions into changes. For example, when the decline in movie rentals began in the mid-1990’s, Blockbuster determined that the most effective way to bring people into the stores was to provide access to popcorn, drinks, candy, and other items that could be purchased along with a movie rental. However, the company never took the initiative to develop a learning environment where employees were addressing the needs of the customers. Employees were never trained on how to sell a movie, determine movies that customers might be interested in based on their previous movie likings, or even how to market the aspect of renting movies to ensure return customers or customer satisfaction.

**Blockbuster Organizational Structure**

The organizational structure of Blockbuster was one that was based on a hierarchy, consisting of many different levels of management that made decision making and change implementation extremely difficult. As a result, the company was unable to implement change in a manner that allowed it to compete with the new, smaller, and flat organizations that were entering the market with new and unique methods of movie rentals. .0The structure did not allow the company to move forward in a fast changing market which led to the company falling behind and never being able to catch up, even when the company changed its leadership, structure, and culture.

**Blockbuster Culture**

Blockbuster had a culture of centralized decision making from the top down and a focus on expansion instead of a successful business. The company quickly expanded before ensuring that the business model was successful. The upper management did not consider the lower level employees and failed to understand the problems that were occurring at the bottom. With a focus solely on upper management and growing the business, Blockbuster failed to see the changes that were taking place around it and could not quickly implement change that would have allowed the company to success.

**Netflix Leadership Management**

Netflix CEO Reed Hastings was previously questioned about his decision to separate the DVD rentals from streaming videos with some believing that his leadership decision would be detrimental for Netflix. In the end, the decision made Netflix successful as do many of the decisions that are made within the organization. The success of the company is linked to its focus on freedom and responsibility in its leadership style. As CEO, Hastings realizes that making all the decisions in the business is not beneficial (Snyder, 2014). He wants his employees to have a sense of making a difference by allowing them to have an active role in the company’s decisions. Through this active role, employees take responsibility for their decisions and are rewarded generously for positive outcomes (Snyder, 2014).

**Netflix Organizational Structure**

Netflix uses a functional organizational structure with each segment focusing on the functions of that segment without consideration to the customer or the locations of the services or products provided. The CEO maintains control over each of the segments which are managed by a manager, creating a centralized structure. However, each segment does not function in a structured manner. Employees are provided the freedom they need to make decisions and are measured based on their performance in terms of accomplishing their job duties to optimize efficiency and create a sense of responsibility for one’s work.

**Netflix Culture**

The culture within Netflix is one that focuses on freedom and responsibility. The CEO and other top management gave Netflix a makeover and created a new sense of human resource management that focuses less on structure and more on freedom of the employees while also making employee responsibility a highlight of job expectations (McCord, 2014). Employees have freedom to make decisions such as when they need vacation but they are held to a performance standard and those falling behind in performance expectations are not being responsible for their job outcome and will be fired. The company wants employees to know that if the employee works hard for the company then the company will greatly reward the employee with perks of the job such as vacation whenever you need it or a great severance package. As a result, employees want to keep their job and strive to meet performance expectations that allow Netflix to maintain its success.

**Leading Organizational Change**

As the chief executive officer (CEO) of one of the largest international brick and mortar coffee companies in the world, Star-Cup, our stock has taken a turn for the worst dropping from $20.00 per share to $6.00 per share. Shareholders are furious, and the coffee company is losing revenue every month, forcing layoffs, and demoralizing company employees. Customers are confused and unsatisfied with our products, as they are inconsistent in every region, from the taste of the coffee to the inconsistency of décor in various regional stores. Customers have also complained about the absence of any loyalty program, which has great consumer appeal with our competitors.

Change in the process, product, and our stores interior design are required for this organization to succeed. By not having consistent décor in every store, this confuses the consumer to think that Star-Cup is a different company in various regional stores. Similarly, the machinery and methods used to make our coffee product is inconsistent. The consumer expects each cup of coffee to taste the same, no matter if they are in England or Hawaii.

Some barriers to enact changes of standardization are internal politics. Every regional vice president in the organization has designed their own regional décor and created the type of coffee they think is best for the consumer. These regions are not to be run by personal preferences, which have damaged Star-Cups reputation with customers. Providing adverse feedback from customer surveys of inconsistency between regional stores and coffee products will show these executives that Star-Cup can no longer operate this way. Instead, shifting the regional vice president’s focus on the global standardization and consistency rather than creating inconsistencies with products and stores aesthetics will help to strengthen the brand. One look, one coffee, one brand. Concentrating on correcting these issues of personal preference, creating consistency “to direct all actions with a chosen idea” of the CEO, and having regional executives cooperate and endorse this standardization plan, is a path that will lead Star-Cup to success (Parthasarathy, 2014, p. 1).

**Time for a Change**

To effectively implement a much-needed change to Star-Cup, the CEO will enact “Kotter’s Eight Step Plan for Implementing Change,” (Robbins & Judge, 2013, p. 586). As CEO of Star-Cup, we will host an emergency executives meeting, followed by an emergency shareholders meeting to address the required change in the organization. If the organization does not change, Star-Cup will face potential bankruptcy. Once all regional vice presidents understand the need for change and the importance of creating consistencies and standardization across the enterprise, we will roll out this plan during our emergency shareholder meeting.

At the shareholders meeting, emphasis will be placed on consistent customer experiences at every Star-Cup location, to include the same cup of coffee, and the same matching décor to strengthen the brand. This will assure customers that their experience with our coffee will be consistent in any US state or country they visit. Star-Cup will also roll out a new loyalty program as this encourages repeat purchases and rewards for consumer patronage (Mattison & Chmura, 2015). This loyalty program, along with standardizing the look of our stores and coffee making process, will help Star-Cup to retain our loyal consumer base and acquire new consumers.

The new loyalty program will offer $5.00 of credit back to the consumer for every $100.00 spent of Star-Cup products. This loyalty program will help Star-Cup to track consumer spending, which includes frequency of purchases and average amounts of sales per purchase. This program will be reviewed every six months to determine if fine-tuning is required. Stores will receive a remodeling to be consistent in all Star-Cups regions, and a new state of the art machine will be added to every store to create the very best consistent cup of coffee.

**A Positive Outcome**

As our loyalty program and consumer base grow, sales will grow accordingly. Stock prices will see an increase, and Star-Cups will begin to employ positions that were previously cut. Improvements will continue to be made to fine-tune the process and product to ensure consistency at every Star-Cup location. By changing these previous behavioral patterns by being sensitive to consumer needs and experiences, this will enable Star-Cups to become once again a dominant coffee leader in the world.

**Conclusion**

Blockbuster was the perfect example of how not to lead a business. The company was successful but quickly grew and was unable to maintain effective leadership, structure, and culture. Netflix entered the same market with a unique approach to meeting customer needs, minimizing decision making from top down with a flat organization focusing on employee responsibility. The organizations provide a clear example of leadership, structure, and culture impact success.

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