# ITIL Service Management: An Overview of Analysis on business case failure on Blockbuster LLC by providing necessary solutions through the architecture of ITM Frameworks

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Abstract

The aim of any fruitful business is not to stop at its successful accomplishment of business goals but to start "swimming" from that exact point of success. One of them in the recent past is "Blockbuster LLC, a pioneer of video rental service provider in United States who had to shut down in less than 10 years after achieving its peak of success in the business due to various reasons, including poor business model being one among them. While success stories inspire us to start venturing unsuccessful stories are the triggers us to anticipate requirements for the future business. On that note, this paper attempts a detailed analysis of a service management plan that presents an overview of the case study of the company, a walk through on the problems that played significant role in collapsing the company's business case in the first place. There by highlighting the reasons to fail this paper provide the most efficient solutions for the problems by explaining the crucial necessity of five integrated components of Information Technology and Management framework and how the company could have survived if had the architectural guidelines been followed. At the end of this transparent analysis of the blockbuster failure, a reader would have a profound insight on the importance of ITM and how the guided proper utilization of ITM architecture into the business environment could have saved the sinking company afloat.

*Keywords*: ITIL, ITM, business model, blockbuster failure, Netflix success.

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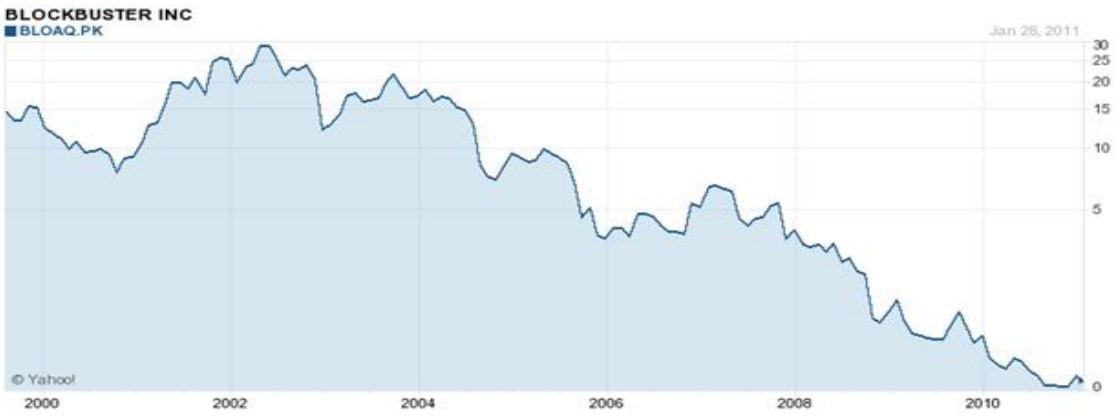
## Blockbuster Video Rentals Introduction

Two decades ago, Blockbuster was one of the successful movie and video game rental service offered in United States of America. This American-based company provided its services through physical rental shops, DVD sent by mail, video on demand, theatre. The first store was opened in the year 1985 by David Cook who innovated it with experience in managing large databases. It's highest return on investments where during the year 2002 as shown in Figure 1 when Blockbuster had around 60000 employees who were employed and they had physical stores in 9000 locations spread across America. Despite of high brand value, holding more than 50 % of customers of the population, the company lost significant revenues and went bankrupt in the year 2010 due to various significant reasons.




Blockbuster's return on investment between the years 2000 to 2010

## Problem Statements taken for analysis

Blockbuster an organization which was in its peak in revenue in late 90's and start in the start of 2000 slumped down mainly because of the following reasons:

### Failure to analyze business needs

The company had a disruptive business model which they failed to analyze right from the start. This drawback was mainly due to lack of knowledge in the importance of CSI in a business architecture coupled with poor decision making and well-oiled traditional legacy systems. Neither they analyze the customer needs periodically nor were they updating their vision of the organization.

### Poor Financial Resource Management

The thumb rule of a successful business is to have a profit asset built on what customers like unfortunately blockbusters ¾ th of the revenue was from the late fee they collected from its customers which none of them liked. The company should have changed its business model to change its inflow to customer's value.

### Lack of Innovation

Alternatives in distribution were not considered by the company. Blockbuster apparently failed to analyze the fine line between promoting and distributing a product. Blockbuster tried to expand their market by setting up physical store and add other products like books, and so on. They did

not change the method of distribution like videos via mail, online streaming and so on. Thus, they had a technology problem and digital distribution was not available in their system;

**Lack of 'Test & Learn' Methods**

They did not have a rating system which would figure out the favorites and mostly watched shows and movies by a customer. They should have used analytical tools and must have made some service transition such that their system included a recommendation;

**Poor decision Making & Team Support**

Turning down Netflix the current CEO in video rental was one of the major mistake that Blockbuster has committed. In the year 2000 Reed Hasting met John Antioco (then CEO of blockbuster) and offered to expand Blockbuster in online streaming. John denied this offer.

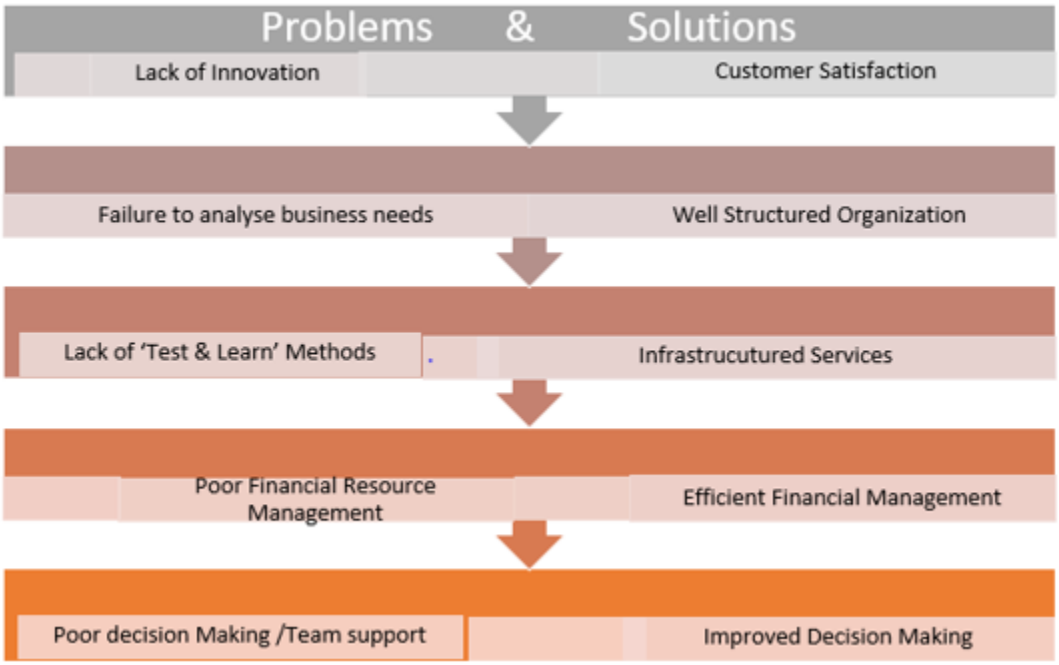
## Importance of ITM concepts for this analysis

ITIL guidelines makes things easier for the organization especially when it comes to IT governance and services. Right from predicting the necessary changes to encountering inevitable jeopardy situations in a company ITIL provides solutions to all the problems and issues that are part and parcel of the business venturing world. ITIL has so far has 3 renowned publications namely v1(2004), v2(2007) and v3(2011). The current widely acknowledged publication V3 has 5 important components that are integrated in a life cycle model.

The 5 manuals of ITIL v3 are

Service Strategy, Service Design, Service Transition, Service Operation and Continuous Service improvement.

ITIL Solution to business case problems



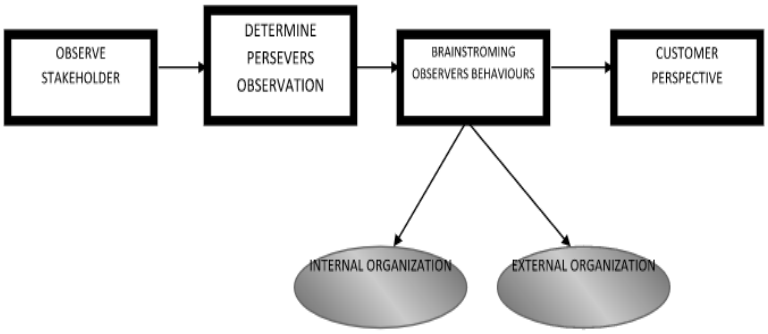

Hence by matching the problems to the solutions provided through ITIL (Figure 1), it would be entirely useful to analyze through the extensive and enhanced perspectives of ITIL v3 to arrive at concrete conclusions with respect to the current problem statement.

## Overview of Service Strategy for Blockbuster

### Business Relation Management strategies for Blockbuster

One of the most significant challenges for a business to manage is its relationship with customers. For a better customer relationship management, the paper would propose stages which can be obtained with a good bonding and regular periodic meetings with the clients.

**Obtaining Customer Perspective**




For customer, related issues customer relationship management strategies must be planned as follows:

- Senior Enterprise leaders supporting the Customer Relationship management application;
- Planning the integration of CRM strategies with the organization strategies;
- Considering corporate culture while designing CRM strategy;
- Planning to design management systems of the organization which must be customer oriented;
- Planning to training staffs to gain knowledge in CRM;
- Strategies to enhancing quality of service provided to customers; and
- Adequate planning to protect and safeguard customer's data.

The above strategies are stated by Li and Ma (2015) in their paper. Such planning would have helped Blockbuster to stay in good terms with customer which would ultimately helped them to stay longer in business.

**Financial Management strategies for Blockbuster**

Financial management is about services accounting, budgets and charging. Customers do not like spending money in the negative way that is through fines. This strategy for managing finances seems to be improper and the negative part is that Blockbuster did not figure this out. That is the reason they stayed too short in the market. The suggestions for Blockbuster for better financial management would be invest less of Research and development and to concentrate more on customer needs and satisfaction.

**Service Structure for Blockbuster**

A Key component of service strategy is the structure of service. The hierarchy or the service structure should be well defined in the early phases of service strategy. Service structure is about identifying the business and the services whose support it requires then interrelating those services.

**Strategy Generation for Blockbuster**

Service generation is a strategy to service customers. This mainly focuses on long term success in business with customers' support. In this stage of service strategy, the organization decides what service it is going to offer the customers and how is it planning to offer the service. In the strategy generation phase, envision of the ideas are carried out. Blockbuster has lacked in this phase as they did not think about the future. That is ten years from the time when they were in the peak of their business.

**Innovation Strategies Required for Blockbuster**

The milestone that blockbuster did not achieve is innovating their strategic plan. They lacked in linking business model and technological innovations with strategy. Yang Liu, Jiang Wei

and Ying Ying (2012) suggest in their paper that business models must be proposed considering customer value, value creation and capture actions and filling the gap in analysis of the business. Blockbuster should have adopted the Digital Information Management Methodologies (DIM) in a smart environment (SE) as given by Alexandra Lipitakis (2008) in his paper.

## Suggestions from Service Design for Blockbuster

### Why Service Design?

In sequel with the service strategy where numerous suggestions, presentations and board meetings were held to shape the business goals, this second manual concentrates on how to transfer those well-planned strategies and business management goals devised inside the four walls to the papers. In short it is a blueprint, DNA of what the future of the business looks like. Service design has itself a life cycle to it which begins with its process, and end with measuring the metrics gained through the process, thereby carrying it on to the next phase, service transition where all the holistic systematic changes of the organization happens to improve the business further.

### Scope of Service Design

To understand that Blockbuster faced problems in its design phase, it is important to go through the overview of scope that is illustrated in the simple diagram below.

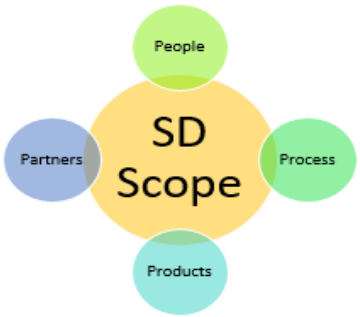



Figure: Scope of Service Design

**People.**

Are the people involved in the business (workers, managers) aware of the business goals?

**Products**.

Is the product outcome as expected as planned and devised?

**Process.**

Are the processes being on track with business policies?

**Partners**.

Do the partners get what they want?

A wide misconception and a common mistake that people in the business make is to set the whole objective concentrating one 'P' and believing that it would automatically manage the compliance of the rest of the P's involved. Block buster exactly did the above. It was extremely satisfied with the idea of "DVD Rentals" (product) delivered to the customers (people). And it outright miscalculated that People (customers) will remain just happy as they were on the day 1 when they first walked into the store.

***Quality.***

***Consistency.***

***Cost Effective.***

***Adaptation***.

**Problems with current scopes of Blockbuster and Need of v3 Service Design**

From above pictures, it is evident that Blockbuster did all it could do in terms of service design objectives with respect to People and Products but completely blindsided on Process and Partners. That is why when blockbuster started to feel the problems one by one, it was extremely difficult for them to change the basics of underlying process and policies of the company

**Overview and Outline of Service Design Process**

ITIL v3 suggests following set of processes to be carried out in the service design phase. Refer the below diagram to grasp the objectives of its process.

| Process | Objectives |
|---|---|
| **Service Level Management** | Define the goals, document the requirements, Agree the terms, monitor and measure the metrics achieved |
| **Capacity Management** | Understanding the financial resources of the organization and mapping the resource needs relevant to the demands |
| **Availability Management** | To ensure design and plan comprises all parts of services and continuously monitoring the availability requirements and documenting the managements events that needs immediate attention with respect to the ongoing process. |
| **IT Service Continuity Management** | To understand the fact that IT expenses are an investment and making the it enabled service, operations interconnected with each other under business timescales. To predict risks, and evaluate best of methods to apply in times of jeopardy. |
| **Information Security Management** | To ensure that the required data is available to all the resources whenever required and to consistently maintain the data integrity, confidentiality and authenticity through various intensive security control measures |
| **Service Catalogue Management** | Responsible for designing and developing service level agreements, requirements, operational level agreements, related analysis on accuracy of information to be carried over to the service operation processes. |
| **Supplier Management** | To generate a value for money with all the parties involved, to consistently in compliance with the agreements, contracts, knowledge of process life cycle, trends and behavior of the company. |

Figure: Process of Service

## Suggestions from Service Design.

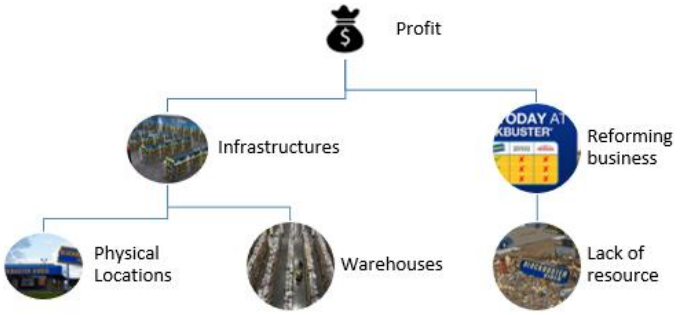



Figure:Loose revenue model of blockbuster

- Maintaining a Supplier and Contractor Database (SCD): Knowledge of both parties.
- Service level agreements /requirements (SLA/SLR) -Are the terms and conditions flexible enough?
- What are the limitations of the agreements with respect to the recent changes?
- Are the parties aware of it?
- Agreements of shared risk and award- Ratio of sharing the future risks and profits with the partners. This is a notable factor, because blockbuster couldn't share its loss with any partners.
- Conducting frequent reports /meetings with contractors to estimate and forecast the future relationship with the company

Had Blockbuster simply followed the above template and checklist provided by service design, much of its agony would have been averted.

**Pointer to Learn from the Analysis of Blockbuster's Design phase flaws**

- Always know your business goals clearly.
- Be Flexible to new changes and discuss in depth about the impact of changes to the existing designs.
- Have a well supportive, interactive, expertise team who have hands -on experience in dealing vulnerable situations.
- Know the elements of design objectives to get successful results.
- Establishing good relationship with the customers' partners and suppliers is one of the pillars of successful business.

**Recommendations from Service Transition for Blockbuster**

Service Transition is to build and deploy IT Services. It provides changes to services and services Management Process are carried out in a proper way. The services provided by Transition tool are

1. **Change Management**
    a. To control life cycle of all the changes, and
    b. To enable beneficial changes to be made.
2. **Change Evaluation**
    **a.** Major Changes are to add new Service and provide changes existing service.
3. **Project management**
    a. Plan and co-ordinate the changes to happen within the cost, time and quality estimates.
4. **Application Development**
    **a.** To make applications available for the system which includes the process of development and maintenance of custom applications and customization of products**.**
5. **Release and Deployment Management;**
    a. Plan, schedule, control the release of test environments, and
    b. It makes sure the integrity of live environments is protected and correct components are released.
6. **Service Validation and Testing**
    a. Deployed resources and Testing Services meet customer expectation.

7. **Service Asset and configuration management** and

    **a.** It maintains all the information about configured items.

8. **Knowledge Management.**

    a. It maintains all the data, information it gathers, analyze, store and share the knowledge.

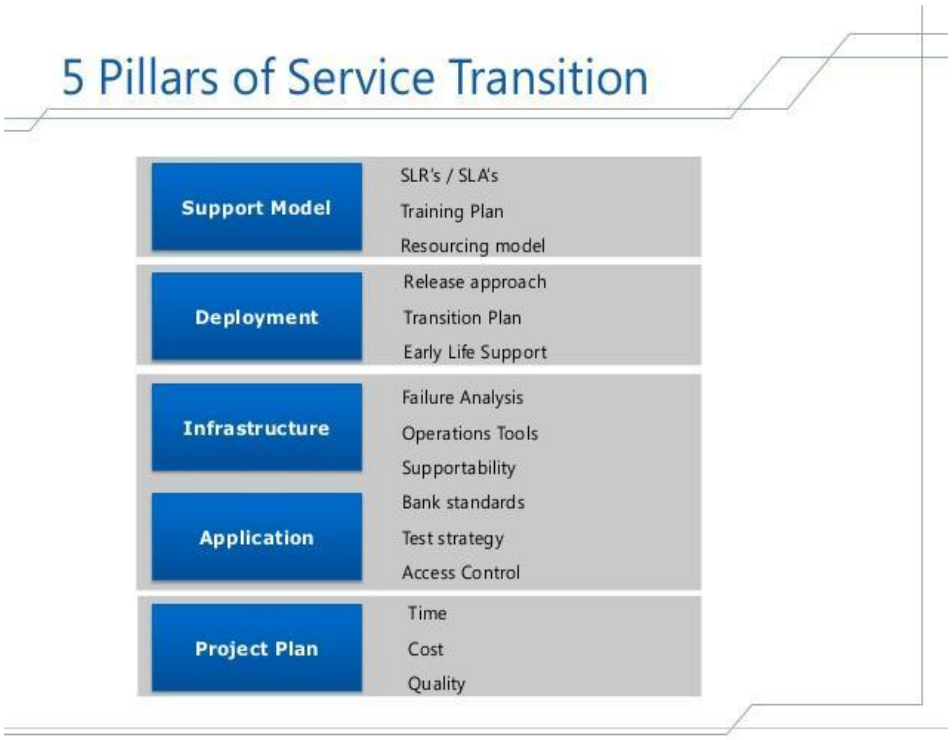



Fig: Services Provided by Service Transition

**Fall of blockbuster**

As mentioned earlier what made Blockbuster self-destruct was not something as minor as $40 in late expenses or long lines to return recordings before the due dates. Those things unquestionably contributed, however it was not the underlying driver.

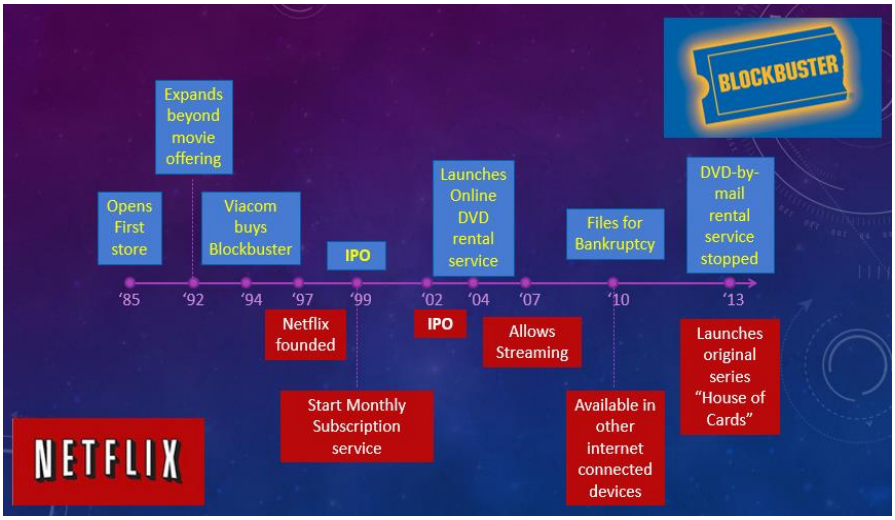
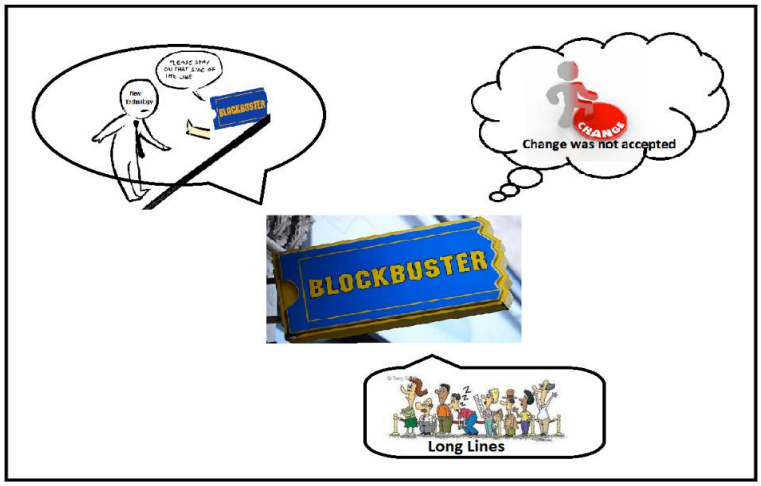



Fig: Stages of Blockbuster Vs Netflix

The reasons for this sudden fall of blockbuster are

1. When there was a change going on in movie and video industry, blockbuster video stuck to their guns;
2. Technology change rentals, online revolution all these changes were not accepted by blockbuster; and
3. Late fee and long lines to return videos.



**How would service transition help in solving the problems of Blockbuster:**

Effective organization move suggests the organization is set up to move into operation with minimum peril, insignificant negative impact, and extraordinary learning organization for all accomplices. Advantage move is helpful in a collection of conditions, including the going with

• When changing, or including an organization isn't as direct as it sounds. Guaranteeing all systems participate can be unusual;

• When one size doesn't fit all. The IT gathering may need to modify and create;

• When you ought to reveal a change to a present organization, or authority center. Advantage move can ease the business into the switch;

• When supplanting systems, hardware, and applications is more frustrated than it first appears. There are fundamental conditions to consider. Old and new programming may not "talk" to each other. People may require retraining, and systems may require updating;

• Transferring organizations beginning with one provider then onto the following may have a logically outstretching impact in ways you won't not expect; and

• When the organization capacity (i.e., people, shapes, broadens, the affiliation, or how everything works) of an internal or external master center changes, advantage move can help your affiliation alter and conform.

Finally, when Blockbuster tried to accept the new technology it was too late for it to do so.

Fig: Too late to accept the change

**Failure to analyze business needs:**

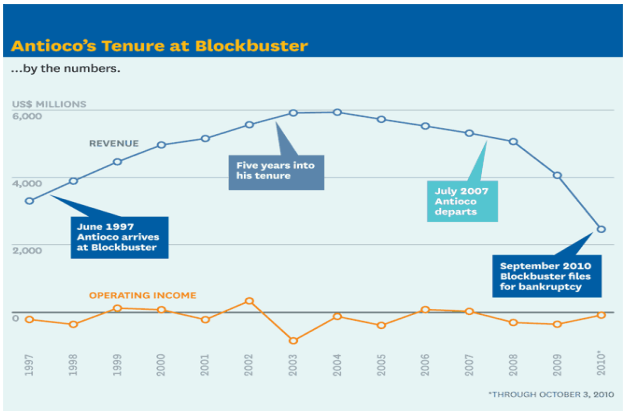
Blockbuster didn't advance their business, and new organizations showed up with new thoughts. Blockbuster was left with just a single choice, change their business totally. Blockbuster was costly, and their clients needed to waste time and gas cash to utilize their business. Blockbuster additionally had rental standards with high late charges appended to them.

**Poor Financial Resource Management**

Blockbuster could even recapture their corporate FICO assessment and start to pay shareholders who have been tensely sitting tight for the liquidation of Blockbuster resources (Lieberman, 2010).

**Lack of Innovation**

Indispensable zones of progress incorporate technique and arranging that backings a development stage, setting up a solid feeling of vision, and reconnecting with the necessities of the client. The second idea is to set up a solid vision and culture that backings the vision of the association. At long last always remember about the clients and their requests. Approaches ought to be executed that are client agreeable and meet client requests.



**Lack of 'Test & Learn' Methods**

IT bunches regularly battle to deal with the presentation of frameworks into generation. Challenges they confront incorporate arranging for discharges into generation, setting up the business and IT, making and executing test arrangements, et cetera. The better this is done, the less issues there will be before these frameworks go live. What numerous IT associations don't understand is that 78-80% of accessibility occurrences come from human mistake and many could never have entered generation would do well to controls and procedures been set up.

**Poor decision making /Team support**

The aftermath of the company's inefficient decision making can be explained well through the famous metaphor, 'The four horsemen of bad decision making' are:

Horseman 1: Hubris.

Arrogance in a CEO can kill a business.

Horseman 2: Angst.

Stress and pressure can incapacitate a CEO's fundamental administration handle.

Horseman 3: Myopia.

Once a while, a pioneer neglect to perceive a moving industry and acts very late. Blockbuster petitioned for liquidation in 2010, yet 10 years prior, it had the opportunity to purchase Netflix NFLX 0.50% for a measly $50 million. so Blockbuster CEO John Antioco chuckled Hastings out the entryway. Presently Blockbuster is a memory, and Netflix has a market top north of $43 billion.

Horseman 4: paralysis.

Uncertainty frequently harms an organization more than making a wrong one.

**Solutions from Service Operations for Blockbuster**

In Service Operations, we deal with end customers directly. This opportunity can be utilized to get valuable customer feedback and improve our front-end services. Collectively, this phase focuses on 4 scopes namely, Service, Service Management, Technology and People

Figure Scope of Service Operation

The objectives that Service Operations help in achieving are as follows:

1. Active Fault Tolerant Services;
2. Effective level wise operational practices;
3. Everyday business needs;
4. Value addition and service excellence; and
5. Successful execution of business processes

In Blockbuster case, we can provide active fault tolerant services by providing transparency and access to the customers regarding our business processes.

Instead of adding unwanted stuff as freebies, Blockbuster could have provided more viable incentives to its customers. Blockbuster failed to improvise while Netflix succeeded in its maiden attempt with main reason to be its inflexible operational model. There is no evidence that Blockbuster used a ticketing system to resolve customer related issues. This appears to be a Service Operations problem. They could have installed a ticketing system that would help them serve the customers systematically. Refer the below illustration to understand the outline of service operation process,

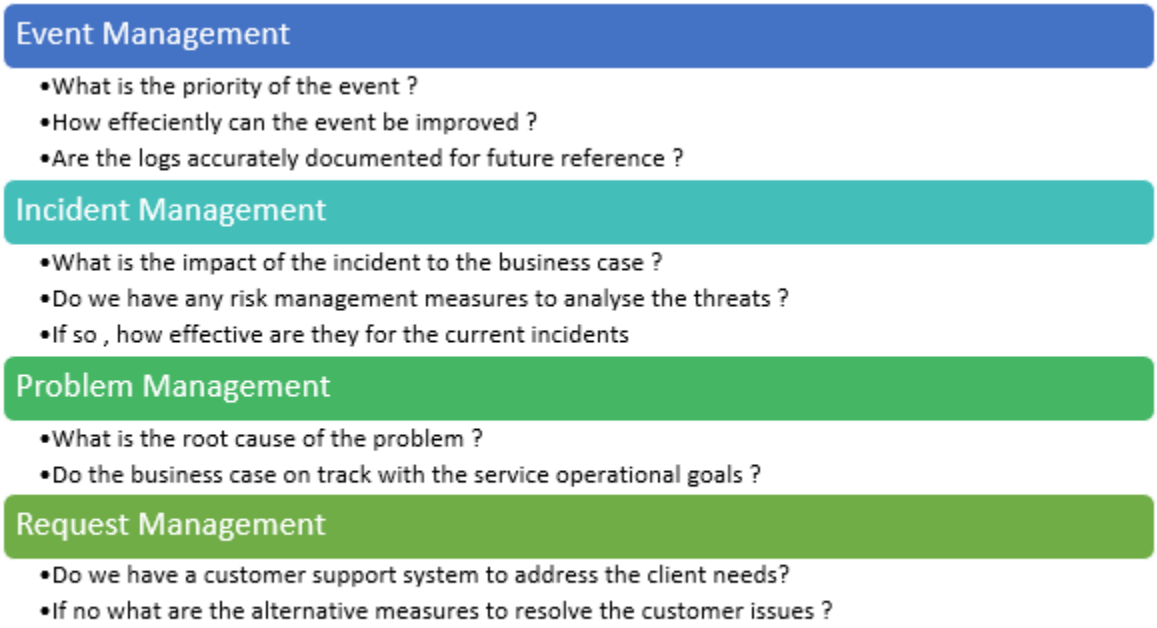



Figure Service Operation Process Pointers

**Event Management**

As soon as we find out that we are not getting our predicted profits, we need to log this as an event and try to find out why this is happening. One way to do this is to conduct surveys about operational lifecycles. For example, if there are a lot of queues in the store, we need to find if we have appropriate number of customer service representatives to serve them. We repeat this process for each stage of lifecycle and categorize each event as per its severity and impact. Events do not always require a response.

**Incident Management**

Any event that causes immediate disruption of organizational functionality are known as Incidents. We need to address these events immediately and attempt to reduce the damage these might have caused. In case of Blockbuster, they were too big and too slow for change. If they could respond to the market demand on time, they would have been more successful than Netflix. We can have Sugar Index (SI), the ratio of number of returns to total orders placed. This number gives us a baseline threshold to decide if the customer in question is fraudulent or not. No company will want to lose its loyal customers. Loyal customers will naturally have a lot of ordering history and less returns compared to a fraudulent customer with intent to steal from the company.SI will help in this case.

**Problem management**

In this phase, we analyze the collected data about the events and try to solve them. Most important guiding principle to come up with optimum solutions is to put the customers first and how we can leverage the use of technology to achieve this. We can do this by Chronological Analysis. This would not only eliminate the need for queues but also coming to the store in first

place. Moreover, to rid the customer of late fees, we might provide prorated costs for missed return date. Other methods to analyze problems are pain value analysis, Kepner and Tregoe, brainstorming etc. to analyze the problems.

**Request management**

In this phase, Blockbuster could have done a better job by deploying a call center to address customer needs. As mentioned earlier, they can leverage the same ticketing management tool for helpdesk support. Additionally, to make it convenient for the customers, they can return the rented DVD at any of the Blockbuster stores as opposed to returning it in the store where they picked it from. Furthermore, setting up an online website for reserving the DVDs to be picked up will be a good start towards complete migration to the cloud.

**Failure to analyze business needs**

Communication with customers is by far the single most important factor in maintaining their trust. Blockbuster's business was essentially based on what its customers hated the most – late fee. This was one of the key aspects of their failure.

**Poor Financial Resources Management**

Netflix, in its early stages, pursued to get acquired by Blockbuster for $50 million. Blockbuster had the resources and money to make this decision. They believed that Blockbuster was too big and too slow to change. Today, Netflix is worth around $40 billion and owns about 60% internet traffic in USA. Blockbuster could not take the risk to migrate their existing products – like DVD's, VCR cassettes, into the cloud. This strategy would have been a lot better than selling unwanted

freebies along with their rental CD/DVDs. If Blockbuster had their own policies and vision, they will have less dependence on other companies for technology, marketing and advertisements.

**Lack of Innovation**

Fear of change is what causes the innovation to halt. The reason why Blockbuster didn't acquire Netflix because they believed that they might not be able to assimilate Netflix into their business model. The most important component in ITIL Service Operations is customer satisfaction and customer experience. In the Blockbuster case, the only experience customer can hope to get is walk in one of their stores, stand in long queues and manually look up for the DVD/CD and rent it for a period. Once the rental period expires, the customer has to rush to the store to return it. This is a painful experience for any customer. Poor customer satisfaction is a problem for any business.

**Lack of Test and Learn Method**

In case of Netflix, based on the history of views by customer, they use advanced Machine Learning and smart suggestions to provide better options to customers. Compare that to Blockbuster, where they must rely on the in-store customer service agents for the opinion. There is no statistical analysis that human recommendation is better than machine recommendations. On the contrary, human element introduces more imbalance and results are not always guaranteed. This also is prone to many Service Operation Incidents.

## Solutions from Continuous Service Improvement for Blockbuster

**Purpose of CSI**

CSI is needed in any type of business to maintain efficiency of the services offered, cost involved in services and reduce the complexity of the process. This can be achieved by identifying the opportunities to improve at every stage of service lifecycle. The people involved in the process

of lifecycle should review, analyze and provide recommendation for improvement of the process. This task should be taken as a responsibility and the recommendations provided should align with the business goals and the customer satisfaction.

**Overview**

As our project is Blockbuster video rental store, the store failed in analyzing the business needs and customer satisfaction to improve them. Blockbuster falls back from its competitors following a conventional way of doing business and not improving the services like turning the rentals to online rental, digital payments and providing ease in returning the rentals.

**Vision**

The vision is to improve the services of the organization with a proper planning. The improved services should align with business and IT strategies followed in the previous stages of lifecycle. The IT services offered should maintain quality, agility and responsiveness meeting the changing needs of business.

**Mission**

What will we do?

The mission is to improve the business with the help of technology and satisfy the customer providing IT services making it easy to borrow a video and paying rentals.

How do we do?

The primary step is to create a web and mobile application with the movies loaded and proceed with rentals online. The secondary step is to make payments digitalized like providing a payment gateway in the application to pay the rentals

**Define Measurements**

Measurements define the performance and helps in understanding the effect of improvements in services. Quantity, Quality, Effort and Effort measures need to be analyzed in regular intervals which helps in maintaining the customer satisfaction.

| | QUANTITY | QUALITY |
|---|---|---|
| EFFORT | What did we do? | How well we did? |
| EFFECT | Is Anything better? | Anything better? |

What did we do?

In this step, we are going to measure the quantity of service delivered and the effort spent in rendering services.

How well we did?

The quality of the services delivered should be monitored to provide continuous improvement of business.

Is anything better?

The quantity and quality change produced with the improvements should be measured.

**Gather the data**

The data required to improve the services of the Blockbuster organization was gathered in the form of objectives and goals from the Service Operation phase. The validity of those goals should be reviewed as well

**Process the data**

The data gathered was processed to a specific format that should fit to the organization and should be acceptable. The processed data should be analyzed such that the outcomes will be as expected with the help of measurable and aggregate functions.

**Analyze the data and information**

From the above step the outcomes and strategy will be decided based on the customer satisfaction indices. The internal as well as external factors that influence should be analyzed in this step.

**Present the Information**

The information finalized from the above steps will be presented in a way making a sense and showing the blue print to the organization of the results and the improvement plan implemented. It helps to take strategic decisions and improving processes further.

**Implementing the actions**

Following the vision and mission together, the identified and processed objectives of the organization (Blockbuster) are

1. Improving the service availability by providing web access.
2. Reduce time to solve the problems faced by customer.
3. Maintain customer satisfaction by setting up a desk to address the issues.
4. Increase quality as well as accuracy of the services provided.

### ***Influence of RACI Matrix in the design phase.***

It is extremely necessary to interconnect all group of workers with independent work agenda to achieve the common goal together. RACI matrix achieve this with its 4 important measures.

*Need for organizing Service Design.*

Although efficient due to the extensive coverage of details in the design phase, it is essential to assign suitable persons to the jobs depending upon the roles and responsibility. For this, V3 itself suggests the measuring metric model called RACI

R as in Responsible as to choose who to do which job, how effective the person can deliver the job?

A as in Accountable- ITIL suggests that only one person should be accountable for the job done.

C as in Consulted- Opinions and advice matters. Be it as a technological professional or SME, whom to seek the advice from

I as in Informed-After the task done, whom to inform, and keep them updated.

Almost all companies have this informative interactive RACI matrix to track who does what and how far is the goal. This matrix provides information with a cubic perspective as per the

view of the designated person. Hence a successful incorporation of RACI matrix inside the service design architecture is itself a productive step towards the goal.

**RACI Matrix of our group**

| | | | | | |
|---|---|---|---|---|---|
| | RACI Matrix For Team White Collar | | | | |
| | Arshad | Kavya | Preethi | Shankari | Vineel |
| Introduction | C | C | A | R | I |
| Problem Statement | C | I | A | R | I |
| Service Strategy | C | I | I | R/A | C |
| Service Design | I | C | R/A | C | I |
| Service Transition | I | R/A | C | C | I |
| Service Operations | R/A | C | C | I | R/A |
| Service Improvements | | | | | |
| | R Responsible | | A Accountable | | |
| | C Consulted | | I Informed | | |

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