Brand Doctor

Brand Check-up

Blockbuster

As of April 23, 2024

Status: Flatlined

Blockbuster relied on late fees, launched online rental in 2004, then scaled back its strongest answer, Total Access, within a year of launch.

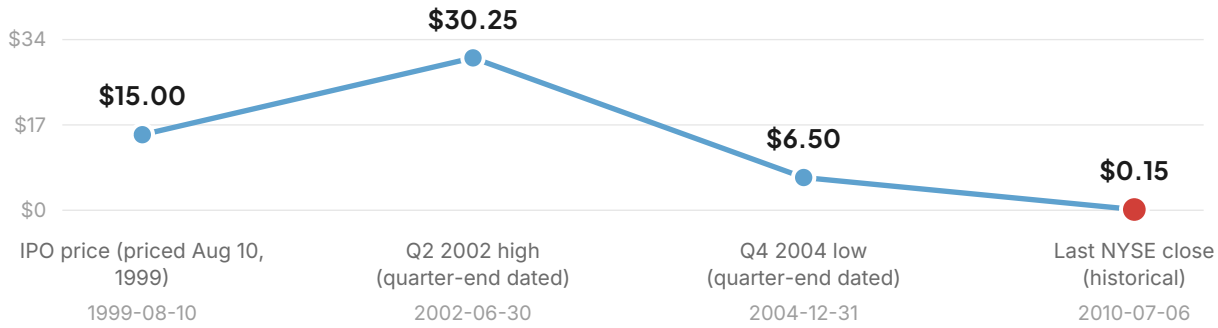
About this check-up

Brand Doctor reviews well-known brands the way we review a client's marketing: symptoms, diagnosis, treatment. This check-up uses public information available on April 23, 2024. It is brand and marketing analysis, not investment advice. Sources are listed at the end.

Vital signs

Share price

USD, at the dates shown [6, 3, 1, 10, 16]



Share price

$0.15

Last NYSE close, July 6, 2010; the NYSE suspended trading before the open on July 7 and the shares moved over the counter [10, 16]

Change from peak

Down 99.5%

Share price only: $0.15 vs the Q2 2002 intraday high of $30.25; does not count the $5.00-a-share special distribution paid in September 2004 [3, 10, 1]

Market value

$12 million

At the September 2010 Chapter 11 filing, down from $4 billion eight years earlier [11, 17]

Latest annual revenue

$3.2 billion

Fiscal 2010 (year ended January 2, 2011), from the last annual report, filed during Chapter 11; $4.1 billion in fiscal 2009 and $6.1 billion in 2004 [16, 5, 1]

Stores

1

Bend, Oregon, by 2019; 9,094 worldwide at December 31, 2004 [13, 1]

Late-fee dependence

About 14%

Extended viewing fees as a share of 2004 rental revenue [2]

Timeline

1999-08	Viacom takes Blockbuster public at $15 a share and keeps more than 80% of the company. [6]
2000	By Reed Hastings' account, Blockbuster declines to buy Netflix for $50 million at a meeting in Dallas; John Antioco later disputes this. [13, 14]
2004-08	Blockbuster Online launches in the U.S. [1]
2005-01	Blockbuster stops charging late fees (extended viewing fees) in its company-operated U.S. stores. [1, 2]
2005-05	Carl Icahn and two other dissident nominees win election to the board. [7]
2006-11	Total Access launches, letting online members return discs to stores for a free in-store rental. [4]
2007-07	Jim Keyes replaces John Antioco as chairman and CEO; that quarter, Total Access advertising and in-store promotion are cut back. [8, 9]
2010-09	Blockbuster files for Chapter 11, less than three months after the NYSE suspended trading in its shares. [11, 16]
2011-04	Dish Network completes its purchase of most of Blockbuster's assets. [12]
2019	Only one Blockbuster store remains, in Bend, Oregon. [13]

Symptoms

- Late fees made up about 14% of rental revenue in 2004.
- Revenue fell from $6.1 billion in 2004 to $4.1 billion in fiscal 2009.
- Total Access advertising was cut within a year of its launch.
- The share price fell from a $30.25 high in 2002 to a last NYSE close of 15 cents in July 2010.
- Market value was $12 million at the 2010 Chapter 11 filing.

Diagnosis

1 Revenue that depended on penalties

Blockbuster collected nearly $800 million in late fees in 2000, 16% of its revenue. Late fees were still about 14% of rental revenue in 2004, and removing them cut 2005 rental revenue by more than $500 million. [11, 17, 2]

2 Late to online rental

By Reed Hastings' account, Blockbuster declined to buy Netflix for $50 million in early 2000; John Antioco has disputed that version. Blockbuster Online did not launch in the U.S. until August 2004. [13, 14, 1]

3 Strategy changed with the boardroom

Carl Icahn and two nominees won board seats in May 2005, and Jim Keyes replaced Antioco in July 2007. That quarter the company changed Total Access pricing, reduced advertising and minimized in-store promotion to shift the balance toward profitability. [7, 8, 9]

4 A shrinking business carrying heavy debt

In September 2004 Blockbuster paid a special distribution of about $905.6 million, or $5.00 a share. As of January 3, 2010, it owed $975.0 million in principal on its senior secured and senior subordinated notes, and its fiscal 2009 annual report raised substantial doubt about its ability to continue as a going concern. [1, 5]

Prognosis

As of April 23, 2024, there is no operating company to treat. Blockbuster filed for Chapter 11 in 2010, Dish Network bought most of its assets in 2011, and by 2019 a single store in Bend, Oregon, was all that was left of a chain that had 9,094 locations at the end of 2004. What remains is the

story. The account of the 2000 Netflix meeting was disputed in 2022 by Blockbuster's former CEO, and the fuller record of late fees, delayed online investment and boardroom conflict deserves at least as much attention.

Treatment

- Replace late fees with a clear membership price before a rival makes their absence its main pitch.
- Start a by-mail service well before 2004, while store revenue could still fund it.
- Fund Total Access for a full customer lifetime and judge it on retention rather than one quarter's profit.
- Shrink the store estate in step with rental demand and use the remaining stores as return and pickup points for members.

Lessons for growing companies

Price on value, not penalties

If customers resent a fee, a competitor can build its pitch around removing it. Find those fees in your own model before someone else does.

Start the replacement early

Blockbuster launched online rental in 2004 and then had to fund it while rental revenue was falling. Build the new model while the old one still pays for it.

Give a new program a full cycle

Total Access had its advertising cut within a year of launch, after a change of CEO. Agree in advance how long a new program will be funded and what it must show.

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About Brand Doctor

Brand Doctor is a marketing strategy consultancy founded by Cliff K. F. Lin. He has spent 17 years in marketing and managed more than $30 million in spend for SaaS, tech and lead-generation companies.

A Brand Check-up applies the method we use with clients to a well-known brand: the symptoms you can see from outside, the root causes behind them, and the treatment we would prescribe. For your own company, we look at six areas (positioning, messaging, customer journey, channel mix, budget and spend, and measurement) and rank what to fix first.

$30M+	135+	8×	17
In marketing spend managed	Campaigns treated	Growth achieved	Years in marketing

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