Marketing Doctor

Marketing Check-up

Blockbuster

As of April 23, 2024

Condition: Deceased

Late fees and a late move online

At the end of 2004 Blockbuster had 9,094 stores and was the default place to rent a movie. Much of its income came from a fee its customers hated. When a mail-order rival built a brand around removing that pain, Blockbuster answered with a strong product, then stopped promoting it. This check-up looks at the pricing, the launch and the decisions that let the answer stall.

Key takeaways

- Late fees were about 14% of Blockbuster's rental revenue in 2004. A large share of income came from customers at the moment the service let them down.
- Netflix co-founder Reed Hastings says Blockbuster turned down a chance to buy Netflix for $50 million in 2000, an account former CEO John Antioco disputes.
- Total Access, launched in November 2006, let online members return discs to a store, something a mail-only rival could not match. It reached about 3.1 million subscribers.
- Within a year, new management changed Total Access pricing, reduced advertising and minimized in-store promotion. The best answer Blockbuster had lost its support.

Marketing health check

Area	Finding
Pricing model	Resented. Late fees were about 14% of rental revenue.
Customer experience	Penalty-driven. Customers paid most when the service failed them.
Innovation	Late but strong. Total Access beat mail-only rivals on convenience.
Marketing support	Withdrawn. Advertising cut within a year of launch.
Leadership alignment	Split. A board fight changed priorities in the middle of the launch.

Timeline

When	What happened
2000	Blockbuster collects nearly $800 million in late fees, 16% of revenue.
Early 2000	Netflix offers to sell itself for $50 million, Hastings says. Antioco disputes the account.
Aug 2004	Blockbuster Online launches in the U.S.
End 2004	9,094 stores worldwide and $6.1 billion in revenue.
Jan 1, 2005	Late fees end in company-operated U.S. stores.
May 2005	Activist investor Carl Icahn wins board seats.
Nov 2006	Total Access launches: return online rentals in store for a free rental.
Jul 2007	Jim Keyes replaces Antioco. Total Access advertising and in-store promotion are cut.
Sep 2010	Blockbuster files for Chapter 11.
2019	One Blockbuster store is left, in Bend, Oregon.

What happened: revenue built on a penalty

In 2000 Blockbuster collected nearly $800 million in late fees, 16% of its revenue, the Associated Press reported. The company's own filing puts those fees at about 14% of rental revenue in 2004. Every one of those dollars came from a customer who felt punished. That is a pricing model a competitor can build a brand against.

Netflix did. Its co-founder Reed Hastings has written that in early 2000 he offered to sell Netflix to Blockbuster for $50 million and was turned down. In 2022 former Blockbuster CEO John Antioco disputed that account. Either way, Blockbuster Online did not launch until August 2004.

The diagnosis: three marketing problems

- **A pricing model customers resented.** Late fees made money from the worst moment in the customer relationship, which made switching feel like relief.
- **Scale hid how customers felt.** Busy stores did not show how customers felt about the terms, much as branded search inflation can make paid ads look stronger than they are.
- **A good answer without staying power.** When Blockbuster finally had an advantage a rival could not copy, it did not keep funding it long enough to win.

The treatment: Total Access, then a change of heart

On January 1, 2005, Blockbuster stopped charging late fees in its company-operated U.S. stores. The program cost about $60 million in marketing and implementation and cut rental revenue by more than $500 million that year. It removed the pain, but late, and at a high price.

On November 1, 2006, Blockbuster launched Total Access. Online members could return discs to a store and take a free in-store rental, a mix of mail and stores no mail-only rival could match. By the end of 2006 it had about 2.2 million online subscribers.

The board had already changed. Carl Icahn and two other dissident nominees won board seats in May 2005, and on July 2, 2007, Jim Keyes replaced Antioco. That quarter, Blockbuster changed Total Access pricing, reduced advertising and minimized in-store promotion, shifting from subscriber growth toward profitability.

The result: the answer stalled and the chain closed

Total Access ended that quarter with about 3.1 million subscribers, and its momentum went with the advertising. Revenue fell from $6.1 billion in 2004 to $4.1 billion in fiscal 2009. In September 2010 Blockbuster filed for Chapter 11, and by 2019 one store was left, in Bend, Oregon.

The rival that built its brand on "no late fees" kept going. Netflix reported 269.6 million paid memberships in the first quarter of 2024.

Lessons for your marketing

1. Look for the revenue lines your customers resent. A competitor can build a whole brand around removing them.
2. Fix the pain before a rival makes it their headline, not after.
3. When you launch the replacement, agree up front how long it will be funded and what it must show before anyone judges it.
4. Don't cut the marketing behind your best answer just as it starts working.
5. A yearly marketing audit should ask how customers feel about your terms, not just how busy the stores are.

The doctor will see you now.

Book a free marketing check-up at marketingdoctor.ca/contact. We'll examine your marketing, show you what's holding growth back and prescribe what to fix first.

Sources

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