

Blockbuster edges toward bankruptcy in the age of Netflix

With Americans edging away from video rentals, Blockbuster may declare bankruptcy next month, it reportedly told Hollywood studios Thursday, closing as many as 20 percent of its stores.



A closed Blockbuster Video store location in suburban Maryland.

(Kristoffer Tripplaar/Sipa/Newscom)

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posted August 27, 2010 at 6:46 pm EDT

Los Angeles —

Blockbuster Inc., the video rental giant which began putting mom-and-pop size rental stores out of business over a decade ago with its more efficient business model, is seeing the same thing happen to it, experts say.

Having lost \$1.1 billion since 2008, the company is reportedly preparing to file for bankruptcy next month, closing between 500 and 800 of its 3,425 stores nationwide in hopes of restructuring its debt.

“What happened is that Netflix and others have simply built a better mousetrap,” says Paul Dergarabedian, movie analyst for Hollywood.com. “In the same way that iTunes and filesharing have killed the major record chains, technology is changing everything for movie rentals,” he says.

Change a long time coming

With movies available at home by mail in one day, or on demand to computers and TV nearly instantly, the alternative of driving to a video store twice, paying more, and worrying over late fees is increasingly being avoided.

“I don’t know anyone who doesn’t have Netflix,” says Karie Bible, box office analyst for Exhibitor Relations, a Hollywood-based movie-industry analysis firm. In addition to Netflix and Redbox kiosks available in malls and grocery stores, she says there has been a large growth of niche websites such as GreenCine, which specializes in independent and foreign films, and others which specialize in old silents.

“My friends increasingly don’t even understand why anyone would drive to a video store, anymore,” she says.

Blockbuster's fall in fortunes is a "triumph of convenience," says George Haley, director of the Center for International Industry Competitiveness. In addition to the problem of driving to a store, he says the unknown of whether popular titles will be sold out, or if older titles will be available at all, is stacked against the old model.

"I've never gone to Netflix and been told, 'hey it's sold out, try back later.'" But efficiency and optimal delivery of wider selection aren't the only considerations for society, say others.

Small stores have their loyal fans

Portland's "Movie Madness" beats Netflix any day for SEIU Local 503 communications director Edward Hershey. He says he frequents the video store for its uniqueness, personalized service, and its role as a community hangout. "I love going to this store," he says, noting that it signs up 30 new customers on any given weekday and upwards of 80 over weekends.

Besides displaying memorabilia from the film industry – a fu dog featured in "Citizen Kane," for instance – the store specializes in hard-to-find movies, documentaries and foreign films. And it categorizes them in several ways – by director, actor, or studio, in addition to the conventional genres.

"You might come for a film by Barry Levinson and it's gone but find another you didn't even know he made," says Mr. Hershey. He also loves the fact that the owner is a film buff who really knows his stuff.

"He can tell you what the good movies are and you can establish a relationship with him that is real flesh and blood," says Hershey. "With Netflix all you get is some computer-generated algorithm which says things liked, 'people who liked this movie, liked this one, too.' No conversation. No heart."

Hybrid outfits survive

Mr. Haley, the marketing expert, says consumer preferences are in a constant state of change, and the most successful companies have been those who straddle both an Internet availability and so-called brick and mortar presence.

Traditional bookstores took a major hit when online giant Amazon.com arrived on the scene in the mid 90s. But both Borders and Barnes & Noble combined the vast resources of an online storefront with the convenience of a local outlet. "These have worked very hard to be good at both and are being heavily rewarded for it," says Haley. "That seems to cover what most Americans want."

Blockbuster has branched out to a Netflix-like mail-order service, and has rolled out a network of kiosks that rent DVDs for \$1 per night, just like Redbox. It will continue to venture into movie streaming and downloads for mobile phones, computers, and Internet-connected televisions, observers say.

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