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END OF SEMESTER EXAMINATION

JANUARY- APRIL 2021

DEPARTMENT OF LEADERSHIP

COURSE CODE

POLD 810

COURSE TITLE

LEADING INNOVATION AND CHANGE

EXAM DATE

APRIL 2020

DURATION 3 HOURS

SECTION 1: COMPULSORY

1. Read the case study below and answer the question that follows:

Blockbuster's Case Study

At its peak in the late '90s, Blockbuster owned over 9,000 video-rental stores in the United States, employed 84,000 people worldwide, and had 65 million registered customers. Once valued as a \$3 billion company, in just one year, Blockbuster earned \$800 million in late fees alone. But fast-forward a decade, and Blockbuster ceased to exist, having filed for bankruptcy with over \$900 million in debt. So, what happened?

Blockbuster was founded by David Cook, a software supplier in the oil and gas industry. After studying the potential of a video-store business for a friend, he realized that a well-franchised chain could grow to 1,500 units. And so the first Blockbuster store opened in Dallas on October 19, 1985. According to David Cook, the opening night of that first Blockbuster store was a huge success. The story goes that they actually had to lock the doors because of overcrowding. The thing that really set Blockbuster apart at that time was their huge range of titles. Other independent video stores could only keep track of 100 or so movies. Blockbuster had an innovative new barcode system, which meant that they could track up to 10,000 VHSs per store to each registered customer, which also meant that they could keep an eye on those lucrative late fees. Off the back of this success, Cook built a \$6 million distribution center, not only so that new stores could pop up quickly, but also to house a huge range of titles, so that each store's inventory could be tailored to local demographics.

In 1987, Blockbuster received \$18.5 million from a trio of investors, including Waste Management founder Wayne Huizenga, in return for voting control, but after two months of intense disagreements, Cook left Blockbuster and Huizenga assumed control. Under Huizenga, Blockbuster embarked on an aggressive expansion plan, buying out existing video-rental chains while opening new stores at a rate of one per day.

By 1988, just three years after the first store opened, Blockbuster was America's No. 1 video chain, with over 400 stores nationwide. But as Blockbuster became a multibillion-dollar company in the early '90s, adding music and video-game rental to its stores, Huizenga was worried about how emerging technology like cable television could hurt Blockbuster's video-store model. After briefly considering buying a cable company and even receiving approval from the Florida Legislature to build a Blockbuster amusement park in Miami, Huizenga offloaded Blockbuster to media giant Viacom for \$8 billion in 1994. In only two years under Viacom, Blockbuster lost half of its value.

While Blockbuster and its new boss, John Antioco, focused on brick-and-mortar video stores, technological innovations meant that competition was on the rise. In 1997, Reed Hastings founded Netflix, a DVD-by-mail rental service at the time, in part after being frustrated with a \$40 late fee from Blockbuster. Two years later, having passed on an opportunity to buy Netflix for \$50 million, Blockbuster teamed up with Enron to create a video-on-demand service. In a deal that saw Enron do most of the work, a robust video-on-demand platform was successfully built and tested with customers. But it soon became clear to Enron that Blockbuster was so focused on its lucrative video stores that it had little time or commitment for the video-on-demand business. As a result, in 2001, Blockbuster walked away from the first major development of wide-scale movie streaming. Within a few years, Netflix and other competitors began to eat into Blockbuster's profits, not by undercutting it, but by reimaging video rental in the digital age.

It took Blockbuster almost five years to introduce its own DVD-by-mail service and even longer to scrap late fees. By that time, Netflix had amassed almost 3 million customers, had no store overheads, and was preparing to launch its revolutionary streaming service. Blockbuster's troubles continued through the mid-2000s. After parting from Viacom and experimenting with in-store concepts such as DVD and game trading, Blockbuster was in the midst of an identity crisis.

In 2009, Netflix posted earnings of \$116 million. Meanwhile, Blockbuster, with its continuing business problems and legal battles, lost \$518 million. On July 1, 2010, Blockbuster was delisted from the New York Stock Exchange. Its foray into video-on-demand streaming came too late, and over the next three years, Blockbuster died a slow and painful death. DVD-by-mail services stopped, its various partnerships folded, and stores worldwide were rapidly plunged into administration. Its 9,000-strong chain had been reduced to one single franchise in Bend, Oregon. As a result of Blockbuster's complete shutdown, one can only speculate about what could have been for the once home-movie giant.

They were too busy making money in their video stores to imagine a time when people would no longer want or need them. And in a bid to rescue their business, their answer at the time was to fight fire with fire. At one point they even opened up rental kiosks, a little bit like a vending machine, but all of these attempts were based on either outdated technology or outdated business models, whereas Netflix at the time, they did the opposite; they streamlined, they were able to see the future of video rentals and then innovate for that future. Blockbuster, they didn't seem to understand how the next generation, particularly millennials, who grew up in a world without hard-copy media like DVDs and CDs, how they would react to video-on-demand as technology improved. And that's why Netflix, Amazon Prime, YouTube, and Hulu, they're still all in business, whilst Blockbuster got left behind.

According to Netflix's former Chief Financial Officer Barry McCarthy, as part of the failed 2000 Blockbuster-Netflix buyout, Reed Hastings proposed that Netflix would run the Blockbuster brand online. If that deal had been successful and Hastings had replicated Netflix's innovation for Blockbuster, the face of home video would likely still be blue and yellow. The last-ever Blockbuster movie was rented on November 9, 2013. Fittingly, the film in question was "This Is the End."

Question One

As an expert of leading innovation and change, discuss what went wrong with Blockbuster and what could have been done differently for survival of Blockbuster. **(10 Marks)**

SECTION II CHOOSE TWO QUESTIONS

Question Two

The Pride of Africa Board of Management has approached Impex consultants, a company meant to support Pride of Africa's 3.0 change management strategy following a recent approval of operations restructuring and a proposed merger. Impex consultant company is preparing its bid documents for this consulting assignment and has to incorporate an executive pitch in order to bag the job. Discuss 5 change management factors for considerations in such a pitch with regard to the proposed undertaking. **(5 marks)**

Question Three

Assess how you would apply Lewin's change model in an organization with a staff establishment of 4,000 with diverse demographic characteristics transitioning from manual operations to automation of its processes. **(5 Marks)**

Question Four

In his inaugural speech, the new executive director of Project Mawingu explained to the senior management of ABC Bank that change management requires adequate coalition building and sponsorship for success. He also explained that a gap on either of this leads to collapse of any change management program. Expound what this means as an expert in innovation and change. **(5 marks)**

Question Five

Leadership is key in addressing contemporary issues that modern companies are grappling with in regard to leading innovation and change. Discuss the role of

leadership with regard to 5 contemporary issues of your choice

(5 marks)