

The Allure of GameStop's Stores: Fully Charged

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By Joshua Brustein

(Bloomberg) -- Hey it's Josh. The release of new Xbox and PlayStation gaming consoles is occasion for an identity crisis at GameStop Corp., the sprawling chain of video-game stores. New consoles only come around once or twice a decade, and have historically sent Americans flocking to the nearest strip mall with a GameStop. But each advance in gaming gets players closer to a future where they can scratch their itch without ever having to visit that mall again.

Now, one of the company's largest investors, entrepreneur Ryan Cohen, wants GameStop to finally fully embrace the digital age. In a letter obtained by my colleague Olga Kharif this week, he bemoaned its lack of progress, saying that even with the new console launch, GameStop is spending too much time worrying about its physical stores as it "stumbles around the online ecosystem."

There's nothing new about this situation. GameStop's market cap has been heading mostly downward since mid-November 2013, just before the last generation of consoles went on sale.

Shortly after that, I spent several months visiting random GameStop stores and talking to its senior leadership for a Bloomberg Businessweek article. At the time, everyone at the company dutifully acknowledged the need to adjust to the new internet reality. Executives even talked about fascinating and far-fetched ideas, like allowing people to sell "used" copies of

completely digital goods.

Then GameStop went ahead and added almost 900 new retail locations, selling not just games but other electronics. When the plan didn't work, it started closing stores. It's expected to close about 450 locations this year alone in what executives have told analysts is an "opportunity" for "market densification." GameStop has lost nearly 90% of its market value since the release of the PlayStation 4 and Xbox One.

George Sherman, who became GameStop's chief executive officer in April 2019, said the store closures were a major part of re-adjusting the company to the digital era. "While we still have work to do, our focus remains on optimizing the balance of retail footprint and e-commerce reach, working in concert," he said in a statement.

It didn't have to be this way, according to Venkatesh Shankar, director of the Center for Retailing Studies at Texas A&M University. "There were two forks in the road. They could have scaled up online, or they could have moved into adjacent brick-and-mortar businesses. They chose brick-and-mortar, because it was lower risk in the short term," Shankar said. "It was a missed opportunity and they're still hurting from that."

If GameStop knew what its problem was, why didn't it do more to address it? Cohen and Shankar both cite internal resistance to change. That may be right, but it's not as easy as turning down the "physical retail" dial and turning up the "digital commerce" one. I've spent enough time in GameStops to come to appreciate their strange charms, and I can tell you that the company's unique advantages don't necessarily translate to the internet.

GameStop locations don't seem like local bookshops or bike stores, but they bear similarities. Gaming remains enough of a niche interest that GameStop can create a sense of community just by employing people who know about video games and not chasing away the young men who make up a big proportion of their patronage. I'm now a lapsed gamer and wouldn't exactly describe GameStop locations as pleasant. But there's a kind of magic in a place completely dedicated to the activity that makes me want to clear my schedule, grab a controller and house a few Jolt colas. Plus the ability to pay for new games with old ones isn't a checkout option that is easily recreated in a mobile app. When people talk about retail experiences that can't be replicated online, they're usually envisioning a level of luxury and customer pampering that is, well, not really the GameStop way. Many customers will resent the prices they get for that perfectly usable copy of Fallout 4, for example, or shake their heads at brutal financing terms. Still, GameStop plays a role in the video-game world that probably wouldn't exist without a large network of stores.

Lately, the company has seen some promising signs. Last quarter brought an 800% spike in digital sales—bringing online channels to about 20% of GameStop's total revenue. The company also recently announced a deal with Microsoft Corp. through which it will get a cut each time customers use an Xbox purchased at a GameStop store to buy digital-only products. In an earnings call in September Sherman alluded to a future where the majority of consoles won't even have disc drives, a prospect widely seen as a potential death blow. But he also said that future was still distant. For the most part, the

“new consoles have a disc drive,” he said. “So for the next seven years, the consoles will play both the physical and digital software that we sell.” —Joshua Brustein If you read one thing

BuzzFeed is buying HuffPost from Verizon, in a deal that will see two one-time digital media wunderkinds merge as the industry struggles. BuzzFeed Chief Executive Officer Jonah Peretti co-founded HuffPost 15 years ago, and said in a statement he thought the site could "continue to define the media landscape for years to come." And here's what you need to know in global technology news

Online video-game platform Roblox has filed for an initial public offering.

WorkDay reported upbeat earnings, but said that the pandemic-fueled recession would likely crimp software demand in 2021.

Cybersecurity company FireEye said on Thursday that it had raised \$400 million from Blackstone and acquired Respond Software. Its stock shot up about 18%.

Apple slammed Facebook's ad-targeting practices in response to a letter questioning the iPhone maker's decision to delay a new privacy feature.

As European regulators train their scrutiny on the security of EU citizens' data in the U.S., Microsoft vowed to challenge all government requests for access to customers' information.

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