Case Study: How GameStop Is Fighting Disruption

by Sucharita Mulpuru
May 10, 2016

Why Read This Report

Like many companies in the physical media sector, video game retailers face disruption from mobile devices, digital distribution, and intense competition. This case study provides eBusiness professionals with an overview of the many steps that one of the country's largest video game retailers, GameStop, is executing to drive incremental sales and greater profit.

Key Takeaways

GameStop Is Making Its Stores Leaner
GameStop has improved profitability per store by reducing store count and by investing in omnichannel efficiencies like ship-from-store efforts.

GameStop Is Diversifying Its Business
GameStop is no longer just a video game retailer. Its portfolio now includes mobile phone and novelty collectible stores.

GameStop's Economics Are Now Different
The additions of the mobile technology and collectibles businesses have enabled GameStop to generate new sources of profit. These businesses are now less than 13% of the company's revenue but 25% of its profit.

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GameStop Tackles Challenges With Old And New Strategies

Like many media categories such as books, music, and movies, the video game industry faces massive disruption: By 2020, more than 60% of video games will be sold online or through digital downloads. In 2015, GameStop generated $6.2 billion in video game revenue from the $21 billion video game industry.[1] However, company executives are fully aware of the challenges within the video gaming category. Forrester attended a recent analyst day with GameStop executives, who acknowledged the company's vulnerabilities and laid out details for the company's future growth plan.

Our overall take is that the retailer is likely to have a far more optimistic outcome than Blockbuster or Radio Shack. Growth initiatives range from projects that reinvent existing GameStop-branded stores to efforts that add new stores and categories outside of GameStop's traditional video game business. In fact, many of these efforts are consistent with the recommendations that Forrester presented in the 2015 Future Of Shopping report, making GameStop a textbook case of a company that is quickly and effectively adapting to a changing retail environment.

GameStop Has Improved Its Existing Stores And Assortment . . .

Much of GameStop's strategy centers on making bold changes to its existing rich store footprint. The company today has more than 4,000 stores in the US, which are largely, its executives repeatedly said, "within a mile of most Americans." However, in the hypercompetitive retail environment, the company's executives know that merely having a store footprint can't drive long-term success. Instead, the stores must deliver growing margins and a strong customer experience. To that end, GameStop has focused on significantly upgrading its store operations by:

› **Cutting underperforming stores.** Between 2013 and 2015, the retailer reduced its GameStop-branded store count in the US by 236 stores, or 5.6%.[2] The retail landscape is saturated, and the US has more stores per capita than any other country in the world.[3] This move proved to be one of the company's most effective efforts: In 2013, each store delivered, on average, $143,000 in profit, growing to $176,000 within two years.

› **Investing in omnichannel efficiencies.** Capitalizing on a broad store footprint, in February 2016, GameStop rolled out a ship-from-store program for online orders, many of which can be delivered within 24 hours. Tapping store inventory also has doubled the number of available items online to approximately 20,000 SKUs. Furthermore, GameStop has also invested nearly $5 million in tablet devices to support store associates. These devices provide access to customer purchase history, which enables personalization and upsell opportunities in stores.

› **Adding new categories.** GameStop-branded stores now stock collectibles (called "loot") and mobile handsets as part of their store offerings, in turn revitalizing and augmenting the assortment and adding incremental margin to stores. In recent years, many merchants in other industries have improved store sales by adding new categories. For example, college bookstores added more licensed apparel and PC sales, Target added grocery, and Barnes & Noble added more toys.

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› **Capitalizing on digital products.** Recognizing that more consumers consume media in digital formats than ever before, GameStop has built the infrastructure to own 40% of the downloadable content market, and generates more than $1 billion in digital receipts. Nearly all of today's video games have downloadable content, which they did not in the past; GameStop's store associates can also sell digital content in stores, pushing it directly to consumer devices. Approximately 95% of GameStop's digital content is, in fact, sold in its stores, and gross profit on GAAP digital sales is a whopping 79%.

. . . And Has Smartly Invested In Marketing

To bolster its in-store and assortment investments, GameStop is turning up the heat on marketing to keep customers engaging and re-engaging over time by:

› **Expanding (and monetizing) its loyalty program.** GameStop's loyalty members now drive more than 75% of the company's revenue. Given the variety of choices that consumers face, the company understands that loyalty programs are essential to preserving and gaining market share. The retailer has grown its PowerUp Rewards loyalty program from 7 million US customers in 2010 when it first launched to 33 million today (and 46 million globally). And it gets better: 6 million of those customers pay $14.99 for additional perks associated with the program.

› **Executing clever marketing.** Recycled merchandise resold online is now trendy, but trade-ins have been integral to GameStop's business for years. GameStop issues about $1.2 billion in store credit for trade-ins annually, with approximately 76% trade credit used toward the purchase of a new game product. Additionally, GameStop releases finite quantities of limited-edition collectibles to generate excitement and sales. This past Black Friday, the company took a page from Japanese merchants' fukubukuro sales and sold more than 200,000 units of a mystery box.[4]

GameStop Invests In The Future With Diversification

Video games are a mature, cyclical business, and the company's executive team understands that it's important to diversify the company and explore new business opportunities to ensure its future. To that end, GameStop has:

› **Invested in white space.** In 2015, GameStop purchased ThinkGeek, a leading player in "geek merchandise," primarily collectibles and licensed merchandise from properties like Star Wars, Star Trek, and Game of Thrones. GameStop plans to grow the brand by opening 50 new physical ThinkGeek stores in 2016. Among its core demographic, ThinkGeek has wildly high customer affinity ratings and represents a new business opportunity that taps into a new demographic for the company.[5] How so? Whereas the average GameStop customer is a 20-something male, the average ThinkGeek customer is a 30-something female. Furthermore, nearly 30% of revenue from physical ThinkGeek stores is high-margin apparel products. ThinkGeek also has a substantial wholesale business, which gives GameStop an opening into private label merchandise that it didn't previously have.

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- **Doubled down on the lucrative mobility category.** Unbeknownst to many, GameStop has become a powerhouse in the mobile handset and wireless sectors, generating more than $500 million in sales from this business alone in 2015. The company has more than 1,000 technology stores selling AT&T and Apple products, and actually is the single largest reseller of AT&T products to consumers and small businesses outside of AT&T's company-owned stores. This sector represents a new business model for GameStop, which gets a bounty from AT&T for every new subscription the company activates. Little surprise that GameStop plans to grow this business further as it acquires hundreds of additional AT&T stores in the near future.

- **Developed high hopes for virtual reality (VR).** Other than adult entertainment, there is no industry that is as well-positioned to gain from the imminent release of new VR headsets as the video game industry. Forrester expects that consumers will buy 52 million VR headsets by 2020.[6] By investing in small demonstration areas dedicated to VR in each store, GameStop believes it is well-positioned to capture a significant share of that growth in this emerging category, particularly since the company also has significant data on active gamers through its PowerUp Rewards program.

- **Created other nonstore models.** GameStop also owns a mobile gaming platform, called Kongregate, which taps into an increasing population of mobile gamers.[7] In addition to investing in mobile game consumption, GameStop is exploring ways to gain better access to the pipeline of games through the creation of GameTrust, a new business that enables independent game developers to distribute gaming content.

What It Means

Diversification Is The Key To Survival

In our 2015 Future Of Shopping report, we pointed out a number of things that retailers needed to do: explore new merchandise models, find new customer segments, and invest in their loyalty programs. GameStop is executing much of this, but it's also critical to note that the company is:

- **Gradually becoming a retail conglomerate.** In the past, specialty retailers were generally known for a single brand and category, but now it's increasingly common to have multiple brands, often in different and even non-overlapping categories. With its technology brands business, ThinkGeek brand, mobile gaming platform Kongregate, and traditional stores, GameStop is broadening its product mix, its distribution channels, and the sources of its revenue.

- **Taking a page from other diversified retailers.** While different business lines are interesting, GameStop is also taking the essential step of re-engineering its sources of profit. Over the years, Amazon has turned to new businesses like its third-party marketplace, its onsite advertising business, and Amazon Web Services to drive profitability. In a similar way, GameStop has turned to its new businesses to generate additional profit for the company. While these additional businesses are less than 13% of the company's revenues, they constitute one-quarter of GameStop's profit now, and the company expects that figure to grow to 50% in the coming years.

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Supplemental Material

Survey Methodology

Forrester conducted the North American Consumer Technographics® Media And Advertising Online Benchmark Recontact Survey, 2015 as an online survey fielded in May 2015 of 4,592 US individuals ages 18 to 88. For results based on a randomly chosen sample of this size, there is 95% confidence that the results have a statistical precision of plus or minus 1.5% of what they would be if the entire population of US online adults (defined as those online weekly or more often) had been surveyed. Forrester weighted the data by age, gender, income, broadband adoption, and region to demographically represent the adult US online population. The survey sample size, when weighted, was 4,584. (Note: Weighted sample sizes can be different from the actual number of respondents to account for individuals generally underrepresented in online panels.) Please note that respondents who participate in online surveys generally have more experience with the Internet and feel more comfortable transacting online.

This survey is part of our North American Online Benchmark Recontact System. Respondents who participated in both of our online benchmark surveys (part 1 and part 2) are invited to also participate in a series of follow-up recontact surveys that cover topics in greater depth and detail. The data from both online benchmark surveys (part 1 and part 2) is appended to each recontact survey's data set so that data cuts can be performed across benchmarks and the recontact itself. Ultimately, this recontact system provides a more holistic view of consumer behavior and allows for more data cutting opportunities than a standalone survey provides.

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For Technographics Clients: How To Get More Technographics Data Insights

Forrester's North American Consumer Technographics Media And Advertising Online Benchmark Recontact Survey, 2015 of 4,592 US individuals ages 18 to 88 includes many additional questions and parameters by which you can analyze the data contained in this report.

We can provide additional insights about the consumers highlighted in this report:

- Who they are (e.g., demographics, lifestyle, and interests).
- What they do (e.g., digital, mobile, social behaviors).
- Affiliations they have (e.g., brands used, products owned).
- How they feel (e.g., attitudes, interests).

If you wish to subscribe to Forrester's Consumer Technographics services, please contact your account manager or data@forrester.com. If you are an existing Technographics client, please contact your data advisor at data@forrester.com.

Companies Interviewed For This Report

GameStop

Endnotes

[1] GameStop's revenue figure comes from GameStop's investor presentation, and is the sum of the company's video game and digital revenues. The overall video game industry figure comes from Forrester's Online Retail forecast. Forrester's figure includes hardware, software, and digital goods. See the "Forrester Research Online Retail Forecast, 2015 To 2020 (US), Q4 2015 Update" Forrester report.

[2] GameStop operated 4,013 stores in the US during the 2015 fiscal year, down from 4,249 stores in the US during the 2013 fiscal year. Source: GameStop (http://news.gamestop.com/phoenix.zhtml?c=130125&p=irol-sec).

[3] There is one store for every 164 people in the US. See the "The Future Of Shopping" Forrester report. That represents four times more stores per capita than in China. Source: Alibaba Defined (http://ar.alibabagroup.com/2015/index.html).

[4] Fukubukuro is, in many ways, Japan's version of Black Friday. On New Year's Day, merchants fill mystery bags of discounted merchandise to sell to customers. Consumers often line up outside stores, similar to Black Friday in the US, to be the first to take advantage of the deals.

[5] GameStop reports that ThinkGeek's Net Promoter Score (NPS) is comparable with other popular customer-facing brands like Amazon and Netflix. (Net Promoter and NPS are registered service marks, and Net Promoter Score is a service mark, of Bain & Company, Inc., Satmetrix Systems, Inc., and Fred Reichheld.)

[6] For Forrester's take on virtual reality in the next five years, see the "The Coming Wave Of Virtual Reality" Forrester report.

[7] Forty-nine percent of people with mobile phones play games on their phone at least weekly. Source: Forrester's North American Consumer Technographics Media And Advertising Online Benchmark Recontact Survey, 2015.

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