12-17-2019

GameStop's next play: reconfiguring the value offering

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Recommended Citation

Bass, A.E., Pleggenkuhle-Miles, E.G., Winchester, C.C. and West, T. (2020), "GameStop's next play: reconfiguring the value offering", The CASE Journal, Vol. 16 No. 1, pp. 7-33. https://doi.org/10.1108/TCJ-05-2019-0054

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Disclaimer. This case is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. The case was compiled from published sources.

Abstract

Title – *GameStop’s next play: reconfiguring the value offering.*

Theoretical basis – *The theoretical basis for this case is a focus on strategic positioning as related to Porter’s generic strategies. The case describes GameStop’s previous differentiation approach, executed through physical stores and knowledgeable staff. With technological shifts and the introduction of digital downloads, this strategy is less effective. The case requires students to consider how GameStop might revise its generic strategy based on the new competitive landscape in which it operates.*

Research methodology – *In writing this case, the research team conducted thorough analysis through primary data collection in stores as well as secondary data collection through the use of market research tools, such as IBIS World, MergentOnline, S&P Net Advantage, and academic journals, trade magazines, and websites.*

Case overview/synopsis – *With high uncertainty shown by stakeholders about the future of GameStop coupled with falling share prices, the company must find a way to stay in play given the rapidly growing digital gaming market. As it planned to close at least 150 of its 7,500 stores, the company was starting to take measures to reduce operational costs and restructure to sectors that best fit consumer interests. GameStop’s core competencies were no longer aligned with market conditions, and its executives were now questioning where it could expand the organization’s operations as they focused on finding untapped areas of the market that have an opportunity for a new competitive advantage. Given its unique market share in gaming memorabilia and trade-in values, students are tasked with finding GameStop’s existing competitive advantages or identifying potential new ones that can be leveraged in a technology-driven industry.*

Complexity academic level – *This case could be taught at either the graduate or undergraduate level strategy course. At the undergraduate level, it would be best taught when discussing industry life cycle or competitive dynamics. At the graduate level, MBAs could discuss competitive dynamics facing GameStop and how it might find areas for future strategic growth.*

Keywords

Strategy, Technology, Macroenvironment, Video gaming

As Mike sat on his couch eagerly awaiting the midnight release of the highly anticipated game *Diablo 4,* he could not help but recall memories of when he used to camp out overnight at his local GameStop to purchase a copy of the new *Diablo* game before it sold out. For the past several years, though, Mike had taken advantage of the new service offered by the PlayStation and Xbox Live Stores, which was the ability to purchase a digital download of the game on his console. By digitally downloading *Diablo 4,* Mike had saved himself a long night out in the cold and the ease of not having to keep track of a physical disk. He also did not have to wait several hours for the game to download after he purchased the disk because his console let him pre-download the game, so it was ready for use right at midnight. Although Mike remembers the days when he would trade in his past *Diablo* games for money at GameStop, the benefits of having immediate access to a game he could download straight to his console outweighed a possible $10 reimbursement value in his mind.

GameStop's current situation

While some gamers still preferred purchasing physical copies from retail stores like GameStop, many were choosing to purchase digital copies of the most recent games. In 2017, GameStop announced that it was shutting down 2–3 percent of its 7,500 shops across the globe after net income began plummeting from the prior year (see Exhibit 1). This can be attributed to a number of problems GameStop was currently facing. Some of the most prominent included major debt, declining profits and a sense of lost identity. According to *The Wall Street Journal*, one of the largest issues the company faced was the shift to digital downloads. More and more people preferred to install games straight from their console's online store instead of buying physical copies, which contributed to GameStop's 14 percent sales drop in 2016. Sales declined further over the 2018 holiday season, dipping 19 percent when compared to the 2017 holiday season. As a result, GameStop's fourth-quarter profits fell 16 percent and its shares went down by about 12 percent in December 2018 (Moon, 2017).

On the surface, trends in the video game retail industry should have looked promising for GameStop. In a 2017 study from the Entertainment Software Association, 67 percent of US households owned a device that was used to play video games (see Exhibit 2). Of that, 65 percent of US households were home to at least one person who played three or more hours of video games a week. As shown in Exhibit 3, the annual consumer spending on video games increased from $17.5 to $24.5bn in a six-year time span (2010–2016), and 54 percent of gamers felt that computer and video games provided the most value for their money because of the vast amount of content and hours of playability compared to traditional entertainment methods, such as television and board games. While this would typically show very promising signs of growth in an industry where GameStop had dominated for many years, there was one trend that had been a major factor in the closings of hundreds of GameStops worldwide (see Exhibit 4): the rise of digital downloads. In 2010, physical sales accounted for 70 percent of total game sales. Digital downloads were still relatively new to the industry, and only used for computer games through a then-new downloading platform called Steam. However, by 2016 sales from digital downloads made up 74 percent of game sales, with physical sales totaling 26 percent – a shift of 44 percent in only four years (Entertainment Software Association).

With only 25 percent of game sales coming in a physical format, it made sense to wonder why GameStop would only close 2–3 percent of its global stores. The reason behind this is because the sales shown were for all types of "video games," which included subscriptions, digital full games, digital add-on content, mobile apps and social network games that spanned across multiple platforms. The majority of these digital downloads were from personal computers, smartphones and other wireless devices. Steam, which was the PC online platform for digitally purchased games, accounted for vast sales of digital downloads, as well as mobile games that were played on smartphones, and social media games that were used on wireless devices. While some thought that GameStop should create its own online gaming market, it had a high probability of being a futile investment. Sony and Microsoft would not support an external system on their consoles since it would decrease their own online sales. Simply put, going to GameStop to purchase a full game download would have been the equivalent of going to Blockbuster to purchase a code for a digital movie you then redeemed on iTunes. Before digital downloads, GameStop was a prominent middle man for gaming systems. Now that companies such as Sony and Microsoft sold games through their own digital stores through personal consoles, GameStop had effectively been cut-out as the middle man.

Another trend in the gaming industry was the surge in popularity of Major League Gaming (MLG), or eSports. With the increasing popularity of streaming services, such as YouTube and Twitch, talented gamers had gained cult-like followings from amateur gamers who marveled at their talent in specific games. Since GameStop was in the retail business, it was in its best interest to help draw more attention to specific video games. As a result, it began to sponsor eSports events and by the end of 2018, was the third biggest sponsor in eSports, behind IGN and Twitch. In Spring 2017, GameStop had its first opportunity to partner in support of a competitive gaming tournament. The company teamed up with Warner Bros. Interactive Entertainment to create the GameStop Hometown Heroes tournament, which featured the game *Injustice 2* (Gaudios, 2017). The event was held at the GameStop Managers Expo in Las Vegas and was marketed through Facebook Live. Competitive gaming, such as eSports had provided a potential new revenue stream for GameStop, who hoped that combining its online marketing presence, like Facebook Live and tournament streaming, with physical retail available at expos and MLG tournaments, would attract larger audiences to buy physical game copies at events. While this strategy showed interesting potential, GameStop was still looking for ways to capitalize on its investment in the MLG market to help grow its shrinking net revenues.

GameStop: a brief history

GameStop had a number of transformations in its 34-year history, changing with shifts in market demands and diversifying its revenue streams, see Exhibit 5.

Babbage's (1984–1994)

Starting in 1984, GameStop opened under the name *Babbage's,* which was a small software retailer located in Tucson, Arizona. The founders of the company, James B. McCurry and Gary M. Kusin, were classmates who attended Harvard Business School and named the company after the famous nineteenth century mathematician, Charles Babbage. After opening its first store in Dallas, Texas, the company began to shift its focus to video game sales for the popular Atari 2600. With the surge in video game consoles and popularity in the late 1980s, Babbage's began selling Nintendo games in 1987, and the rise in growth allowed the company to go public in 1988. By 1991, video games made up two- thirds of Babbage's sales (Andronico, 2017).

NeoStar retail group (1994–1996)

In 1994, Babbage's merged with Software etc., which was a company located in Edina, Minnesota that focused on personal computing software. The merger of these two companies was known as a stock swap, meaning that shareholders of Babbage's and Software etc. received shares of NeoStar, a holding company that had been newly formed for the merge. While both Babbage's and Software etc. remained subsidiaries of NeoStar, the holding company combined both subsidiaries in 1996 due to declining sales. In September of that year, after NeoStar was unable to secure the credit necessary to purchase inventory necessary for the holiday season, the company filed for Chapter 11 bankruptcy (Ahles, 1999). With leadership changes not working, NeoStar's assets of $58.5m were purchased in 1996 by Leonard Riggio, who was a Founder of Software etc. and principal stockholder of Barnes and Noble.

Babbage's etc. (1996–1999)

Following his purchase of NeoStar's assets, Leonard Riggio dissolved the holding company and created a new holding company named Babbage's etc. He appointed Richard "Dick" Fontaine, previously Software etc.'s chief executive during its expansion in the late 1980s and early 1990s, as Babbage etc.'s chief executive. Daniel DeMatteo, previously the President of both Software etc. and NeoStar, became company president and chief operating officer. Three years later, in 1999, Babbage's etc. launched its GameStop brand with 30 stores located in strip malls. The company also launched gamestop.com, a website that allowed consumers to purchase physical copies of video games online. GameStop. com was promoted in Babbage's and Software etc. stores (Halkias, 1999).

Barnes & Noble Booksellers (1999–2004)

In October 1999, Barnes & Noble Booksellers purchased Babbage's etc. for $215m. Several months later, Barnes & Nobles also purchased a company called Funco, which was a video game retailer based out of Eden Prairie, Minnesota for $160m. Barnes & Noble assigned Babbage's etc. to be a wholly owned subsidiary of Funco to strengthen its video game background. Barnes & Noble also acquired Game Informer in 2000, which was a video game magazine in anticipation of creating a magazine to create awareness about its newly created video game company. In December 2000, Funco was given a new name, GameStop, Inc., and an IPO was in the sights of Barnes & Noble. Barnes & Noble took GameStop public in February 2002 and retained control over the newly public company with 67 percent of outstanding shares and 95 percent of voting shares. Barnes & Noble retained control over GameStop until October 2004, when it distributed its 59 percent stake in GameStop to stakeholders of Barnes & Noble, making GameStop an independent company (Steiner-Threadlike, 1991).

Expansion of GameStop (2004–2016)

With the acquisition of EB Games in 2005 for $1.44bn, GameStop was able to grow its operations globally, which included Europe, Canada, Australia and New Zealand. The purchase of Rhino Games in 2007 from Blockbuster helped GameStop expand its reach in the southeastern USA by converting 70 stores to GameStop locations, and the purchase of Free Record Shop's Norwegian stores in 2008 allowed it to convert 49 stores into new locations in Scandinavia. With this massive expansion, J. Paul Raines became GameStop CEO in June 2010. He replaced Daniel DeMatteo, who was named executive chairman of the company. While serving as CEO in 2012, GameStop's digital revenue grew from $190m in 2011 to more than $600m in 2012.

While GameStop's rise involved many acquisitions that improved market reach substantially, it found itself on the losing end of more recent deals because of new innovations taking place within the industry. GameStop purchased BuyMyTronics, a Denver, Colorado-based online marketplace for consumer electronics, in 2012. Later that year, it acquired a minority interest in Simply Mac, a Utah-based authorized Apple reseller. In November 2013, GameStop acquired the remaining 50.1 percent interest in Simply Mac and purchased Spring Mobile, a Salt Lake City, Utah-based retailer of AT&T-branded wireless services. While these acquisitions involved different branded retailers, GameStop operated them in its current state and used them to establish extra revenue sources for its main business model.

Sale of spring mobile (January 2019)

In January 2019, GameStop announced the sale of its wholly owned subsidiary, Spring Mobile. Spring Mobile was the largest AT&T authorized retailer in the USA and was acquired by GameStop in September of 2013 to penetrate into the cellular retail market. As a result of the sale, GameStop received proceeds of $700m and planned to use the money to reduce outstanding debt, repurchase shares, and reinvest in its core gaming and collectibles business. Dan DeMatteo, Executive Chairman of GameStop's board of directors, stated "We are pleased to successfully complete this transaction and begin 2019 with an increased focus on the video game industry and the rapidly growing collectibles space. These are areas where we are well positioned to leverage the GameStop brand and capitalize on our competitive position." GameStop, along with its board of directors and outside financial advisors, planned to continue its ongoing review of "strategic and financial" alternatives in an attempt to boost shareholder value. This review would also determine exactly how proceeds from the sale would be used (Trachtenberg, 2004).

GameStop's current strategy

> Together, we hold a passion for gaming, a commitment to our industry and a disciplined business perspective to continuously drive value with shareholders, customers, vendors and employees. (GameStop Vision Statement (GameStop, 2019))

As indicated by its vision statement, GameStop's primary market was gamers which used to be primarily made up of console players. This included a growing 48 percent of the video game retail industry. For years, GameStop had maintained its strategy of creating value through offering incentives to re-sell games and had added more personability to the video game purchasing experience through its knowledgeable employees. More than 97 percent of console players in North America used Sony's PlayStation and Microsoft's Xbox, with a small market share coming from the Nintendo Wii and Switch. By taking the stance of a middle man, GameStop also operated in a subset of the video game retail industry, known as the electronics stores industry segment and offered narrowly differentiated products. While consoles were a loss-making enterprise, game and accessory sales were the major revenue drivers in this industry. The value created by GameStop was selling not only new games, but also providing an avenue of re-sell and trade-ins. In fact, employees were encouraged to focus on selling pre-owned games and consoles over new merchandise. GameStop's employees' sales tactics were sometimes called into question as the company pushed its employees to make the sale, some took that to mean make the sale at all costs.

Though it had improved on its hiring processes and guidelines, GameStop had continued to suffer from backlash as former employees turned to YouTube to file their complaints.

While the company had been impacted by new trends in the video game retail industry, one reason why GameStop had been able to survive despite the rapid surge of popularity in digital downloads was because console players are naturally late adapters. Console players had proven to be late-comers to innovations within the video game retail industry, while PC players were typically early adopters of new trends. However, GameStop was concerned about the rise of digital downloads by console players as the transition to digital storefronts like the PlayStation Store on consoles was gradually growing year over year. New data from Sony's 2018 financial report showed in the quarter that ended March 31, 2018, 43 percent of PlayStation 4's software sales were made digitally. For the fiscal year as a whole, that number sat at 32 percent, up 4 percent over the previous year. As conditions changed, GameStop was confronted with finding a new way forward in a constantly evolving industry.

According to GameStop's 2017 annual report, it was the world's largest omnichannel video game retailer, the largest AT&T authorized retailer, the largest Apple certified products reseller and the owner of www.thinkgeek.com, one of the world's largest sellers of collectible pop culture themed products (GameStop Corp., 2017). While GameStop had been struggling with the shift to a fully digital market, it still had an audience who bought physical games and other memorabilia at its locations. GameStop had a strong brand portfolio of physical gaming items, such as clothing and other apparel based off popular video games, a large quantity of used games that were difficult to find in today's gaming market, and a loyal customer base. While many new age gamers had shifted to buying their products from Steam, Xbox Live and the PlayStation Store, older customers who had created a cult-like following of games went to GameStop to purchase external memorabilia relating to their favorite products. For example, the popular game *Overwatch* sold its collectibles through GameStop stores, for prices similar to what mid-tier video games would cost (approximately $20).

GameStop was also known for its high customer satisfaction ratings among consumers. GameStop employees were passionate about the video game retail industry, and there was a certain demographic of clients who went to a store just to socialize about gaming products with knowledgeable workers, not dissimilar to the once prolific comic book stores.

GameStop managed its capital expenditures wisely. Shown in Exhibit 6, as game sales shifted to digital sales, GameStop was able to stabilize profits by closing stores and using its extra cash to invest in more gaming memorabilia for die-hard fans. However, in 2017, GameStop reported a 16.4 percent drop in sales for the 2016 holiday season while expressing optimism in its non-physical gaming business. Reasons cited for the decline in sales included industry weakness, promotional pricing pressure, lower in-store traffic and a near monopolization of the video game retail industry leading to customer dissatisfaction. Shares of GameStop stock also fell 16 percent throughout 2016 (Bary, 2017). On February 28, 2017, shares dropped an additional 8 percent following Microsoft's announcement of its Xbox Game Pass service. Following these reports, GameStop announced it would close over 150 stores in 2017 and expand its non-gaming business. On the same day, however, GameStop said it planned to break ground on 65 new Technology Brand stores (focused on video game and console sales) and 35 Collectibles stores (focused on memorabilia and collectibles sales) due to a 44 and 28 percent increase in sales, respectively. GameStop expected a continued drop in operating income between 3 and 10 percent in 2017 (Noonan, 2017). Since selling and re-selling physical games was the epicenter of GameStop's business model, it knew it may need to shift its approach in a rapidly changing industry (see Exhibit 7 for a list of the risk factors reported in GameStop's annual report).

Competitive dynamics in the video game retail industry

In the early 2000s, DVDs became the hot new trend in the entertainment and gaming industries, which provided a unique opportunity for the rise of gaming middle men, such as GameStop. Video games and cartridges used for the Super Nintendo and Nintendo 64 became irrelevant and gave rise to new emerging platforms. As a reaction to this, Sony and Microsoft unveiled their original PlayStation and Xbox, which used gaming disks that allowed for more storage space and high-resolution games.

During the life cycle of Sony's PlayStation 3 and Microsoft's Xbox 360, the two companies introduced full game digital downloads to their online stores. These online stores could be accessed from the console and the downloaded game was stored digitally on the memory of either the PlayStation or Xbox. While this concept was new and in an early adoption phase in 2007, it did not gain much traction because of the limited download capability of older generation consoles. In addition, the absence of bigger name game titles making a switch was dismissed as a potential threat by physical game retailers such as GameStop which led to it continuing with its current middle man for physical games strategy. Only PlayStation and Xbox exclusive content was available to purchase digitally on their respective stores, with an exception of some smaller name games that were trying to create awareness. As a testing platform for large video game companies such as Activision Blizzard, Ubisoft and Rockstar, the companies would release game demos as digital downloads to test the market and give consumers a chance to try their game before making a purchase.

It was not until late 2013, when the PlayStation 4 (PS4) and Xbox One were released, that digital downloads became a popular alternative to physical game copies. The processing power for the new generation consoles massively outweighed their predecessors, and trends in other industries, such as music and television streaming, were swaying gamer interest toward cutting their version of "cords" (physical game copies) and shifting toward more efficient digital downloads. As major players such as

Sony and Microsoft adapted their strategies to focus more on digital downloads, GameStop continued with its current strategy.

With a growing movement of people relying on faster internet connections and online purchasing, making the switch to buying digital and accessing games from anywhere greatly impacted the traditional video game retailers such as GameStop. Looking at this competition and industry change, GameStop needed to carefully consider other trends in the gaming industry to evaluate how it would implement any counter strategy.

Other trends in the video game retail industry

The video game retail industry seemed to be inundated by new technological innovations, which made external factors pose the biggest threats to GameStop's operations and the market segment in which it operated. Newcomer electronics stores brought innovation to the industry. Their innovative business models resulted in lower pricing strategies, reduced costs and new value propositions to the customers, which put additional pressure on GameStop. GameStop had to manage those challenges and build effective barriers to safeguard its competitive edge.

As shown in Exhibit 8, different buyer groups had created numerous consumer needs in the video game retail industry. While the common thought is that the vast majority of gamers are male, female players made up an increasing 42 percent of the video game market as of 2017. The average female gamer was 37 years old, which was four years older than the average male gamer at 33 years old. An issue that had posed a challenge to the GameStop business model is that 31 percent of male gamers and 26 percent of female gamers were under 18 years old. Children under the age of 18 had been heavily influenced by new industry norms because it is what has shaped expectations of future products. Since a combined 57 percent of potential consumers had been introduced to the creation of digital downloads, it was unlikely that GameStop would see this new customer group buy as many physical game copies as older demographic bases.

Growth of buyers also coincided with increased prices of alternative entertainments like concerts, spectator sports and movies. However, the overall available leisure time continued to decrease. The ability to play games on multiple platforms also increased the number potential consumers. For example, the increased number of smartphones owned by domestic consumers directly increased the number of individuals who had access to a handheld device (that could be used for game play). While the trend of digital sales was on the upswing, there was also some hesitancy on the side of publishers who worried about piracy. However, with revenue potential of subscription gaming and the popularity of multiplayer online roleplaying games as well as competitive gaming; online distribution offered great growth potential.

Major competitors in the video game retail industry
Best buy

Best Buy was one of the largest consumer electronics outlets in the USA and beyond. The multinational retailer sold both products and services through roughly 1,700 retail, mobile stand-alone and smaller express stores under the Best Buy, Best Buy Express, Best Buy Mobile, Five Star, Future Shop, Geek Squad, Magnolia Audio Video, and Pacific Kitchen and Home Sales banners. Its stores sold a variety of electronic gadgets and wearables, tablets, movies, music, computers, mobile phones and appliances. On the services side, it offered installation and maintenance, technical support, and subscriptions for mobile phone and internet services (Steiner-Threadlike, 1991). While Best Buy did not sell the same quantity of new and used physical games as GameStop, it did have the ability to showroom its games to customers who came into the store for other products and services. With a rising number of pre-sold games and collectibles being offered in stores, Best Buy was a viable substitute for gamers looking to make video game-related purchases. Best Buy also began looking at hosting competitive gaming in some market areas.

Walmart

As the world's number one retailer, Walmart offered a wide assortment of video games and memorabilia. While it was not a dedicated game store, it had the majority of products that could be found in a GameStop store. Operating 5,300 stores in the USA, which included 4,600 Walmart stores and 660 Sam's Club warehouses, provided a great opportunity to reach gamers who were existing shoppers at Walmart/Sam's Club locations. While no retail store offered the number of collectibles and environment of a GameStop location, Walmart took advantage of its accessible location strategy. Whereas many GameStop stores were located in shopping malls and strip malls, Walmart captured potential consumers with a vast array of products all in one store, which gave its video game sections more of an opportunity for sales.

Amazon

As consumer shopping trends started to shift predominantly online, Amazon had become more serious about the prospects of entering the video game retail industry. While it was a rival to GameStop because it offered sales and re-sales of physical game copies, Amazon was looking to switch to an online gaming presence. With its purchase of the popular game streaming site Twitch in 2014, the company was hoping to gain a competitive advantage over other players in the gaming and eSports communities.

Amazon's push into video games was consistent with its overall customer-centric approach. Amazon had invested heavily in content to offer its Prime members free streaming movies and TV shows. It was no surprise that Amazon would invest just as heavily in video games, since the company saw the video game retail industry becoming a large form of entertainment. Amazon had begun to integrate Twitch features as an additional perk for Amazon Prime members. In September 2016, Amazon launched Twitch Prime, a premium service for Twitch users, but it was also available as a free feature for Amazon Prime members. Prime members could watch ad-free streaming on Twitch and download free game content, including content for one of the more popular mobile games – Activision Blizzard's *Hearthstone* (Ballard, 2017).

By focusing on online content, Amazon was also hoping to create more demand for cloud storage services, which developers used to connect online users together for a joined playing experience. Amazon firmly believed that mobile gaming, eSports, virtual reality and cloud gaming would be key drivers of growth for the industry in the future. The company stood to serve this thriving industry with Twitch and Amazon Web Services, and with the beginnings of a solid video game ecosystem, Amazon had an opportunity to be the destination of choice for game developers around the world.

PlayStation network, Xbox live and steam

Most dedicated gamers either used a console or PC to play video games. The vast majority of potential video game consumers either used a PlayStation, Xbox or PC to play the most popular games on the market because of their superior graphics and online capabilities. Console manufacturers, such of Sony and Microsoft, had capitalized on their respective player markets to create online stores with digital downloads. This led to increased revenue as they took a certain percentage of game sales from publishers. The online game sales site Steam had also utilized this strategy with players in the PC market. The digital downloads that those services offered had eliminated the need for physical game copies and had increased ease of use for customers because they could be opened and closed like an app on the platform used for gaming.

The switch to digital capabilities by those online console and PC stores had quickly grown digital revenue in the video game market and had caused much concern for physical game retailers like GameStop. French-based research firm Digiworld data forecasts showed that the global digital game market was set to grow from e48.1bn ($55bn) in 2017 to e73.1 ($84bn) in 2021. What is more, digital sales would account for nearly 93 percent of all game sales within four years. The Montpellier, France-based firm's newly released data forecasted the quickest growth of digital revenue in the home console market, climbing from e6.2bn ($7.1bn) in 2018 to e12.2bn ($14bn) in 2021. This was not a surprising forecast given Sony Interactive Entertainment Inc., Microsoft Corp. and Nintendo Co. Ltd's collective push to make more content – both full games and add-ons – available within their respective digital stores (Sapieha, 2017).

GameStop's next play

With high uncertainty shown by stakeholders about the future of GameStop coupled with falling share prices, the company must find a way to stay in play given the rapidly growing digital gaming market. By planning to close at least 150 of its 7,500 stores, the company was starting to take measures to reduce operational costs and restructure to sectors that best fit consumer interests. As GameStop's core competencies were no longer aligned with market conditions, its executives were now questioning where it could expand the organization's operations and focused on finding untapped areas of the market that have an opportunity for a new competitive advantage. Given its unique market share in gaming memorabilia and trade-in values, what would be the best way to leverage GameStop's existing competitive advantages and turn them into new and successful business operations? Considering its financial situation, should GameStop simply close down most of the stores and begin a partnership for sharing downloadable content? Or are there other opportunities it could capitalize on?

While sifting through the PlayStation Store to find more games to purchase, Mike was excited about how the next generations of gaming consoles would better enhance his accessibility of playing video games. Being able to purchase video games online and having the ability to switch games like an app was nice, but just like every other consumer, Mike is still not fully satisfied with the experience. He wondered how the process could be even more instantaneous and innovative and was eager for the new processes that the next generation of technology would unveil. Far off in his mind were the memories of how GameStop used to be the "go-to" place for all things gaming, but as the industry was changing, maybe it would re-emerge into something new.

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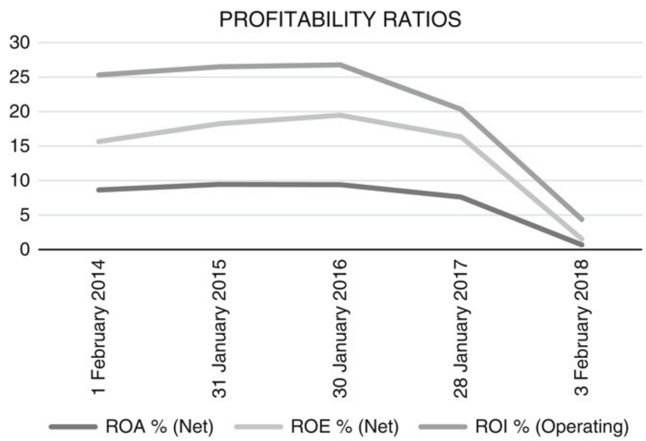
Exhibit 1

Figure E1 GameStop net income

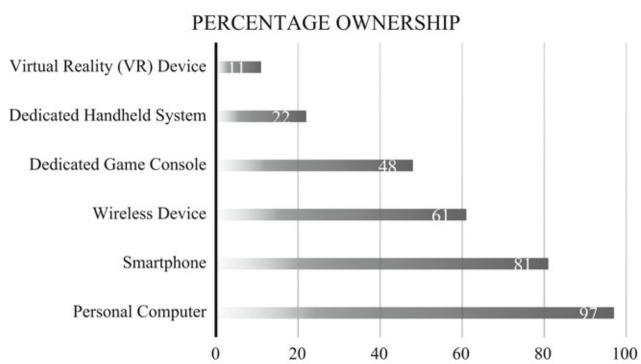
Report Date Scale in Thousands	February 2, 2019	February 3, 2018	January 28, 2017	January 30, 2016	January 31, 2015	February 1, 2014	February 2, 2013
Net income (loss)	–673,000	34,700	353,200	402,800	393,100	354,200	–269,800



Source: GameStop Financials (2019)

Exhibit 2

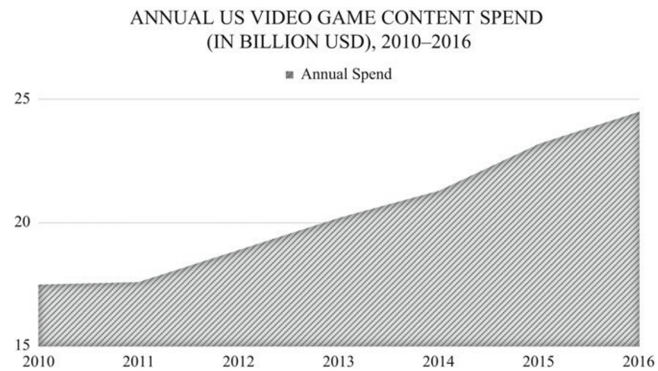
Figure E2 US video game ownership



Source: ESA 2017 Sales, Demographic, and Usage Data Essential\ Facts (ESA, 2018)

Exhibit 3

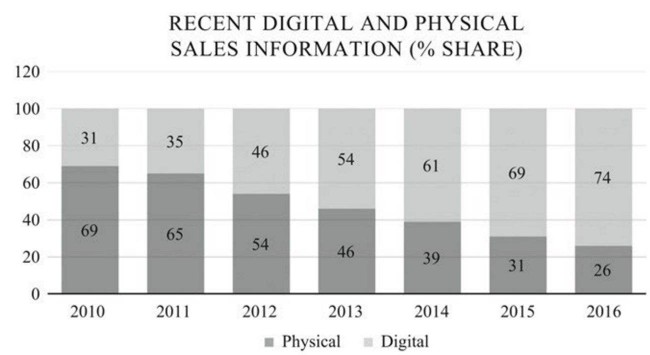
Figure E3 Consumer spend on video game content



Source: ESA (2017)

Exhibit 4

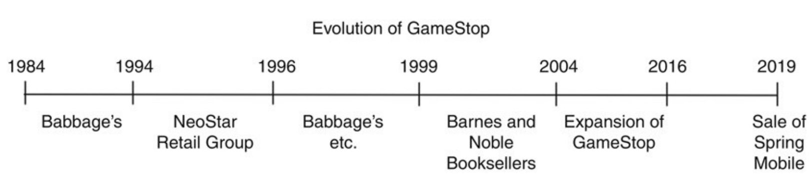
Figure E4 Rise of digital downloads



Source: ESA (2017)

Exhibit 5

Figure E5 GameStop's growth



Source: Author created

Exhibit 6. GameStop select financials

Table E1 GameStop's income statement 2016–2019

GameStop's income statement *Exchange rate used is that of the year end reported date* *Report date* *Currency USDjScale*	*February 2, 2019* *Thousands ($)*	*February 3, 2018* *Thousands ($)*	*January 28, 2017* *Thousands ($)*	*January 30, 2016* *Thousands ($)*
Net sales	8,285,300	9,224,600	8,607,900	9,363,800
Cost of sales	5,977,200	6,184,500	5,598,600	6,445,500
Gross profit	*2,308,100*	*3,040,100*	*3,009,300*	*2,918,300*
Selling, general and administrative expenses	1,888,600	2,363,000	2,252,600	2,108,900
Depreciation and amortization	105,600	150,700	165,200	156,600
Goodwill impairments	970,700	32,800	–	–
Asset impairments	45,200	358,000	33,800	4,600
Operating earnings (loss)	*(702,000)*	*135,600*	*557,700*	*648,200*
Interest income	5,700	1,500	800	400
Interest expense	56,800	56,800	53,800	23,400
Earnings (loss) before income tax expense (benefit) – USA	(543,400)	7,100	446,800	553,500
Earnings (loss) before income tax expense (benefit) – international	(209,700)	73,200	57,900	71,700
Earnings (loss) from continuing operations before income taxes	*(753,100)*	*80,300*	*504,700*	*625,200*
Current tax expense (benefit) – federal	45,000	110,100	143,800	178,700
Current tax expense (benefit) – state	12,800	14,900	13,500	16,300
Current tax expense (benefit) – foreign	38,500	28,500	29,200	28,900
Total current income tax expense (benefit)	96,300	153,500	186,500	223,900
Deferred tax expense (benefit) – federal	(36,000)	(78,500)	(1,200)	200
Deferred tax expense (benefit) – state	(4,000)	(13,400)	(200)	3,600
Deferred tax expense (benefit) – foreign	(14,600)	(16,000)	(33,600)	(5,300)
Total deferred income tax expense (benefit)	(54,600)	(107,900)	(35,000)	(1,500)
Income tax expense (benefit)	41,700	45,600	151,500	222,400
Net income (loss) from continuing operations	*(794,800)*	–	–	–
Income (loss) from discontinued operations, net of tax	121,800	–	–	–
Net income (loss)	*(673,000)*	*34,700*	*353,200*	*402,800*
Consolidated net income (loss) attributable to GameStop Corp.	–	–	–	402,800
Weighted average shares outstanding – basic	102,100	101,400	103,400	106,000
Weighted average shares outstanding – diluted	102,100	101,500	103,800	106,700
Year-end shares outstanding	102,000	101,300	101,000	103,300
Net income (loss) per common share from continuing operations – basic	(8)	–	–	–
Net income (loss) per common share from discontinued operations – basic	1	–	–	–
Net income (loss) per common share – basic	(7)	0	3	4
Net income (loss) per common share from continuing operations – diluted	(8)	–	–	–
Net income (loss) per common share from discontinued operations – diluted	1	–	–	–
Net income (loss) per common share – diluted	(7)	0	3	4
Dividends declared per common share	2	2	1	1
Number of full time employees	16,000	22,000	23,000	20,000
Number of part time employees	45,000	45,000	45,000	62,000

Table E2 GameStop's balance sheet 2016–2019

GameStop's balance sheet
Exchange rate used is that of the year end reported date

Report date *Currency USDjScale*	*February 2, 2019* *Thousands ($)*	*February 3, 2018* *Thousands ($)*	*January 28, 2017* *Thousands ($)*	*January 30, 2016* *Thousands ($)*
Cash and cash equivalents	1,624,400	864,400	669,400	450,400
Bankcard receivables	44,600	51,200	39,500	37,700
Vendor receivables	–	96,800	143,300	119,300
Technology brands carrier receivables	–	42,300	41,000	24,100
Other receivables	–	1,800	2,800	800
Vendor and other receivables	93,600	–	–	–
Allowance for doubtful accounts	4,000	9,400	5,700	5,400
Receivables, net	134,200	182,700	220,900	176,500
Merchandise inventories, net	1,250,500	1,366,700	1,121,500	1,163,000
Deferred income taxes – current	–	–	–	–
Prepaid expenses and other current assets	118,600	124,900	128,900	148,900
Total current assets	3,127,700	2,538,700	2,140,700	1,938,800
Land	18,700	19,900	18,600	17,300
Buildings and leasehold improvements	638,200	769,800	724,500	668,200
Fixtures and equipment	900,200	973,500	931,400	874,600
Total property and equipment	1,557,100	1,763,200	1,674,500	1,560,100
Less accumulated depreciation	1,235,800	1,330,000	1,203,500	1,075,600
Property and equipment, net	321,300	433,200	471,000	484,500
Deferred income taxes	147,300	158,200	59,000	39,000
Goodwill	363,900	1,667,300	1,725,200	1,476,700
Other intangible assets, net	33,500	169,500	507,200	330,400
Other noncurrent assets	50,600	74,700	72,800	65,500
Total noncurrent assets	916,600	2,502,900	2,835,200	2,396,100
Total assets	*4,044,300*	*5,041,600*	*4,975,900*	*4,334,900*
Accounts payable	1,051,900	902,000	616,600	631,900
Accrued customer liabilities	268,700	302,400	342,500	341,600
Deferred revenue	124,200	139,700	131,500	112,800
Accrued employee benefits, compensation and related taxes	140,700	168,100	147,700	156,400
Accrued checks and transfers yet to be presented for payment from zero balance cash accounts	82,700	176,400	268,400	264,900
Accrued other taxes	45,500	63,400	52,000	52,900
Other accrued liabilities	91,000	126,100	148,800	112,400
Accrued liabilities	752,800	976,100	1,090,900	1,041,000
Income taxes payable	27,200	37,500	54,000	121,100
Current portion of debt, net	349,200	–	–	–
Note payable	–	–	–	400
Total current liabilities	2,181,100	1,915,600	1,761,500	1,794,400
Deferred income taxes	100	5,000	23,000	29,600
Senior notes	825,000	–	–	–
Less: unamortized debt financing costs	(4,200)	–	–	–
Less: current portion	(349,200)	–	–	–
Long-term debt, net	471,600	817,900	815,000	350,000
Other long-term liabilities	55,300	88,600	122,300	79,900
Total long-term liabilities	527,000	911,500	960,300	459,500
Total liabilities	*2,708,100*	*2,827,100*	*2,721,800*	*2,253,900*
Class A common stock	100	100	100	100
Additional paid-in-capital	27,700	22,100	–	–
Accumulated other comprehensive income (loss)	(54,300)	12,200	(47,300)	(88,800)
Retained earnings (accumulated deficit)	1,362,700	2,180,100	2,301,300	2,169,700
Total stockholders' equity	1,336,200	2,214,500	2,254,100	2,081,000
Total equity	–	*2,214,500*	*2,254,100*	*2,081,000*

Table E3 GameStop's statement of cash flows 2016–2019

GameStop's statement of cash flows
Exchange rate used is that of the year end reported date

Report date *Currency USDjScale*	*February 2, 2019* *Thousands ($)*	*February 3, 2018* *Thousands ($)*	*January 28, 2017* *Thousands ($)*	*January 30, 2016* *Thousands ($)*
Net income (loss)	(673,000)	34,700	353,200	402,800
Depreciation and amortization (including amounts in cost of sales)	126,900	151,900	166,700	158,200
Provision for inventory reserves	57,300	–	–	–
Asset impairments	–	–	33,800	–
Goodwill and asset impairments	1,015,900	395,100	–	–
Impairment of goodwill and other long-lived assets	–	–	–	4,600
Stock-based compensation expense	10,700	25,600	17,800	29,900
Deferred income taxes	(4,100)	(107,900)	(37,200)	(1,500)
Excess tax benefits related to stock-based awards	–	–	800	(4,400)
Loss (gain) on disposal on property and equipment	2,000	8,500	10,400	3,600
Gain on divestiture	(100,800)	(6,400)	–	–
Other net income adjustments	(36,200)	24,900	15,500	(4,600)
Receivables, net	(34,400)	35,700	(43,900)	(58,100)
Merchandise inventories	(44,700)	(256,300)	14,700	(49,200)
Prepaid expenses and other current assets	2,200	(1,200)	(11,400)	(6,000)
Prepaid income taxes and income taxes payable	(18,700)	(24,700)	(49,100)	95,900
Accounts payable and accrued liabilities	17,100	169,800	64,100	91,400
Other long-term liabilities	4,900	(14,800)	1,700	(5,800)
Net cash flows from operating activities	*325,100*	*434,900*	*537,100*	*656,800*
Purchase of property and equipment	(93,700)	(113,400)	(142,700)	(173,200)
Acquisitions, net of cash acquired	–	(8,500)	(441,200)	(267,500)
Proceeds from divesture	727,900	55,000	–	–
Other cash flows from investing activities	1,300	3,200	5,900	(3,900)
Net cash flows from investing activities	*635,500*	*(63,700)*	*(578,000)*	*(444,600)*
Repayment of acquisition-related debt	(12,200)	(21,800)	(400)	(2,200)
Repurchase of common shares	–	(22,000)	(63,100)	(194,300)
Dividends paid	(157,400)	(155,200)	(155,500)	(154,100)
Proceeds from senior notes	–	–	475,000	–
Borrowings from the revolver	154,000	373,000	545,000	463,000
Repayments of revolver borrowings	(154,000)	(373,000)	(545,000)	(463,000)
Payments of financing costs	–	–	(8,100)	–
Issuance of common stock, net of share repurchases for withholdings taxes	(5,100)	(3,500)	(8,400)	–
Excess tax benefits (expense) realized from exercise of stock-based awards	–	–	–	4,400
Excess tax benefits related to stock-based awards	–	–	(800)	–
Net cash flows from financing activities	*(174,700)*	*(202,500)*	*238,700*	*(346,200)*
Exchange rate effect on cash and cash equivalents	–	26,300	21,200	(25,700)
Increase in cash and cash equivalents	*771,400*	*195,000*	*219,000*	*(159,700)*
Exchange rate effect on cash and cash equivalents and restricted cash	(24,700)	–	–	–
Decrease (increase) in cash held for sale	10,200	–	–	–
Cash and cash equivalents and restricted cash at beginning of period	869,100	–	–	–
Cash and cash equivalents and restricted cash at end of period	1,640,500	–	–	–
Cash and cash equivalents at beginning of period	–	669,400	450,400	610,100
Cash and cash equivalents at end of period	–	864,400	669,400	450,400
Interest paid	53,500	14,000	23,300	21,800
Income taxes paid	122,900	168,300	230,100	122,200

Source: GameStop Corp. (GME)

Exhibit 7. GameStop risk factors

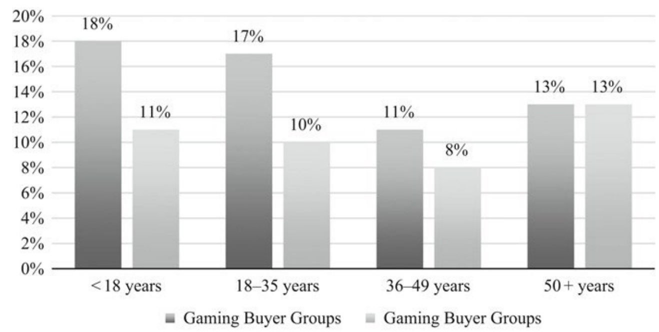
- Economic conditions in the USA and in certain international markets could adversely affect demand for the products we sell.
- The video game industry has historically been cyclical and is affected by the introduction of next-generation consoles, which could negatively impact the demand for existing products or our pre-owned business.
- We depend upon the timely delivery of new and innovative products from our vendors.
- If we fail to keep pace with changing industry technology and consumer preferences, we will be at a competitive disadvantage.
- Technological advances in the delivery and types of video games and PC entertainment software, as well as changes in consumer behavior related to these new technologies, could lower our sales.
- Our sales of collectibles depend on popularity of and trends in pop culture, and our ability to react to them.
- We depend on licensed products for a substantial portion of our sales of collectibles and our inability to maintain such licenses and obtain new licensed products would adversely affect our sales of collectibles.
- Our ability to obtain favorable terms from our suppliers may impact our financial results.
- If our vendors fail to provide marketing and merchandising support at historical levels, our sales and earnings could be negatively impacted.
- The profitability of our Technology Brands segment is dependent in large part on our relationship with AT&T and any material adverse change to this relationship would affect our results.
- Our relationship with AT&T restricts our ability to offer products and services in the USA that compete with AT&T in wireless and wireline communications and a variety of technology businesses.
- We have made and may make investments and acquisitions which could negatively impact our business if we fail to successfully complete and integrate them, or if they fail to perform in accordance with our expectations.
- Pressure from our competitors may force us to reduce our prices or increase spending, which could decrease our profitability.
- Our business could be adversely affected by the loss of key personnel.
- Damage to our reputation could adversely affect our business and our relationships with our customers.
- International events could delay or prevent the delivery of products to our suppliers.
- Our international operations expose us to numerous risks.
- Changes to tariff and import/export regulations may negatively impact our future

financial condition and results of operations.

- Unfavorable changes in our global tax rate could have a negative impact on our business, results of operations and cash flows.
- Restrictions on our ability to take trade-ins of and sell pre-owned video game products or pre-owned mobile devices could negatively affect our financial condition and results of operations.
- Sales of video games containing graphic violence may decrease as a result of actual violent events or other reasons and our financial results may be adversely affected as a result.
- An adverse trend in sales during the holiday selling season could impact our financial results.
- Our results of operations may fluctuate from quarter to quarter.
- Failure to effectively manage our new store openings could lower our sales and profitability.
- Failure to successfully execute our strategy to close stores and transfer customers and sales to nearby stores could adversely impact our financial results.
- If we are unable to renew or enter into new leases on favorable terms, our revenue may be adversely affected.
- We rely on centralized facilities for refurbishment of our pre-owned products. Any disruption to these facilities could adversely affect our profitability.
- If our management information systems fail to perform or are inadequate, our ability to manage our business could be disrupted.
- If we do not maintain the security of our member, customer, employee or company information, we could damage our reputation, incur substantial additional costs and become subject to litigation.
- Litigation and the outcomes of such litigation could negatively impact our future financial condition and results of operations.
- Legislative actions and changes in accounting rules may cause our general and administrative and compliance costs to increase and impact our future financial condition and results of operations.
- As a seller of certain consumer products, we are subject to various federal, state, local and international laws, regulations and statutes relating to product safety and consumer protection.
- Our Board of Directors could change our dividend policy at any time.
- We recognized substantial impairment charges in fiscal 2017 and any future impairment charges on our goodwill and intangible assets could negatively impact our results of operations.

Exhibit 8

Figure E6 Gaming buyer groups



Source: ESA (2017)

2. *Analyze the company's operations and market research to determine whether GameStop has an existing competitive advantage, or a potential new competitive advantage.*

   On the surface, trends in the video game industry should have looked promising for GameStop. In a 2017 study from the Entertainment Software Association, 67 percent of US households owned a device that was used to play video games. With that, 65 percent of US households were home to at least one person who played three or more hours of video games a week. The annual amount of money that consumers have spent on video games increased from $17.5 to $24.5bn in a six-year time span (2010–2016), and 54 percent of gamers felt that computer and video games provided the most value for their money because of the vast amount of content and hours of playability compared to traditional entertainment methods, such as television and board games. While this typically would show very promising signs of growth in an industry where GameStop had dominated for many years, there was one trend that had been the key factor in the closings of hundreds of GameStops worldwide: the rise of digital downloads. In 2010, physical sales accounted for 70 percent of total game sales. Digital downloads were still relatively new to the industry, and only used for computer games through a then-new downloading platform called Steam. However, by 2016 sales from digital downloads made up 74 percent of game sales, with physical sales totaling 26 percent – a shift of 44 percent in only four years.

   It is important to consider the concept of the RBV of the firm, and the three key types of resources: tangible resources, intangible resources and organizational capabilities. Determining whether the internal resources are valuable, rare, difficult to imitate or whether they are organized in a way that can be exploited can help a firm sustain a competitive advantage. GameStop's profile might look like this.

Key findings from RBV

Customer loyalty:

- While GameStop had been struggling with the shift to a fully digital market, it still had an audience who bought physical games and other memorabilia at its locations. GameStop had a strong brand portfolio of physical gaming items, such as clothing and other apparel based off popular video games, a large quantity of used games that are difficult to find in today's gaming market, and a loyal customer base. While many new age gamers had shifted to buying their products from Steam, Xbox Live and the PlayStation Network, older customers who had created a cult-like following of games went to GameStop to purchase external memorabilia relating to their favorite products.
  Customer satisfaction:
- GameStop employees were passionate about the gaming industry, and there was a certain demographic of clients who went to a store just to socialize about gaming products with knowledgeable workers, not dissimilar to the once prolific comic book stores.
  Managed capital expenditures wisely:
- Shown in its operating expenses, as game sales shifted to digital sales, it was able to stabilize profits by closing stores and have used its extra cash to invest in more gaming memorabilia for die-hard fans.

VRIO

A VRIO analysis is conducted to understand whether a firm possesses a competitive advantage. The objective of this analysis is to find various resources and capabilities that could materialize into a temporary or sustained competitive advantage. These attributes are grouped to find any that are Valuable (V), Rare (R), Inimitable (I), and Organizational (O) (Table II).

3. *Conduct a financial analysis. How does this inform the growth potential for GameStop?*

Table II	VRIO analysis for GameStop				
Resources and capabilities	*Valuable*	*Rare*	*Difficult to imitate*	*Organized to exploit*	*Competitive implication*
Offer diverse physical copies of video games	X X				Competitive parity
Product offering coupled with employee expertise	X X X	X X			Temporary competitive advantage
		X X			
Large trade-in service that lets customers get money back for selling back games					Temporary competitive advantage
Loyal niche following that buys gaming memorabilia unique to GameStop			X X	X	Unused competitive advantage
Financially sound practices turning stores into memorabilia centers focused on selling physical products that cannot be substituted for technological shifts					Sustainable competitive Advantage

Several exhibits in the case provide students with financial data from which they can complete analyses to better understand the current financial position of GameStop (see Exhibits 1 and 7). Students should be able to identify several trends in GameStop's financials:

- GameStop's Net Income, a measure of profitability, has decreased significantly (248 percent) from 2016 (402,800) to 2019 (-673,000).
- Although GameStop's net sales have not changed significantly from 2017 to 2019, its operating earnings in 2019 created the net loss in 2019.
- All of GameStop's profitability ratios (ROA, ROE and ROI) have seen sharp declines since 2016.
- GameStop incurred debt for the first time in 2019.
- GameStop's stock performance (and thus, the company's value) has decreased in opposition to the S&P 500 Index and the Dow Jones Specialty Retailers Index since 2015.

4. *Conduct a competitor analysis and develop a strategy canvas for the industry:*

a. *as it currently stands*; and
b. *future potential*.

Major competitors in the video game industry

The case outlines two segments of competitors in the video game industry: brick and mortar competitors including Best Buy, Walmart and GameStop; and online competitors including Amazon, PlayStation Network, Xbox Live and Steam. The case highlights advantages for each competitor, providing information on how each competes in this highly rivalrous industry.

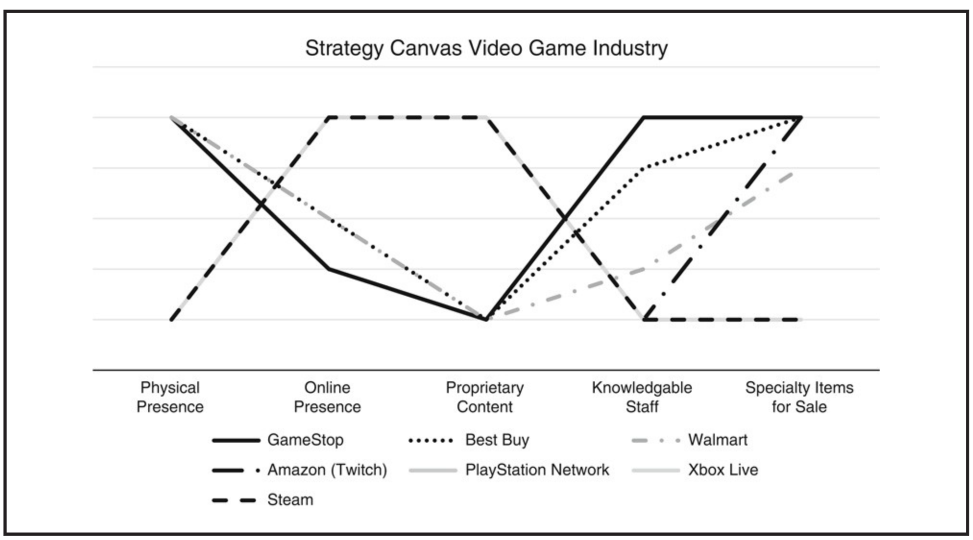
Strategy canvas

While some of the nuances of a blue ocean strategy are overlooked by undergraduate students, one of the tools introduced within the blue ocean framework is the strategy canvas, which is a useful visual to portray the competitive landscape in a particular industry or segment. The industry GameStop competes in is one that students often understand enough about that they are able to develop sound strategic insight in building a strategy canvas. The central idea is for students to focus on the main competitive factors for the industry. Instructors should spend time defining and discussing the different factors, and how those factors can change over time. For example, where as a physical storefront used to be a critical component for success, technology and online storefronts have made the physical storefront somewhat obsolete. An example strategy canvas is provided in Figure 1.

Note

An instructor wanting to delve further into competitive analysis could use the *Harvard Business Review* article below to extend the discussion:

Figure 1 Strategy canvas for the video game industry including key factors of competition and major competitors



i. Ryall, M.D. (2013), “The new dynamics of competition”, *Harvard Business Review*, Vol. 91 No. 6, pp. 80-7.

5. Use the AMC (awareness, motivation and capability) framework and consider the competitive dynamics at play for GameStop. How does this impact its future positioning?

Competitive dynamics

The AMC framework for competitive dynamics is conducted to determine how a firm reacts to competitors and changes in the industry. The objective of this framework is to evaluate how competitors’ reactions to industry change effect strategic changes by the company being analyzed. This is broken down into three categories of awareness, motivation and capability.

Awareness

GameStop is aware of the increase in digital downloads which has led it to shutting down 2–3 percent of its stores. Competition from Sony, Microsoft and other big-name players has forced it to reevaluate what its main business model is. While it used to be the middle man in the gaming industry, GameStop is being forced to reevaluate where it operates within the industry.

Motivation

Given that GameStop’s profits derive heavily from the sell and re-sell of physical games, this change could affect its profitability in a key way. While major players have continued to move more toward digital downloads, this presents an important issue for GameStop to solve giving strong motivation for it to adjust its strategy.

Capability

Due to GameStop’s late reaction to this industry change in comparison to Sony and Microsoft, GameStop’s profits and cash flow have been in steep declines. It does not have a lot of resources to significantly change its business model. However, with the sale of multiple stores, this could provide some working capital and capabilities for GameStop to work with in addressing this competitive change in the marketplace.

This analysis should inform student’s assessment of how GameStop is currently positioned and how it may re-position itself going forward (see Question 6).

6. Based on your analyses, what should GameStop do? What business is GameStop in today and how should it compete? What are GameStop’s core capabilities? What strategies have GameStop’s leadership tried in the past, and how successful have they been? What additional strategies might you suggest?

To craft a sustainable competitive strategy, GameStop has to assess its ability to contend with many existing and emerging competitors. The question of how to compete in a given business to attain competitive advantage requires an assessment of the types of competitive strategies, including the three generic strategies that are used to overcome the five forces and achieve a competitive advantage (cost leadership, differentiation and focus strategy).

Encourage students to utilize information gained from the discussion of the internal and external environment to develop their own ideas of GameStop’s current strategy and which strategy they think it should pursue going forward, and why. Their answers may include some of the points below.

Value proposition

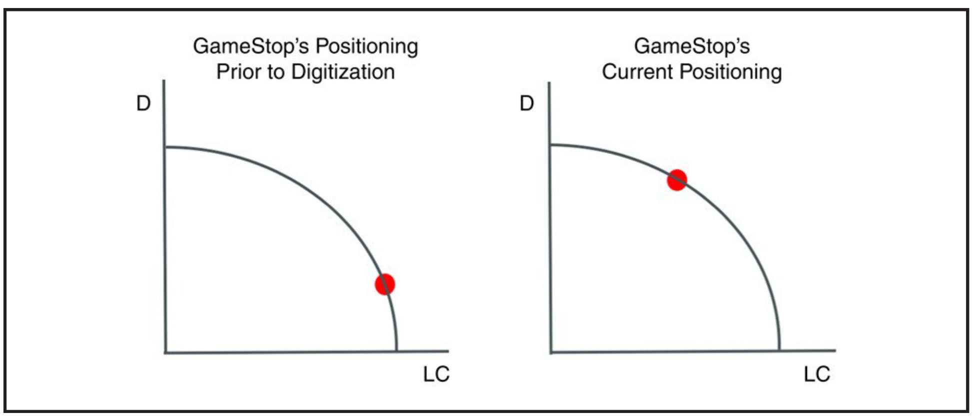
The ability for a business to grow and become profitable depends upon what it can do better than others. This is often referred to as a firm's competitive advantage or value proposition. Porter's two generic business strategies are cost leadership and product/ service differentiation, with both requiring competitive advantages to be successful. After comparing GameStop against its competitors in the video game industry, the company is pursuing product/service differentiation, stating its value proposition as:

GameStop's multichannel strategy is to maximize engagement, loyalty, and revenue, by offering customers choice and convenience.

The market research produced an overwhelming consensus that product/service differentiation will be the right path forward for GameStop. With changes in technology, it likely will not ever get its middle man status back with physical games, so its survival depends on leveraging the physical services that remain. Fortunately, the memorabilia it offers is unique and caters to a specific audience that is loyal to the company.

In our pilot, students showcased how the environment and GameStop's positioning has changed over time (see Figure 2) where the "D" represents differentiation and the "LC" represents low cost. Instructors can draw or show this to generate further discussion. Discussion should be driven by how the students frame or prioritize the problems GameStop faces. In our pilot, students came up with recommendations that focused on repurposing stores – some centered on exploiting the collectibles, acknowledging the need to eliminate further storefronts. Other groups looked to turn the stores into an arcade-type

Figure 2 Analysis of Gamestop's past and current positioning



lounge, focusing on game play rather than game purchase. Others wanted GameStop to refocus on the hardware, toward the PC-gamers and building capabilities. Overall, the focus was on how to differentiate in a way that creates value in today's marketplace.

Discussing growth

Instructors can go beyond how GameStop should position itself going forward by also bringing in corporate strategy discussion topics. Here, the focus would land on one of three avenues:

- Channel extension – students who believe GameStop need to invest in its online capabilities and offerings may land on channel extension as a path forward.
- Range extension – adding new services to maintain contact with customers throughout the product life cycle. This includes revamping the stores to incorporate more play space or the extension of its memorabilia.
- Global extension – would GameStop see different opportunities if it were to look internationally? Many of the external factors that GameStop faces are not specific to the USA, but are global trends. However, depending on how students suggest repositioning GameStop, some elements of global expansion may be relevant. For example, students that re-envision GameStop as more of an entertainment venue for gamers or developing its VR offerings may also suggest global reach.

Case wrap-up

To conclude the discussion, the instructor might ask students to brainstorm what could be the next technology change to the video game industry. Just as the case outlines the shift to digital downloads, the instructor might then lead a discussion related to next steps in terms of what GameStop and others in this industry would need to do in order to compete amid this technological shift.

The case session can wrap up with emphasis on how shifts in the external environment can make or break a strategy, and the importance of developing and delivering a unique value proposition to compete amid these changes. The instructor should revisit some of the suggested "solutions" for GameStop, and ask students to think about how these solutions would withstand external shifts, and how these deliver on GameStop's unique value proposition.

With the imminent rise of digital downloads, and next-generation consoles on the horizon, it will be interesting to see the direction GameStop goes with its product offerings.

Additional resources

1. Additional information on the company is available at the corporate website at: http:// news.gamestop.com/
2. For an updated version of GameStop's annual meeting materials and files, please go to: http://news.gamestop.com/proxy-online-0

3. An instructor wanting to go deeper with competitive dynamics may assign students the following academic articles:
    a. Chen, M.J. (1996), “Competitor analysis and interfirm rivalry: toward a theoretical integration”, *Academy of Management Review*, Vol. 21 No. 1, pp. 100-34.
    b. Chen, M.J., Su, K.H. and Tsai, W. (2007), “Competitive tension: the awareness- motivation-capability perspective”, *Academy of Management Journal*, Vol. 50 No. 1, pp. 101-18.