

The Story of GameStop

- by Nadia Oxford
- July 19, 2010 09:13 AM PT

The story of how the brainchild of two Harvard students who got \$3 million from Ross Perot almost thirty years ago evolved into what's become the world's largest video game retailer, GameStop.

We do not sell used games purchased from consumers as new. We do, however, have a strict control process in which associates are allowed to check out one item of store merchandise for personal use for up to four days. This policy was put into place to ensure that our employees are experts about the products they sell. –Bob McKenzie, GameStop's Senior VP of Merchandising

It's the height of the Saturday-afternoon shopping rush at your local strip mall. For once, video games are the last thing on your mind as you juggle bags from Wal-Mart and mine your pockets for your car keys. Suddenly, your kid starts yanking at the seam of your pants and points. She has caught scent of a strip-mall mainstay: GameStop.

With over 6,500 retail stores worldwide -- as well as GameStop.com, EBgames.com and Game Informer magazine -- GameStop is the most successful video and computer game retailer. People once bought games through independent retailers and department stores. Nowadays, the red-and-white GameStop sign draws in the younger generation the way that the "World of Nintendo" kiosks that once thrived in Sears and Toys 'R' Us mesmerized the Nintendo generation.

Whether games are in the corner of a department store or a dedicated 1,500 square-foot strip-mall shop, the retail appeal remains the same: an oasis of fun in a dreary desert of housewares and toilet paper. But how did GameStop become the No. 1 video-game retailer?

Obvious answers include competitive prices, good selection, and ideal locations that allow you to pick up the latest big release alongside the week's groceries. Less obvious answers involve a hugely successful used-game trade that even Wal-Mart and Best Buy can't touch as well as working closely with game companies to create compelling preorder bonuses, educating parents about the necessity of the Entertainment Software Rating Board (ESRB), and sowing an organized corporate environment that encourages-some would say forces-employees to push preorders and add-ons on hesitant customers.



It Started with Two Guys and Ross Perot

With Crackdown, we sold about 1.5 million copies, but even at that we pretty much only managed to break even. It was due

to the amount of factors that were out of our control as the developer, influences such as GameStop's amazing used-game sales; we know 1.5 million new copies were sold, but it's likely there were 2.5, three million sold when you include used."
–David Jones, Realtime Worlds CEO

GameStop began life as a proposition born of two Harvard Business School students. James B. McCurry and Gary M. Kusin knew that a store that specialized in computers and video games had potential: It was 1982, and some school kids were already pecking away on computers as part of their curriculum before running home to play games on their Atari 2600s. The computer industry, the business students reasoned, could only grow.

Despite their optimism, McCurry and Kusin had trouble finding support for their business plan from venture capitalists. Their break came from Kustin's influential family friend: Texas businessman and one-time U.S. presidential hopeful Ross Perot.

Perot provided McCurry and Kusin a \$3 million credit line for ownership of one-third of the company. He also suggested that they open one store and gradually build the business instead of immediately opening and staffing 20 stores as they initially planned. On Memorial Day in 1983, McCurry and Kusin opened their first electronics store in a Dallas regional mall. They named it Babbage's in honor of Charles Babbage, the 19th-century British mathematician who's also known as the "father of computing."

McCurry and Kusin doted on the store and split duties, including managing the finances, acquiring product from distributors, and opening and closing the store. Babbage's gained a favorable reputation through McCurry and Kusin's business strategy: an easy-to-navigate store design that categorized product and eased browsing, and friendly noncommissioned sales staff who avoided befuddling customers with technical jargon. Between September and November 1983, they opened four more Babbage's in the Dallas area.

The video-game crash of 1983 led to a loss of \$560,000 in Babbage's first full year of operations. But further expansion, private sales of company stock, and the rise of the 8-bit Nintendo Entertainment System (NES) helped the company break even two years later. In 1989, Babbage's went public for \$13 a share. Expansion continued, and the fight between the NES and its 16-bit competitor, the Sega Genesis, helped drive sales.

A Wish Upon a Falling NeoStar

As the '90s drew to their halfway point, Babbage's had grown to 300-plus stores across the country, and it faced stiff competition from electronics superstores such as Best Buy and Circuit City. A merger seemed inevitable if Babbage's hoped to grow, survive, and sell merchandise to gamers, who were taking notice of new CD-based game consoles such as Panasonic's 3DO.

The best merger candidate was Software Etc. Stores, Inc., an electronics chain that began operations in 1984 inside of Barnes & Noble bookstores. The chairman and founder of Barnes & Noble, Leonard Riggio, separated Software Etc. from B&N by 1987 and set up 200 standalone stores in U.S. malls by 1988.

Riggio was unavailable for comment.

Software Etc. specialized in high-end PC and Macintosh hardware and software through most of the '80s and returned to selling video games early in the '90s when game sales were especially strong. The merger between Software Etc. and Babbage's, which wrapped up in December 1994, herded over 700 stores under a new name: NeoStar Retail Group, Inc.

But Babbage's and Software Etc. were one in name only. The different halves of NeoStar Retail continued to operate independently, resulting in a confused wreck. It filed for Chapter 11 bankruptcy reorganization by 1996. Potential buyers expressed interest in NeoStar's assets, but Riggio attended the manager's conference and announced that he and a group of investors would keep NeoStar Retail afloat for the 1996 Christmas season. Riggio also admitted he "hated" the name NeoStar and declared that the rescued stores would operate under the name Babbage's Etc., as he originally proposed. Babbage's Etc. shut down all but 600 of its best-performing stores. The buying frenzy that followed the launch of the Nintendo 64 helped the chain survive.

GameStop Starts

In 1999, Babbage's Etc. underwent some iconic transformations: 20 new stores opened in strip malls under the "GameStop" name. The openings coordinated with the launch of TheGameStop.com (later shortened to GameStop.com), a website that offered approximately 1,000 games and accessories for sale along with game reviews.

Riggio sold Babbage's Etc. to Barnes & Noble in 1999. In spring of 2000, Barnes & Noble won a bidding war against Electronics Boutique, a Philadelphia-based chain founded in 1977, for 400 FuncoLand computer- and video-game stores. The acquisition of Funco helped Barnes & Noble inherit what GameStop is most famous for today: used-game sales. Funco also began publishing the gaming magazine Game Informer. In December 2000, Funco began shifting all its stores to the "GameStop" name.

In 2003, GameStop bought out Gamesworld in Ireland, immediately acquiring 10 stores and gradually opening 40 more. In 2005, GameStop spun off from Barnes & Noble again and prepared for its most significant growth spurt: a merger with Electronics Boutique (renamed "EB Games" in 2000).

With the NeoStar Retail unpleasantness still fresh in the minds of upper management and shareholders, GameStop and EB Games took the merger slowly and carefully instead of jamming the stores together like mismatched puzzle pieces. The two chains operated separately, including separate distribution centers, until the new fiscal year began in February 2006. By the end of that year, GameStop had supplanted the EB name.



Location, Location

Our hours are based on how much crap we can force on people. I work at a relatively lax store, where you won't actually be fired for not selling enough, but that is not a common situation." –Kurt, GameStop employee

One perk that made the acquisition of FuncoLand so desirable for Barnes & Noble/GameStop was FuncoLand's tendency to operate shops out of strip malls instead of indoor malls. While stores based in strip malls might attract fewer customers who have decided to browse on a whim, retailers do enjoy increased exposure, lower rents, and larger store spaces.

Though GameStop seems to stake a claim at every strip mall across America, Bob McKenzie, GameStop's senior vice president of merchandising, says GameStop's real-estate group carefully considers how to best serve a geographic area. "There are pros and cons to indoor malls and strip malls with a business like ours, which is the main reason why we strive to maintain a solid mix of mall, strip, and standalone stores. Indoor malls often offer a higher concentration of foot traffic, but the trade-off may be a smaller store size, higher rent, and less visibility."

And if you like to get your hands on a game before everyone else, you can thank GameStop's flexible hours. "[GameStop] hosts a lot of midnight launch events for popular new games to satisfy the needs of customers," McKenzie says, "and malls are not always able to accommodate such events after regular mall hours."

New vs. Used Games: The Debate Heats Up

Another benefit Barnes & Noble/GameStop automatically reaped after its acquisition of FuncoLand was the used-games trade. At the time of the buyout, FuncoLand made approximately 40 percent of its revenues from buying customers' used

games and reselling them with a much higher markup.

Game developers, however, aren't happy about GameStop's used-games industry. At the 2009 Develop Conference in Brighton, England, Realtime Worlds CEO David Jones claimed that their 2007 Xbox 360 shooter, Crackdown, would have sold more than 1.5 million copies if not for GameStop's used-game sales.

"With Crackdown, we sold about 1.5 million copies, but even at that we pretty much only managed to break even," Jones said. "It was due to the amount of factors that were out of our control as the developer-influences such as GameStop's amazing used-game sales. We know 1.5 million new copies were sold, but it's likely there were 2.5 to 3 million sold when you include used."

Regardless of developers' disapproval, GameStop's push to acquire and sell used games helped the company grow during the 2009 recession. In fact, Best Buy and Wal-Mart both tried to enter the used-game market in 2009 through the use of e-Play kiosks-machines that let users automatically buy and sell used games and movies-and left the complications of inventory management to a third party. E-Play ceased operations early this year, and neither Best Buy nor Wal-Mart has shown any interest in entering the used-games trade since. The collapse of e-Play marked a second failed attempt at selling used games for Best Buy, which had tried once before in 2005.

Wal-Mart and Best Buy's hands-off approach to selling used games may have saved the companies some hassle in the short term, but McKenzie believes GameStop's special attention to the used-game market is exactly what makes it so successful. "We traditionally run trade-in promotions to help drive the launch of a new title or of a new hardware system while creating an agnostic trade opportunity for the customer," he says. "Our 'Buy-Sell-Trade' model gives customers a simple and hassle-free process to trade their unwanted games and receive currency they can put back into the marketplace for the purchase of new games, consoles, and accessories. It helps customers extend their budgets by receiving value for their used merchandise that can in turn be used to purchase new games as well as older titles they may have skipped or overlooked in previous months or years."

Indeed, the 2009 recession was a healthy thing for GameStop's used games trade: Even when times are tight, people need entertainment, and many favored long-lived purchases like video games over a night out with a movie and a steak. The option to purchase a used game for a few dollars less than a new one made gaming even more attractive.

Although Jones may disagree, McKenzie argues that GameStop's used-game model is healthy for the game industry. "[Used-game sales] benefit the publisher community by driving sales of new games that might not otherwise occur," McKenzie says. "It's important to note that 70 percent of trade-ins at GameStop stores are used by customers to purchase new games."

Developers' opinions aside, GameStop has faced other controversies involving the sale and trade of used games. In 2007, Joystiq writer Alexander Sliwinski relayed a story about an encounter he had with a GameStop employee who put a God of War II disc into an empty display case and sold it as a "new" PlayStation 2 game at full retail price. Though GameStop often keeps video-game discs locked away from the public to prevent theft, Sliwinski noted that "open box" items usually sell at a discount elsewhere.

"The problem isn't that GameStop tried to sell an opened item. It's that they'll charge full price for an opened product," Sliwinski wrote. "Yes, some retailers will restock open items, but most places won't take back opened games, and they sure won't sell you an open game as 'new.'"

In April 2009, GameStop caused another stir for allegedly blurring the line between new and used games. Game blog Kotaku spoke anonymously to a number GameStop managers and employees who confirmed that GameStop allows staff to "check out" a game and play it. Checking out a game helps employees get in touch with what's popular, which in turn helps them answer customers' questions-but these checked-out games allegedly were mixed in with the inventory and sold as "new" games.

McKenzie says the sale of used games as new does not happen at GameStop-and is certainly not supposed to happen. "We do not sell used games purchased from consumers as new," he says. "We do, however, have a strict control process in which associates are allowed to check out one item of store merchandise for personal use for up to four days. This policy was put into place to ensure that our employees are experts about the products they sell."

"As a specialty retailer, most of our associates have an interest, if not a passion, for the video-game industry, which enhances their desire for gaming. We encourage all our game advisers and store management to acquire hands-on experience with a wide variety of games and genres so they can help customers select the games and equipment that best suit their interests and needs."

Preorder Game, Get Cool Toy

In the past, it wasn't important to put your name down for a video game before it was available, let alone attend a midnight launch party. But GameStop has helped turn the preorder bonus from a mere extra to an industry standard. While some in the game industry disapprove of GameStop's used-game trade, Mary Bihr, vice president of global publishing at LucasArts, says she understands the mutual benefits of creators and retailers working together to drive up excitement for a game in the weeks before its release.

"LucasArts has a very collaborative relationship with GameStop," Bihr explains. "We work together to select the best programs to support the launch of a product. Often, because of the strength of our brands, we can work on special offers that give our fans something special if they preorder at GameStop."

"[We've] created action figures that celebrate our game, such as the special The Force Unleashed action figure given away exclusively at GameStop. Some of the classic favorites were the Manny push toy for Grim Fandango and a lightsaber key chain."

GameStop's preorder bonuses have been going in a digital direction in recent years, a move that pleases Bihr. "I believe the recent trend of offering something that allows [players] to customize a character in the game with a special item or outfit is a desirable way to plan a bonus," she says. "It's flexible; there is no associated cost of goods and no inventory management. The only requirement is advanced planning and a well-coordinated effort with the studio. We have an ace channel manager who makes sure all of this happens seamlessly."

Sony likewise worked with GameStop on an exclusive digital bonus for God of War III. Gamestop advertised Kratos's "Phantom of Chaos" skin in a commercial where he holds an ominous conversation with the three parts of a chimera and details the composition of his new outfit: snake skin, lion hide, and a goat's skull.

Bihr believes preorders are fun for gamers and make good business sense for GameStop and developers, even when anticipation for a game's already strong. "A good bonus motivates customers to visit the stores and reserve their copies of the game. Are preorder bonuses necessary? I don't believe that they are a necessity, but they do engender goodwill with customers."

Pressure to Sell

But the series of events that lead to a new game and the placement of a little plastic figurine on your desk may hide a dark side. GameStop employees have complained consistently about the relentless encouragement and pressure to push preorders, add-ons, the free "Edge" discount card, and subscriptions to GameStop's own publication, Game Informer. Management sometimes even forces these practices on its employees.

"Kurt," who works in a GameStop in Mississippi, is particularly disturbed by the pressure employees face to make a weekly quota on reserve numbers. "Our hours are based on how much crap we can force on people," he says. "I work at a relatively lax store, where you won't actually be fired for not selling enough, but that is not a common situation. The [Game Informer] subscriptions and reserves we accumulate only count for one week. After that, you start at zero. Also, should someone decide to cancel their reserve, one is subtracted from your week's total. This can easily drive you into the negative, and that's bad news."

Kurt also resents the installation of huge flat-screen TVs, which broadcast "GameStop TV" previews, ads for CBS shows, and interviews with people connected to the game industry by a few loose threads. And in the manner of an Orwellian telescreen, employees can't turn off the flat screen (even Winston Smith at least had the luxury of turning down the volume in 1984).

"My big issue with GameStop TV is that nobody proofreads the scripts," Kurt says. "The dialogue is always riddled with mispronunciations like 'yuck-uza' instead of 'yakuza,' grammatical errors, unwords, or just completely inaccurate information."

But Kurt praises GameStop for providing its employees with "fantastic" insurance, and while he acknowledges that working for a big corporation is inevitably dehumanizing in some ways, GameStop employees sometimes do have a good time.

"Corporate aside, [GameStop provides] a fairly relaxed atmosphere," he says. "We have the luxury of playing pranks on each other. Some notable ones include shrink wrapping everything in sight, making up ridiculously improbable titles and calling other stores for them-my favorite was Resistance: Fall of Madden-and making body outlines on the floor with white stickers for the opening manager to find."

GameStop Thinks of the Children: The ESRB

A few times a year, members of the mainstream media takes a shot at gaming for contributing to the problems of obesity and violence in our culture. GameStop helps counter bad press about video games by taking ESRB ratings seriously in North America and educating European parents about the Pan European Game Information (PEGI) ratings system.

"GameStop is a strong supporter of the ESRB rating system in North America and PEGI in Europe," McKenzie says. "In 2006, GameStop launched a nationwide public-education and awareness campaign to assist parents in making informed decisions on video-game purchases. The campaign is an extension of our ongoing corporate commitment, in concert with the ESRB, and as appropriate, PEGI, to restrict mature-rated video-game sales to minors and to provide age-appropriate content information. GameStop and EB Games also developed RespectTheRatings.com to give customers all the information they need to make the right choices to ensure a positive gaming experience for everyone."

Anyone who hopes to be a GameStop employee should prepare to learn the ESRB's alphabet soup of game ratings. "Our employees are expected to understand the rating systems and adhere to these when conducting business. This knowledge also allows them to provide expert and trusted guidance to customers, especially parents, who may not completely understand the ratings and what they mean."

In February 2010, GameStop Australia helped organize a "Grow Up, Australia" campaign and petition that called for Australian politicians to craft an "18+" rating for video games with mature content. Currently, Australia lacks an equivalent of an "M" rating, which often results in sales bans on violent video games and reduced profits for retailers.

Digital Distribution: What, GameStop Worry?

GameStop's success and influence on the industry is unquestionable, but even the biggest end-game boss at the top of the tallest tier possesses a weak spot. The digital distribution of games and supplemental content has seen tremendous growth in the video-game industry in recent years, and GameStop is certainly not oblivious to the rising demand of downloadable content. As developers are increasingly attracted to the wide, low-cost distribution offered through WiiWare, Xbox Live Arcade, the PlayStation Network, and PC download services such as Steam, the question of whether brick-and-mortar game stores might become obsolete lingers.

McKenzie isn't worried. GameStop, he says, is on track to meet the future. He doesn't see the shift in gamers purchasing more games digitally as a threat to GameStop's dominance. In fact, he sees the rapidly growing virtual market for games as something that can tap into. And McKenzie believes that time is on their side, too-a shift in game content going completely digital won't likely happen overnight.

"While we believe that the chronology of digital-gaming technology will be slow due to broadband limitations and consumer adoption," he says, "the emergence of digital distribution presents opportunities to GameStop as the market leader in video-game retailing."