

# [Gamestop](https://assignbuster.com/gamestop/)

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This report was commissioned to examine GameStop Corporation position as a company in the gaming industry, how they have performed, what industry trends that affect their strategy and any environmental factors that may exist. GameStop is the largest multichannel retailer of video games, hardware, game accessories, and digital PC gaming distribution software company. I this report I will identify and highlight the problems that affect GameStop’s strategy and performance.

GameStop’s primary source of revenue derives from the sale of used videogames, which has experienced a steady decline in sales over the past five years. in relations to declining sales. GameStop’s current business model supports a traditional brick and mortar store concept. The problem with GameStop is that they need to re-focus on their long-term goal needs, since the research on the gaming industry has proven that a shift in gaming preference is changing the industry towards a digital market.

GameStop needs to incorporate a digital market that is based around the mobile and social gaming market or else they will become obsolete. In this report I detail three recommended solutions that GameStop can use to increase sales and remain a viable company. Possible solutions include downsizing store size, offering digital content in stores, modeling their brick-and-mortar stores after other successful online business concepts, and working with publishers in offering customers exclusive content.

Overview GameStop Corp, is a publically traded company (NYSE: GME) based out of Grapevine, Texas. GameStop is ranked number 273 (Previous rank: 262) on the Fortune 500 and S&P list of publically traded companies. GameStop and brands (EB Games, and Micromania Banners) is the world’s largest multichannel retailer of video games, hardware, game accessories, and digital PC gaming distribution software, which can be bought, sold, or traded out of its 6, 700 company-owned stores in the US, Europe, Australia, and Canadian market, and online at www. GameStop. com.

Other GameStop brands include their PowerUp Rewards program, which maintains score purchase points, and offers gaming exclusives, news, coupons, discounts and events at GameStop. The PowerUp rewards a program keeps track of members gaming preference and will promote new games that are similar to the member to entice future purchases. Krongregate (2010) which is an online browser gaming site that allows games to be uploaded and rated by the user; uploaded games are tied back to users PowerUp rewards account.

Gaming users can search for games by ratings, while developers can install features that allow score rating to be visibly submitted along with earned badge achievements to entice users to play their games. On the other spectrum, allowing developers to install this feature would entice developers to register their games with Krongregate, thus allowing users to rate games and promote for the developer. Game Informer Magazine (2000) is a monthly publication that features articles, news, strategy, and reviews of popular video games along with consoles that are best rated per game.

Spawn Labs (2011) enables immediate streaming capabilities of a wide variety of immersive video games from data centers to any internet-enabled device. These games are also tied to GameStop’s PowerUp rewards program. After gaming users try games, they can pre-order it from GameStop. com or you can go to a store with a voucher and buy it, or take trade credit.

Mission, Culture, Values

According to GameStop’s website, the mission is stated “ GameStop is committed to delivering great games to customers, regardless of how and where they play. Whether you game on the go with a mobile device or spend hours console gaming with your guild, GameStop is the number one multichannel video game choice.” GameStop further explains on their website the company’s culture and values which are achieved through their systematic core principles such as

•Staying customer centered through inverted organizational chart with company owned stores at the top of the pyramid.

•Strive daily for a competitive mindset.

•Encouragement for hands-on leadership.

•Take on personal responsibility to its investors, associates, vendor partners and customers.

•Strive to identify and execute new challenges and opportunities that evolve internally and externally in the gaming industry.

Stakeholder Analysis Employees- GameStop benefit communications partnership with Universe Workplace Solutions states that that the company employs approximately 12, 000 full-time and 24, 000 part-time benefit-eligible employees in the United States. A sampling statistic taken from glassdoor. com states that 639 employee’s gave GameStop a scoring of 2. 7 out 5, while 32% has said they would recommend this company to a friend. GameStop truly cares for its employees so much that senior management runs and donates to The Gamer Fund Charitable Organization, which was established in September of 2012.

This fund is to provide temporary relief and meet the basic needs of GameStop associates who are facing hardships from tragic and isolated events. Distribution &Vendors- In last year’s 2011 Annual Report stated that GameStop uses a third party that picks up products from suppliers, then repackages the products for each stores and ship those products to GameStop stores by package carriers by the next morning. Inventory is shipped to each store at least twice a week, or daily, if necessary, in order to keep stores in supply of products. Direct relationships with hardware suppliers and gaming developers are another essential component to GameStop’s business.

The 2011 Annual Report continued to state that “ all new products are purchased worldwide from approximately 75 manufacturers and software publishers and several distributors. Purchases from the top ten vendors accounted for approximately 86% of our new product purchases in fiscal 2011. Only Microsoft, Nintendo, Sony, Electronic Arts and Activision (which accounted for 17%, 16%, 15%, 13%, and 11%, respectively) individually accounted for more than 10% of our new product purchases during fiscal 2011.” Shareholders & Owners- GameStop common stock is available for purchase or sale on the New York Stock Exchange, through stockbrokers or brokerage services on a two-for-one stock split model.

GameStop Corp ownership is listed in order of top holders: Fidelity Management & Research Company; RS Investments; Vanguard Group, Inc.; Royce & Associates, LLC; State Street Global Advisors (US); Invesco Advisers, Inc.; BlackRock Institutional Trust Company, N. A.; AllianceBernstein L. P.; AQR Capital Management, LLC; Mackenzie Financial Corporation. GameStop maintains corporate governance that outlines in detail the roles of elected board of directors. These guidelines allow the board to make decision and oversee affairs that benefit stockholders. Environment- GameStop’s business model to sell and buy back used games reduces waste that may negatively end up back in the environment. In an article by Newsweek they inaugurated GameStop in their “ Greenest Big Companies in America.

The article quoted Paul Raines, GameStop’s chief operating officer saying “ We tirelessly strive to reduce energy and waste in our offices and more than 6, 200 domestic and international stores, because it’s not only good for the world in which we live, it’s simply good business.” Newsweek also goes on to rank GameStop as the 36th out of 52 retailers and 228th out of the 500 companies included on the list of Greenest Big Companies in America. Community – GameStop gives back to the community through various monetary charitable contributions such as the Make-a-Wish foundation, where GameStop donates $1 for every gift card sold. Every year a child is selected to design the gift cards with their artwork to represent the cause.

Local, State, & Federal Government- 31 Los Angeles Lawyer 42. (May, 2008 ) states that GameStop participates in the self-regulating body of the Electronic Software Association (ESRB) as retail council. This voluntary nonprofit is independent of the gaming industry and provides consumers with a rating system for games. There are seven ratings: EC (Early Childhood), E (Everyone), E10+ (Everyone 10 and older), T (Teen), M (Mature), AO (Adults Only), and RP (Rating Pending), which are displayed on the packaging. The back of the video game package also contains content descriptors, which detail elements in the game that triggered a rating.

Financial Performance

Although, GameStop’s earnings period displayed a cash flow increase by 33. 5 million from 2011 to 2012, this is disappointing when compared to the gaming industry, (10-K). According to the NPD Group, Inc., a market research firm (the “ NPD Group”) the video gaming industry made approximately $17 billion in the US alone, through the sales of video game products, excluding sales of used video game products in last year. GameStop’s 10-K filing financial analysis with the SEC shows a gross profit margin for over the past 3 years to have increased from 29. 43 to 31. 44 or 29. 4%.

However, net sales and net income have dropped from 1946. 8 to 1772. 8 and 53. 9 to -624. 3 consecutively as seen in the graph to the right. A weak liquidity contributes towards low current assets compared to current obligations. As seen in Forbes " Ratios and Returns." GameStop Corp (NYSE: GME) GameStop’s current ratio is at 1. 07, compared to industry standard of 1. 54, and the quick ratio is . 20 compared to industry standard of . 80 thus GameStop has insufficient short-term cash funds and has a weak liquidity. In spite of a weak liquidity the accounts receivables ratio is reported favorably high, at 165. 3 than in previous years and in its industry. This indicates that managers have been attempting to collect on billed accounts, which in turn increases cash flow. GameStop has noted in their 10-K filing of Liquidity and Capital Resources that the electronic gaming industry fluctuates amongst seasons, and it reasonably reserves operational funds to support various initiatives.

Cash and cash equivalents are carried at cost, and time deposits are made into commercial banks, money markets, and investment funds holding direct U. S. treasury obligations in order to support GameStop Corp. Although a stable increase in sales has been reported, as noted above, profitability has decreased since 2008 from; when GameStop last issued (the only) dividends to stockholders. In a 5 year analysis the gross margin profit, gross margin, and net margin have all consecutively, thus trending a much needed improvement to net profitability. GameStop has increased their debt, primarily due to reinvesting into resources such as the opening of new stores, mergers, and product innovation. In turn the asset ratio, although not ideal to industry, is in the companies favor. Return on assets and equity is low, and the fixed asset turnover ratio remains stable when compared to industry.

Competition

The computer and software industry is highly competitive and is constantly changing in order to maintain consumer interest in regards to product innovation, delivery, and product type. GameStop operates as a specialty retailer of videogames, within the computer and software industry. Primary competitors include Amazon. com, Best Buy, Wal-Mart, Target Corporation, Kmart, and Toys “ R” Us. While all of these retailers sell new products, GameStop’s main revenue stems from the sales of used products. In 2011, used games approximately generated $2 billion in sales at GameStop.

Aside, from established entities the video gaming industry, rental competitors such as Red Box, GameFly, OnLive, Netflix, and Gaikai are all equally susceptible to declining sales due to downloadable products. In a report by IBIS World on DVD, Game & Video Rental in the US Market Research found that the rental market makes up 41. 4% of industry’s revenue in 2012. In addition, social media games, mobile, and other forms of video entertainment such as wars of wars craft, and other forms of social gaming, apps, etc. are listed as competitors in this market group.

Industry Outlook

In a report by the DFC Intelligence group forecasts that the global market for video games is expected to grow from $66 billion in 2010 to $81 billion in 2016, among all platforms, but mainly through online delivery. In a recent article by DFC Intelligence on the “ Worldwide Market Forecasts for the Video Game and Interactive Entertainment Industry” forecasted a 5 year analysis that attributes steadily declining video game sales due to the consoles sales. However, analysis David Cole of the DFC Intelligence firm has noted that next generation console systems are expected to pick back up by 2014 to 2015, mainly in the mobile and online form.

The article continued to explain that video game trends have shown to increase in the online segment, thus driving down sales and shares of traditional packaged games. Cole has predicted “ By 2017 we forecast 39% of console game revenue will be via online distribution and online revenue sources. In an article from Portal’s Euromonitor on video Games in the US “ Trends” in 2011, says that digital gaming sales in the US grew by 16% to reach sales of US$3. 3 billion. As seen below digital downloads and PC gaming have increased and Euromonnitor projects that digital gaming will grow by 35%, reaching $4. 5 billion by 2016. They further note that the growth will be driven by mobile games sales as they are projected to grow by 75% and reaching $1. 3 billion by 2016.