



Episode 13: Paul Raines, GameStop CEO, on getting ahead of disruption

Transcript

Mike Kearney:

I have two boys—Tyler, who is 16, almost 17, and Cayden, who is 8. And I have been to GameStop over 100 times in my life. You know, listen, it's probably actually more like 200 times. It seems like we would go there once or twice a week, especially about a year or two ago. And I'll tell you, they love looking at all of the new games. They especially love looking at all of the used games. And it's amazing how much time they can spend given the fact that the footprint of the store isn't actually that big. If you look at the GameStop story, just the GameStop piece of their business, you can say, "Well that's an organization or a company that is on the brink of disruption." But that is not the story of GameStop. And what I think you're going to find out, what's fascinating about them, is how they really have diversified their business over the last five years. And an interesting stat that I heard is that in the next few years, only 50 percent of GameStop's revenue is going to come from traditional gaming. Think about that. Most of you probably think of GameStop as going and buying a console, going and buying a physical game. But in only a few years, only 50 percent of their revenue is going to come from that.

They have done an incredible job diversifying their business. Did you know that they own over 1500 AT&T stores? Did you know that they are going big into digital gaming? And the one that really blew me away is that they're consolidating the fragmented collectibles industry. And even though the traditional gaming consoles may be under a bit of disruption, they are still operating very successful flagship stores.

Paul Raines:

Great companies operate with a window and mirror mentality. When times are good leaders look out the window and give credit to their team, but the most important thing is to look in that mirror when times are bad. "What am I going to do today?" And that's really, we're trying to motivate people to look in the mirror. "What are you going to do today to protect this family?" Because the family needs protecting. You know there are wolves at the door all the time—

there's Amazon and EA and all these guys, right? So we have to do the best we can.

Mike Kearney:

Welcome to [Resilient](#), where we hear stories from leaders on risk, crisis, and disruption. We get those stories by jumping on a plane and meeting our guests on their home turf. My name is Mike Kearney, the leader of Deloitte's Strategic Risk practice. I'm also the host of this incredible series of conversations with leaders. I have to tell you, it's probably the best part of my job nowadays. To get on the plane, like I talked about, and go meet these iconic leaders and hear their stories—and hear them in a way that they're oftentimes not told. Authentic conversations that just go, and it gives them the platform to share their thinking, share their stories, share their anecdotes.

And today I'm at GameStop's corporate offices in Grapevine, Texas. And I'm getting to talk with Paul Raines, the CEO of GameStop. He's an incredible leader in my mind. I've had the chance to sit down and talk with him and I just love the energy that he brings to the industry, to his company, the importance that he places on people, and how he really was able to get ahead of all the disruption that is going on in gaming. I think you are going to hear some incredible stories about how they changed their strategy. We are going to hear about the future of gaming—and I know my kids are probably going to like to hear about that. And, and this is really important, being an authentic leader in the gaming industry. Guess what? Gamers want somebody that is a real gamer. I'm going to ask Paul some questions about that.

One thing I'd ask you, if you are enjoying this podcast—and hopefully you are—share it. Share it with your friends, share it with your family. You know, one of the things I mentioned before is that I have a sister who is a high school art teacher. And she said, "I actually like listening to these conversations because it's not just about boring business stuff. There's a human element, there are stories." So, if you like it, do me a favor and share it. Without further ado, from the GameStop headquarters in Grapevine, Texas, this is *Resilient*.

Mike Kearney:

Hey, Paul, you know what? I do a little research in advance and I always like to start it off with kind of a fun fact. I read that you play four hours of games a week, or at least that's what I read. Is that true?

Paul Raines:

Well, I negotiated with my wife. You can imagine what that's like, right? But I negotiated with my wife. For years I've tried to budget myself for four hours of gameplay. Don't know if I'm getting it done as much as I used to, but yeah, that's what I try to do. It's important because when you go to Electronic Arts and they want to tell you how great the gameplay is on Madden, you've got to be able to say, "No, it's not." Or, "Yes, it is and here's why." So we spend a lot of time. Some games are more fun than others for me, as you can imagine, but we try to keep up with everything.

Mike Kearney: I would imagine it probably adds a lot to the authenticity of who you are, being the CEO of GameStop.

Paul Raines: That's true. And remember that our population of associates are very into their products. They don't just casually sell games. We just came out of a conference in Anaheim where we had 7,000 managers in a room and there's people in that room who Zelda is their life. There's a new Zelda coming from Nintendo and it's their life.

So people have these incredible emotional commitments to these games. Of course, that means that we've got to be authentic and we've got to communicate with our customers. So that's a big part of that.

Mike Kearney: What are some games that you like playing?

Paul Raines: Well, I've always played a lot of the sports games with my son, who's now in college at Georgia Tech. But he and I used to play a lot of sports games. NBA 2K is great. But I've always said I've loved Uncharted series, Uncharted's Nathan Drake is a Sony title. It's fantastic. It's kind of a Raiders of the Lost Arc meets Indiana Jones kind of title. So that's fun.

Then I like a lot of phone games. We've got a mobile game publisher called Kongregate. We're currently out in the market with something called Animation Throwdown. So that's a fun game.

What else? Song of the Deep's a title we're publishing. So that's fun. But no, I like a lot of games. The issue I have is just time. Getting enough time to play them all is tough.

Mike Kearney: I have to ask because my sons play quite a bit. I've got an 8- and almost 17-year old and they're always online. Do you ever play against other kids that are online or other adults that are online—?

Paul Raines: I do. I used to play more, but I used to play Call of Duty. Go back to Modern Warfare 2, when I was really into multi-player with my son. And there was a guy online—you know, part of the problem with multi-player is that you respond and then you get killed immediately.

Mike Kearney: If you're not super good.

Paul Raines: Well, there was some kid named "Pork Fat" who would shoot me down. So I'd go to Activision and I'd always say, "I gotta have some weapons 'cause Pork Fat is chewin' me up." So we tried to find a way to spend digital currency for some special gunships and stuff. I never could get anywhere with—

So Pork Fat, if you're out there, dude, you're killin' me.

Mike Kearney: That is probably the most classic line I've heard yet. The reason why I asked is I was always thinking would the kid on the other side know that they're playing the GameStop CEO?

Paul Raines: Probably not.

Mike Kearney: That's what makes it funny.

Paul Raines: My call signs are not anything ...

Mike Kearney: Not GameStop CEO?

Paul Raines: No, not GameStop CEO.

Mike Kearney: They probably wouldn't believe you. So, Paul, give us a bit of background before we get into some of the serious questions. Where did you grow up? Where did you go to school?

Paul Raines: I was born in Costa Rica. People don't realize that. My mother was from Costa Rica. My dad was a US Navy military; 26 years in the US Navy. He actually was a Navy chief most of that time. He invented a camera in the Korean War and got a commission for it—

Mike Kearney: Wow.

Paul Raines: So that was very interesting. I grew up sort of a Navy kid, but every summer they would send me to Costa Rica. I got to spend every summer for 12-13 years in a place called Barrio Cordoba in San Jose, which is not a high-end part of town. It was sort of a modest neighborhood, but I have great friends from that time and it really helped me understand a lot of the humility that you have to have in this world, a lot of things.

One of my closest friends from that time, aside from my cousins and everyone else, is the CEO of a major cement company in Mexico today. So we stay in touch. I was just in Costa Rica in July. So my kids are very Costa Rican influenced as well.

But then I grew up—probably Atlanta is my home. I went to high school there and went to Georgia Tech, I'm very proud to say.

Mike Kearney: Ramblin' Wreck.

Paul Raines: Yeah, Ramblin' Wreck. Today I'm on the board of the Georgia Tech Foundation so I'm able to participate in stuff we're trying to do and go forward.

As I say, my mother's from Costa Rica. My dad was a very global good ole' boy from North Carolina. He went around the world three times, but if you heard him talk you'd say, "This guy's as North Carolina as it gets."

My mother was a wonderful woman who came to the US back in the days when diversity wasn't really a subject. So you can imagine what she faced being a Costa Rican in Fayetteville, Georgia, where there's probably no Hispanics for 50 miles in any direction. So that formed me, shaped me a lot.

I was an only child. No brothers or sisters and have been very fortunate in my career.

Mike Kearney:

So before we get to GameStop, talk about your time at Home Depot. What you learned. How it developed you as a leader.

Paul Raines:

Sure. I was running a sourcing office for L.L. Bean, which is a great company and a very values-driven company based up in Maine, but I was running a sourcing office in Costa Rica. I had gone there to do that project and it was going very well. But I knew a lot of people at Home Depot, being from Atlanta, alumni of the consulting firm I had worked at earlier.

They had a project in Chile that was not going well. They had a lot of plans to grow into Argentina as well. So I flew down to Chile and interviewed with Arthur Blank and they convinced me that we were going to do hundreds of stores in South America and that they needed help.

My wife happens to be from Chile, which didn't hurt. So we took the job and moved to Chile. I was sort of a general ops guy doing a lot of things. Working one week in Argentina, one week in Chile. And things went well.

Unfortunately, we had a CEO change, so Arthur Blank went away and Bob Nardelli came in. At the time, Arthur was still with the company, but Bob wanted to set his own agenda. And we also had a very severe devaluation in Argentina.

I say that because, when you're in a retail business, your demand usually doesn't dry up overnight. But in Argentina, our demand dried up by about a factor of a third of what it was during the devaluation. So Bob was faced with that and we had to really do a lot of things quickly. Bob chose to sell both companies in Chile and Argentina. So that was tough.

I was able to relocate back to the US. Worked there many years. I worked in store operations. I went to the field. Probably the most important thing that happened to me was in 2004 when I was running the Florida region. If you remember that year, we had four hurricanes in Florida in one year. I just showed some maps of this to our team at our annual conference, but that was a massive challenge for a guy who—I'd been a regional VP for about a year and a half.

Home Depot, the culture is close the stores late before the storm gets there and get them open quickly—

Mike Kearney: As fast as you can—

Paul Raines: —because if you don't, customers will knock the doors down to get there. So we learned a lot there. I was promoted to president of a division. Faced Katrina the next year. Then got promoted to executive vice president of operations reporting to Frank Blake. I think my last—probably year and a half there.

I think I learned a lot. That is a great company. It has a tremendous culture. Tremendous. One of the things I learned though, is that you need to be able to drive change but also retain the old culture. Driving change without retaining the old culture is unproductive and creates a lot of disruption.

Mike Kearney: I'm sure we're going to be coming back to the culture question when we talk about GameStop, but let's pivot to GameStop. I think many people listening probably don't understand the scope of the GameStop portfolio of companies now. What you guys are bringing. Can you maybe spend just a few minutes talking about the company?

Paul Raines: Sure. GameStop, we call ourselves a global family of specialty retail brands that make the most popular technologies affordable and simple. There's a lot of work that went into that, but bottom line. When I got here—I remember this very well—September 5th of 2008. I think that was a Sunday. When I got here our chairman, former CEO, Dan DeMatteo, told me, "Listen, I had a trip planned I was gonna try to do in between companies." He said, "Listen, come and work a couple weeks 'cause you have to go to our annual conference."

I thought, "Well, this is another boondoggle where CEO talks, CFO talks." GameStop's conference is very different. At that time it was 4,000 raving gamers, a lot of Sony and Activision and Microsoft.

I learned that the culture at GameStop is very unique. Today we are about a roughly \$10 billion business, if you add in all our digital revenues. We're in 14 different countries. We operate 7,000 stores between our gaming division and our technology brands division, and we can talk about that.

We also have a lot of online platforms. GameStop.com, of course. ThinkGeek.com is a new acquisition. All 14 countries have their own platforms. We also own a very interesting magazine called Game Informer, and it's the number four magazine in the United States.

Mike Kearney: It's at my house all the time.

Paul Raines: That's great. Glad to hear it. We own Simply Mac, which is an Apple dealer inside our technology brands business. We are the largest dealer of AT&T with about 1,500 stores. A lot of people think AT&T owns all those stores. They don't. They own about half of them and then dealers own the rest of them. So we're the largest dealer.

We also own and operate Cricket, standalone, prepaid phone stores. Those have been very successful and we have Cricket service in 3,000 GameStop stores. So we've tried to integrate them.

So there's a lot of things, a lot of moving parts there, but we're a complex, large, diversified company today. Much more so than when I got here.

Mike Kearney:

In some respects, if you had continued the business model that you had several years ago, your business would have been under a lot of pressure. So there was an inflection point at some point in time where I think you said, "We need to change our strategy." Can you maybe explain the thinking that went into that and how you began then to make the acquisitions of the AT&T stores or some of the other decisions that you've made? Because in some respects, and this is what's fascinating to me because I love studying disruption, you almost staved off disruption—not by what you're doing today—but decisions you made several years ago.

Paul Raines:

That's right. In some ways you might say we self-disrupted. So when I got here in September of '08, I came here as COO. Dan DeMatteo was our CEO. He and I, we spent seven months talking about this, and one of the great things about Dan is his history is filled with strategic turns and twists.

If you look at the history of GameStop, the company came out of the fusion of Babbage's, Software Etc., and a company here in Dallas called NeoStar. They were brought out of bankruptcy.

Dan sent me down and the board said, "We have to do a real understanding strategy of where this company is, where it needs to go." So we did a very significant, strategic review of the company through that fall of '08.

Coming out of that, a lot of things became readily apparent. Number one is we had to have a loyalty program. If you go back to '08, at the time they weren't as in vogue maybe as they are today, but you could see and I worked a lot on loyalty at Home Depot. Never was really successful in selling it well, but we had done a lot of work at Home Depot on this.

When I came here, clearly we had to do a loyalty program. So we launched PowerUp Rewards. We budgeted it in the fall of '08 and began work in '09. Today it's easily the most successful loyalty program. I think 47 million. Where are we at? Fifty million already.

Mike Kearney:

Great. Wow.

Paul Raines:

Every time I turn around we've got more. Fifty million members. And we use it in a variety of interesting and unique ways. If you're PowerUp members, you know how that works. You're getting e-mails all the time from us, et cetera.

The other thing is we saw that the business was moving towards digital platforms. So we had to make a play into some digital properties. So we funded an organization out in California called GameStop Digital Ventures. We brought in some iBankers and they helped us get a look at a lot of deals. So we made some acquisitions.

Probably the most important one was Kongregate. Kongregate with a K, based in San Francisco. And they have become a leading mobile game publisher. It's a very interesting property and we've been successful there.

We also did some other deals. We bought some properties in the Facebook social game space. We did some PC download business. We got into the PC download space with Steam, who's a leader.

We also created a technology with Microsoft and Activision to sell digital content in stores. This is a great story. I don't know if I have time for it, but we believed that there was a way to sell digital content in our GameStop stores. It's counterintuitive. People don't understand how it works. How is this possible? You're crazy.

We went up and down the coast. Tony Bartel, our current COO, and I went up and down the West Coast pitching it to everybody. Microsoft told us it couldn't be done. It was impossible to do. Jeff Donaldson, one of our previous employees, went up there with what I call the pointy shoe Mafia, which is a bunch of IT guys. You can imagine. Pointy shoe Mafia; young guys.

They sketched out over the course of a couple weeks how to do that with Microsoft.

Mike Kearney: Was there a concern that technically it couldn't be done?

Paul Raines: Technically. Technically we couldn't do it—

Mike Kearney: Oh. So it wasn't a demand issue.

Paul Raines: I think most people said, "There will be no demand." Microsoft said, "Even if there was, you guys don't have any way to do it." So what we created was a code depository inside of our own systems. So what they do is when you come and buy a physical game, we sell you the add-on DLC, downloadable content.

The big hit was—well, before that. So we created this content with Microsoft and they said, "Oh, it's interesting. Okay. We can do it." We developed it. Then we had to find a title to publish. We went to Activision and they're the first ones, to their credit, Modern Warfare 2 was the game we did it with. They created and we sold hundreds of thousands of digital add-on subscriptions.

The way that works is you come in, you buy Modern Warfare 2 and our associate in-store says, "Hey, Mr. Customer, for \$14.99 you can get four more

map packs that release every three months.” You buy it and you get a code printed on your receipt and you get an e-mail sent to your PowerUp rewards app on your phone.

So you can literally activate and start downloading the digital content to your Xbox before you leave the store. People thought it was crazy. Today we do over a billion dollars in digital revenues.

Mike Kearney: Wow.

Paul Raines: So it’s not just DLC. There’s PC downloads. There’s, of course, game publishing of all kinds.

So the company has found ways to really transform. I call that GameStop 1.0. That was probably 2008 to 2010-is, ’11-ish maybe.

Mike Kearney: On the PowerUp rewards, what’s interesting to me—and I don’t know if there’s any thoughts or insights—is that you’ve become the biggest. But you’ve also sold, let’s say to my son, who at the time I guess would have been 10 years old. But he understood the value of becoming a member and then would push for me, “Hey, Dad, can you sign up and buy into it?” It was so simple that you could get young kids to understand the value and impact of it.

Paul Raines: That’s right. It’s a simple program. Mike Hogan, who is our current EVP of multiple things, new businesses, and so forth. But Mike had just come into the company as a marketing VP. He’d done a lot of market research.

One of the things he discovered was that people really liked discounts on our preowned games and they really liked getting extra trade credits.

We had run an Edge Card for years that did that, but it was really the way we packaged it and put it together with the magazine that was really interesting. We added points to the program.

I was just looking at this yesterday. I looked at some of our old in-store ads that we used to run. We also did a tremendous job of selling it as the ultimate way to be an insider on the gaming front. People forget—

Mike Kearney: Like you’re the cool kid now.

Paul Raines: You’re the cool kid now—

Mike Kearney: You’re inside—

Paul Raines: You’re a PowerUp pro member, man. People forget. When we launched this thing, all our competitors were trying to do gaming. Best Buy, I think they still have some gaming programs. Very small. Walmart’s trying to do something.

When we launched this thing it was really sort of one more program and today it's by far the dominant program.

Mike Kearney:

So let's go to GameStop 2.0.

Paul Raines:

So that was GameStop 1.0. I think it was successful. Along the way we got a console cycle that helped us.

So one of the things about GameStop that you'll see is, over history, we're very cyclical based on the console cycle. It's hard to change that. We don't control the manufacturers, et cetera, but we do a great job of launching their product.

We launched the next console cycle I think in '12 or '13. At that point we had great growth. Our share price went up. It was great. We had good sales. DLC was going well. Digital was going well, but we foresaw what was coming, which was this year. It may have arrived a little earlier than we thought it would, but we were foreseeing the fact that we would be in a tough trench really of demand cyclically before the next version of consoles came out.

So we've been working on this diversification strategy for quite a while. What we saw was, we did a lot of market work around what's adjacent to our core gaming business. The first one was that there was an Apple ecosystem and there was a lot of rural markets that didn't have Apple stores. If you wanted to buy an Apple product and get service for an Apple product like yours, you had to go to Best Buy.

So we were looking for an Apple business. We found one in Salt Lake City, Utah, called Simply Mac—had seven stores and they were running a process that we could participate in. We went there. We liked the stores. We tried to acquire the company and were not able to acquire all of it. Apple wouldn't let us.

So we had to run it for a year and try to show Apple how good we were and we were going to build out a national footprint. So we built out a lot of stores. We ran good stores.

During the process, the guys who sold us the Simply Mac stores, the private investors, also happened to own a bunch of AT&T stores. It's a company called Spring Mobile. Jason Ellis and a good ole' entrepreneur in Utah named Vern Dickman.

One day, we leaned over at a board meeting and said, "Hey, would you ever sell us the phone business? Just think about it." And so forth.

We, of course, on the work that we had done, we knew that the mobile space was adjacent also, but we never dreamed we could get into the mobile space. It was one that was exciting. We talked to Verizon a lot. We talked to AT&T, but we never got anywhere.

So there was this opportunity to buy Spring. We finished buying the rest of Simply Mac and then we turned around and we brought Spring.

Now, here comes the key decision point. When we bought Spring, you have to get AT&T approval for that.

Mike Kearney: Sure.

Paul Raines: That's tough because they don't really know Spring. At the time, there were thousands of dealers in the United States and nobody really knew Spring. I looked back into my old Rolodex memory files and said, "Who do I know at AT&T?" Turns out when I was in Atlanta with Home Depot, I had been on a charitable board and the chairman—it was called the Latin America Association—one of the members on that board was a guy named Ralph de la Vega, who's currently vice chairman of AT&T.

So I called Ralph. We got together over here at the Gaylord. We had a meeting. I said, "Hey, Spring Mobile, we'd love to acquire it." I took him through the whole strategy. He says, "I don't know much about them, but let me investigate. But if you're going to do this I need you to help on something else." I said, "What?" He says, "We're starting a prepaid business called Aio Mobile." Nobody remembers Aio Mobile, but that was the original incarnation of the Cricket brand.

So, long story short, Ralph approved us on the Spring Mobile. We became a Cricket dealer.

Mike Kearney: How many Spring Mobile stores were there? Because I know that you've even expanded beyond that since that time.

Paul Raines: They claim they had 70 at Spring. The truth is they had about 45, but they knew they were coming so they went ahead and levered up some debt and bought some stores—

Mike Kearney: Bought some more—

Paul Raines: —because they knew we'd bail them out. But that's okay. They're good stores. They had about 70 when we closed our transaction—

Mike Kearney: And you're at 1,500 now, right?

Paul Raines: About 1,500. It's about 1,500.

Mike Kearney: Many of those that you bought, the folks that owned them owned just a few, right? You essentially consolidated it.

Paul Raines: Exactly. It's a highly fragmented space. I wish I could say we were smart that way, but we didn't really understand the economics of the dealers. But the dealers really have, at the time and this has changed a lot, but at the time they

were highly fragmented. In Spanish in Costa Rica we would say, “Se encontró el hambre con las ganas de comer.” That means that hunger met up with a desire to eat.

You had a lot of things happening at the same time. AT&T needed to consolidate their dealer base because they had all those investments in Direct TV they were making. They needed people who could sell and have professional-looking stores. That’s one. Because the performance of this fragmented base was not good.

Then you had all these fragmented dealers with very little exit strategies and, in many cases, no succession planning. The younger generation didn’t want to enter the business. So they were looking for exits.

And you had us, who had a desire to grow. We need growth in this space. So those three things came together. I’m happy to say two and a half to three years later we’ve done 38, 39 transactions. We just did our biggest one recently and we’ve spent 7-ish hundred million on this.

Then our Australian colleagues—we’ve had a very strong business in Australia for many years. It’s called EB Games, which came out of our merger with EB in 2005. The Aussies, as you may know, are fairly irreverent, sort of independent. I’d say if California was its own country, it’d be like Australia. They do a lot of things on their own, and if it fails we never hear about it. They find a way to keep it from me and the financials. Who knows, right?

But it’s a small enough business that they can test a lot of stuff. They were testing these collectibles. They call it loot. It started as video game adjacent loot, which means, let’s say you’re buying a Batman game. You get a cape. You get a statue, et cetera. It turned into just IP. Whatever intellectual property’s out there. Star Wars and all these others.

They started putting loot in their EB Games videogame stores very successfully. Then they created their own store concept called ZiNG Pop Culture. We saw that and we thought, “Here is a great opportunity for another leg of growth.”

Going back two years, it would have been the fall of ’14, right? Going back two years, fall of ’14, we pushed in about \$25 million of inventory into our US stores. Our team here at GameStop, we’ve got some great merchandising led by a guy named Bob Puzon, who was with me at Home Depot.

We pushed in all this merchandise and it sold like crazy. We were out of stock in half our stores. So we were able to budget for the coming year a lot more of this collectibles inventory and that’s been a tremendous growth story.

So this year we’ll do half a billion dollars in collectibles worldwide.

Mike Kearney:

A billion by 2020 I think I read. That’s crazy growth.

Paul Raines:

Yeah. And the growth was so good that we created our own store model in the United States, which we were going to call ZiNG Pop Culture. Right at this table, right where we're sitting, we had a big meeting one day. Along the way—this is like telling a joke, a funny thing happened on my way to the wedding—along the way we kept looking at market opportunities that are adjacent. Of course collectibles became important on our radar.

Along the way we found this company ThinkGeek.com and we negotiated and bought that in I think it was May-ish of last year. ThinkGeek.com has a tremendously loyal fan base. At the time we bought it, they were a public company, their last disclosed number was 130 million or so of revenue, but tremendously loyal fan base, and they had the capacity to design their own collectibles.

As we brought them in, we realized that ThinkGeek really resonates. As we put that merchandise in our GameStop stores, it really resonates. So we decided, "Do we name these collectable stores ZiNG Pop Culture or ThinkGeek?" Of course our team voted four to one—I won't tell you who the one was—but we voted to name them ThinkGeek. Our European guy didn't want to call them—

Mike Kearney:

Oh I was looking around my shoulder—

Paul Raines:

Our international guy, he didn't want to go with—so along the way we've had some real good fortune. We had a Star Wars license. That's been a great product. We've had great products and we're pitching now all of the studios on a deeper relationship in licensing.

So what we'd like to do is go create three-year deals with Warner Brothers, for example, to do licensing around their movies.

Mike Kearney:

Would it be fair to say that this was almost more of a cottage industry, like very fragmented that you're starting to—?

Paul Raines:

It's still very fragmented. Our share is single digits. We think we can grow this business significantly and I think there's a lot there for us.

Hollywood, it's a high-risk proposition to launch a movie. You can always guarantee some of your success with who you sign to be the actors, but even that doesn't always work—

Mike Kearney:

But even that, yeah—

Paul Raines:

Even that doesn't always work. So it's a risky business. What we do is we go and we propose we're going to do three collectibles and we'll start reserving them in-store because that's how we do video games.

So you come into our store, we're going pitch you on, "Do you want to reserve this game? Also, here's a statue and here's a mini-car from this upcoming movie." Then we will take that demand and show it to the studios and say, "Hey, this movie's going to work or not going to work." So that's been an interesting process.

Mike Kearney: So you're almost able to forecast whether or not, potentially, the movie's going to be successful or not.

Paul Raines: Well, I'm not sure we're ready to say that, but we definitely can forecast if games are going to be successful.

Mike Kearney: Wow. That's fantastic.

Paul Raines: Because remember. We have all the data on 50 million people and we're going to send you a questionnaire on your email. The open rate is high for this kind of thing. We're going to ask you, "Do you think a movie that has X, Y, and Z characteristics makes sense?" We'll find out.

So I think there's a lot of potential there for us. So that's interesting.

Then the other part of this GameStop 3.0 that we have to also talk about is we've gotten into independent publishing. So we created this game trust indie publishing business. We published one game, Song of the Deep. Pretty successful. Now we've got Deformers launching here in the fall.

These are games that are produced by known studios who don't want the baggage of associating with a big publisher. Because along with a big publisher and their money comes creative control and a lot of difficulties to get to the big time retail distribution.

So what we do is we say, "Let's co-invest. We're not going to do any creative control. Just don't give us any vulgarity or anything bad, but we're not going to touch the creative side, but we're going to give you big time distribution." So that's been successful for us.

As I say, we've got mobile game publishing at Kongregate now with a license we have from Fox. There's a lot of interesting things happening in that space.

Mike Kearney: How do you now, today, when you look out into the future, how do you start to get insight or intelligence on what the future's going to look like in five to ten years? I'm curious just because things seem to be changing so fast. Not just for your business, but every business nowadays.

Paul Raines: Absolutely.

Mike Kearney: I think one of the key things that separates great CEOs from maybe not so great are ones that can not only see the future, but also start to make investments

and take risks in order to get there. Is there any secret sauce that you have or anything that you do?

Paul Raines:

It's really a team effort. We spend a lot of time looking at what trends are going on. We are in the technology space, so that makes it extra challenging, but we also have partners. AT&T's got a massive R&D infrastructure. If you think about AT&T, we were talking to them about Direct TV when we made the Spring Mobile acquisition almost three years ago.

So now they've rolled out Direct TV and Direct TV is a huge hit right now and is going to be a massive hit going forward. Things like digital life. Don't forget they have a car initiative that's coming. There will come a time when you can have independent—you can purchase all kinds of content to play in your vehicle.

I think one important thing is stay close to your partners. We go on the video game side, we spend a lot of time with Microsoft and Sony. There's a Sony guy camped out here every week. They're keeping us abreast of what's coming, what's changing.

The flip side is we do a fair amount of consumer research through PowerUp rewards. I can't tell you how important that PowerUp launch was for us. We knew we were rolling the dice.

The other little story here is that we tried to launch a loyalty program two different times here in the past.

Mike Kearney:

Prior to the current one.

Paul Raines:

Prior to the current one. For a lot of different reasons. Well, several of us tried to move on a loyalty program at Home Depot. We never could get past some of the issues that we had. So it's not an easy thing. It's much more than just a coupon and come in and see us and an email address. But we use PowerUp rewards for consumer trends. Where are consumers headed? What would you like to see?

Back when we were launching the new PlayStation 4 and Xbox One, we actually surveyed customers and said, "What features would you like to see?" One of the most important features was 'I want to be able to play my old games.' That's important for us because we sell pre-owned and refurbished product—

Mike Kearney:

Absolutely.

Paul Raines:

So we'd show that to Microsoft and Sony. A lot of this about the consumer, it also involves understanding their needs and having them respond to you with what they're looking for.

Of course we've got to just be constantly on the lookout for—and a ton of consultants come through. We see lots of bankers. As I said, Mike Hogan runs

that for us and our executive staff of Rob Lloyd, our CFO; and Tony Bartell, our COO; Mike Mauler, our EVP of international; and Mike Buskey, who runs the US.

We look at a lot of stuff. We have a monthly strategy session. One of the boards I'm on is JC Penney and they're doing a great job of recovering and getting back to where they were. But Penney has one strategy a year. We have four strategy sessions a year. In other words, every board meeting is like a four-hour strategy session because that's just the dynamic environment we're in.

Mike Kearney: Paul, going back to how you staved off disruption. There's more examples of companies that probably have done the wrong thing.

Paul Raines: We hear about them all the time.

Mike Kearney: We all do. Do you have any personal insight—if you're a CEO, and the fact of the matter is every CEO, because every industry is under some form of disruption, they know the changes that are coming. We're not telling them anything that they don't know. It's just that they choose, potentially, not to take the risks or the big bets at that point in time. What do you think drives that?

Paul Raines: This is really the golden nugget I think on change. I think first thing is you have to drive a high rate of internal change. You must be driving a faster rate of internal change than the environment that surrounds you, and if you're not, you're in trouble.

So we spend a lot of time thinking about what's coming and how do we drive it. Look, we make mistakes. We've made plenty of mistakes—

Mike Kearney: But that's okay. I think it's okay.

Paul Raines: It is. As long as you don't sink the company, it's okay. You don't want to take excessive risk, but I think we've taken some cautious risk. We've learned a lot. I think that's important.

The second point is, you've got to have stability and continuity with your board. That's important. I'm fortunate and blessed in that my old CEO is now our chairman and he was a former CEO of the company and a founder of the company.

We had another founder on our board, Dick Fontaine, who retired. So the continuity and support from them, the ability to have a sounding board. Dan DeMatteo, he has seen every major trend in gaming for 20 years. When you go in and you start talking about something, he's got pretty good judgment. Doesn't always get them all right. None of us do. But he's got pretty good judgment.

So the board relationship I think is very important.

I think the third thing is, though, you have to have trust in the organization and that starts with culture. So the organization has to understand that you are trying to make things better for them.

So you're trying to protect the family. That's very important because we're going to put you through—it's a forced march. When we go into these new businesses, man, everybody's running crazy. We make mistakes, we recover them, everybody's working all night trying to get the stores ready. But the organization has to accept that we are protecting the family first and foremost and that's why we're pushing it. Because if it was easy, we wouldn't be able to protect the family. So I think the trust factor is poorly understood today in corporate America.

Mike Kearney: Can you elaborate? This is one of the topics I really wanted to get into, which is protect the family. When we had talked before it resonated because, when I think of my family and I think of protection, that's one of my number one priorities in life. Their safety.

Paul Raines: Absolutely.

Mike Kearney: So you've essentially used that as a metaphor for all of the people that work for GameStop.

Paul Raines: That's right.

Mike Kearney: And it's very sticky. How do you make that come alive I guess within normal operations? Do you use that language with your employees? How does it trickle down?

Paul Raines: We do. We do use that language. There's lots of dimensions of this. The first one is on the charitable side. We launched something here called the Gamer Fund many years ago. The Gamer Fund basically was an endowment made by myself, senior executives, and the founders of the company. That endowment creates a program that allows us to fund associates in need. Matt runs it. It's a charitable internal charity.

We copied it off something at the Home Depot called the Homer Fund, which is very successful.

Now it's turned into a "you contribute" and that builds the endowment. Now we've added scholarships for employees, college scholarships. We're doing a lot of interesting stuff.

We're very active in the charitable space in other ways: St. Jude, Autism Speaks, Ronald McDonald House. What's my fourth one? Make a Wish Foundation, of course. So it starts with that. I think you've got to create a vision and we communicate it and we talk about it all the time. We're trying to help people.

But the other thing that we also do is we use the language in almost all of our activities. We're trying to protect the family.

The other thing that's not understood well about GameStop is GameStop's been going out of business not just for eight years, but for as long as we've been around. So GameStop has had to make some aggressive moves historically and you have to remind people of that.

I remember a few years ago, I took our employees through it at a meeting, "Don't forget our history. We were a productivity software company. We sold Lotus 1-2-3." Then one day a guy walked in and showed Dan Sega Dreamcast and it's like, aha, bing. There's video games.

Mike Kearney: Much more exciting than Lotus 1-2-3.

Paul Raines: Particularly since Lotus is going away. It's all disappearing. So there was a digital disintermediation that we avoided by moving to gaming.

Then the gaming margins got very lean. So Dan and Dick pursued the acquisition of a company called Funko Land. Funko Land had two incredible assets. One was the Game Informer magazine. That's where it started. Second was they had the technology to refurbish preowned video games.

So when we brought Funko Land in, all of a sudden now we've got a rich margin business.

Back in the day when I got here, a lot of old schoolers sitting back, "Oh yeah. Here comes a guy with some new ideas." So I'm just saying, "Look, it's not new ideas, but the company's been filled with change."

The reason the company did it is because Dick and Dan, Dick Fontaine, Dan DeMatteo, were trying to protect this family. They didn't say it that way, but that's what they were trying to do.

So my job is, I have to continue to protect this family. We're going to do whatever we have to do to protect the family. That does not mean everybody gets a free pass on performance. It does not mean everybody gets to stay here forever. But what it does mean is, if your heart and your head are in the right place, there's a job for you here. We have to find a way to make you more productive, if that's coaching or teaching or training. But we also have to be aggressive with the customer and aggressive with change because that's the only way we're going to survive.

It helps that we get threatened with being out of business every time I turn around. Somebody's got a new thesis on why. There was one today on Motley Fool. "GameStop will be okay for a while." What does that mean?

Mike Kearney: For a while.

Paul Raines: What does that mean? For a while. How long is a while? But we understand that. We accept that.

So I think it's a communication piece, but it's an authentic piece—

Mike Kearney: You believe it.

Paul Raines: I don't need this hassle. It's not an easy job. It's not an easy company to work in, but our team is committed to it. For us, it's become a personal crusade to show the world that not only will we be here, but we will be the most successful over time.

Anyway, so that's what we do and protecting the family is what it's all about.

Mike Kearney: I almost want to acknowledge you because, one of the things I love about these conversations is it's not only necessarily how CEOs have led through these difficult times, but the leadership lessons and the things that they do. This one stands out so much because I think people forget oftentimes that it's the people of the organization which makes them great.

The number one priority that people have is to take care of their own family to support them and do all that. If you've been able, it seems, to create language, I think language really matters. It's fairly evocative that makes people realize, "You know what? I do want to stay part of this family and if I'm going stay part of this family, I'm going to need to change the things that I do." It's brilliant.

Paul Raines: There's that Good to Great and describe the behavior of great companies and it says that great companies operate with a window and a mirror mentality. When times are good, leaders look out the window and give credit to their team. But the most important thing is to look in that mirror when times are bad. What am I going to do today?

We're trying to motivate people to look in the mirror. What are you going to do today to protect this family? Because the family needs protecting, man. There are wolves at the door all the time. There's Amazon and there's EA and all these guys. So we have to do the best we can.

Mike Kearney: So, Paul, I know that two years ago you had a brain tumor.

Paul Raines: Yep.

Mike Kearney: Public, so we're not saying anything we can't. I don't necessarily want to go into that. What I'm curious of is how did it change you as a leader?

Paul Raines: Sure. I think that's an important topic. The first thing I would like to say is I think I received extraordinary care at the Duke Tisch Brain Tumor Center. Dr. Henry

Friedman, Dr. Katy Peters, Dr. Allan Friedman, who did my surgery and their staff, tremendous. The follow-up has been great.

I also go down to Baylor Sammons with Dr. Karen Fink and Dr. Nestor. So I've had great care and I think that's important because not everybody gets great care. I just happened to be in North Carolina. I was at a board meeting with Advance Auto Parts in Raleigh when it happened. So I didn't decide to go to Duke. They took me there because they called my wife and she asked the doctor there in Raleigh, "Where do you take them?" "Well, everybody with a brain problem goes to Duke." So I've had great care and that's been important.

What have I learned? I've always been I think a steady Catholic. I wouldn't call myself a devout Catholic, but I've tried to go to mass and tried to be consistent. But ever since, I've become probably more focused on the fact that we all have adversity in our lives. It's not just me. Some of us have health problems. Some of us have economic problems. Some of us have marital problems. Some of us have a child who's a drug addict. But I think we all face adversity or will face it at some point.

It's not so much avoiding the adversity, because I think the adversity's coming because that's the way the world is. I think it's important how you handle the adversity and how you try to stay faithful and be the best example of somebody that you can be.

So what I'm trying to do here is be an example of someone who's had an illness and who's being treated and successful. My immune therapy works and I'm happy with that. But I'm trying to be an example of how to be a CEO with a weird health problem in your past, but to be an example to others. Because I think one of my most gratifying experiences now is that I'm seeing that I'm able to inspire other people who go, "Oh man, I got this problem, but jeez, compared to him I'm great."

So how has it changed me? I think it's made me more focused on being a good example, more focused on dealing with and accepting my adversity and trying to move forward.

Jamie Dimon, right? He survived some kind of cancer I remember. He's been a tremendous example of how you do that. At the same time, you have to take care of yourself. You have to do all that stuff, but it's been eye-opening and it's made me more spiritual probably as well.

Mike Kearney:

Two last questions. If you could go back in time when you first took the reins as CEO and you'd do one thing differently, what would it be?

Paul Raines:

Boy, there's a lot of things I probably would have done differently. I think—and this is something we used to talk about at Home Depot and I think it's true here—I think I might have moved with a little more velocity even than we have.

I think a lot of new CEOs come in with a lot of game plans and a lot of ideas, but often they get tripped up by different issues, culture, and so forth.

At the same time, you don't want to do any harm. The Hippocratic Oath says, "First do no harm." I think I might have done some harm if I'd have moved in certain areas, but I think probably moving a little faster would have helped on certain issues.

I also think that the board side of our business probably should have spent more time aligning with our board members. Early on, I didn't do a ton of that. I wasn't on the board as a CEO anyway, but I think that was probably something I could have done a little more aggressively.

At the same time, we've done a lot of things well and I'm pleased with some of the things we've done—most of the things we've done. I just wish we could have gotten a few things done a little faster. The loyalty program probably should have moved even faster than it did. Some of the digital stuff probably.

The mobile stuff, it really was serendipitous. I can't say we would have done that any faster. That was a series of events.

And collectibles. I think collectibles probably was a bigger business back in the day than we thought it was.

Mike Kearney:

I wouldn't be hard on yourself at all because I think one of the challenges as you come into an organization are there are those things that hold you back or the bureaucracy or whatever you have to just overcome that. I think you guys have done an incredible job.

Last question. We named this, and I think this is very apropos for you, but we named the podcast "Resilient" because we wanted to talk to resilient leaders. When you think of that word, what characteristics or attributes come to the top of your mind? What makes a resilient leader?

Paul Raines:

Well, I might start with a quote of Calvin Coolidge, former President, who was also a Phi Gamma Delta, by the way, as I was. But Coolidge said, I believe, "Persistence alone is omnipotent. Nothing in the world can take the place of persistence. Education will not. The world is full of educated derelicts." It's true. "Genius will not. Unrewarded genius is almost a proverb." I think the world is there for people who can overcome challenges and be persistence.

So resilience, to me, means you can take a lot of blows and overcome them. You can be positive in the face of adversity and you can keep the vision of what you're trying to do, which is in our case to protect the family. Keep that front and center. That's what resilience is to me.

I don't think we get it right every time, but we don't have to get it right every time. The shareholders don't pay us to know everything. They pay us to learn fast. I think that's what resilience is.

Mike Kearney: You've given me so many good quotes. I appreciate that. Paul, thank you very much. This is a gift of time. You obviously have a big job. I think the last thing I want to say is your employees are very lucky to have you as a CEO.

Paul Raines: Wow. Thank you. I appreciate it. I'm lucky to serve. Don't tune us out yet. We're still working.

Mike Kearney: We're still good consumers and we'll continue to be.

Paul Raines: Okay, great.

Mike Kearney: Thank you.

Paul Raines: Great. Thank you very much.

Mike Kearney: Wow, that was fun. You know, every time I come in contact with a CEO or a leader, I pause and I ask myself a question. I ask myself "Would I want to work with this person?" Invariably I say yes, but today it is a resounding yes. Paul is one of those individuals that brings a nice blend of being a visionary leader, but then also somebody who knows what it takes to take care of his people. And I tell you, I would love to work with someone like Paul because he inspires me.

I want to thank everybody, especially if you got to the end of the podcast, which these are longer conversations. I appreciate you listening to [Resilient](#). As we've talked about before, this is a Deloitte podcast and it's produced by an incredible company called Rivet Radio, and I want to thank them for all of their hard work. If you want to hear other podcasts just go to Deloitte.com or we are on a lot of different podcatchers—iTunes, Stitcher, Google. Just go there and put in the keyword "resilient." I'd ask, if you like this one, once again, go listen to some of our previous episodes. We are really beginning to create a great library of authentic conversations with senior leaders, getting their stories on what it takes to be resilient, what it takes to lead companies through the tumultuous world we live in right now.

And if you have any ideas for other guests that should be on, hit me up on LinkedIn or Twitter with any comments or recommendations that you have. My profile is under Michael Kearney—it's easy to find me, last name is K-E-A-R-N-E-Y. I have been blown away by how much feedback and how much engagement I've gotten via social media. So keep it coming. And remember: leaders who embrace risk improve performance and are more prepared to lead confidently in the volatile world we live in.

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