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BUSINESS | SEPTEMBER 16, 2009

# Blockbuster to Shutter More Stores

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By SARAH MCBRIDE

Blockbuster Inc. is planning to close as many as 40% of its stores over the next two years as the company continues to struggle against new competitors.

The Dallas-based movie-rental company had previously planned to close 1,000 stores, but on Tuesday it raised that number to as many as 1,560 of its 3,750 retail outlets. Of those, up to 300 may be converted to outlets, and up to 300 are undergoing lease mitigation or termination efforts. It said the move would help boost profitability and save \$26 million in working capital.

Blockbuster has come under increasing pressure in recent years as lower-cost rivals have entered the field. Netflix Inc. offers a monthly subscription plan for about \$9 for an unlimited number of mail-order rentals and online streams. Redbox, a unit of Coinstar Inc., has vending machines which rent DVDs for as little as \$1. Both companies operate with lower costs because they aren't burdened with the heavy fees of leasing thousands of retail locations, as Blockbuster does.

More broadly, Blockbuster also has been hit by the changes in how people consume movies. Home-video sales are estimated to fall between 8%-10% this year, according to Adams Media Research, in part because people are spending more time with other types of entertainment such as the Internet.

Blockbuster Chief Executive Jim Keyes positioned the closings as a natural step as the retail chain rolls out new ways to rent and sell its movies. The company has followed its competitors by launching mail-order rental, online and kiosk services. "We're actually adding points of service rather than deleting," he said.

But the company's new distribution channels aren't expanding quickly enough to replace the dwindling revenue from its stores. Last quarter, it lost \$39.7 million on \$1.02 billion in revenue. It has been working hard to cut costs through measures such as closing unprofitable stores.

The company is still the largest player in the DVD-rental space, with 50 million customers. But smaller companies have been cutting into its business. Netflix has some 10.6 million subscribers and last quarter had \$408.5 million in revenue. Blockbuster's by-mail business has shrunk to 1.6 million subscribers from as many as three million since it stopped an aggressive promotion of the service.

Blockbuster's online business is still small, and the company declines to provide figures. "The expansion of that market is likely to come with the expansion of compatible devices," said Mr. Keyes. He points to deals the company has inked -- such as a phone-download program with Motorola Inc. and a TV-download program with Samsung Electronics Co. -- as the type of technology that will help drive the download business.

Redbox-owner Coinstar had revenue of just \$188.9 million from DVD services last quarter, but the business is growing quickly. It expects to have more than 20,000 kiosks by the end of this year, compared with 2,500 kiosks by the end of the year for Blockbuster.

Some studios have objected to DVDs being in kiosks on the same date they become available for sale. For those studios, Blockbuster is keeping the titles out of its kiosks for a short window, typically 30 days. It is also testing a variety of price points, although in some markets it matches Redbox's 99-cent price.

Write to Sarah McBride at [sarah.mcbride@wsj.com](mailto:sarah.mcbride@wsj.com)

#### Corrections & Amplifications:

Blockbuster plans to close as many as 960, or 26% of its 3,750 U.S. stores and is trying to renegotiate or terminate the leases of up to an additional 8%. This article incorrectly states the retailer plans to close up to 40% of its stores.

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