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Franchise Company Bankruptcies Reflect Continuing Shift in the Movie Rental Industry

By: Eric C. Perkins, Esq.

Recent closings of movie rental stores across Virginia reflect the sad reality of a franchised business model that appears to have “jumped the shark” and is now on the verge of becoming obsolete.

Movie Gallery, owner of the Hollywood Video chain, recently filed for bankruptcy for the second time in three years and announced plans to close over 800 poorly performing locations (e.g., the Hollywood Video store on W. Broad Street in Richmond, Virginia was shuttered some time ago).

Bay Management, LLC, a Maryland-based franchise company that operated twenty Blockbuster Video locations, also recently filed bankruptcy and closed eight of its Virginia stores at the end of 2009.

The advent of digital entertainment (e.g., Comcast’s “On Demand” service) and, to a lesser extent, DVD rental kiosks and mail order services like NetFlix have changed the face of the movie rental industry in recent years. Unfortunately, some once proud franchise systems with traditional brick-and-mortar locations seemed to fall behind the times and failed to exploit emerging technologies and industry trends.

Lessons to be learned include: (i) franchise systems have to embrace innovation to achieve long-term success (and survival), and (ii) prospective franchisees need to carefully study the franchise systems and industries they are considering and assess the sustainability of their respective business models as well as philosophies toward research and development.