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Papa John’s Is Piping Hot in Rosenberg Center Franchise 50 Index
While Blockbuster Comes Up Cold as Consumers Move to New Rental Services

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Editors: Director Udo Schlentrich and senior research fellow Hachemi Aliouche of UNH William Rosenberg International Center of Franchising, are available to discuss the Franchise 50 Index™ Q3 2005 report. Udo Schlentrich can be reached at 603-862-0137 or udo.schlentrich@unh.edu. Aliouche can be reached at 603-387-5750 or hachemi.aliouche@unh.edu.

DURHAM, N.H. – The popular family pizza and a movie night no longer includes an automatic trip to the video rental store.

Consumers are still eating the ‘zah, with Papa John’s posting the second-best performance in the Rosenberg Center Franchise 50 in the third quarter of 2005 with a 29.7 percent gain, but they’re more apt to rent the movie online or pay for it through an on-demand service. Blockbuster was the biggest loser in the third quarter, with a 48.2 percent decline in market value.

The Rosenberg Center Franchise 50 Index™, developed by The William Rosenberg International Center of Franchising at the University of New Hampshire Whittemore School of Business and Economics, is an index that tracks the market performance of the top 50 U.S. public franchisors. These 50 franchisors represent more than 98 percent of the market capitalization of all U.S. public companies engaged in business format franchising.

Overall, the Rosenberg Center Franchise 50 dropped 1.6 percent this quarter as most of the hotel components dropped sharply (e.g. Marriott International down 10.2 percent, Hilton Hotels down 6.5 percent). The hotel sector was hard hit by high gas prices, increasing interest rates, and the threat of hurricanes. The S&P 500 Index was up 3.1 percent led by the strong performances of energy companies (+20 percent), and utilities (over 7 percent). The RCF 50 Index is down 0.9 percent year-to-date 2005. It is up 51 percent since January 2000, while the S&P 500 is down 11.9 percent over the same period.

Of the 50 components comprising the Franchise 50 Index, 32 were down while 18 were up this quarter. CDI Inc. led the winners with a 34.9 percent jump, followed by Papa John’s International (29.7 percent), and TBC Corporation (27.3 percent). Blockbuster Inc. (-48.2 percent), Red Robbins Gourmet Burgers Inc. (-26 percent), and CEC Entertainment Inc. (-24.7 percent) lost the most market value this quarter.
With a 34.9 percent gain, CDI Corporation (CDI) is the best performer of the index this quarter. CDI provides engineering and information technology outsourcing solutions, professional services, staffing and permanent placement services, and franchise services in the United States, Canada, and Europe. CDI is the parent of the franchise company Management Recruiters International (MRI), the world’s largest search and recruitment organization. MRI has more than 1,300 franchisees worldwide.

“This quarter CDI experienced significant new customer wins and an increase in the productivity of its recruiters and sales personnel. For example, CDI announced a three-year contract with IBM with an incremental annual revenue in the range of $75 million to $110 million. MRI performed even better than the company as a whole. Its revenues grew 10.8 percent sequentially, driven by strong royalty growth of 13.3 percent. This led to a 15 percent sequential growth in its operating profits,” according to the researchers.

Papa John's International (PZZA), the operator and franchisor of pizza delivery and carry-out restaurants, was the second-best performer with a 29.7 percent gain in market value. According to the researchers, a number of factors contributed to this strong showing: much improved financial results, increasing domestic system-wide comparable sales, and significant cash generated from operations.

“Of much significance to investors, Papa John’s International increased again its earnings guidance, and raised the authorization for its stock repurchase program to $500 million. It continued its expansion in China with the planned opening of two more restaurants, bringing the number of its restaurants to 15 in Shanghai and five in Peking. It plans to open 250 new restaurants in China over the next five years. In September, it introduced Papa's Perfect Pan pizza, the largest new product roll-out in the company's history and the first new crust it has offered in about 10 years. It has enlisted the services of football Hall of Famer Dan Marino to launch this new product,” according to the researchers.

The bad news continued for Blockbuster Inc. (BBI), the worst performer this quarter. Blockbuster, one of the world’s leading operator and franchisor of video, DVD, and video game stores, lost 48.2 percent of its market value as concerns over the sustainability of its core business and its ability to meet its financial obligations mounted. The company posted a $57.2 million loss, down from a $48.6 million profit a year ago, and announced it would not pay a dividend this quarter to save cash. Two analysts downgraded shares of BBI, which reached an all time low of $4.17 Sept. 21.

“The in-store video rental business has been declining since 2002 as consumers are increasingly shifting towards DVD sell-through, online DVD rentals, and video-on-demand,” the researchers said. “Quarterly revenues dropped by 1.6 percent, with a $120 million shortfall due to Blockbuster’s decision to drop most late fee charges in an effort to attract and keep customers. It is notable that shares of Blockbuster’s rival Movie Gallery fared even worse, dropping 63 percent this quarter.”

McDonald’s (MCD), the world’s largest restaurant chain and the RCF 50 Index’s largest component with more than 20 percent of its market capitalization, rebounded strongly this quarter, gaining 18.8 percent.

The full Rosenberg Center Franchise 50 Index third quarter report for 2005 is available at [http://www.unh.edu/news/docs/F50Q305.pdf](http://www.unh.edu/news/docs/F50Q305.pdf). For more information on the William Rosenberg International Center of Franchising or the Rosenberg Center Franchise 50 Index, please visit the Center’s web site at [http://franchising.unh.edu](http://franchising.unh.edu).