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Blockbuster agrees to buy Erol's chain Curran examining antitrust concerns


November 20, 1990 | By David Conn


Blockbuster Entertainment Corp., the nation's largest video retailer, said yesterday that it has agreed to purchase Erol's Inc., the Baltimore area's biggest video chain, for \$40 million.

The proposed sale would erase the big expansion plans -- a doubling in size in two years -- that owner Erol Onaran announced in the summer, when he resumed operating control of his Springfield, Va.-based chain.

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Although Blockbuster, based in Fort Lauderdale, Fla., said consumers would notice no changes for the time being, Maryland Attorney General J. Joseph Curran Jr. said his antitrust unit is looking into whether the sale would make the video rental market anti-competitive.

The purchase, to include cash, a note, Blockbuster common stock and the assumption of some of Erol's debt, means that the 208 Erol's stores in five states and the District of Columbia eventually will become part of the Blockbuster chain, which now has 1,516 stores in 44 states, the District, Canada, the United Kingdom, Puerto Rico and Guam. Just over half of those stores are company-owned; the rest are owned by franchisees.

Blockbuster could not say when the sale would be completed. Its stock closed at \$22.625 on the New York Stock Exchange yesterday, up 37 1/2 cents.

Erol's, the third-largest video chain in the United States, owns 32 stores in the Baltimore market; there are 18 Blockbuster stores in the area. An official at West Coast Video Inc., the nation's second-largest chain, said there are 12 West Coast Video stores in the Baltimore area.

Erol's sales this year have been flat compared with last year, partly because of a slower than usual expansion, said Vice Chairman Margaret A. Chittal. It also lost a number of top executives in recent months, including President Carl Bellini, who resigned in June, and two vice presidents who left this fall. The company has laid off some employees -- there currently are about 2,600, Ms. Chittal said.

But analysts said the acquisition price did not indicate a fire sale.

"It appears to be in about the same range as Blockbuster's other acquisitions, about one-third of annual revenues," said Tom Adams, an analyst with Paul Kagan Associates, a Carmel, Calif.-based media research firm.

Both Erol's and Blockbuster said no changes will be made to the Erol's stores any time soon. "We're not going to go in overnight and upset things," said Blockbuster spokesman Wally Knief. "Erol policies will remain Erol policies as long as they have the Erol name on the door." He wouldn't specify how long that would be.

Ms. Chittal said her company has been assured that Blockbuster "intend[s] to retain as many employees as they can. . . . They stated very clearly to us that they open one store every 17 hours and they need people."

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Mr. Onaran, a 57-year-old Turkish immigrant who started Erol's as a TV repair shop, will remain with the company for a few months as a consultant and then "will pursue other interests," Ms. Chittal said.

Blockbuster franchisees will be given the opportunity to buy Erol's stores in their franchise areas, Mr. Knief said. He said "there's very little likelihood that [the Blockbuster franchisees will] choose not to buy" the Erol's locations.

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But Chuck Correll, director of marketing with U.I. Video Stores Inc. in Denver, one of the largest Blockbuster franchisees, said that his company had heard about the acquisition only last week and that he knew nothing about plans to buy the Erol's stores. U.I. runs 80 Blockbuster stores in Baltimore, Washington, D.C., Pennsylvania, California, Illinois, Idaho, Connecticut and Texas. Mr. Correll said his company plans to open three more stores in Ellicott City, Severna Park and Annapolis within the next three weeks.

Mr. Knief acknowledged that, in some locations, it was possible Erol's stores would have to close. In the Hamilton section of Baltimore, for instance, an Erol's store is literally next door to a Blockbuster outlet.

Mr. Knief said the average Blockbuster store carries about 10,000 tapes, compared with Erol's 6,400 average, Ms. Chittal said. Blockbuster has about 16 million members; Erol's has about 1.3 million.

Mr. Curran said his office is interested in the possible antitrust implications of the proposed merger. Although Blockbuster's arrival in this area helped to eliminate membership fees, Mr. Curran said he's concerned the merger might "not be good news for consumers, so we are going to take a long hard look at it and see whether it unreasonably restricts competition."

Some analysts believe it's only a matter of time before large chains like Blockbuster drive the smaller stores out of business. "Mom and Pop stores, which make up two-thirds of all specialty video outlets, dominate the industry but cannot compete against the superstores of the world," Kidder Peabody & Co. Inc. analyst Gary A. Jacobson wrote in May. "The days of these entrepreneurs are numbered as Blockbuster continues to gain market share."

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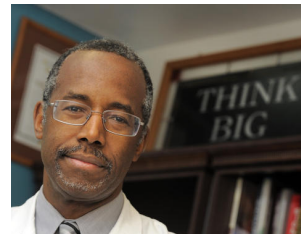
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