

HIVE EXCLUSIVE PROFILE: It's Sweet Home Video, Alabama, for Movie Gallery's Joe Malugen

By : Ed Ochs | Posted: 30 Jul 2001

HIVE EXCLUSIVE PROFILE: It's Sweet Home Video, Alabama, for Movie Gallery's Joe Malugen Chairman/c.e.o. of No. 3 chain says that the most important industry in his town is peanuts, not videos.

By ED OCHS

"For I heard them say, let us go to Dothan."

--Genesis 37:17

It's Springtime in Dothan, Alabama, 1,049 miles from Wall Street, and Joe Malugen, chairman and c.e.o. of Movie Gallery, the country's fastest-growing video specialty chain, mixes blooming trees and flowers and video rental as easily as you'd mix a mint julep.

"Springtime is the best time of year in Alabama," Malugen says in a soothing Southern manner, "because it is warm but not humid and the azaleas, dogwoods, magnolias and camellias are in full bloom. The lakes and beaches are best because you don't fry outside like you do in the summer. Unfortunately, people don't watch many videos during the spring."

Malugen can rock you to sleep with a dollop of his downhome good nature. "He makes you feel comfortable right away," says Michael Lightbourne, executive vp, Rentrak Corp. "Joe is at his very best when he meets with you, using his low-key, casual approach. In fact, you might want to count your fingers to make sure they're all there after such a meeting."

"One thing I learned early on was not to let Joe's easy Southern nature lull you into forgetting how sharp a businessman he really is," says Vern Fross, senior vp, sales, Ingram Entertainment. "The results of Movie Gallery speak for itself. At a time when all retailers were trying many different ways to compete, Joe didn't get too caught up in the copy-depth program of the day. He found a niche market, understood his customers, went about satisfying them, and has built a successful retail chain. And, he did it quietly -- when was the last time you heard anything negative about Movie Gallery? I have a lot of respect for what he and Movie Gallery has accomplished."

Movie Gallery is not only on the move in a big way, the company also recently moved its headquarters into newly renovated offices on Main Street in Dothan. "We landscaped a garden

and added a small fountain, which is located outside my office window," Malugen says, "a big change from previously operating out of six separate buildings spread out all over Dothan. It is nice to finally have all our people together."

This kind of togetherness could be bad news for competitors. Malugen also lives close to the office, very close. But he's a night owl, not an early riser, "so I am strictly business when I get to the office about 9:00 a.m.," he says.

"I live about six blocks from the office so it takes me less than a minute to get there. There is a stoplight that I sometimes have to wait on. I probably should walk but I'm usually in a hurry."

The long hours have been paying off for Malugen and those who hitch their wagon to his new Dothan post, but no matter how far or high the chain may fly Malugen will most likely always call Alabama home.

Joseph Thomas Malugen, 49, was raised in Bonne Terre, Missouri, which is a small town of about 3,000 people in Southeastern Missouri ("in the old Missouri Lead Belt") in the foothills of the Ozark Mountains, but he's been a Missouri Tiger fan dwelling in Alabama since 1974.

Malugen received his B.S. degree in business administration from the University of Missouri-Columbia, his J.D. from Cumberland School of Law, Samford University, then ventured north for his L.L.M. in taxation from New York University School of Law. The eye-opening experience of living in New York City left a big impression on the young man from Bonne Terre, as it might on anyone from anywhere in the world, but maybe moreso for Malugen; his famous old New York neighborhood had been cranking out street-level culture shock 24/7 for 80 years -- and still does.

"Greenwich Village, where I lived, was like nothing I had ever seen," Malugen says. "The diversity of the culture was incredible. We had a great time and met a lot of people from all over the world. All of the Yankees always wanted to talk to me because they loved to hear my accent."

Living in New York taught Malugen a few things about the world and the Big Picture, and he even learned how to have a good time in New York like the Yankees did, all of which would serve him well in the coming crusade.

Malugen had been practicing tax and corporate law since 1978, but his interest was always in having his own businesses. He had several real estate investments and was a co-owner of a long-distance telephone company with Harrison Parrish, who is now Movie Gallery's president, before they founded Movie Gallery in 1985.

"It wasn't exactly a jump into video," he explains his fateful evolution, "it was more like I fell into video. I had a client who was in the video business and wanted to get out of it. He knew my business background and basically talked me into buying his store. It didn't take me long to figure out that if we could recreate the Dothan store in other small towns, we could have a nice business.

"After I saw Blockbuster go public, I felt like there would be the same opportunity for Movie Gallery. My goal was to get it large enough to attract public capital. It took us until 1994 to reach that level."

Despite all the volcanic changes in the industry over the past decade, Malugen's passion for the business hasn't cooled. "After 15 years," he says, "it is still an exciting industry and what everyone labeled a dying industry has proven that it still has a lot of opportunity for growth."

"It is satisfying to know that we have created a lot of jobs and careers for our people, and that we were right to keep pursuing our plan in the face of those who didn't believe in the industry and those that felt that Movie Gallery's business plan was flawed. It's also satisfying to know that I still have a good job while the tech experts who thought we were a dinosaur and told me I would be out of a job soon are calling me looking for jobs."

Malugen married in November 2000 and moved into his wife's house, which is a remodeled cottage in Dothan's historic district. "I think that her cat and lab are finally adjusting to me moving in," he says. "Dothan is a great family town. Its most important industry is the local farmers, who grow peanuts and cotton. In fact, Dothan is the home of the National Peanut Festival."

Malugen's wife and her family are Dothan natives, so he has acquired a lot of new family members this past year. "Although I have never had any children, we hope to be blessed with children someday. My Mother, Ethel, who still lives in Missouri, spends a lot of time in Dothan and in Orlando, where my sister and my two nephews live."

When he's not working, "my wife enjoys trying to beat me on the tennis court and occasionally she is successful," confesses Malugen, a big St. Louis Cardinals and Rams fan who admits to bumming a cigarette every now and then. "We relax by going to the lake and riding our wave runners and ski boat, and also by going to Panama City, Florida, where we cruise the bay in my boat and lay around on the beach."

On their last vacation they went skiing in Aspen. "We try to go skiing at least once a year. I love to go to antique auctions and collect antique furniture, accessories and old muscle cars. Last, but not least, I enjoy cruising the country roads around on my motorcycle."

Although he doesn't crow about it, you can tell by what he doesn't say and how he says it that Malugen gets a special kick out of shocking the suits on Wall Street, watching dot-coms splatter on the cobblestones while Movie Gallery gallops ahead. "Not that I want to see them fail," he says politely, "but we are proud that we have succeeded in the face of many doubters. It's good to see that investors are looking at profits as the driver for investments, rather than promises of future success."

Movie Gallery is proud of its roots 'n' retail approach to building the business. Every press release -- always rife with Malugen quotes -- closes by lionizing the chain as "the leading provider of movie and video game rentals and sales in rural and secondary markets." Even so, or

because of it, financial analysts in New York and film marketers in Hollywood have been slow to embrace the notion of a video chain they don't see on their neighborhood streets, or a c.e.o. who prefers the Florida Panhandle to Malibu's beaches.

"Unfortunately, the South and small towns in general don't get a lot of respect from the rest of the country," Malugen says. "The backbone of America is the thousands of small towns across the country that have been overlooked by many retailers. These people are great customers for Movie Gallery because they have never had the entertainment options available to those in urban areas. It looks like Wall Street is finally recognizing the potential of our strategy."

Being far from the glare of the spotlight has its advantages, too, and at least with Joe Malugen you know what you're going to get every time.

"Joe is a straight shooter, which is not all that common when your core business is based in Hollywood. says Robert Wittenberg, executive vp, sales, MGM Home Entertainment. "Joe is a funny, laidback individual who is interested in determining the best and most profitable way to run his business. He makes decisions based on his experience and judgments based on more than just analysis. He doesn't play to the camera or Wall Street. Joe cares about the welfare of his people and knows full well how to have, and show other folks, a good time."

"The one word that always comes to mind in dealing with Joe Malugen is the word 'gentleman,'" says Joe Amodei, president, USA Home Entertainment. "It's not a word that is used often these days but one that exemplifies what dealing with Joe and Movie Gallery is all about. Tough but fair, open-minded to suggestions on how to make our partnership work better and a real grasp of what works well for his chain are other attributes Joe and his staff carry with them. It is a pleasure to work with him and also to have him as a friend of USA Home Entertainment."

Though pegged as a Southeastern, rural and secondary market chain, Movie Gallery owns stores in the Northeast and other metro areas outside the South, which bodes well for the future. "About 25% of our stores are in urban markets. Roughly 40% of our stores are located outside of the South, but mostly in the eastern half of the United States," he says.

Movie Gallery always seems to make the kind of lightning-swift, sure-footed moves a great football team makes in the last two minutes of the Big Game. Sometimes it seems, because of its rural focus, that there's no one else even playing on the same field. "We have always tried to be the low-cost provider with a flexible short-term store-lease strategy," he says. This makes us nimble and quickly able to react to changing demographics or competitive issues."

A stunning 300% spike in DVD revenues over last year has made Malugen a strong believer in the switch from VHS to DVD for Movie Gallery customers, and the chain's stores dramatically reflect that growth. Observed *Video Store Magazine's* Santa Ana, Calif.-based editor at large Thomas K. Arnold, after a recent vacation visit to Movie Gallery stores in the Birmingham area: "The Movie Gallery stores I managed to drop by have undergone a major transformation in just the last year in terms of DVD. The little discs are prominently displayed and have multiplied like rabbits since my last visit over the Christmas holidays."

"DVD has provided a big boost for the industry because it creates interest and excitement for our customers and gives home video the ability to participate in the digital revolution," Malugen says, adding that "DVD is about 10% of our rental revenue and will be 20% by the end of the year."

Malugen is very confident about the video retail road ahead despite creeping technologies from satellites above, cable below, and the Internet everywhere else. "VOD is dependent on very high-speed broadband access in America's homes and the studio's willingness to give up its home video revenues in favor of VOD revenues by changing release windows. I am not at all convinced that we'll see high-speed broadband in the majority of American homes for several decades," he says.

"I also find it hard to believe that the studios would willingly give up their huge home video revenues generated by both their A and B movies in favor of a VOD format that has questionable revenue and marketing potential for those titles, especially the B movies that consumers are unfamiliar with."

Make no mistake about it. Movie Gallery is on a roll -- and expects "low double-digit" growth in revenues through the rest of the year -- but where is it rolling to? Mulagen, president/partner Harrison Parrish and the MGs are far along on their stated mission to "be the dominant entertainment source for video and video game rental and sale in rural and secondary markets in the United States." What's next?

In what appears to be a windfall by any other name, the company recently captured financial control of bankrupt Video Update, and could begin to push Hollywood Video for the No. 2 spot by adding some of Update's 350 stores.

Then what? Will Movie Gallery eventually sell out to Blockbuster, with all the Viacom money the Big Blue Machine can throw at the Malugenites?

"I couldn't comment on that if I wanted to," Malugen says. "I will say that I admire what John Antioco and Nigel Travis have done with Blockbuster in the past couple of years and I have learned a lot from watching them turn their company around. They are going to be around for a long time and grow their company successfully.

"Blockbuster is very powerful," Malugen adds, "but we think we can be around a long time too."

Suddenly, Wall Street is watching. And beginning to talk, as one national news story put it, about the "little-known company with scant analyst coverage" whose shares had gone up more than 300% this year, outperforming the market.

If Wall Street ever gets its off-off-Broadway act together, if it really wants to find out how Joe Malugen and Movie Gallery are growing rows of home video in the middle of peanut and cotton fields, then they'll just have to do what the Good Book tells them to do -- and "*Go to Dothan.*"