VENDING TIMES

What Is Going On In This Industry?

And Who Is Kidding Who?

By FRANK SENINSKY

Ours has always been a rumor-ridden business, now more so than ever. Today is a time of uncertainty, not just about the future but about the present. As the external and internal economic pressures mount – from high gas prices to manufacturer losses, to us and our customers pinching pennies and the industry "executive exodus" – the amusement industry's rumor mill simply shifts into overdrive.

The day this column was written, an industry leader whom I respect called me up and asked if the Amusement and Music Operators Association and American Amusement Machine Association have merged (they heard a rumor). I have not heard anything about this. But my take is that a merger of associations could not be accomplished simply through a vote by the boards of either or both associations. Under the AMOA bylaws, for example, any merger with another association would require a vote of the full membership.

Speaking only for myself, I don't believe the AMOA rank and file would – or should – approve a merger with AAMA, although it may be a good idea for each of them to own 50% of each other's shows (but that is a topic for another article). Let me emphasize that this is strictly my opinion, but it's clear to me that there are many times when manufacturers and operators can work together…and there are times when the two have different agendas…and often distributors don't know which side to be on, because they're in the middle. I think AMOA would benefit from installing some leading manufacturers on its board. Having a separate Manufacturer's Committee could work, too. But I strongly believe that AMOA should always be an operator-driven organization.

Association mergers may be a hot rumor or a cold one, but uncertainty about trade shows is definitely running rampant these days. It's not rumor but fact that some leading manufacturers are reducing booth space, and several are not exhibiting at some of the major trade events. When I look around at our shrinking shows, trying to fill up those big Las Vegas convention centers, I ask myself: Who do we think we are we kidding?

My feeling is that sometime in the next few years, AMOA Expo will eventually go back to a hotel-based "pipe and drape" show. It is a more profitable format – and besides, that is the kind of industry we now truly are.

What is the future of the coin-op trade show scene? Despite ongoing calls for "one show," I suspect the future is more shows, not fewer. Smaller, better-targeted gatherings are the coming thing for one simple reason. That is the direction the trade show sector of the industry has been moving toward for years, and nothing on the horizon appears likely to reverse this strong trend.

If you want to take the temperature of the manufacturing sector, just ask a manufacturer how he is doing – and, more importantly, ask how his competitors are doing. Most manufacturers will answer, "We are doing great, but our competitors are hurting." Generally speaking, that statement is half true…the last half. Again, who is kidding who?

Are any operators buying equipment these days? Yes, some are, but not by the boatload. It depends where you look whether you'll see any sales are happening at all. Demand is depressed among street operators because, in many cases, revenue does not change when new equipment is installed. There is a reason why jukebox manufacturers, who enjoyed a boom in 2006 and 2007, are now turning to the home market and trying new business models where they own the equipment in top national chains.

The mom-and-pop bar industry is slowly but steadily dying, a victim of DUI laws, smoking bans, generational changes, urban renewal and many other factors. Meanwhile, a new world of locations is opening – but it comes with a new model for relationships to pay-for-play entertainment.

Some operators don't like having a partner, which seems to be the inevitable result of online equipment. But that is capitalism. You can't stop it. Operators will be included in the market chain only if and when they add value. Just installing machines and collecting money is not a service. Marketing is a service. A good operator is a "free" consultant who teachers locations how to make their restaurants, bars or FECs the hub of the community by using tools like leagues, gift cards and new technology.

Has the operator population in America stabilized? No. The Baby Boomers are beginning to hit retirement age, and that goes for operators too. The next generation is, by and large, not interested in running today's routes and family-owned arcades. I know only a handful of sons and daughters under 40 who are interested in taking over the family business. In fact, there are only one or two dozen of these folks in the whole industry (and the majority of them can be found on the AMOA board). I admire these Young Guns (as the BPAA calls their under 40 sons/daughters of longtime proprietors) and I think it would be great if there were more like them. But who is kidding who?

FORECAST: CONSOLIDATION

How many operators will be active in the U.S. amusements industry in five years – by 2013? Again, let's look at history and the ongoing trends. Twenty years ago there were 7,000 operators. Ten years ago there were 3,500 operators. Today I estimate there are 2,500 to 3,000 operators – at most. Logic tells you that unless something occurs to arrest this long-term trend (and overcome the natural laws of consolidation), in five or 10 years this industry could consist of 1,000 operating companies. However, they may control more machines than we have now. More about that later.

What is the future for distributors? More consolidation is coming in this sector as well. We are already down to a few dozen; soon we may be able to count major distributors on one hand. Distributors once provided financing as a major service that operators couldn't get anywhere else; today there are plenty of other financing sources.

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If there is growth in this industry, where is the new blood coming from? It is coming from outside. The most vibrant trade shows, and the sectors where scores of millions are being invested today, are the new FECs, the new multi-use complex anchors, the new water parks and the new, larger, bowling-anchored FEC centers. These venues are funded by big investors and huge developers who can collateralize the entire venture. And it should come as no surprise that these venues are where the games that make the big money today are going.

EQUIPMENT BY NUMBERS

What is the future for amusement and music manufacturers? American game and jukebox builders now sell about 60% of their product overseas. This percentage has doubled in the past decade, and it will continue to increase in the coming years. But the number of manufacturers will shrink, right along with the number of distributors and operators. This, too, has been going on for years, and the trend will likely continue.

There is one exception: redemption game manufacturers. Five years ago there were 150,000 redemption machines on location in the U.S., and I believe that this sector could expand to 500,000 machines in the next decade. That number may sound outrageous – but remember, we used to operate more than 1,000,000 videos in this industry.

The hottest game on the market today…in fact, the hottest game that I've seen in many years…is Bay Tek's Big Bass Wheel. This is still an industry where one mega-hot game can dominate the entire business. In one of my 100-game locations, a single unit of this one-player machine took in more than $10,000 and accounted for one-sixth of my weekly gross! The game has consistently turned in this type of performance for nine weeks running.

It is amazing to think that a redemption operator can still make money on splitting 50% of a 16¢ net from a discounted 22¢ average per-play charge…a play-price that has not changed since the late 1950s, and which is not only hammered by decades of inflation, but is heavily discounted through bulk token sales. Who is kidding who? We love to point at glitzy FECs and locations, and we should be proud of excellent machines and networked technology…but we are still the cheapest form of out-of-home entertainment. Our claim to fame is still that coin-op offers the most value for the consumer's money.

What about the future of the Internet as a competitor? There is a growing amount of free content available online, including very compelling games. (Including nearly all the old 1980s arcade games, I might add.) But cycles come and go as each generation takes its turn staying home, while the next generation rebels and spends a lot of time outside their houses.

Generational turnover plays its part here, too. The generation that was 15 when the Internet first exploded is now pushing 40, and their kids are 15 and younger. Today's FECs already get the youngest of this group's children as its customer base. Soon the oldest members of this generation's kids will turn 18 and they'll be itching to get out of the house, very possibly heading to the next generation of bars.

What is the future of gas prices? They have come down somewhat in recent weeks, because the U.S. driving population has finally begun cutting back on "windshield time." But with some very special exceptions (like Disneyland), Americans are mostly staying closer to home than they did three or four years ago (just ask the owners of Las Vegas resorts). This is the main reason why the FEC industry is experiencing a boom right now. Consumers are still going to out to eat, and when they do, they look for places that offer experience and entertainment at the same time.

THE MISSING PIECE

That means our industry has a chance to capture it all – the family food budget and the family entertainment budget – under one roof. Think Dave & Buster's, Chuck E. Cheese's and a hundred variations on the "food and fun" theme. Will it happen? All I can say is – it better.

Our industry is extremely good at parties and group activities, mediocre at games, but we're terrible at food. Meanwhile, the restaurant industry is getting better at entertainment every year and wants its share of the birthday party market. Its big problem is it is limited in size (known as restaurant pad), and the square-footage restrictions are killing them.

Fortunately for the FEC sector, space is not a problem in most fun centers. We simply have to learn how to cook a tasty dish that mom and dad will be happy to eat. In today's food world, this is often nothing more than just heating up a pre-prepared frozen product.

What is the future of the all-cash amusement economy? It is on a collision course with the larger "cashless society" that America is rapidly becoming. Old-fashioned operators still prefer the convenience, flexibility, privacy and control that comes with cash. Yet the technologies of debit cards and credit cards, not to mention online virtual payment instruments, are rapidly threatening the traditional place of banks in America…much less cash retailers. If Bank of America and Wal-Mart can't fight the cashless trend, how can amusement operators possibly hope to stand up to that tidal wave in the long run? Who is kidding who?

Bridging the gap between the "all-cash" industry of yesterday and the "cashless" industry of tomorrow is the growing collection of amusement debit card and smart card systems. The best of these products are fully integrated within the facilities. That is, they don't just accept payment for (and track expenditures on) games. They don't just allow operators to do sophisticated price changes at the touch of a keyboard. They also do the same thing for food, beverages, attractions and anything else – including rooms, if the site is a hotel. Coupon printing, loyalty cards and all the rest are also fully integrated, so every dollar spent on a game earns a reward that can be applied toward the hotel or restaurant, and vice versa.

THE SCOPE OF INTEGRATION

This kind of technology will eventually be forced on the amusement industry, both FECs and street operators, once the financial movers and shakers (think American Express, Visa, MasterCard) level their sights on our $7 billion a year cash turnover…plus all $150 billion in non-amusement sales that occur in our locations. Who is kidding who?

What is going on with amusements in our competition with gaming? Don't look now, but casinos have their own problems as gas prices rise and disposable income drops. Most Americans are within a four-hour drive of a casino…but they are less than 15 or 20 minutes from an FEC. This means that for the first time in years, the amusements industry has an edge against the much larger, much richer, much better-connected gaming industry.

Can we successfully exploit this edge in the upscale bars and FECs of tomorrow? Let's rephrase the question: Can Mr. Amusements learn to become Mr. Chef? Or at least, can Mr. Amusements become very, very good friends with Mr. Chef? The answer to that question contains the answers to many other mysteries about our industry's future.

So to sum it up, what the heck is going on in this industry? A series of complex, churning and often painful changes are taking place. The industry is morphing into a shape that will look very different on the outside, but will be (in key respects) the same on the inside as it has always been.

Our games, payment systems and the places we operate them in will change…but tomorrow's operator will still be "placing games where the people are." The latest FECs are growing more lavish, more competitive and more impressive. Meanwhile, the successful bars of today and tomorrow are growing more closely integrated with restaurants…and restaurants are growing more closely integrated with amusements. It may be hard to wrap your head around, but for those who stay in the business, it spells opportunity.

Who is kidding who? It's no joke to say that new markets, new technologies and new opportunities will always open up. The joke is on us if we refuse to take advantage of them. What the heck is going on in this industry is massive disruption…but that is when surprising new opportunities appear, too. Operators who keep their heads about them, blending aggressive innovation with cautious management, can still find ways to succeed. What, me retire? You must be kidding. Now who is kidding who?

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