

Pennies From Heaven

Success Strategies for Small Business

In the Age of Global "Megalo-media" Conglomerates

By Frank Seninsky

President & CEO
Amusement Entertainment Management (AEM)
& Alpha-Omega Amusements;
past President,
Amusement & Music Operators Association
(AMOA)

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President Antoja, honored delegates, members and friends of Euromat:
Thank you for inviting me to this distinguished gathering. I'm delighted by this opportunity to share my thoughts about the future of our industry with Euromat -- the "who's who" of international industry professionals.

When we assess the economic climate for this industry today, one fact stands out above all others:

We are living in the middle of the greatest global boom for entertainment in human history.

Last year, record grosses -- adding up to hundreds of billions of dollars -- were achieved worldwide by media old and new.

That includes the Internet, television, radio, motion pictures, consumer video games, and legalized gambling.

In the United States, consumers now spend more money on entertainment than they spend on health care.

What's more, all of the industries I just named are expected to keep topping their unprecedented earnings, year after year into the future as far the eye can see.

This is true in the United States. It's equally true in Europe.

And it's increasingly true in developed economies around the world.

Listen to the words of Michael J. Wolf, one of the most respected thinkers in the field of global media and entertainment.

He told the latest conference of the World Economic Forum, and I quote:

“Entertainment – not autos, not steel, not financial services – is fast becoming the driving wheel of the new world economy.”

So here's the worldwide weather report for the entertainment industry:

IT'S RAINING MONEY.

And the forecast is for a continuing downpour of cash, cash, cash.

That is, it's raining money if you're one of the successful media conglomerates.

But we in this room are not members of the "megalo-media" monopolies.

We are not Sony. We are not AOL/Time Warner. We are not Philips.

We represent small business in the out-of-home, location-based amusements, leisure and gambling markets.

And our combined worldwide gross is not half a trillion dollars a year -- it amounts to perhaps \$40 billion a year.

So for us, in this maelstrom of media money, the first question is one of survival.

How can small entertainment businesses avoid being washed away with the tide?

The second question is one of success.

If it's raining over a billion dollars a day, how can a small entertainment concern grab a bucket and capture some "pennies from heaven"?

Admittedly, these are some pretty broad questions.

To answer them, we will need a basic understanding of how this industry got where it is today and where we're going tomorrow.

So with your permission, in the next few minutes, I'd like to share some surprising facts about this industry's past, and hazard one or two unconventional guesses about where our industry is going in the future.

Finally, with all that in mind, I will propose five (5) fundamental strategies for small business success in our niche of the global entertainment market.

So hang onto your seats -- this is going to be a fast ride!

CYCLES: 4 BOOMS, 4 BUSTS?

The location-based entertainment technology industry is 116 years old. During that time, this industry has gone through four booms and three busts.

And if history repeats itself, there could be a possible fourth bust on the way -- very soon.

The first boom began more than a century ago, in 1887. "Nickel in the Slot," a primitive Dictaphone, charged people five cents to hear two minutes of recorded music.

This invention swept the world, launched RCA and the recording industry, and made superstars out of John Phillip Sousa and Enrico Caruso.

The industry's second boom was triggered in 1928 by the electrically amplified Wurlitzer jukebox.

For the next two decades, the jukebox was so influential that this industry, not radio, drove record sales around the world.

(There was a mini-boom in 1947 when the 'Ballyhoo' pinball hit the market).

The third boom exploded in 1981. That's when the arcade video game turned billions of people of all ages into addicts of simple games like "Space Invaders," "Asteroids," and of course "Pac-Man."

In the process, our industry introduced personal computers to the public in a friendly, non-threatening way. The arcade video boom lasted for 15 remarkable years.

Each of these booms swept the world, created world-famous business dynasties, and reshaped the entertainment universe of their time.

And each of them died a sudden, catastrophic death from the same fundamental cause:

Affordable versions of our technology appeared on the market versions so cheap that millions and millions of consumers could, for the first time, enjoy what we had to offer in the privacy of their own homes.

In 1907, the hand-cranked Victrola killed the boom in pay-for-play music.

In 1948, it was hi-fi stereo and transistor radios. They nearly killed the jukebox.

In 1995, it was Nintendo -- and later Sony PlayStation and Microsoft Xbox.

Their sophisticated home consoles diverted billions from video arcades.

The lesson here is as simple as it is powerful.

First, this industry flourishes during a brief window of opportunity in the lifecycle of every new entertainment technology.

Our moment comes when those technologies are too expensive for average consumers to have at home.

And second, this industry contracts or even implodes when cheap home versions of our products achieve mass ownership.

Now in my mind, this leads to a painful but if you will, logical -- prediction for the future.

If this 116-year historical pattern holds true, Europe's location-based entertainment market could be facing the next major contraction for our industry.

Let me explain.

Today, your most important revenue source is small-stakes electronic gambling devices.

In fact, these machines have powered the industry's fourth worldwide boom.

But today, as you know, online casinos are the fastest-growing business on the Internet.

In fact, online wagering (both regulated and unregulated) is now the largest business on the Internet. In the last year it has surpassed pornography and music.

Once again, new technology is offering entertainment consumers a cheap, home-based version of a product that has previously been a mainstay of the location-based amusements industry.

And consumers are flocking to it.

This year, the world's approximately 1,800 online casinos, sports books, and lotteries will net about \$4 billion.

Established gaming companies like Britain's Ladbroke's and William Hill are joining the action.

And when a single European player can go online and win \$68 million dollars from online slots, as happened in a recent progressive payoff the publicity is literally worldwide. And you know this new form of competition is pulling millions more players into its orbit.

Can online gambling overtake the traditional location-based variety? I'm not saying it will.

In fact, I firmly believe that Europe's small-stakes, location-based gaming business can survive this challenge. You may even be able to turn the Internet to your profit.

At the same time, it's prudent to at least consider the full range of possibilities.

For the most part, we in America are already competing with legalized gambling... not participating in it.

In our country, government on all levels consistently shuts small business out of the gambling industry.

You, our European colleagues, have been far more successful in ensuring yourselves a share of this lucrative business.

Believe me, every American amusements professional admires and envies your achievement.

I know you have been devoting considerable attention to defending your market. Euromat has already taken some vital steps toward this goal such as the position you adopted on this question during your annual meeting last year.

President Antoja and Vice President Smith,

I salute your call for regulations to require vigorous licensing, registration, and enforcement for Internet based gaming, as well as other non-traditional gaming channels.

You have recognized the crucial importance of creating and preserving a "level playing field" for small and large business alike.

It's an excellent move, and one that you can build on in the future. No one knows better than Euromat that the changes brought by the online gaming era are ongoing.

In response, these changes will require an ongoing effort, careful planning, and wise strategy -- both for individual companies and for our trade associations.

So now it's to the question of strategy that I would like to turn next.

SUCCESS STRATEGIES

The first key strategy for our industry's long-term health and survival is to get friendly with government.

Government is the "gate-keeper" for the gaming industry, and government has the power to liberate -- or lacerate -- the amusements market as well.

This is where Europe truly shines. If there is one thing that I wish the American industry would learn from our brothers in Europe, it is how to romance a politician.

We don't do nearly enough face-to-face meeting with elected leaders in the United States.

We have the bad habit of ignoring them, until they hit us with a tax increase or a ban on violent video games.

Then we call them names or -- if worse comes to worst -- we take them to court. As you can imagine, this tactic is not a very effective way to get government on your side.

European trade associations, on the other hand, seem to have mayors and MPs and even Secretaries of Commerce attend every major trade show and association conference.

It can't be a coincidence that European governments have by and large upheld the position of small business in the gambling market issued studies affirming the social value of arcades and amusements and generally treated the location-based amusements industry with respect and even friendliness.

Please, keep up the good work. Don't let them issue a paper one-euro-dollar denomination! And make sure they don't let the big boys crowd you out of the gaming market -- the market that you did so much to create and build to its present success.

I'll make you an offer. You keep following your wise policy on this side of the Atlantic... and I'll keep urging my American friends to follow your good example, on my side of the pond!

Now the second key success strategy for small business is: make friends and alliances with large business.

A past president of my own trade association, AMOA, once said:

"We are SMALL-business entrepreneurs in a BIG-business world. It's true, not everybody can be a Microsoft.

But there is one thing everybody can do:

Strive to be the kind of company that Microsoft wants to do business with!"

In an era of mega-mergers and media conglomerates, this advice grows more relevant with each passing month.

We live in an age of strategic alliances. The biggest companies on earth are constantly searching for ways to ally with other huge companies, in order to leverage their assets and extend their reach.

Small business must adopt the same strategy. And, wise members of our industry are already doing just that.

European companies like Liesure-Link and TAB-Austria have successfully licensed music for downloading and tied up with broadband networks for games.

Likewise in the United States

we have a handful of manufacturers and operators Such as Ecast, Rowe, Touchtunes, Merit, and others that are negotiating and obtaining licenses to provide name-brand content over advanced media networks.

These companies are positioning themselves for the day when AOL/Time-Warner or perhaps American Express, or even Budweiser rolls into their locations and offers to install a machine that provides entertainment (music, games, Internet) and shows TV-style advertising at no cost to the location.

I promise you, that day is coming.

And when that day arrives, some traditional location-based entertainment companies will be driven out of business.

Others will scramble to find a new senior partner at the last minute.

They may make it; they may not. Still others will not be threatened by this new competition.

They will ALREADY have allied themselves in advance with a content provider that is, itself, competitive with or an ally of national and international entertainment creators.

Coin-op factories and operators that make the proper alliances will survive and thrive, for one simple reason.

They will have made the leap onto the global market before the global market comes leaping onto them.

Some view this strategy as a compromise that signifies a loss of independence.

I view it as a chance to participate and cooperate in an exploding global entertainment market a market that offers rewards on an exploding global scale.

Not just "pennies from heaven," but pounds, lira and deutschmarks, too!

Alliance with big business is one of the most powerful success strategies for small business.

The third success strategy for tomorrow's industry is to be an early adopter of sensible new technology.

Not the first adopter. Not a blind-faith adopter.

But a reasonably early adopter, once a new technology has proven itself.

I certainly don't want any of us to be a wide-eyed sucker for every flashy new gizmo that comes along.

But in recent years, we in this industry have become too skeptical about new technology. We've seen so many ideas that were tried, and found wanting.

Holograms, virtual reality, elaborate simulation centers, and a dozen other concepts were touted as the "next revolution in location-based entertainment."

They all failed, miserably.

But some of us have drawn the wrong lesson from this experience. Many new technologies are transforming the shape of our industry today.

Online music, advanced simulators, smart card systems, online game tournaments, and many others have proven their value.

They have provided tools for secondary companies to join the first rank, and for leading companies to consolidate their advantages.

In the context of global media competition, it's even more important to be an early adopter of sensible new technology.

My friends, if we want to prepare ourselves for future competition with the "Mega Media" empires, we have to be on the cutting edge -- even more than they are.

As the years pass, that crucial lifecycle of new technology is becoming faster and faster. The very rate of change is intensifying.

That means the window of opportunity (when our industry has an exclusive chance to exploit a new technology), is shrinking.

Wait too late, and the chance will pass you by faster than ever before.

Never forget the single most important advantage that small, entrepreneurial companies enjoy over the behemoths is nimbleness and flexibility.

If you are not an early adopter of sensible new technology, then you are throwing away your greatest competitive edge.

My fourth success strategy is my personal favorite: aggressive, modern marketing.

Too many companies in our industry believe that our products are "self-marketing." They draw customer traffic simply by sitting in a location. Or they rely on word of mouth.

Other members of our business believe that face-to-face contact with location owners, warm personal relationships and good service, are the sine qua non of marketing excellence.

This attitude belongs in the last century.

In fact, now that we're into the new millenium, it belongs in the century before that!

Aggressive, modern marketing covers a wide range of business activity. In fact, it redefines the very nature of what we do.

At our best, we are not mere providers of entertainment technology.

We are the solution to the key challenge faced by every retail location: driving more foot traffic into their real estate.

We create traffic by offering:

- leagues and tournaments
- creatively structured price packages
- cross-promotional coupons with other local businesses
- customer data bases

- promotional emails

- And soon, we will follow the most sophisticated leaders in the casino and Internet industries by adopting customer-sanctioned preferences tracking. Marketing means bringing in the customers. Period.

When the day comes that Sony or Philips tries to install a broadband network into your location-based entertainment market...

When "Casino.com" tries to steal your AWP business.

It won't matter how friendly you are with location owners.

We cannot depend on personal loyalty to override choice, price, and service.

Personal loyalty didn't keep Barnes and Noble from rolling over the independent bookstores.

Personal loyalty didn't keep Office Max from rolling over the independent stationery stores.

This sad tale has been repeated in countless other industries and countless other markets. Now it is waiting to be repeated in the location-based entertainment business.

New technology -- and aggressive, modern marketing -- are our best weapons against the chains, the multi-nationals, and the conglomerates.

My fifth success strategy is -- have a fallback position. Diversify.

This idea is especially relevant for companies that are heavily involved in legalized gambling.

It's a wonderful market, to be sure, but nothing lasts forever. Nothing is certain nothing is guaranteed.

Even if your governments continue to protect your prerogatives in the market and even if you manage to compete successfully against Internet casinos there is no foolproof way to defend against the most arbitrary and whimsical force of all: customer taste.

The experience of the United States in this area may hold vital lessons for our European colleagues.

During the past two decades, a tiny handful of U.S. states did permit small business to participate in the legalized gambling market.

But thanks to a basically hostile (call it political) government attitude, a few of these states first created a thriving gambling market for small business, then suddenly slammed the door shut.

The most dramatic example happened three years ago in South Carolina:

A \$2 billion a year industry vanished overnight!

When this nightmare arrived, businesses that relied preponderantly, or exclusively, on that one market niche, suffered a terrible blow.

Many of them failed.

Businesses that had cultivated a strong fallback position Businesses that were active in family-style attractions and amusements successfully made the transition. It was painful, but they survived. Today, these entertainment businesses are growing again.

In fact, they are buying up amusement routes as fast as possible.

I hope this problem never faces the members of Euromat. At the same time, we know it can't hurt to be prepared for every eventuality...

and it might just save your business.

And...considering that we are, after all, in the entertainment industry...it just might be fun!

So those are my five "success strategies" for small business for us in the "MEGA MERGER" media world:

- Make friends with government.
- Make alliances with big business.
- Embrace sensible new technology, early.
- Redefine your company as
a marketing services provider"
that brings in customer traffic.
- And diversify.

With these five strategies in play, we can meet every change that comes to us in the times ahead.

AN UPBEAT VISION OF THE FUTURE

It has been said that, "the best way to predict your future, is to help create it."

I certainly believe that.

I am an optimist about the future of this industry...and a strong believer that we have the ability to shape our own destinies.

I look at the wonderful new tools, new technologies, new markets, and new alliances that beckon to us on the horizon and I see a wealth of opportunities for small entertainment business to grow, innovate, and thrive.

I look to the future, and I see a location-based entertainment industry that enjoys a powerful partner in government.

I see an industry that, once again, takes the lead in introducing new technology to a wondering world.

I see a location-based entertainment industry that earns its considerable profits with honor, competitive zeal, and inventiveness.

I see a location-based entertainment industry that provides genuine social values:

- Togetherness for families...
- Teamwork and computer training for young people after school...
- Well-deserved recreation for hardworking men and women.

I see a location-based entertainment industry that embraces new ideas and new possibilities an industry that greets each new day with enthusiasm and confidence and that reaps the rewards of competitive capitalism in ways, and on a scale, that we can't yet begin to imagine.

My hope for each and every one of you is that that YOU see yourselves as part of this vibrant future as well.

My friends, it's raining money out there!
Let's go grab ourselves a bucket and get wet!

Thank you very much.

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