



Fun By **GEORGE**

Accounting for Excellence – and Mediocrity

By **GEORGE SMITH**

**Vice President,
Business Development,
Namco Cybertainment
Inc.**

I am a big fan of sports author and columnist John Feinstein, who, besides covering most major sporting events, happens to be an excellent writer. As I write this, the topic of his columns pertain to the recent NFL draft. He made two very good points in his articles. His first point was to discuss how popular this “pseudo” sports event has become. On a weekend when Andre Agassi became the oldest tennis player ever to be ranked number one and Fred Couples was completing an amazing golf tournament, and most especially when Kevin Millwood of the Phillies completed one of the rarest feats in baseball (or all of sports), a perfect game, most of the sports coverage was focused on the draft. This, in a year where even the most casual of football fans seem to indicate that talent pool was lackluster, all the attention went on “signability.” (Mr. Feinstein’s second point was that sports writers can always come up with new ways to destroy the English language). His point is to ask the question, “Why would fans and sports writers be in such a frenzy over business deals when the real world offers so much more substance and excitement?”

In the amusement world, the question that continues to puzzle me is of a similar vein. “Why are there so few great operators and location owners (those who consistently make money and hit a high quality level), and so

many mediocre operations and money losing locations?” I don’t mention this to anger any operators or location owners, but I think it is sensible to review what constitutes success and how do you achieve it.

On any given day, we can always spin the wheel of excuses and pick an answer for why things don’t work. Answers to explain poor performance range from bad economy, terrorist threats, SARS epidemics and the lack of good help to the more mundane and most commonly cited problem. “We need to get back to basics.” Heaven knows I have used all of these excuses to explain business problems and personal problems, but at the end of the day our economy uses a stern but objective measuring stick; you are either making a profit or you aren’t. I tend to fly American Airlines more than any other carrier, but the biggest airline in the world has lost billions in the last few years and will likely face a very bleak future, as opposed to Southwest or Jet Blue Airlines, which continue to profit and grow even in these so-called tough times.

Similarly, Chuck E. Cheese recently reported an increase in comparable quarter earnings. Additionally, I know many route operators and FEC locations that are having tremendous years in spite of the problems that tend to beset all of us. The broad-based amusement business is a place where money can

be made, but you have to avoid several common mistakes.

1) **Nothing beats a good location.** Whether you use the real estate mantra of location, location, location or employ demographic studies and experts, rarely has a bad operating location stood the test of time. I get calls and e-mails daily from people who live in a small town where “there is nothing for the kids to do.” My instinct when I hear this is to cut to the chase and tell them that lack of population and the absence of children on Main Street have nothing to do with a successful business. Kids do have more things to do than most adults think, from Playstation and home computers to watching *Road Rules* and *Elimidate* on television. If you want to assure failure, try to marry advanced arcades or family entertainment centers with a lack of population in rural areas. If you intend to be a success in the electronic entertainment business, put equipment where the population can see it and afford it.

2. **With the possible exception of Walt Disney, communities rarely elect amusement center operators for sainthood or mayorships.** If you want to do something for the community, build a baseball park or clean the sidewalks, but don’t expect huge financial rewards or kudos from the community for opening an entertainment center. If the community can support entertainment offerings and it is a

good business plan to build a bowling center, theater, arcade, FEC, pocket park, skate park, water park, etc., make sure it makes business sense first and sainthood sense later. If a community decides to build a “recreation center” for the benefit of the town, be prepared for tax increases. More and more communities are getting into businesses that used to be exclusively private ventures. When they do this they rarely operate in a fiscally sound manner, but if the taxpayers are willing, they can offset real-world economics with the ability to “print” more money.

3. Whenever you enter a venture that you have never attempted, take three months of therapy or a minimum of a year’s additional education about your “new profession” before beginning. Just because the amusement industry looks like more fun than insurance or widget manufacturing, don’t confuse fun with easy. Thousands of very well-intentioned and motivated people have lost their shirts in the amusement industry because they thought intentions translated into dollars.

4. If you are sure you know what you are doing, question your assumptions. The coin-op industry has lingered too long in the hope that 1981 will return. Even if you operate more efficiently and profitably than you did five years ago, people’s tastes and the community have changed around you. For instance, as much as I applaud Chuck E. Cheese and their operational and fiscal performance, I still think that they need to invigorate their basic business plan more boldly than has been the case in the last few years. The unfortunate nature of change is that nothing (especially in the U.S.) stays new for long and we are a society constantly looking for improvement and speed.

5. Tomorrow is unlikely to be invented by the status quo. Most of the best ideas in our business involve true innovation, and that is hampered by preconceived ideas. Incredible Technologies’ *Golden Tee* was an evolutionary idea that took the market by storm. Downloading jukeboxes didn’t have their launch with the mainstream jukebox manufacturers. Very few of the redemption equipment manufacturers existed 20 years ago. I strongly suspect that 10 years from now, a list of top manufacturers will include 15% or less of 2003’s manufacturers.

6. The best operators today use the same practices that made operators a success with operators of the past. Outrageous levels of enthusiasm, cleanliness and value are always in vogue and accepted by the paying public. If you aren’t the best at what you do, you are on the endangered list.

Getting back to the sports analogy, I believe that success in this industry will be greatly enhanced by separating the sizzle

from the steak. The things of substance that help create and nurture a going business success are often independent from the perception of success. Good location operation comes from marrying the right operational practices and entertainment with a good location. It seems like such a common-sense statement, but time and time again we cut corners on employee training, budgetary analysis that reflects real-world situations, and, most consistently, the lack of education needed make informed decisions. This is why I consistently go to as many competitors’ operations as I can, see as many trade shows as time and budget allows, and spend as much time involved with industry trade groups as possible, because I hope to minimize the odds of obsolescence. We need to recognize the great (a perfect game) from the trite (NFL draft commentary) and invest our limited time wisely.

George Smith, a former International Association of Leisure and Allied Industries president, has been a regular contributor to RePlay Magazine. He is vice president of business development for Chicago-based Namco Cybertainment Inc.