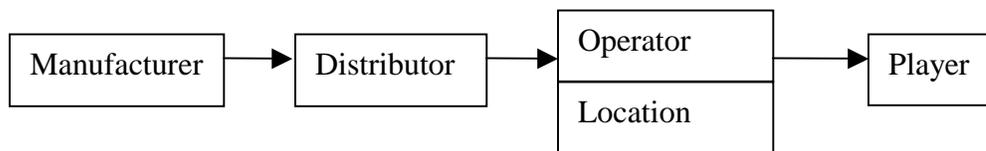


Everything You Need to Know to Make Money in Coin-Op
Golden Tee Golf – A Case Study
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The video game industry originally started with coin-operated video games. Consumer games joined shortly after, but it was the coin-op games that set the bar for technology and game play. In 1979 making even a fair coin-op game was a license to print money. Much has changed since then, but there is still money to be made in the coin-op industry. Coin-op encompasses vending machines, pool tables, jukeboxes, kiddie-rides, redemption games that give out tickets for prizes, ATMs, and even coin-operated car washes. This treatment addresses the video game portion of the coin-op industry.

Current Video Game Coin-Operated Industry Business Model

There are many tiers in the sales channel



Manufacturer

The manufacturer is the entity that puts their name on the game, builds, markets, sells, provides service and warrants the end product. The end product is the physical unit that provides entertainment. It is often a free standing cabinet that is ergonomically designed to let a person sit in it or stand next to it and operate the game controls. The cabinet is usually made of relatively inexpensive materials such as wood, metal or plastic. It houses the audio/video electronics, monitor, money collection mechanisms, game controls and power supply to run the game. It is important that it can be moved to various locations, fit through standard doors (or easily broken down to fit). The most important thing about this product is that its cost is justified only by its earnings. Whatever is put in this box must earn enough money over time to justify its purchase and the efforts to keep it running.

The manufacturer can engage in various strategies to produce the end product. Historically coin-op manufacturers did everything in-house including hardware design, game design, creating all the software and building the cabinet. Over time, manufacturers have subcontracted just about every aspect of creating the end product to various suppliers. Currently it is more cost effective to use as many off the shelf components as possible while keeping enough expertise in house to give a creative proprietary edge.

Distributor

The Distributor is the wholesaler of the industry. They traditionally buy equipment in quantity from many manufacturers and help the operator pick the best mix of games for

his locations. The distributor also arranges financing packages for the operator to allow payment for the expensive equipment to correspond to the collection of earnings from the equipment. Distributors often have parts and service departments that repair and refurbish equipment. Historically distributors have had large lavish showrooms where operators could view, touch and feel equipment. Over time distributors have contracted and consolidated. Better communication methods, marketing materials and web sites have allowed operators to make purchasing decisions without visiting a distant showroom. Distributors without much brick and mortar can sell products cheaper and ship to all parts of the country. More reliable equipment and easier shipment of parts has made the service department less important.

Operator

The operator is the final owner of the equipment. The operator seeks and maintains relationships with locations to place equipment in public places where players will play the games. Public locations are diverse and each type has a different kind of market to address. The best locations for coin-operated video games include bars, restaurants, hotels, retail store lobbies, movie theaters, airports, bus stops, arcades and family entertainment centers. Most locations do not own their own equipment but have a deal with an independent operator. For a percentage of the cash box, the location allows an operator to place equipment in a mutually suitable place. The operator is looking for a high profile position that will give the equipment the best chance of success.

Operator/location splits are negotiated and depend on the popularity of the game, anticipated earnings and competition from other operators in the area.

Location

This is any place that a coin-operated video game may go. The location is looking for extra income from the split of the cashbox they negotiate with the operator. They are also looking for their customers to be entertained while drinking and eating or pacified while waiting. In general, locations don't own the equipment directly because operators perform several services. Operators rotate equipment through several locations to keep the games fresh. Operators take on the burden of financing and servicing.

Player

The player is the life's blood of this industry. A game will only be successful after first catching the player's attention and getting them to put money in the machine. Small amounts of money from many players funneling into the machines are what propel the industry. Each type of location draws a different demographic; arcades cater to pre teen and teenagers, bars to adults over 21, family entertainment centers to children who enjoy playing redemption games. Each group appreciates different themes and has different attention spans.

More and more these sales channel boundaries are blurring. Distributors can also be operators and/or manufacturers in some instance. Some locations do buy their own equipment. Manufacturers run their own operations. Some players buy machines for their homes. There is still an outcry when an entity seems to be taking on more than one

function, but continued blending is inevitable. Each level is working harder to justify its existence and cost.

Why use Golden Tee Golf as a case study?

According to the Vending Times Census of the Industry 2003 there are approximately 340,000 video games on location each earning a weekly average of \$47 yielding a total of \$831,000,000. Approximately 70,000 games or more than one out of every 6 video games on location is a Golden Tee Golf. Over 30,000 are the Golden Tee Fore models with networked play capabilities. These games earned over an average of \$120 per week in 2002 for a total of \$200,000,000. The other Golden Tee's earnings are difficult to determine. If the other 40,000 earned only the average \$47/week, Golden Tee Golf accounted for 3/8ths of the entire pool of video game earnings. It is a game that is able to succeed in an otherwise declining market.

Why did Golden Tee Succeed where others failed? What did it do right? What can be learned from it that can be applied to other ventures? In short, don't get stuck in a rut by listening to conventional wisdom. Innovate!

Conventional wisdom said that coin-operated video games had to appeal to pre-teens and teens. Games had to be high energy, fast twitch and edgy. Instead Golden Tee appealed to adults and casual players who simply wanted to have some fun and socialize with their friends.

Conventional wisdom said coin-operated games would be most successful in arcades and places where people would travel just to play games. Times changed. People can play great games in their homes. Why take the time and trouble to go to an arcade? Golden Tee went into bars and restaurants where people were anyway. It became an activity that friends could play together while they ate and drank.

Conventional wisdom said that games lasted for 90 seconds to 3 minutes and you charged 25-50 cents (\$1.00 if it was a driving game). As times changed and game play diminished, costs stayed the same. The earnings of games were not justifying their costs. Golden Tee Golf charged enough and provided a longer, low time-pressure experience. The audience consists of adults who want to wind down and relax. Golden Tee let them play in their own way in their own time and charged a sufficient fee to make it worth it to the operator and location.

People love to compete. First of all Golden Tee gave them a game people understood fairly easily - golf. The game of golf itself has depth. The player can choose from many ways to get from point A to point B. It is easy to comprehend and easy to get from point A to point B, but difficult to master doing it very well and consistently. Part of Golden Tee's success was providing a great user interface that gave fine user control of a fun simulation of the game of golf. There are no random components to the game. Therefore player's results solely rest on a player's skill. This allows for fair competition.

Incredible Technologies was the first coin-op manufacturer to run a networked national tournament on a coin-operated game. Others had talked about doing this for years but their plans were overly complex and expensive. Some tried to jump into real time head to head play before technology and economics could be justified. Golden Tee had a simple approach that allowed scores to be compared in non-real time. People were to compete on a level playfield and receive their results in 24 - 48 hours. Based on this concept nearly \$12 million dollars have been awarded to 100,000's of winners over 8 years.

As seemly simple the tournament concept appears, many hurdles needed to be overcome to make it work.

Legally paying out prizes

In order to not be categorized as a gambling game, Incredible Technologies, had to establish that Golden Tee was a game of skill. The code was examined to prove there were no random elements. Empirical data showed that great players can consistently get better scores than good players. Each legal jurisdiction had to be addressed separately due to a myriad of different, archaic or non-existent laws. Still in some states this type of tournament is illegal because they classify any electronic game with a video monitor as a slot machine. This is an ongoing challenge.

Paying for the ongoing costs of tournament

For the first time in coin-op history, the manufacturer got part of the cash box. Traditionally all the manufacturer ever saw was money from the sale of the game. After that, all the money went to the operator. Now with tournament, money had to come back to pay prizes and administration. It was not a popular or easy suggestion that operators would have to send part of the money back to the manufacturer. This was and continues to be the biggest hurdle to getting operators connected to the networked play. It took years, but now over 50% of all Golden Tee games are on-line. It had to be proved to the operator that on-line tournaments, leagues and other on-line features would make them more money.

Collecting the money

In order to make sure the money to pay tournament prizes would be collected in a timely fashion, operators had to allow a bank account to be swept each month for the monies due. This took building trust and providing guidance.

Player loyalty

The tournament made our game a regular event rather than a casual game for a significant number of competitive Golden Tee players. Players purchased player cards with a magnetic stripe to expedite tournament and league play registration. This helped us get to know the player even better. A website with a chat board fosters the community and keeps us connected with them. Incredible Technologies has over 50,000 tournament players each month.

Continued development of on-line features

Once the games were connected to a network, more ideas could be implemented that would encourage the player to put more money into the game. Some of these include: a system for operators to run their own local contests, keeping a player's lifetime statistics, allowing virtual play of a great player's game. The on-line connection opened a new world of opportunities.

Working on the game forever

When the manufacturer is part of the cashbox, they care about the game forever. It made sense to keep working on the game to keep it making money. This was done by creating updates to the game that incorporated new golf courses and new game play features every year. These were reasonably priced so operators would buy them. This has kept the game earning money fairly consistently for 8 years and has given the operator a return on investment second to no other coin-op game in history. The other benefit was the operator didn't have to move the game to various locations to keep it fresh. Moving a heavy game is costly and not enjoyable.

Getting closer to the customer

In order to increase the cashbox earnings we got closer to the player. In order to help the operator make more money with contests and updates, we got closer to the operator. This has been incredibly valuable.

Building a brand

Golden Tee became a part of popular culture on its own merits. Among other things it has appeared in skits on Saturday Night Live, been talked about on David Letterman, included in a Nike commercial aired during the Olympics, is played at Nick and Jessica's house on MTV, and played a predominate roll in a FootJoy commercial. Marketing efforts are made to make sure the word gets out about the game in many local newspapers: the New York Times, USA Today, The Golf Channel, airline magazines, and golf magazines. This familiarity makes it that much more likely that someone sitting in a bar will make the effort to get up and put money in the game.

Sponsorships

People have long hoped that advertising could be a way to subsidize income on coin-operated video games. Advertisers are very savvy and want game placement and player demographic information before they place their ads. This was not available until the networked Golden Tee came along. Anheuser Bush paid for putting their Michelob Lite brand in Golden Tee Golf. It was incorporated into the game in the fashion of putting their name on scoreboards and floating a blimp in the game with their logo. They sponsored contests on Thursday nights in bars across the country adding Michelob hats and small items to the prize pool. The real value was not in the direct money paid. This barely covered the costs of putting their branding in the game. The real value was in their sponsorship of contests and the work of the local beer wholesalers to promote these contests thereby increasing exposure and validity of the game.

In order to more understand how to make money in the coin-op business it is instructive to look at current trends.

Off the shelf hardware and operating systems

In the past, the economy of the industry allowed coin-op manufacturers to develop audio and video hardware that surpassed all others. These machines cost several thousand dollars, but earned enough to pay for this type of investment. Now PC's and console systems have far more power for less cost due to economies of scale. It is virtually impossible for a manufacturer to justify the cost of new hardware development. So most new games now use some variation of PC or console hardware running Windows, Linux or some other off the shelf operating system. The bad news is that coin-op games cannot be much more technologically advanced than what people can already have in their homes. The good news is this opens up the pool of developers that are ready to design for these common systems.

Sequels and updates

Like all entertainment products, risks are high and everyone seeks to minimize them. Therefore if you have a good game, milk it for all it's worth with sequels and updates. A good strategy is to build the complicated, expensive engine once and provide a path to easier commercially viable additions for several years.

Retro games

Some manufacturers have bought rights to old coin-op video games and repackaged them. These games appeal to the adults who played these games as kids as well as finding a new market. It lessens the risk because the game was known to be popular once and certainly had the elements of good game play. Some of these ventures have been clear commercial successes.

Converting successful consumer games into coin-op games

Long ago the first consumer games were conversions of successful arcade games. Now some manufacturers are taking the opposite direction. Their challenge is to cost effectively change the consumer games timing and sensibilities to one that works in an arcade or more casual public environment. Not all games lend themselves easily to this task. A balance must be struck between how much is paid for royalties plus conversion costs vs. starting from scratch with good ideas, tools and engines.

Broadband networking

Right now there is no easy, consistent, cost effective access to broadband connections in enough public locations for a game to entirely depend on it. This is changing. As broadband gets more universal deployment, coin-op will take advantage of it.

Global markets

Other countries that have the economies to support a market for coin-operated video games have a more liberal view of gambling. Many countries allow slot machine type

games in their public locations, or have easy access to casinos and pachinko parlors. Up to this point there has not been an amusement video game that can compete successfully for revenue with a game of chance. The choice of buying a gaming machine that will provide \$900 per week in revenue vs. an amusement machine that will provide \$200 per week in revenue is pretty clear. A few countries have limited legal gambling which leaves room for a game that depends on game play and/or tournaments of skill. Japan still has a very strong arcade market but no U.S. manufacturer has been able to sell significant numbers. Canada, Great Brittan, Australia, New Zealand, South Africa and a few other European countries have been worthwhile markets. Each country has required significant localization regarding laws and coinage.

In Conclusion

As time goes on coin-operated video game entertainment will continue to evolve. The total number of machines and their average earnings has declined for several years. However, Golden Tee Golf proved that there are yet untapped markets and ideas that can attract people to this venue. Innovation was the answer; not simply new hardware or better graphics. The success was dependant on compelling game play and new business models. After the success of Golden Tee there came the inevitable copiers. Many have incorporated the networked tournament and league ideas into their games. There are even those that copied Golden Tee Golf's game play and artistic expression. But copiers only have a fraction of the success of the innovator and copying doesn't advance the industry. The challenge is to find the next new innovations that will keep the public electronic video entertainment experience thriving and creating new opportunities for those who love to develop games.

Good places to get to know more

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Trade Associations

American Amusement Machine Association
Amusement and Music Operators Association

www.coin-op.org

www.amoa.com

Trade Publications

Play Meter Magazine
Replay Magazine
Vending Times Magazine

www.playmeter.com

www.replaymag.com

www.vendingtimes.com