Video Arcades Fighting for Survival In Overcrowded, Battered Industry
By DENNIS KNEALE Staff Reporter of THE WALL STREET JOURNAL
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NEW YORK — Amid the mirrors and blinking lights of the garish Space Station video arcade here, an orthodox rabbi perspiring in a long, black overcoat is locked in a vicious game of miniature hockey.

"Don't shake the table—unfair!" the rabbi warns his opponents, two teen-agers in jeans and sneakers. To the din of organ music, the rabbi spins a rod controlling a tiny plastic player and scores the winning goal with no time left on the clock.

All the while, the Space Station itself is locked in an equally ferocious fight. Opened only last December, it must compete for the same customers with Station Break, a larger and older gameroom located just 115 paces down the same hallway of Pennsylvania Station.

Lots of arcades are in similar fights these days. As new gamerooms overcrowd the industry, competition has turned sharp. Price, equipment, ambiance and gimmickry have become the means of survival.

Station Break offers youngsters as much as $5 in free games for perfect school attendance It uses uniformed attendants with silver badges above their coin changers to enforce image-conscious rules against smoking, gambling and loitering.

But the Orthodox rabbi, Mayer Schiller, passes by Station Break because it lacks Chexx, the miniature hockey game. "It's the only game I play," he says. Others choose Space Station because its pinball machines offer five balls for each 25-cent game, compared with only three balls at Station Break. And some turn to Space Station because it charges only half as much as Station Break to play Pole Position, a hot, new race-car game.

Space Station's owners couldn't be reached, but Station Break's parent company, Time Out Family Amusement Centers Inc., Manassas, Va., says arcade competition is tough. "Business is terrible," says Thomas F. McAuliffe, operations vice president of Time Out. "Everybody's hurting. We're reeling as an industry. We're on the ropes."

Memberships and Snack Bars

Many arcades report a 30% drop in business from a year ago, and some fear even worse times are ahead. More than 10,000 gamerooms grapple for quarters today, twice as many as in 1980. Worse, arcades must do video battle with the now-ubiquitous games in bars, restaurants, convenience stores—"every place but the funeral parlor," Mr. McAuliffe complains. The home video-game market adds to the problem as home-game graphics improve and popular games move more rapidly into home cartridges.

The result: One in four arcades will go out of business in the next few years, predicts an analysis by the Sanford C. Bernstein & Co. securities firm. Most vulnerable are the poorly run gamerooms that lack a mall or campus location; small operations that can't spread costs over many sites will struggle, too, arcade owners say.

To survive, arcade owners resort to showy promotions, expensive remodelings and even non-video games, as well as price wars. They create club memberships, install snack bars, kick out kids during school hours and polish a wholesome image to attract the entire family.

In New Hartford, N.Y., three major gamerooms fight it out in the same mall, Sangertown Square. The manager of one, Park Place, makes low-profile forays into competitors' turf to covertly count customers.

The Time Out arcade charged 25 cents a play when it opened first in Sangertown Square. But it had to rig the machines to spit out two games for a quarter when Park Place, which opened across the hall last October, began selling eight game tokens for $1 or 45 for $5. Park Place even staged a "lucky token" drawing that awarded winners their weight in free plays, one play per pound.

Then a Pizza Time Theatre arcade and restaurant moved in, hurting the other two gamerooms. "I definitely would have stayed out if I'd known a third one was coming in," says Edward Biagini, president of Park Place's parent company, Grove Amusements. He says he called Time Out's Mr. McAuliffe to suggest a truce to the price wars he had started, but was rebuffed. (Mr. McAuliffe confirms the conversation.)

"Time Out says I'm the spoiler. But we're cutting each other's throats," Mr. Biagini says. Now there is no turning back. Receipts fell 50% the one day Park Place tried switching back to a quarter a game. Because of the three-way fight, Park Place profits are running 25% below projected levels, Mr. Biagini says.

The number of gamerooms has doubled to more than 10,000 since 1980; many arcades report a 30% drop in business from a year ago, and some fear even worse times are ahead.

Many arcades are opening near competitors. In more than 200 of the 450 Aladdin's Castle arcade locations, competitors have opened gamerooms within 2.5 miles, says Bally Midway Co., parent of the chain. After opening 70 arcades and buying 50 more in all of last year, Bally so far this year has opened only nine. And for the first time, it closed several others, too.

"Three years ago, anywhere we'd open up would do great; we wouldn't even study it," says William T. O'Donnell Jr., president of Aladdin's Castle. But lately, he says, the chain has gotten "tattooed" in some markets.

As competition stiffens, promotions intensify. Nowhere is the hype more plentiful than in Ottumwa, Iowa, a town of 27,000 that officially calls itself "Video Game Capital of the World." Ottumwa is the home of the elaborate Twin Galaxies arcade—"the most famous arcade in the world," according to Walter A. Day Jr., its owner.

So far, Mr. Day has managed to attract the state governor for a highly publicized visit. Life magazine and the national television show "That's Incredible" covered a U.S. video game tournament that Mr. Day sponsored at Twin Galaxies. The arcade is most famous for its international scoreboard, which uses a computer to track world-record video-game scores called in from the United States, Japan and Europe. Mr. Day says he is planning an international video-game "Olympics."

But none of this is making big money. Mr. Day says the two-year-old Twin Galaxies began turning a profit only 11 weeks ago. In late 1981, there were "maybe 100 games around Ottumwa," compared with more than 300 now, he says. "I thought I'd make a fortune, become a millionaire. One doesn't do it opening up an arcade," he says.

Besides increased competition, video arcades face the severe problem of unsuccessful games. In a typical arcade, one-third of the games provide much more than half the revenue

The Bernstein report on arcades estimates that the typical machine posted a net loss of $85 last year as its profit-making life declined to only 28 weeks from 40 weeks the previous year. By 1986, gamerooms will replace more than half their machines annually, up from only 6% in 1981, the report predicts.

Now newly purchased games commonly fizzle before they recoup their costs. "We have games less than a year old that nobody will play, that will never earn what we paid for them," says Norman Pink, president of Advance Carter Co., operator of 17 arcades in Minnesota and elsewhere. Mr. Pink says the company can't trade in these games because everybody else has them. "We leave them in the warehouse," he adds.

Production Plunge?

Arcade owners say the market is flooded with new games. Last year, makers churned out 480,000 coin-operated games. But this year's production will plunge to only 250,000, the Bernstein report projects.

The failure of brand-new entries is creating a new market in discount games. In Columbus, Ohio, the Game Exchange auctions off new games—still in their cartons—that are in oversupply or have already fizzled. The new Domino Man game, whose regular price is $2,000 to $2,500, is less than a year old, but Game Exchange sells it for only $895.

Other arcades use "conversion kits"—packs of computer parts that replace lackluster game designs with new ones. A kit helped after the Treasure Island Fun Center near St. Petersburg, Fla., spent more than $2,000 on a new game called Locomotion. Within weeks, the game turned into a failure, pulling in $20 a week.

Apples and Gremlins

But revenue climbed when the arcade installed a $695 conversion kit called "Mister Do" It changed Locomotion, a train-maze game, into a chase between overzealous gremlins and a player-controlled clown. "You try to drop apples on the gremlins and kill them," says Jim Tolisano, who runs the arcade with his mother, three brothers and a sister. "I myself have gotten eight extra clowns in one game; people seem to like it"

Some owners are hoping improved technology, such as laser-disk graphics to make images more realistic, will help business. But these innovations won't reach the marketplace for months, and there's no guarantee youngsters won't find them boring after a while.

Other owners think the main hope—for survivors—is the industry shakeout that is under way. "What we're seeing is the neophyte or novice getting out of the business," says J D Meacham, an official of the Amusement and Music Operators Association. "Unfortunately, a lot of them getting out are getting burnt."

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