

Why did Brunswick buy Valley-Dynamo?

Meet the Brunswick Presidents: Warren Hardie (Brunswick Recreation Centers) and John Stransky (Brunswick Billiards)

Bowling is on the comeback trail, as we wrote in last month's column, which detailed my recent visit to the Bowl Expo. The Bowling industry's needs and desire to grow also dovetails with the products and services offered by the coin-op amusement industry with several of the major players in bowling actively pursuing ventures within the coin-op game business. Topping that list is Brunswick, the Lake Forest, Ill.-based leisure giant that boasts more than \$4 billion in annual revenues.

Earlier this year, Brunswick acquired the assets of Valley-Dynamo LP for \$34.5 million, as a way of complementing their already successful consumer pool table business. In addition to operating bowling centers and making bowling equipment and table games, Brunswick also makes and sells fitness equipment, outboard motors and numerous brands of fishing, high performance and pleasure boats.

Meet Warren Hardie:

I had the opportunity to meet with Brunswick President Warren Hardie at Bowl Expo and to talk to him about what the company's re-entry into the coin-op business will mean both for Brunswick and for the rest of the coin-op industry. Hardie, who reports directly to company Chairman George Buckley and Vice Chairman Peter Hamilton (President of Brunswick Bowling and Billiards), is charged with overseeing the company's many different leisure related investments, not the least of which is their massive bowling center operation.

Not surprisingly, as an operator, Brunswick Recreation Corporation (BRC) is one of the largest users of Brunswick equipment and will soon become a large user of Valley/Dynamo product as well. Brunswick has a total of 120 bowling centers world-wide with real estate ownership in about 60% of these centers. 45 of the 120 Brunswick centers are presently 'Brunswick Zones,' branded entertainment centers which include both bowling as well as a significant family entertainment component. There are currently three different models of Brunswick Zones. BRC also operates nine US Play Centers in Europe and operate a prototype FEC covering 110,000 square feet in Edmonton, Canada, called 'Reds.'

Hardie, who joined Brunswick in 1997 after rising to the top ranks of the casual dining industry, said the company plans to convert all of their bowling centers to offer additional forms of recreation beyond simply bowling lanes to BZ locations in the next two years. They are also looking for good deals to operate new locations either through acquisition or ground-up development and follow the 'Zone' model. So this represents a significant potential investment into the family entertainment industry in the coming half-decade.

A ground up development, know as a "greenfield," takes nine months and costs \$8-\$9 million for Brunswick to put into place. Independents usually look at \$12-\$13 million and a longer time frame so BRC really has an edge when it comes to this kind of development project. They also consider conversions, whereby they identify a suitable property (65,000 square feet and up) such as an empty big box retail location (like a K-Mart or 1st generation Wal-Mart) in a well-targeted neighborhood.

Hardie has quite a diverse background, having worked his way up to being the VP of Denny's International where he oversaw 600 stores overseas and then in 1985 participated in a \$1 billion leveraged buyout of the company. His group sold Denny's 2-1/2 years later for \$1.225 billion! He was born in New Mexico and grew up on a ranch in Nevada where he rode in numerous rodeos and graduated from the University of Nevada as a CPA. In addition to his corporate experience, Hardie's resume also includes stints when he was younger working in underground mines and on a nuclear submarine.

According to his vision, Bowling is at the tail end of a 10-15 year transition in which the old business model has reached obsolescence as the percentage of league bowlers has declined from 65% to 45%, while casual play is on the rise. Warren stressed that league play is even less than 45% because he would not classify some of today's programs as leagues, such as 'learn to bowl' classes or organized bowling clubs. As a progressive, he sees bowling growing with a different model, that of the entertainment complex, along with the fastest growing segment: birthday parties. Many bowling center owners now are 'risk averse.' They are nearing retirement and their kids are gone, moving on to corporate careers. Hmmm...sound familiar? Games are now an integral part of the new, growth-oriented bowling center. 'There is an inevitable synergy in

marketing games, billiards, food, laser tag, other attractions, and bowling,' says Hardie. He calls it a "critical mass of fun" because the combination makes the bowling anchor a 'destination.' "Plus, it's an easy to package for the consumer to understand; games and bowling make sense together."

In order to adapt to this changing market, says Hardie, bowling needs to be more flexible. But that doesn't mean that operators need to start tearing out lanes for different attractions either. In fact, Hardie is really advocating a 'bigger box theory' for bowling—"more lanes, more games, more entertainment." Warren's reply was in response to my own philosophy that 'more lanes' is not necessarily the correct answer, as several of my land-locked bowling center consulting clients are covering up or removing excess lanes in order to create space for games and attractions.

Interestingly, this is not the first time that Brunswick has waded into the family entertainment-bowling concept. The company had previously launched an unsuccessful pizza chain concept called Circus Pizza, meant to compete with Chuck E. Cheese type locations. Hardie admits that it was poorly executed mainly because it didn't properly merge the conglomerate's complementary businesses. Different parts of the corporation ran it as a separate business from bowling and the left hand did not work well with the right hand.

So where does coin-op pool and air hockey really fit into the big picture?

Well, we started this article talking about the relationship between the bowling industry and the coin-op game industry, noting the acquisition of Valley-Dynamo by Brunswick. So what about coin-op pool? Hardie says, 'coin-op billiards needs to expand to attract a wider audience. The differences and synergies of coin-op pool and time play pool are very similar to the differences and synergies between league bowling and open play. It's about the same 'core tension' between the competition sought by regular league bowlers and the entertainment value that more casual bowlers are looking for.'

One of the ways to do this, believe Brunswick execs, is to make game rooms more inviting for the family in an attempt to overcome that ever-present hint of trouble that often lingers around arcades. That means adding up-to-date 'alluring-mysterious' touches to space and to the games like black-light and even 'cosmic-izing' the room to go with modern trends like cosmic and glow bowling. Operators also need to look seriously at noise management (absorbing and deflecting sound) so the sound that emanates conveys an activity that is stimulating and addictive instead of annoying and even dangerous.

Brunswick's Hardie also agrees with my formula that redemption game revenues are currently out grossing video games by a five to one ratio, suggesting that future game room operations will continue to lean heavily on redemption over video. Bowling is primeval, says Hardie. Humans will always enjoy rolling a ball and being able to track their skill at doing so. That kind of interactive, energy-generating archetype will always equate to fun. "If golf is a good walk spoiled, he says, then bowling might well become a non-casino casino-style attraction for adults (without gambling, of course)'.

Meet John Stransky:

I also had an opportunity to talk with Brunswick Billiards President John Stransky (who has headed the billiards division for five years, first coming aboard in 1981 as a product manager) about the state of coin-op pool tables. Brunswick started making billiard tables in 1845, and is the market leader in the home and commercial pool table business. Many years ago, Brunswick tried their hand at making coin-operated pool tables but made the mistake of not going through the 'proper industry channels' like Valley/Dynamo did. Brunswick recognized that their only way (and the fastest way) into the coin-op marketplace was to purchase Valley/Dynamo. John went on to explain that the bidding got down to a final 6 companies (really only 2 companies were at the high end) and Brunswick received a 30-day exclusive (May 1-June 1) to do their due diligence. And the rest is history.

Stransky was raised in Chicago, received his bachelors degree from the University of Kansas, and MBA from the University of Arizona. John's father owned a liquor and wine distributorship where John learned many of his early-life business lessons. He started with Brunswick 23 years ago, left for a short period and came back in 1991 as VP of the Electronics Unit and in seven years became the President of Brunswick Billiards.

The term for a coin-op pool table is a 'bar box.' John does not like this term and he will work hard to improve the image of coin-op pool tables. Brunswick's intention is to improve the 'look' and 'play characteristics' of Valley and Dynamo pool tables (incorporating life style designs) and to make them play even better. Note that this is one thing that Brunswick is absolutely fanatical about—that the balls play properly.

Brunswick, said Stransky, will be able to take the Valley and Dynamo brands and generate more profit through sourcing of materials (slate and cloth, for example) and employing their impressive 'value of brand' marketing strategies to two already successful lines of pool table games, as well as air hockeys and 'foosballs' (table soccers). Stransky is also very

excited about VD's new battery operated dollar bill acceptor that will surely help pool table revenues grow. I also told John that the 'Lighthouse' merchandise dispensing machine by LEI (handled by Valley/Dynamo) was my #1 merchandise dispensing machine for the months of June and July and that is why I took the picture of Warren next to the 'Lighthouse' at Bowl Expo.

According to Stransky, Brunswick has been using a Dealer Advisory Council for the past five years. The council meets annually for two and a half days and has really helped their product development. They even bring the prototypes that were discussed from the previous year's meeting to the current meeting so the attendees can see how valuable their input was. Brunswick intends to do the same with coin-op (provide what the market desires) and bring distributors in for their valuable input. By the way, I told him that AMOA Directors (approx 50) purchase 80 % of all of the products in the US coin-op market and that the input of the leading pool table operators would also be beneficial in addition to that provided by distributor sales people.

Stransky said Brunswick has a five-year plan for VDLP. They see the company continuing to grow in coin-op while also bolstering Brunswick's home sales market for billiard products. Brunswick has tremendous access to the top end home market through its 'Sea Ray Living Magazine' and boat customer database. [My opinion is that Brunswick will have little trouble capturing a large share of the coin-op home sales market but may have some trouble delivering, setting-up, and 'servicing' the games such as pinball, shuffle alleys, and videos, as they won't be able to do this efficiently through the normal coin-op distribution channels.]

In conclusion, we discussed if a large public company can ever be good for coin-op. Stransky assured me that Brunswick wants to keep Valley Dynamo running the same way it is currently. I told him that none of us in the industry will take a 'wait and see' approach as a large majority of the public companies that have been in our industry have done much more harm than good, largely because making the quarterly figures was so much more important than actually producing a product that worked and 'had legs.' We all do sincerely hope that Brunswick will uphold their commitment to the coin-op industry and help us fix our 'broken for a long time' manufacturer-distributor-operator model.

Thank you Warran Hardie and John Stransky for your candid and honest responses.