

Taito America Prexy Jack Mittel Addresses Key Video Game Issues During Special V/T Interview

Editor's Note: This is the first part of a two-part interview with Mr. Jack Mittel, president of Taito America Corporation. Part 2 will appear in both the November issue of VENDING TIMES and in the VENDING TIMES' Special AMOA Supplement, to be distributed at the show. The interview was conducted by Mr. George Hincker, associate publisher.

V/T: To start off, why don't you give your overall general opinions of the industry.

JM: The industry is so much stronger than it was during the summer, which doesn't surprise me because it was expected. I think we have a scenario here of an increase in business, which is something that could be with us for an extended period. It could be something that's basically a temporary situation, facing another downturn sometime prior to the AMOA, which will take us through most of the winter. In the event that it is the latter, there will still be a market for games which I call "super competitive," meaning on a scale of 1 to 10, from the manufacturing point of view, a 9 or a 10 can be sold. Anything under that cannot be sold. The quantities of numbers 9 and 10, which will be marketable, will be determined by the different number of models of numbers 9 and 10 which hit the marketplace at the same time—meaning, if only one or two factories have super competitive games, their total volume will be very substantial. In the event that there are three or four of the super competitive games available at the identical time, the volume that each factory enjoys will be reduced accordingly.

The situation in the marketplace today is that, yes, earnings are up on location, but in turn, the operator has to pay. And in many areas, they are finding it rather difficult at this moment to keep their payments up to the distributor. As such, their purchasing even on super selective games may not be as good as it was before. This is brought about because of some games which they purchased six months or a year ago, the earnings are now to the point where they are almost noncompensatory, but the units themselves have no marketable value in the marketplace. So what is happening is that

they are just being kept on location longer, and as a result, where an arcade may need 40 units, now it's 45. It earns the same, but the per unit income goes down. And, in the street, instead of two it has three—the same result. I guess that's about the biggest thing facing the industry today.

V/T: Can you perhaps clarify what you mean by a 9 or 10 game?

JM: What I'm talking about isn't rating them 1 to 10, but a game that is a 9 or 10 from an income point of view only. Income.

V/T: Alright.

JM: Income—cash box. And, you know, sometimes you find out, and sometimes it can be very unfortunate, that the cash box can be a very cruel mistress. And these are the things that you have to be very, very cognizant of. I have to tell you this, in my opinion, I think that the shake out is still here—from a manufacturing level, which is the question you asked. And, I don't think it's over by far. And I firmly believe that some of the companies that are in business today may not be with us a year from now

for several reasons: they may not have the financing available to carry them if they hit a down slide, if they've had a down slide; they may not have enough in-house engineering to allow them to develop their own creativity; the games which are purchased off-shore are not as numerous as they were before because the market is more super selective. And, the games that are coming in from off-shore that are marketable, the price has gone up. Some of the smaller companies are going to find that they can't afford it. So they're faced with a dilemma, and the dilemma is that they're not going to exist. And in the final analysis, I'm not saying it's all bad, because historically—going back to the old electro-mechanical pinball era, we always enjoyed peaks and valleys. I think a lot of people have been spoiled in the last 3 or 4 years because it's been all peak. We all better start adjusting our thinking to peak and valley, 'cause it's here. I think we're going to live with this for an extended period of time.

Also, there are many manufacturers who are sitting with excess inventory which has not helped. Now, for anyone



to build games and not have them pre-sold is ludicrous. Because what you do is you have your material, labor and overhead expensed-out and paid for what you may have to borrow money to do so, and if the games are not pre-sold, all that happens is that each week that goes by they're worth less out in the marketplace until they're worth nothing. So, we make it a policy here that any company I've been associated with, anything we build is pre-sold. The only inventory that we have might be at the end of a day because the truck doesn't pick up.

V/T: Let's go back and emphasize that part again about the excess inventory. Why do you think that so many of these manufacturers turn out these fantastic quantities of games every day when they're not pre-sold? And, also emphasize why Taito seems not to be stuck in that position.

JM: Well, several reasons: Number One, you are as strong as your people at the top. Many of the managers in the industry today are what I call relatively new. There is nothing wrong with being new, we all learn some place. Many have not been through the wars. I have. I've been at this for over 20 years. I've seen the bad, and I've seen the good. This is the first experience many managers have ever had of a down-stroke. They couldn't read it coming, and they couldn't react because they'd never been through it before. An advantage

we've had is because I've lived with it on a daily basis for 20 years—and it's a gut feeling when the market turns, it's like a quarterback who can just sense being blindsided. You just know it, because of experience. This is how you learn. And, the unfortunate thing is many of the managers who are learning today are finding that it is pretty expensive. The days are over when you can build anything and throw it out to the marketplace. It's over. An identical parallel is the Chrysler situation. They got into a God-awful mess, that they finally got out of hopefully, that is, their inventory of cars that they had to finance, but couldn't pay for. They just became older and older. It is the same thing here with video. As I say, you have to learn someplace. But the unfortunate thing is that many of the managers have simply not had the opportunity to go through what I went through.

V/T: Other than your gut feeling and the experience in the industry that both you and I have had going back 20 to 25 years, do you have any outside influences, any research, or field testing of your machines that guide you and you adhere to?

JM: Yes, that's why when I joined Taito America Corporation as the President of the Company some 28 months ago, the very first thing that I did do was establish Taito America Corporation in the arcade and retail sales end of the

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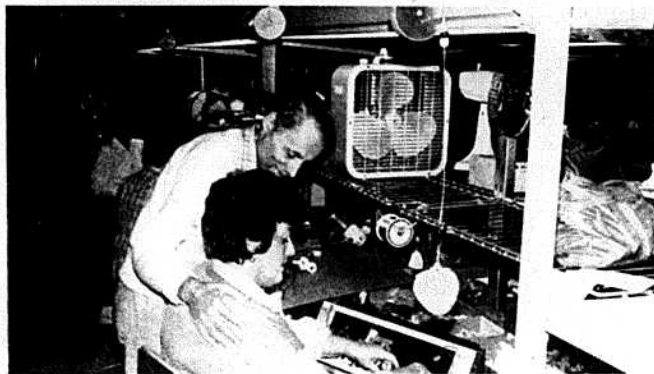
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MITTEL: COIN INDUSTRY ON UPTURN

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business where we do have our own arcade and retail outlets in the continental United States, as well as the street route in the Caribbean. As a result, I can pretty well use that as another indicator as to how well I feel that the industry may or may not do for the next 90 to 120 days — and as a general rule, when the weather gets good in the Cold Belt, we know that there is usually a drop-off in the area of roughly 10% of the earnings. This year, the drop-off was substantially more. So this turn-down in production was the easiest for me to predict in the last 20 years. Every indicator pointed to it, every single indicator. And the confirmation I received was from the arcades.

Now, I also noted that following the middle of August our arcade income has gone back up. So I knew that we had turned the corner. I just can't predict right now if it is temporary. Another thing which has hurt is that in many areas that have sprung up, which I call "Ma and Pa" type arcades (not street locations) — they think it is an easy deal, that it is a gold mine, when in fact it isn't. So therefore, when they go in, they don't know how to operate an arcade properly, and they don't know the business. As a result, what they have is "X" number of tokens far and above what they should allow for a dollar, for five dollars, which they find out after a year is noncompensatory to them. Therefore, in a year or eighteen months, they go out of business because they can't afford to stay in business, because they are not making enough money to buy new equipment. While the professional operator, such as us, we continue to put in new equipment, and at the end of a year, some "Ma and Pa" that may have opened up two or three blocks down, which has siphoned off some of our income, is no longer there, and it reverts back to the legitimate arcade. But to do that, you have to have staying power and you have to have funding. In addition to that, the "Ma and Pa" type operator — he wouldn't know how to percentage a game if his life depended on it. So the advantage we have is that we can obviously put out new equipment, which we do, in a much better percentage.

V/T: You said that you think that the industry is stronger now than it was in the beginning of the summer. My own opinion is that I don't quite see that.

JM: Yes it is, George, take my word for it. I can't go by just our experience in the manufacturing business, although we're busy now, but we can go by the industry-wide trend — from other manufacturers combined with us, as well as what our own income is dictating, not only in the arcades here, but the retail sales have picked up as has the income on the street locations in the Caribbean.

V/T: The reasons why you think the industry has picked up, maybe, is two-pronged. One has to do with all these "Ma's and Pa's" street locations folding — does that give more strength to the standard operators?

JM: Absolutely, that's what happened in our case. By lasting and outlasting them for a year, by putting in new equipment, by using modern methods with better percentageing and running what we call a "clean arcade". Sure. They folded. Two "Ma and Pa" operations near one of our arcades both folded. There is another arcade not far from us that is a professionally run arcade by a competitor and still in business. Both of us made it, but both of the "Ma and Pa" type arcades didn't. Our earnings per machine went up. We're getting the traffic.

V/T: With the decline in the number of potential buyers, which is going to mean that there are less buyers out there for the amount of games, will that then reduce the number of perhaps marginal manufacturers and create a stronger group of five or six?

JM: Exactly. When the shake-out is finalized — in the final analysis that is exactly right. It is going to create a stronger group of manufacturers — like it should be. In life itself, the strong survive. That is exactly what is going to happen. Because getting back to the initial part of the interview, George, there is going to be less equipment sold, and that is one of the reasons. And the hangers-on and the "Johnny come lately's" just aren't going to make it. The honeymoon is now over. This business is as competitive as any other business. And, in many areas, it is more competitive. And you are as strong as the

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man at the top.
V/T: We talk about these 5 or 6 survivors. Obviously, you consider Taito to be among the survivors?

JM: Absolutely. For several reasons. We have the best of all worlds — the reason we do is that we have our own in-house development called creativity. We have developed some of our own games, like "Qix," and you'll see some others at the AMOA. We also have some of the creativity flowing from across the ocean — Taito Corp. of Japan. We give them games, they give us games. In addition to that, we are well-funded internally, and, if required, have no problem borrowing money externally. And, in addition to that, the cash flow is becoming very substantial from our own operations.

V/T: In line with that and looking into the future, can you at this time say anything about any new innovations which may be coming from Taito?

JM: We are looking at a few different things at this point in time. I can tell you one of them, which is like the rest of the industry, is a 3-D approach, and another one which I can't tell you about. This is a new type technology, which will probably do to the electronic PCB arrangement, as we know it today, what the electronic PCB arrangement did to the electro-mechanical pinball machine, and this is moving very quickly. This could occur during the next two years, very definitely. As a matter of fact, we are working on it both here and in Japan.

V/T: Well, as long as this interview is going to be in both the October issue and also the supplement for the AMOA show, is there something you want to say that the operator can see at the show?

JM: We expect to have several new games available. One of the games that we have, we are testing right now in our own arcades, because one advantage in our own arcades is that we test it from four to six weeks prior to even putting it out on location test. At this point in time I guess I can tell you the name of the game is going to be called "Blitz." This game is testing to be a "10". We've had it out there a month already. This game will be available for viewing and estimated production at AMOA. We also expect to have another game available at the AMOA which is not being location tested yet, but which to us is the survival of seven or eight other in-house games. This is the best, and it looks pretty good. It should be ready for the AMOA. And that's called "Pirate Pete."

End of part 1. Part 2 appears in the VENDING TIMES' Special AMOA Supplement and in the November issue of VENDING TIMES.

Atari Charges Four With 'Dig Dug' Infringement

SUNNYVALE, Calif. — Atari, Inc. has charged four defendants with copyright infringement and federal and state unfair competition in a lawsuit recently filed in the U.S. District Court of New York.

In the lawsuit, Atari contends that a coin operated "Zig Zag" video game is an illegal copy of Atari's "Dig Dug," one of the company's most popular new machines. Because of the possibility that the alleged illegal games would disappear if the defendants were given prior notice of the lawsuit, Atari obtained a court order permitting seizure of the "Zig Zag" games without any advance warning from five locations operated by the defendants.

"The lawsuit is just the beginning of an aggressive campaign against infringers on all levels," said vice president and counsel for Atari's Coin Operated Games Division Karen Witt.

The lawsuit, which is a "first" for Atari domestically, asks for destruction of the confiscated games, punitive damages, attorney fees and costs, and that Atari be awarded profits from the "Zig Zag" games.



INTEGRAL PART: No video game can do without it — a printed circuit board — shown here by Mittel.

Judge Dismisses Suits Brought Against Destron

CHICAGO — Judges in federal and Illinois county courts have dismissed civil actions that were pending against Destron, Inc., according to company chairman Donald Desmond.

The United States District Court for the Western District of New York dismissed an action brought in 1981 by former customers against Destron and a Canadian distributor of its products. The suit, alleging violations of federal trade regulations and antitrust laws, was dismissed "with prejudice" so that it cannot be reinstated by the plaintiffs.

The second action, alleging breach of contract by Destron, was dismissed by the Circuit Court of Cook County, Illinois. It was initiated in 1980 by a former supplier.

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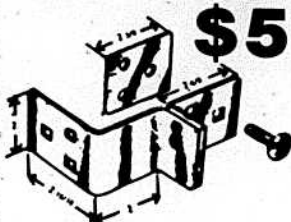
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