

Vending Times

Official Reprint

MENDOTA VALLEY CDL Industry Staples And Good Service Help Minnesota Operation Compete And Thrive

By **MARCUS WEBB**

INVER GROVE HEIGHTS, MN — Just 18 months ago, Bill Lethert of Mendota Valley CDL called himself an “extreme optimist” about the music and amusements industry. “I think this is the Roaring Twenties all over again for the aggressive operator, or at least it sure could be,” he said back then. Lethert put his money where his mouth was. In August of 2007,

Mendota Valley Amusement purchased the CDL Inc. route (150 locations) from long-time regional competitor Charles Leininger, who remains with the combined entity. Currently, Mendota Valley CDL’s staff of 30 operates nearly 4,000 machines in more than 400 accounts within a 100-mile radius of the Twin Cities of Minneapolis and St. Paul.

But after Minnesota’s statewide smoking ban took effect on Sept. 30, 2007, Lethert said he was “slapped with a harsh dose of reality.” Then gas prices skyrocketed to \$4 a gallon in mid-2008, followed by the steepest recession in decades.

Today, the head of the Minnesota-based operation uses the same self-description that he did before – with the addition of one more word. He now says he’s “extremely cautiously” optimistic.

“When the smoking ban passed, based on what we knew had happened to other operators around the country who had experienced bans, we budgeted for 25% to 35% lower revenues,” Lethert said. “But in the year after the ban, we lost 24 accounts – all mom-and-pop bars. By last fall, revenues across the whole route had dropped 58%.”

However, on the MV-CDL route, the

drop in earnings did not happen across the board. Video, including both uprights and countertops, took the biggest hit by far, according to Lethert.

“Touchscreen games on the bartop that used to earn up to \$350 a week, now bring in \$50 to \$80 a week,” he reported. “Famous

videogame franchises that had earned well for years suddenly have no ROI and, as far as I’m concerned, no future. It’s terrible to see collection reports come back from mom-and-pop bars that used to be strong locations a couple of years ago, but now the equipment earnings in some of them are so dismaying that you almost become physically ill.”

Lethert pulled no punches with his overall assessment of the state of the industry: “I think we would all agree these are dark days for amusement operators,” he said. “These are real tough times. I think we are two or three years from things coming back – if they ever come back.”

In Lethert’s view, smoking bans have been even more damaging than the overall recession – although he concedes both have hurt plenty. “As a general rule, to a point our industry is recession-proof,” he said. “But this economy has hit so deeply that it has now impacted us, the amusement industry. The smoking ban is the No. 1 problem that has hurt our industry; the general economy has now gotten bad enough that it’s a very serious secondary problem.”

As Lethert gazed into his crystal ball, he said the next few years also look very tough. He even admitted to a certain degree of pessimism about the industry’s prospects. “Long term, the industry will continue to shrink,” he predicted. “Our national equipment footprint will shrink. The number of operators who make the right decisions will shrink.”

Yet almost in spite of himself, this Minnesota operator keeps finding silver linings



Bill Lethert keeps close tabs on Mendota Valley CDL’s cashflow. He considers the performance of both account and equipment types with every placement and purchasing decision made.

in the darkest clouds. “We are living through ‘A Tale of Two Cities’ – for operators it’s the best of times, and it’s the worst of times,” he said. “As the industry gets smaller, the good news is that it will also get more professional and less cutthroat.”

So where is the bright spot in this discouraging picture? Actually, Lethert sees several bright spots – beginning with digital jukeboxes. MV-CDL operates more than 200 TouchTunes jukeboxes, making Lethert one of the larger operators of that line.

“Music is our No. 1 earner, without a doubt, earning \$200 to \$300 a week in average accounts,” he said. “We have some that do \$700 a week. Very few digital jukeboxes are weak unless the location itself is in trouble. Music has never been any stronger. Everybody is encouraged about music and I don’t think you’ll see that operators are afraid to spend money on music. As a member of Club Lucky, I talk to a lot of operators, and every single one tells me the same thing: ‘Music is where I am making money.’”

Another bright spot is pool and dart leagues. “That part of the industry I’m optimistic about,” the operator confirmed. “We get calls every week from locations that want pool and dart leagues. The bar owner that wouldn’t listen to you before about helping recruit teams and build leagues, but they’re now listening a little bit. Places that have never been recruiting pool and darts before are now doing it and succeeding because they have to. The places that put up posters and wait for people to sign up to participate in leagues are still waiting. You don’t build teams that way.”

MV-CDL has spent “a ton of money” on pool and dart leagues, and is continuing to do so, said Lethert. The company’s budget has not only continued to fund new equip-



PATRIARCH: Dave Lethert, who has been in coin-op since the late 1940s, founded the original Mendota Valley Amusement in 1979. Though he retired in 2005, he still participates in the company’s day-to-day activities. His daughter (and Bill’s sister) Molly oversees national accounts.

ment purchases and upgrades, but also salaries for dedicated league administrative staff and for promotions.

“The faucet is turned on and our leagues are the strongest they have ever been,” Lethert said. “We are working on our core now – the basics. Music, pool, darts and leagues. These are the opportunities for street operators in hard times.”

Lethert sees another huge bright spot for street operators in new technology and digital media. “I continue to believe, as I have for more than a year, that the PlayPorTT Entertainment Station from TouchTunes is opening lots of new avenues for chain restaurants and nontraditional locations,” he said.

He ought to know: Lethert himself just negotiated a huge new deal whereby more than 40 operators who serve the Buffalo Wild Wings chain will be installing PlayPorTTs in each of the chain’s 500-plus venues. For the past decade, the Minnesota operation has served as national liaison to this group of operators across the U.S. who service all BWW stores in 37 states.

“PlayPorTT will be a requirement for all BWW operators, but they’ll have many options for how to structure the deals,” Lethert explained. Operators will be able to purchase PlayPorTTs outright for BWW installation, or through a revenue-sharing arrangement, and there will be other options on the table. “Zero operator cash outflow will be required,” he said. TouchTunes and MV-CDL had 40 units staged and ready to ship in early February for the BWW rollout.

Innovative products like PlayPorTT open doors for new types of locations, Lethert said. “The traditional touchscreen games have been for the guy sitting at a bar with a cigarette and a shot, or tournament players,” he said. “PlayPorTT will open more restaurant-style business than bar-style business to the operator. I believe we are starting to make that happen.” Other venues that have not been considered part of the entertainment and hospitality industries could also support PlayPorTT installations, he said.

Lethert’s vision for possible PlayPorTT applications reaches beyond amusements. “Basically, this device is a handheld wireless PC,” he said. “That means operators can offer it as a tool for our customers – the locations – to use for corporate training, for example. This product will reach into many different industries and give operators an opportunity to make income other than a quarter at a time.”

DIGITAL MEDIA AND ADVERTISING

As for digital media, Lethert said operators of digital jukeboxes are being romanced by companies like Bar Fly (owned by TouchTunes), Tap TV (owned by Rowe) and others such as TargetCast and Onsite that hope to leverage the availability of broadband and TV monitors in U.S. locations, to provide demographically targeted advertising from famous national brands.

“Digital media is all the rage in our industry,” said Lethert. “We street operators have the connections with our bars; we have contracts; we have media platforms in our locations – jukeboxes and countertops. Many companies are now trying to sign up American operators to act as agents to go sell their products to locations for them.”

A street operator could receive as much as \$3,600 a year per location from a single ad-



NEW DEVELOPMENT: MV-CDL works as a national liaison for the Buffalo Wild Wings restaurant chain and recently helped negotiate a deal to have TouchTunes’s PlayPorTTs installed in all BWW locations. In action, the tablet-shaped portable entertainment device lets patrons play games and select jukebox music using a touchscreen interface. It is equipped with a card reader, and multiple units reside in a docking/control station when not in use. PlayPorTT was originally designed by White Rabbit Games, which TouchTunes acquired in later 2007 (see VT, Oct. 2007).



WILD AT HEART: The Buffalo Wild Wings chain was born in Ohio in 1982 after New York native James Disbrow moved to the state and was disappointed at the lack of food joints serving Buffalo-style chicken wings. Now headquartered in Minneapolis, MN, the quick-serve franchise has 550 locations across the U.S. Above is BWW location in Michigan.



ON THE JOB:
Some of Mendota Valley CDL's expert staff gathers for a group photo. Pictured, in front, are director of operations Dale Stapf (l.) and Heath Streetar. Shown in back row, from left, are Joe Parsons, Gary Hearing, Jeff "Moe" Fronk, Brandon Johnson, Ian Wheat, Gary Gruber and Steve Lovell. Staff members not pictured are Joel Morrisette, Twila Peterson, Jesse Stapf, Kyle Stange, Joel Jordan, Chuck Elander and Dan Fronk, as well as Molley and Patrick Lethert.

vertising client, Lethert said. Companies like Budweiser might spend \$10 million annually on digital media advertising, for example, and Nascar might dish out just as much.

Lethert said Club Lucky, the nationwide operator consortium, has a digital media

Lethert said. "The merchandise we use is the better brand name items," he said. "People don't want to play for trinkets and trash anymore. They can see right through the cheap junk. This is the day of the research shopper. They're willing to spend a little bit

equipment sector. Pool's importance is going up and up and up."

Pool tables generate good average earnings and it's "Steady Eddie money," Lethert said. "The strength of the cashbox will vary from place to place, so the raw numbers aren't necessarily meaningful." He added, "The point is that whatever level of earnings you can realize from pool is a good level, because just having a pool table on location is good. It is a value-added service from the operator and it is a barrier against locations owning their own equipment."

Judging from this nuanced statement, Lethert might appear to be lukewarm about pool. Nothing could be further from the truth.

"This whole industry needs to refocus on pool," he said. "It's a good category now and will have a big resurgence. We are investing heavily in Medalist tables." MV-CDL is also upgrading its older pool tables by converting them into electronic models with the Medalist Flextronic kit.

"We took our first delivery of 10 Flextronic kits in the spring of 2007 and will convert 10 at a time until we convert all 375 of our pool tables," he said. "As a result, on the converted tables we have seen 25% increases in earnings."

Lethert expressed the view that Medalist's kit – which costs around \$1,000 – has helped exert significant downward price pressure on new tables across the market.

The operator was pleased to pass along a key pool service technique that he said he learned only recently. "We don't recover pool tables on location anymore," he said. "Instead, we take each table back and recover it in the shop, put bill validators on them, and return to the location with a table that looks brand new. We might even change the cloth

Music, Pool, Darts And Leagues Remain Growing Opportunities For Mendota Valley CDL

committee that is evaluating these opportunities. The committee will report back to the organization's 36 operator members later this year with recommendations for which deals to take and how they should be structured, he said.

CRANES, MERCHANDISERS AND POOL

Next, Lethert sees a bright spot with cranes and merchandisers. "We have made a huge return on our investment in these products," he said. "Yes, those earnings are down too, but not like videogames. We're still doing really well in family-oriented places like Buffalo Wild Wings with machines such as Stackers, Whistle Stops and other self-contained redemption pieces. They are very popular with players of all ages."

Prize quality – not gameplay itself – drives play on cranes and merchandisers,

for a quality product."

Based on this philosophy, MV-CDL stocks its cranes and merchandisers with such high-end, high-demand items as iPods, Nintendo products and gift cards to well-known chains. "We purchase \$100,000 a year in gift cards from Buffalo Wild Wings and Best Buy," the operator said.

Pool is a silver lining in the amusement-operating picture, as Lethert sees it. "One good side of the depressed economy is we are getting more and more calls from locations that want us to install our pool tables and bring in leagues," he said. "So if we can capitalize on that when locations know they really need us, we will then be in a strong position when the economy recovers. I am a big believer in pool. Even if the number of pool tables is going down, that is a reflection of a shrinking location base, not a shrinking

color from ash to cherry or black. The account feels that you are earning your money and taking care of the equipment. I learned this from Chuck Leininger, who got it from Jim Stansfield of Stansfield Vending (Lacross, WI). When Chuck told me about this technique at first, I said 'You're insane.' Now that I've done it for 18 months, I can't believe everybody doesn't do it."

SPECIAL OPERATOR IN CHARGE

Bill Lethert has come a long way from the career that he originally contemplated in the 1980s: being an FBI special agent. After graduating from the University of Minnesota with a degree in constitutional law, he immediately applied for work with the FBI, CIA and DEA.

But the pull of family tradition proved too strong to resist. Lethert's father was active in coin-operated amusements from age 16 on (aside from a stint in the U.S. Air Force, where he led the Atlas Rocket design team). The elder Lethert entered the amusements trade in the late 1940s, and originally founded Mendota Valley Amusement in 1979.

But while Bill Lethert was waiting to learn the results of his applications to become a G-man, he recalled, the lure of amusements industry overcame him. "I was sitting in my dad's shop, rebuilding Rowe jukeboxes," he said. "I went out to find a turntable. One thing led to another and I got my first location in 1991."

Before he knew it, Lethert found himself deeply immersed in a fulltime career in the family business.

Lethert's father retired in 2005, but MV-CDL remains a family affair. Sister Molly is director of national accounts and has been part of the operation since 2000. "Operators unanimously love her," said her

proud brother.

Another brother, Patrick – also an attorney – has served as the company's chief financial officer for the past three years, after resigning his post as counsel with Thompson West Group.

THE ROAD AHEAD

In order for the industry to keep improving in tough times, Lethert believes that more communication and cooperation among all sectors is vital. "Everybody in the food chain has to make money, including manufacturers, distributors and operators – and we have to make it together," he said.

The Minnesota operator said he believes that hard times are forcing all sectors of the industry to improve their performances. "Manufacturers are learning, or will very soon, that you can't force people to buy things they don't want to buy," he said. "Maybe in the short term they have to buy a product to solve a pressing problem, such as purchasing a videogame software update so you can keep your networked games connected. But this kind of behavior cannot last in a free market. Basically, the survival of the fittest will not permit this tactic to continue much longer. I can't afford a \$500 upgrade for software that earns \$80 a week. Neither can any other operator."

The better distributors are also increasingly conscious of their need to add value to the market chain, Lethert added. "The day of the order-taker is ending," he said. "Many distributors have benefitted significantly by increasing customer service to operators, and many have seen the light and said we need to provide value. Just because we had distribution rights to a product for four generations, doesn't mean we have the divine right to charge what we want. Professional distribu-

tors know that if they want to remain part of the food chain, they must earn it ... and the best ones are doing exactly that."

The Minnesotan did not exempt his fellow operators from criticism. "I see operators who will be sucked into the vortex, who will not survive," he said. "And if they don't it will be their own faults."

Lethert said some operators, apparently desperate for new accounts, are offering 60% of the cashbox to the location for the first year of a new contract, plus a \$10,000 cash incentive payment.

"I guarantee that is a money-losing deal," Lethert said. "Time will take its toll on all of the operators who try this. Taxes are higher than ever, business is slower than ever; you can't give away the farm. We need to make informed decisions. Fortunately, I'm also seeing operators who would have done that in the past who have gone the other way: Now they are taking 60/40% splits in their favor, getting minimums and doing the right thing."

For himself and Medota Valley CDL, Lethert is upbeat – but said he does not expect to find any pots of gold at the end of the rainbow. "Yes, there will still be a role for operators five years from now," he said. "Our role will be providing pool, darts and music. We've got to stick to the basics. There is no more room for buying exotic, unproven machines, looking for a home run or a giant hit."

But if you can live with this meat-and-potatoes approach, Lethert concluded, the amusement and music machine business is still fun. "I still like getting up every morning and going to my office," he said. "I can't wait to get to work, to interact with our customers and our suppliers. And most of the operators I know feel the same way."

Published March 2009 © Copyright 2009 Vending Times Inc.

VENDING TIMES is designed as the forum to report trends in the vending and amusement services industries. Its content is targeted to operators working in automatic vending, foodservice, coffee service, coin-operated entertainment and music, and bulk vending. Editorial highlights include coverage of trade shows/events, new product reviews, relevant business news and analysis of new marketing/promotional techniques. VT is published monthly. VENDING TIMES is based at 1375 Broadway, 6th Fl., New York, NY 10018; vendingtimes.com.