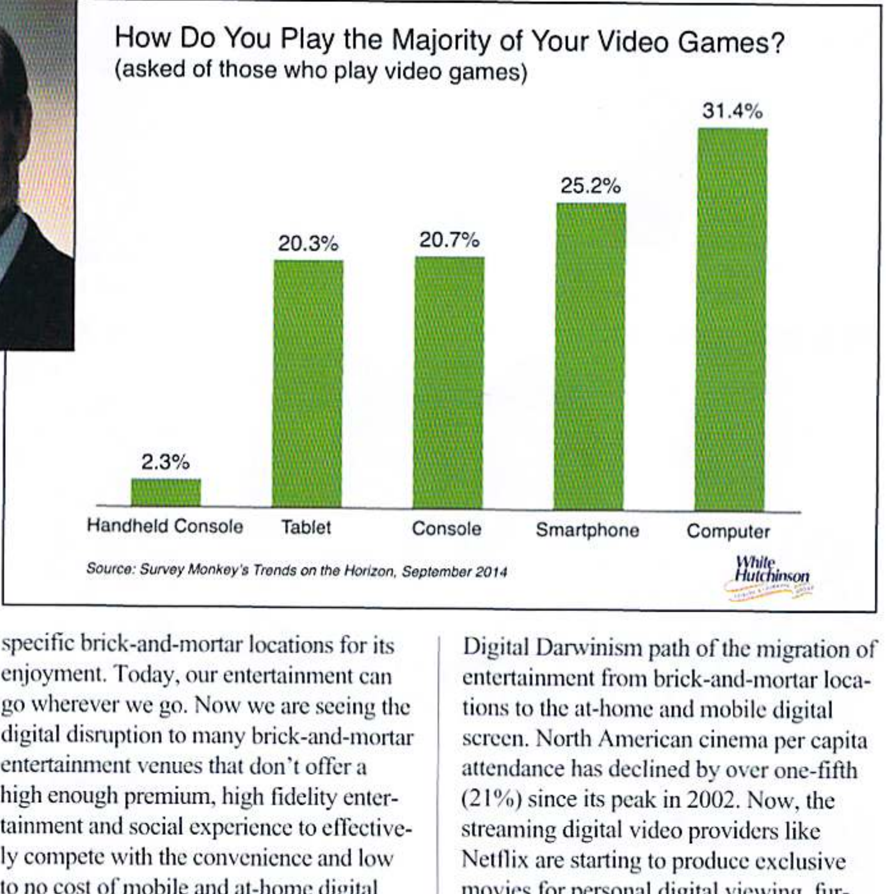
Home Video Play & Entertainment Go Digital

By RANDY WHITE

White Hutchinson Leisure & Learning Group



Source: Survey Monkey's Trends on the Horizon, September 2014

Depending on your age, you might remember when the only way to play a video game was sitting at home playing on a video game console in front of the TV or visiting an arcade. That has rapidly changed in the past few years with the growth of mobile devices.

According to September research by Survey Monkey, 56% of adults who played video games played almost half on smartphones and tablets. And the percent played on mobile screens is rapidly growing. The Entertainment Software Association reports that game play on smartphones increased 22% from 2012 to 2013. In their 2014 Mobile Behavior Report, salesforce.com reports that the majority (57%) of mobile screen users play games at least once every day. Pricewaterhousecoopers reports that U.S. mobile video gaming sales are growing at a 6.9% annual rate.

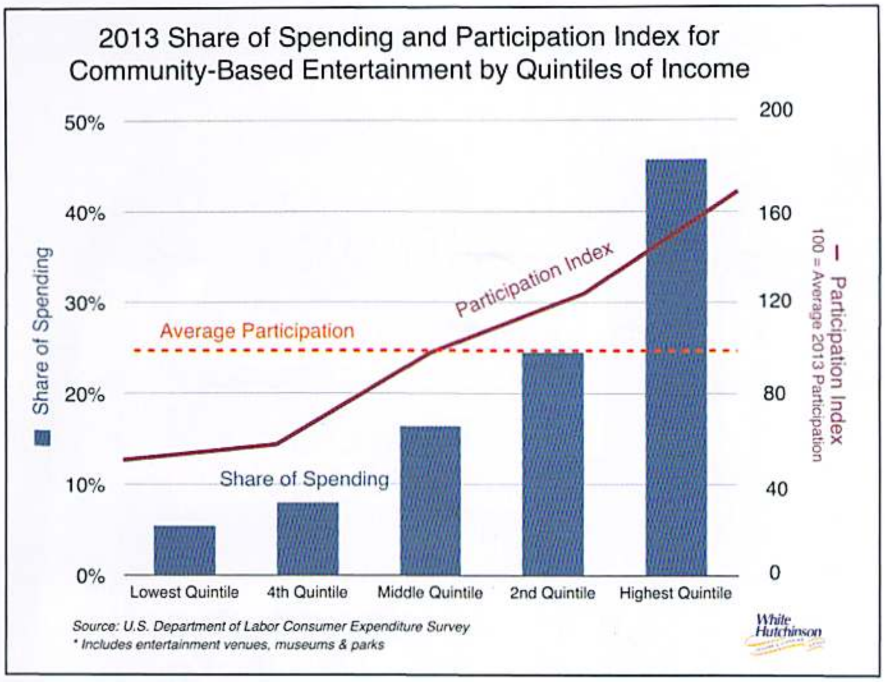
Triple Revolution Is Changing Consumption

The triple revolution — the Internet, social media and mobile technology — is fast changing how we spend our time and the way we consume our entertainment. We are no longer dependent on being at specific brick-and-mortar locations for its enjoyment. Today, our entertainment can go wherever we go. Now we are seeing the digital disruption to many brick-and-mortar entertainment venues that don't offer a high enough premium, high fidelity entertainment and social experience to effectively compete with the convenience and low to no cost of mobile and at-home digital entertainment and social. (We are including social media as the social aspect of visiting an entertainment venue can be even more important than the entertainment itself; 88% of social media users actually consider it a form of entertainment.)

Countering Digital Darwinism

Movie theaters are one of the earliest entertainment venues that started down the Digital Darwinism path of the migration of entertainment from brick-and-mortar locations to the at-home and mobile digital screen. North American cinema per capita attendance has declined by over one-fifth (21%) since its peak in 2002. Now, the streaming digital video providers like Netflix are starting to produce exclusive movies for personal digital viewing, further decreasing the exclusive first run attractiveness of movie theaters.

A number of cinema chains have seen the handwriting on the wall and are increasing the quality of the movie-going experience and going upscale by installing plush recliners, quality in-theater food and drink, improved technology projection and sound. As a result, they are seeing higher attendance and revenues, even with 2/3 less seats in each auditorium. The new upscale bowling-based and hybrid enter-



tainment centers are another example, achieving multiples of the per capita and per square foot revenues of the older bowling alleys with their declining attendance and revenues. High quality, high fidelity brick-and-mortar entertainment can counter the lure of digital entertainment, particularly for the higher-socioeconomic customers who have the disposable incomes to afford it.

Changing LBE Participation & Spending

Our company, the White Hutchinson Leisure & Learning Group, has analyzed long-term data on both Americans participation and expenditures at location-based entertainment venues (LBEs). We have found there is a long-term and continuing decline in the number of households participating (market share) with an increasing proportion of the remaining households who are still going to LBEs on a regular basis being the affluent households. In 2013, affluent households, those with the top 20% of all incomes, accounted for over one-half (53%) of all LBE expenditures in their local community and on trips and the top 40% of income households accounted for three-quarters (75%) of all such spending, up from 65% in 2000. And when those households visited, their spending was actually up. But their increased spending was not enough to offset the loss of the middle class and lower socioeconomic who no longer, or less frequently, attended and decreased their overall spending as well.

The Shrinking Middle Class

And that is a large part of the challenge today. We have lost a large portion of the middle class that was previously the primary target market for many family entertainment centers and other type location-based entertainment centers (LBEs). Here are just a few facts that demonstrate the shrinking of the middle class:

• After adjusting for inflation, 2013 U.S. median household income was still 8% lower than it was in 2007 before the Great Recession and 9% lower than its peak in 1999.

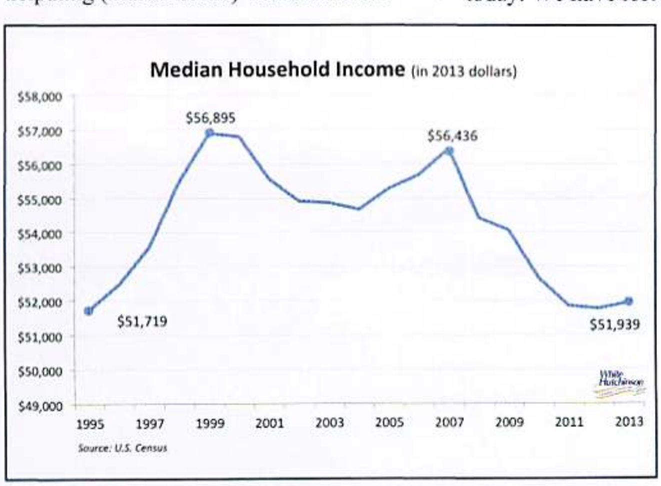
• In 1970, households in the middle 60% of the income distribution earned 55% of all U.S. income. That had fallen to 45% in 2013.

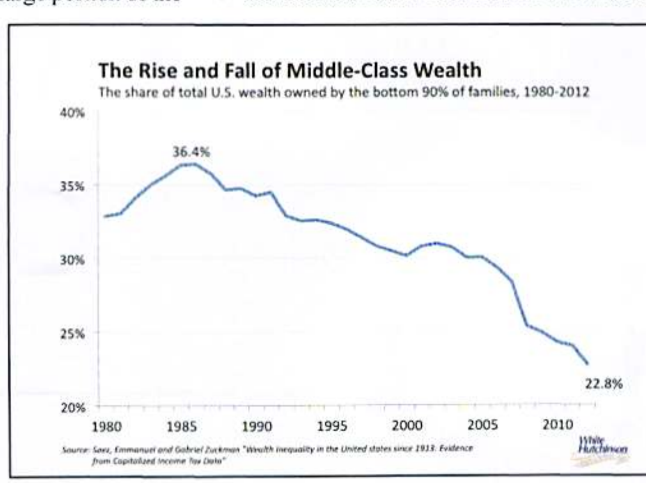
• A recent study by the Federal Reserve points to the precarious state of the majority of US households, who risk poverty or bankruptcy in the event of job loss, accident or unforeseen medical expense. The study found that almost one-half (48%) of American households couldn't raise $400 for an unexpected emergency expense without borrowing money or selling possessions.

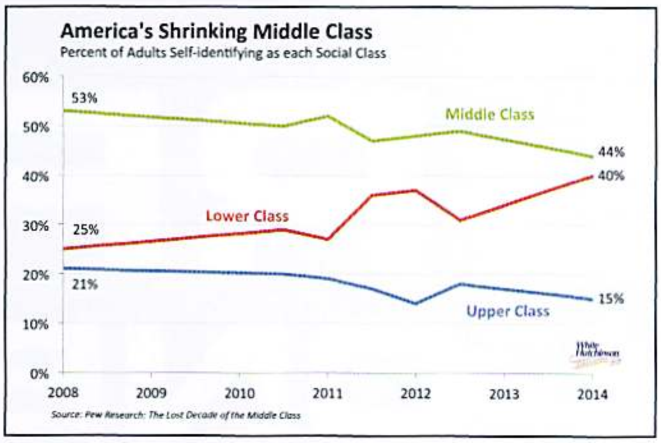
• The share of total U.S. wealth owned by the bottom 90% of households, which includes middle class, has dropped significantly since its peak of 36% of all U.S. wealth in 1986 to 23% in 2012.

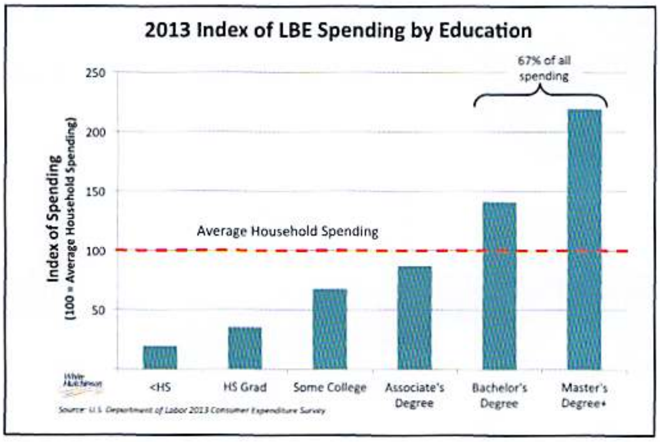
• How people feel about their financial situation is as important to their spending behavior as the detailed income and wealth statistics. A January 2014 report by the Pew Research Center found the proportion of Americans who identify themselves as middle class dropped from 53% in 2008 to 44% in 2014, while the number identifying themselves in the lower-middle and lower classes increased from 25% in 2008 to 40% in 2014.

Increasing segments of the population no longer have the discretionary income to spend on a visit to an LBE, or can only afford to visit less frequently. Instead they have turned to the convenience and afford-









Share of all Household Spending		
	2004	2013
Location-Based Entertainment	0.41%	0.31%
Digital Entertainment Equipment & Services	2.9%	3.9%

ability of digital technology, even though the quality is not as good, to get their entertainment fixes now accessible 24/7 no matter where they are.

The New Prosperous Class

There is a particular segment of the affluent population that is growing, referred to as America's new prosperous class. They are the workers with jobs paying an annual income of $100,000 to $400,000 (in 2012 dollars), earning an average of $156,000 per year. The number of prosperous-class jobs has increased by one-fifth since 2000, more than 10 times the growth rate of jobs paying either more or less. These well-paid workers collected over three-quarters (77%) of all total real wage increases between 2000 and 2012, even though they are only 7% of all workers. The jobs these workers have tend to require extensive education, analytical skills and often a government license.

These highly educated, high-income workers are a very important market for LBEs. They have high participation rates and high spending. Households where the highest educated member has a bachelor's or high college degree account for two-thirds of all LBE spending.

The new prosperous class is a sign that the American economy is not only changing from manufacturing to service jobs, but also to jobs that require education, expert knowledge, analytical skills and judgment. The prosperous class faces a bright future while the population without the education and skills for mentally demanding jobs faces a much less prosperous future. This is all part of the growing income inequality and wealth disparity in America with its impact on LBE attendance and spending.

Shifting Shares of Entertainment Spending

Our company's research also finds that even the higher socioeconomic households are shifting some of their leisure time and entertainment dollars to the digital world. Households of all incomes, including the affluent, have been decreasing the share of all their entertainment dollars that are being spent at LBEs and increasing the share spent on at-home and mobile digital technology and services. Over the last decade, the average household has decreased their LBE share of total spending by one-quarter while increasing the share they spend on all types of digital entertainment equipment and services by almost one-third. In 2013, Americans spent more than nine times as much on audio, visual and cellular services and equipment as they did for admissions to entertainment, cultural and sports venues combined.

Today's Challenge To Succeed

These trends present a serious challenge for many FECs and other type LBEs that opened years ago, and even for some that recently opened, as they were designed for the middle class before digital entertainment took away such a large market share of entertainment spending. Now these LBEs are losing their customer base. And they are not upscale enough in all aspects – attractions, design, ambiance, food and beverage and hospitality – to attract the higher socioeconomic market that is more discriminating in their tastes, the market with the vast majority of expendable entertainment dollars and probably increasingly so in the future.

Today and into the future, the LBEs that will succeed and prosper will offer guests high quality, premium, high fidelity, upscale out-of-home experiences. Those LBEs will understand that it takes an outstanding in-venue experience to get the people who can afford to visit to leave the comfort of their homes and convenience and low costs of their digital screens.

◆

Randy White is the CEO of the White Hutchinson Leisure & Learning Group, a multi-disciplinary firm that specializes in feasibility, concept and brand development, design and consulting for leisure and entertainment facilities. Over the past 25 years, the company has worked for over 500 clients in 32 countries and won 16 first-place design awards. The company publishes an occasional Leisure eNewsletter and Randy has a blog. Randy can be reached at 816/931-1040, ext. 100, or via the company's website at *www.whitehutchinson.com*.