

Assault on Redemption

By **GEORGE MCAULIFFE**

President of Pinnacle Entertainment Advisors by Redemption Plus

As a partner on the management team at Redemption Plus, we serve several thousand customers who entertain their own customers with redemption, cranes and merchandiser games. We spend a lot of time focusing on our customers' well being and the long-term health of their businesses. While we've often alluded to the risks of "pushing the envelope" on redemption, cranes and merchandisers in this column, we've tried to keep it low key.

However, it is increasingly difficult to avoid addressing this issue as an "industry."

I put quotes around "industry" because we are really two industries: the FEC/arcade business and street operations. The dynamics are different and the arcade game mix varies from the street game mix. As a result, the interests of the arcade operator and the street operator are not perfectly aligned on the principles of operation nor on the legal issues.

It is time to get aligned on operating standards and to develop resources to protect redemption and crane operations.

Recent Attacks

Georgia: The regulatory cost of operating redemption in Georgia has risen rapidly, with tougher licensing criteria for all operators. The latest law splits games into two classes and sets

location licenses at \$3500/\$5000 plus individual game licenses at \$250 and \$500 respectively! Amusement has unfairly been swept up in the regulation of gambling machines.

Florida: As aggressive operators — most outside of

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the amusement industry — created rooms full of machines of questionable legality and called it "Adult Redemption," they did the family entertainment industry the disservice of equating their brand of "redemption" with ours. As in Georgia, that risks sweeping up amusement redemption into regulation and licensing schemes.

Kansas: Last year, several traditional family entertainment centers including Dave and Buster's had to pull machines from their locations after the Kansas Racing and Gambling Commission summarily ruled that "pushers" were illegal.

Arizona: As *RePlay* reported last month, agents from the Arizona Department of Gaming served warrants on grocery stores, shopping centers, a storage facility and a private residence. Agents seized

games, a vehicle, merchandise and cash. They were looking for a "person of interest." That would be the operator.

California: A regulatory agency has issued an opinion that cranes and high-end prize games are illegal in California. Tom Fricke, one of the best



minds on redemption law in the country, and other legal experts believe that opinion is wrong on the law. There is also a class action suit against Denny's restaurants that claims cranes and the like are illegal gambling machines in California. Until the issue is resolved, operators are having their businesses impacted.

What's Motivating the Assault?

Gambling interests: As stated in the news coverage around the Kansas enforcement action, "...[the reporter] speculated that the commission is cracking down on the arcades because, "Gambling casinos are coming in and they want to make sure they capture 100 percent of that." Family entertainment games also get swept up in legal defi-

nitions intended to define slot and other machines from the world of casinos.

Politics: Politicians looking for issues and press have equated amusement redemption with gambling, and tried for prohibition. There is also the search for revenue sources. By defining family entertainment as gambling games needing regulation, states can justify higher taxes and fees. Some well-meaning politicians and citizens, mostly misinformed as to the nature and economics of redemption, seek to regulate or prohibit.

Legal Opportunists: A San Diego woman has filed a class action lawsuit against the Denny's restaurant chain claiming that prize games operated in their California locations are illegal games of chance. Chuck E. Cheese's recently settled a similar lawsuit. Although these suits may be without merit, those sued have to defend them. As we've seen in other industries, nuisance lawsuits with class action threats can be a real danger.

Unscrupulous Operators: For years, the industry largely respected the public and its perception, operating cranes and redemption within the law and with a positive image in mind. This means operating predominantly skill games, using reasonable prize-value-to-cost-of-play ratios and maintaining player-friendly win rates and ticket value dispensed per play. It's unscrupulous to put \$100 bills in the collars of plush animals or to offer the keys to a new car in merchandisers. These blatantly illegal practices give

us a bad name and draw the attention of regulators who then equate all redemption with those practices.

Aggressive Operators: Other operators, while not willing to blatantly violate the law, are willing to push the envelope. This includes operating with low or no win rates, offering extremely high prize values against low win rates and exclusively operating high-end games. **Auto-percentaging of cranes has got to go. To be a skill game, a crane must play the same way every time.**

Uneducated Operators, Distributors & Consultants: Some operators may be in violation innocently by not being aware of the history of these issues and the legal basis for operating redemption, cranes and merchandisers. Some industry consultants, sales folks and seminars spread false information, advocating some of the very practices responsible for the resurgence in legal attention.

How to Respond?

Beware Overreaction: The recent activity makes it difficult to bury our heads in the sand. That said, it's not the end of the world. With skill standards, redemp-

tion is not gambling, rather it is "retail with a fun factor." We buy at wholesale and sell merchandise through a fun process. Games are not gambling devices; they are the cash registers through which we sell merchandise.

Organize: It is high time for the "industries" to come together and organize a body to set machine manufacturing and operating standards. Such a national group supported by operators, manufacturers, merchandise suppliers and associations can also produce common definitions and language to support defense of adverse action at the state and local level.

Educate: Such an association can play a leading role in educating operators and locations on how to operate legally and how to maximize revenues while doing so. The association can be a clearinghouse, providing knowledgeable speakers for industry seminars, webinars and trade shows. Trade magazines can ensure that their contributors and content are consistent with the national standards.

Return to Basics: The industry has been well served by redemption ticket value per play of 20% (calculated by true ticket value, not the fantasy of "a penny a point"), and a redemption cost in the 15%

range after saved tickets and walkaway. Cranes and merchandisers should target a prize value of 25%. At 20% ticket value per play, you are at a retail markup of five (sales vs cost), or four on cranes and merchandisers. These numbers provide a fair value to the customer, keep it fun and keep players coming back. Prizes end up being close to retail with the added cost of the machine, plus the fun and the experience. This supports the premise that our business is retail, with the fun factor.

Manufacturers, distributors and suppliers should get on board. We need continuing R&D put into skill redemption games and better controls for cranes and merchandisers with more skill factors. We need to move away from high rewards on a single play. That means more play value in the games brought to market. ♦

George McAuliffe is a 30-year family entertainment center operator and president of Pinnacle Entertainment Advisors by Redemption Plus. Pinnacle is an industry consulting firm (www.groupinpinnacle.com) founded in 1996, and a division of Redemption Plus. George can be reached at 913/563-4370 or gmcauliffe@redemptionplus.com.



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