

Product & Program: The Keys to Redemption Success

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In the redemption game room, The Product drives sales. The Product attracts players. The Product serves the customer. The Product supports a facility's brand. The Product helps define the guest's experience. That's a lot of power from a relatively small piece of the operation, and that's why *RePlay* chose to focus on The Product in this issue.

More than just ordering stuff at random and throwing it up on the redemption center wall, the best family entertainment centers have a merchandise program, geared to their customer mix, and designed to support maximum play and repeat visitation. We've talked about the art and science of redemption in this column before.

The science of managing redemption product requires some infrastructure. Good management information systems with comprehensive but easy to read reports are the basic infrastructure of product management. Fortunately, our industry is blessed with debit card systems that help on the science side.

Too many operators shoot from the hip or go with their gut in terms of product selection. Tracking what customers redeem for at the counter, monitoring sales patterns when new redemption (or crane and merchandiser) product is intro-

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duced and generally applying some science to the process distinguishes the best redemption operators. In order to offer great prizes and reasonable take-home value on redemption goods, good operators control the process beginning with game payouts — the tickets dispensed from each machine. Payout is tickets dis-



pensed to the player for skillful play, and cost of sales is the cost of prizes redeemed by the player at the redemption center. This measures the profitability of our redemption program and it is the key number in measuring the value that we deliver to our customers.

The art in product selection is having a good feel for what

customers want, picking the right prizes and presenting them attractively.

Retail by Other Means

Redemption has been called retail by other means. Operators — both FEC operators and route operators of cranes and merchandisers — have the same challenge as retailers everywhere. The customer's value perception is what drives sales. In retail it is easier to manage because the sale of goods is a direct transaction. An item comes with a specific cost and is sold for a specific price. The store knows its exact margin on every item. For redemption operators it is more complicated. We buy our merchandise and place it on display in our redemption centers. The sales





are collected by our games. As game operators we measure cost of sales in the aggregate, the cost of all of our prizes out against all of our redemption sales in a given period.

Further, we don't always know what item an individual player is playing for, and the players themselves often don't know. Players start playing and saving tickets for a particular item only to cash-in or redeem another prize. This brings us back to The Product. No doubt having hot, desirable products players want to play for is important. Equally important is having a comprehensive product line in the redemption center. Key factors in selecting the product line for a given FEC include: customer demographics (Chuck E. Cheese's product line is significantly different from Dave & Buster's), average spent per visit, game selection and volume, seasonal opportunities and redemption center design.

Understanding the Player

Having operated redemption since 1983, we've developed a system to tie all of this together. An underlying philosophy of the system is that redemption players fall into fall broad categories which we've labeled Impulse, Traders, Savers and Super

Savers. Impulse players spend all of their tickets each visit; they want instant gratification and tend to be the youngest customers. Traders play for a better prize and tend to be a little older. Savers play for a chosen prize, often playing one or just a few games to maximize tickets. Super Savers are the ones we all like to have; they are totally into the redemption thing, think of tickets as money and save them for the biggest prizes (or best values). Our system is designed to a) serve all of the audience, and b) move players up the line as far as we can from Impulse through to Super Savers (see below). After all, players must come back more often, and play more per visit, to advance.

In a traditional redemption center, impulse items, sometimes called bin items, are usually in the front showcase. As above, the customer for these items is usually younger. They've earned their tickets on their own and, darn it, they will spend them on that visit. A good selection of product in the lower price ranges serves this customer's need for instant gratification.

At the higher end of the price range in the front showcase, and the lower section of the rear wall, can be found items for the Trader. Traders



are a little older. They've been through the items at the lowest ticket levels, and they want a better prize. The good news is that they'll play a little more to get it.

Savers are the heart and soul of the redemption operation. One of the reasons for the success of redemption is that a good system serves as a loyalty program for the FEC. Most FECs are dependent on repeat visitation to be successful. Savers in pursuit of product at higher ticket values are invested in your FEC. They are coming back to you versus the competition as they are in pursuit of a goal they can only reach in your facility, once a

particular product has them hooked. Earlier I mentioned that often the player doesn't know what they are playing for. Savers may start playing and saving for a certain prize but decide to cash out sooner for another. For example, a player decides to save for that 15,000 ticket bike on the wall. They visit twice a month for six months, spend \$15 per visit and accumulate 5,000 tickets in that time frame. On the day they walk in for their 13th visit they see a new iPod on the wall

for 5,000 tickets and decide to redeem for it. Not only did we not know what they were playing for, but they didn't even know.

Super Savers are in a special class but, unfortunately, tend to represent a small percentage of our FEC customer base. They are totally into redemption. It is a significant part of their entertainment life. They love everything about redemption -- the games, their ability to develop their skill and win more tickets, the saving process and the prizes. When I see Super Savers in action, I'm often reminded of my days operating laser tag. We operated eight laser tag businesses in our FECs across the country. In just about every one, sooner or later, I witnessed a group of players who gathered at our place decked out in full camouflage, including face paint. Now, that's enthusiasm for an activity! It's the same with Super Savers and redemption.

Having the very high-ticket items is important to serve this group, but the high ticket items also serve to drive game play among the other groups, especially savers, as above. And



that's really what an FEC's redemption product line is all about: to serve each group, to create an overall excitement effect, to tantalize players with the possibilities and by doing all of that well, to incentivize the player to play more and to visit our FEC more often to repeat the experience.

Winners Make Players

I need to make one last and important point. Great product, properly assorted in exciting displays, is indispensable. However if the customer can't win that product, it's all for naught.

Great redemption operators know this and set their game room economics so players can win quality product with regularity. In our consulting practice we first make sure we



know the actual redemption value of the ticket (1 divided by markup factor). We then design the game selection with a mix of high and low payout games so that the overall room payout is about 20%. With the natural float/walkway factor that yields a value of tickets actually redeemed (cost of sales) at about 15% of redemption

game sales. With non redemption games in the mix, that means our game room cost of sales should average 10-12% on the profit and loss statement. This is a cost of sales factor that most retailers would kill for in their business. It yields 85-90% margins. Operators who get greedy and don't allow players to win depress their sales and their ability to bank 85 cents of every incremental sales dollar above

break even.

Again, a good redemption program requires that we be good at both the art and the science to consistently perform. Once we've used the science to lock in our redemption cost of sales, we then apply the art of knowing customer desires, creating attractive displays, and selecting great products, to drive customer visits and the sales that come with them.

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