

Getting Back to FEC Basics

By **GEORGE MCAULIFFE**

Given that this edition of *RePlay* looks at the state of the FEC, I thought it would be a good time to review the business basics for state-of-the-art redemption. The term FEC is evolving. Its common usage, since about 1990, referred to what we now call The Traditional FEC, a combination of games, rides, laser tag, children's entertainment attractions, food and beverage and often miniature golf with a big group and party sales component. Today, the FEC label is broader. Businesses as diverse as bowling centers, skating rinks, restaurants and movie theatres refer to themselves as FECs as they add one or more of the traditional FEC entertainment attractions.

The most widely adopted traditional FEC attraction is a redemption gameroom. Why? It's attractive because of its wide appeal. Redemption attracts a wide age group known as the family. Family often means parents with their children, but it also means individual family members visiting alone. Redemption is growing because the business model works. Properly run, redemption games make money.

Many of our clients today come to FECs from a direction other than games, often from the primary business to which

they are adding redemption — bowling, restaurants and the like. Even some traditional street operators are new to redemption as they see the audi-

“Today, the FEC label is broader. Businesses as diverse as bowling centers, skating rinks, restaurants and movie theatres refer to themselves as FECs as they add one or more of the traditional FEC entertainment attractions.”

ence for games continue to shift in that direction. Given these trends, I thought it might be a good time for a look at some of the business basics of redemption.

High Tech-High Touch Balance Required

Good redemption operators combine a feel for the customer with an understanding of the numbers. Years ago, there was a fad in business books titled *High Tech, High Touch*. In this article, we'll focus on “High Tech” practices while recognizing the “High Touch” art of redemption management, such as a feel for picking the right prizes, presenting them attractively, creating excitement in the game-

room and promoting redemption to your customers.

Good redemption operators achieve balance. Maximizing redemption sales and profits



requires High Touch and High Tech. Spending all of our time in front of a computer means that we may miss what our customers are saying. On the other hand, if we never create

a payout report, or analyze one or take the time to test our assumptions with real numbers, our business can get away from us.

Toward a Common Definition of “Payout”

A good redemption program goes beyond a well-stocked redemption center. It starts with the game selection and quickly moves to operations, meaning how well you run your game operation. The “High Touch” comes in knowing your customer, who they are, their ages, what they like and then tailoring the game mix. One key “High Tech” area is an understanding of game “payout.” *Payout is tickets out, multiplied by*



Gamerroom Guru

ticket value, divided by game sales. It's important to maintain any game at or at least near its designed payout because that is how it will maximize earnings.

The payout level for which a game is designed is called the "natural payout." Once set and established, most games' payout levels don't change. When they do, the culprit is most often a technical glitch such as switch malfunction. Imagine being the kid who finally gets the ball into the bonus hole on an alley bowler and doesn't get the tickets! By checking payouts frequently, no less than weekly, good operators maximize sales while controlling costs. Payout management is often called "the first line of defense in redemption profitability."

We as an industry have a problem. We don't have a common definition of the term payout. This can lead to misunderstandings, poor operating procedures and a false security. We miscalculate the value equation we are delivering to our customers. Back in the day it was an industry



standard that redemption tickets be valued at "a penny a point (ticket)." In those days, the markup was 1; if I bought a piece of merchandise for \$1, I put it in my redemption center at 100 tickets. If it takes 100 tickets to redeem \$1 in merchandise then my ticket is worth .01 cents, a penny a point. So far, so good. The problem came in when operators decided that they could raise their shelf prices in the redemption center by applying a markup factor to cost. That was certainly their prerogative, but

they never changed their ticket value!

In the early '90s, a typical markup factor might have been 1.2. But many operators never realized that markup lowers ticket value. It's a mathematical function. Again, markup dictates ticket value. If you use a markup of 1.5, the math is \$1 in cost, multiplied by the markup of 1.5, so the item goes on the shelf at 150 tickets. If it takes 150 tickets to redeem a merchandise item that costs \$1, then each ticket is worth .66 cent (a little over half a cent).

Many excellent redemption operators still claim that their tickets are worth "a penny" and that their game payout (defined as the merchandise value of the tickets divided by redemption sales) is 30% of sales. It isn't. These operators kept their ticket value constant (in their minds) while employing a markup, and, I'll guarantee you, their actual payout is somewhere between 15% and 20%.

Why does this matter? If you have one facility or a small chain, maybe it doesn't.

New FIRE STORM

- **New** blacklight graphics
- **New** interactive lighting
- **New** sounds
New 200 watt speakers closer to the players
- **New** overhead design
- **Bill** acceptor capable
- **Reliable** construction
- **Proven** earning history

Valley Dynamo, LP • 7224 Burnis Road • Richland Hills, Texas 76118 • (972) 595-5300 • valley-dynamo.com

MADE IN TEXAS
USA

Gamerroom Guru

But, in general, it's a good idea to have consistent industry definitions, especially if you participate in educational efforts. If I can say my ticket is worth 1 cent, even though my markup of two creates a true value of a half cent, and if I can say my payout is therefore 30%, instead of the actual 15%, why not take it even further? Why not declare my ticket value to be 2 cents so that my payout is 60%? But I'm only kidding myself. I'm not giving the customer 60% or 30% in merchandise for every dollar of sales they give me. I'm giving them half or 25% of that. The player's value perception is what drives sales.

Merchandise is mostly "High Touch" such as having a feel for what customers want, picking the right prizes and presenting them attractively. But there is "High Tech" here too, starting with the numbers. The bottom line for redemption numbers is cost of sales, the actual cost in prizes out as a percentage of redemption game sales. This measures the profitability of our redemption program, and it is the key number in measuring the merchandise value delivered to customers.

Understanding the Player

Having operated redemption since 1983, we've developed a system to tie all of the High Tech and High Touch elements of successful redemption game-



rooms together. An underlying philosophy of the system is that redemption players fall into 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; they 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 Super Savers. After all, players must come back more often, and play more per visit, to advance.

Again, the system requires that we be good at both the High Touch and the High Tech to consistently perform. Once we've used the High Tech to lock in our

redemption cost of sales, we then apply the High Touch of knowing customer desires, creating attractive displays and selecting great prizes to drive customer visits and the sales that come with them.

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.grouppinnacle.com) founded in 1996. George has operated public space entertainment centers from 2,000 to 150,000 sq. ft., including a wide variety of entertainment components and related businesses such as bowling centers, restaurants, tourist attractions, ice skating, rides and laser tag, to name a few. He has operated redemption and merchandise games since 1983 and serves as the strategic partner for games and family entertainment for Brunswick Bowling & Billiards. Pinnacle's consulting practice has served new and established family and location-based entertainment operators with clients as diverse as Wal-Mart, Disney, ESPN Zone, Brunswick and many other independent facilities. George blogs at www.familyentertainmenttoday.com and www.redemptionreview.com.

Firestone isn't afraid to say those 3 special words you've been longing to hear...

You've Been Approved!

This past year, **over 90%** of business owners who applied for financing with Firestone Financial **were approved.** No, that's not a misprint. While banks cut lending in 2009, Firestone funded over 2,700 contracts to more than 1,500 customers.

Helen Mooney, Firestone Inside Sales Supervisor, has over 20 years of industry finance expertise.

Serviceing Businesses Like Yours Since 1965.

FIRESTONE FINANCIAL
CELEBRATING **45** YEARS IN BUSINESS

Tel. 800.851.1001
websales@firestonefinancial.com
www.firestonefinancial.com