

## How to Price Redemption Merchandise

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**T**he other day I was rebuilding a fence. You won't normally catch me engaged in skilled labor (a few years back, my wife left with the kids and wouldn't come home until I promised to call a plumber), but I'm a little cheap and the fence just needed new crossbars. To check a dimension, I pulled out my trusty tape measure. With elbow holding the lumber and pencil in hand, I needed it to work — it didn't, it jammed. After a few minutes of fiddling wouldn't free it, into the trash it went. I grabbed another tape measure (after selling our game route five years ago, we've got five of every tool known to man). This one got me the measurement, but it refused to close. Have you ever rolled 12 feet of metal into a ball? Into the trash it went. Back to the garage and there, in the tool drawer, I beheld my Stanley 24 foot tape measure, purchased circa 1983. I tested it. It worked fine. The measure slid and retracted smoothly. I then went back to work. After wasting 30 minutes on tape measures I finished the job in 15.

The two I trashed were house-brand, no-name tools. I'm sure I just grabbed the cheapest tape measure on the shelf when I bought them.

That got me thinking about how price comparisons, done well, are a little more complex than A vs. B. In the world of redemption this is certainly so. There is a list of tangible and intangible items to consider

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when comparing on price. It's possible to miss the big picture, to misallocate other resources like time and overhead dollars, "tripping over dollars to pick up pennies," as the saying goes.

As regular readers know, and in the spirit of full disclosure, Pinnacle is a division of Redemption Plus, a leading merchandise distributor. But I was a customer for many years before I joined the company and have been a customer of many other industry suppliers. The thoughts I'll share here have come from over 30 years of "figuring out" redemption operations and economics.

### Keep Your Eye on the Prize

Sorry about the pun. If you had to pick the two critical success factors for redemption game operators, I'd pick (1) they take care of their cus-



tomers so they come back again and again, and (2) they maximize profits. There are two "prizes" we need to keep our eyes on: sales and, on the expense side, cost of sales. If I always buy the cheapest merchandise and "save" 10%, have I really accomplished anything if my cost of sales is 22% instead of 18%, or if my sales are 10% less?

Several years ago, I had an FEC out of town. My practice was to show up unannounced. I had a very good manager who loved redemption. Almost every visit, though, I couldn't find her on the sales floor. She was always in the office. Goofing off? No. She

was behind her desk on the phone with a vendor with five catalogues spread in front of her. Meanwhile, I'm holding a P/LI with cost of sales over budget, three games that aren't working right and four customers looking for help.

It dawned on me that we had a misallocation of resources. We were chewing up management time and attention trying to save 5% on a ten-cent item. Solution: we went all the way down to one vendor for 80% of our merchandise. This improved our buying power, pricing and we could influence them to create control mechanisms to price and track our merchandise. In the process, we knocked several points off of our cost of sales and freed up our manager's time. This allowed her to be on the sales floor with customers, to give more attention to game maintenance and to make more group sales calls.

### Beware Broad Claims

We frequently hear from customers that XYZ vendor says that they can "save me 20% to 30%." This is usually a misleading claim. When we investigate, we find that on a select, cherry-picked, limited selection of items almost any merchandise distributor can "show" that they are cheaper. When we compare we find that we are cheaper on some items, and the competition is

cheaper on some items. True differences, if any, are usually small across the product line.

A typical tactic is to quote one vendor's retail price against the calling salesman's case or quantity price. Putting the ethics aside, do you really save anything if you are forced to carry more inventory with case purchases? It also increases your risk of dead inventory as most vendors don't allow liberal returns.

I'm often on seminar stages with colleagues who advocate multiple vendors or "the more the merrier," not always the best advice for every location. For multi-million dollar gamerrooms or multiple location operations, maybe, but even they must justify the overhead and management time. Less is often more. My goal is to simplify all the details so that we execute a few things well.

**Ensure Apples to Apples**

When your first priority is controlling your merchandise, cost of sales per item price is only one component of the calculation. What about size? Is Vendor A's 2"

eraser 1/8" thick vs. Vendor B's at 1/4" (a 100% difference on the material side and huge in customer value perception). How about plastic thickness? Is that plastic whistle from Vendor A going to break in the customer's mouth on the way home? How about packaging? Is vendor A's item without packaging going to sell at the same markup as Vendor B's when Vendor B's comes in attractive packaging?

How about freight? Some vendors include freight in their cost, others charge separately. Others apply a surcharge. Another comparison factor, often overlooked, should be return policies. A liberal return policy can save the operator a fortune in inventory and cost of sales. Buying "mistakes" don't have to be blown out at lower margins. A liberal return policy also avoids stagnation of displays and inventory, which leads to declining sales.

**Factor the Intangibles**

A great vendor will provide more than just the merchandise, such as tools to simplify and control the process, making it easier for an operator to make money. Other intangibles that have real costs, but which don't show up in an item price comparison, include:

- **Back Orders:** Back orders can be very costly because you don't get what you ordered when you needed it, and you usually do get it when you don't. The best vendors have real-time inventory at the time of purchase so you know what you are getting.
- **Safety Testing:** With today's regulatory standards on content and other safety issues, this is a huge intangible. All industry vendors have testing programs, but some vendors invest more than others, eliminating or delivering more risk to you and your customers.
- **Controlling Inventory:** Losses through miscounts/data entry errors become cost of sales expenses. In the 21st-century gamerroom, we have Redemption POS units designed to help control the process. When comparing item price, how do we factor in custom exchange rates at ordering, merchandise arriving bar coded to that exchange rate and fully compatible with all industry redemption POS units?

• **Controlling Theft:** If we carry things that our customers want, our employees will want them too. Keeping people honest is a challenge for FEC operators. Theft goes straight to the cost of sales line. A solid system as described above is worth its weight in gold but can't be found in the item price comparison.

• **Overhead/Management Costs:** The greatest of the intangibles. When management is spending their time on the phone, talking to vendors, reviewing multiple catalogues, etc., there is something else they are not doing. My priority is to put my managers on the sales floor, talking to customers, learning what they want, leading the staff and making sure games play and payout as designed. Coupled with a vendor or vendors who provide built-in controls and other tools, we could make more money.

Don't get me wrong, price matters, but we can't allow it to become the "tail that wags the dog," the redemption "dog" being cost of sales control and bottom line profits. ◆

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