

Pushing the Prize Envelope: How Far Is Too Far?

By **HOWARD
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Redemption Plus

"Pigs get fat, hogs get slaughtered." My dad loved to use this aphorism when talking about pushing the envelope in business. He means it is good business to stretch a little outside your comfort zone and take some risk, but if you get greedy it can kill you, at least economically.

I have found myself repeating this line in conversation after conversation recently as I talk to operators about the controversy surrounding high-end merchandisers and manipulated percentaging. Maybe it's because I had my first son this year and I'm now a father, but I think it has more to do with the fact that the saying applies perfectly to the internal debate our industry is having about merchandisers.

There is serious concern about the backlash from government, as well as a philosophical debate about what is reasonable in our industry. In last month's editorial, Steve White suggested we needed a "nuanced and multi-faceted approach including internal policing, legislative lobbying, and possibly even litigation as a last resort." I agree completely, and in this column will outline some of the issues at play and suggestions for how we can work together to address the issue.

First and foremost, it is essential that our industry is as

united as possible when addressing this issue. AAMA and AMOA are clearly working on this, but these organizations are only as strong as their membership. The leaders of these organizations need information, manpower and, of course, dollars from the membership to protect all of our interests. Much of the legal backlash is occurring at the

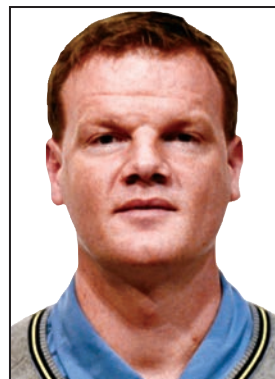
"We need an industry standard that we outline as a guideline for operators and also for legislators. In other words, we need to self-regulate by drawing clear lines and committing to defend operators against laws and legal challenges that attempt to limit beyond these self-selected lines. It is important that operators are involved in both defining these boundaries and contributing to defending them."

state level, which makes membership in state organizations as important as ever.

It has been a tough few years economically but it is in our long-term interest to spend the extra time and money to be involved in state and national associations. In addition to the money needed for lobbying and organization, it is important to be involved in the associations because they are central clearing houses for information. I speak to hundreds of operators throughout the year

and have not been hearing a clear consensus of opinion on the dilemmas of what the upper limit on prize value should be in merchandisers, is manipulated percentaging fair, and how do we protect our industry from over zealous legislators and courts.

There are two significant philosophical issues that underlie the debate about both



the product value in high-end merchandisers and manipulated percentaging. These philosophical issues are profitability and sense of fair play, which in some cases are opposing forces. On one extreme there is the mentality that we are in business to make money and therefore the only thing that should limit prize value is the law and the cash box. If it is illegal then we shouldn't do it or if players stop playing we'll change the prizes. On the other extreme are operators who feel

that there is no place for manipulated percentaging and prize value should not exceed a certain amount, usually something between \$25-\$100.

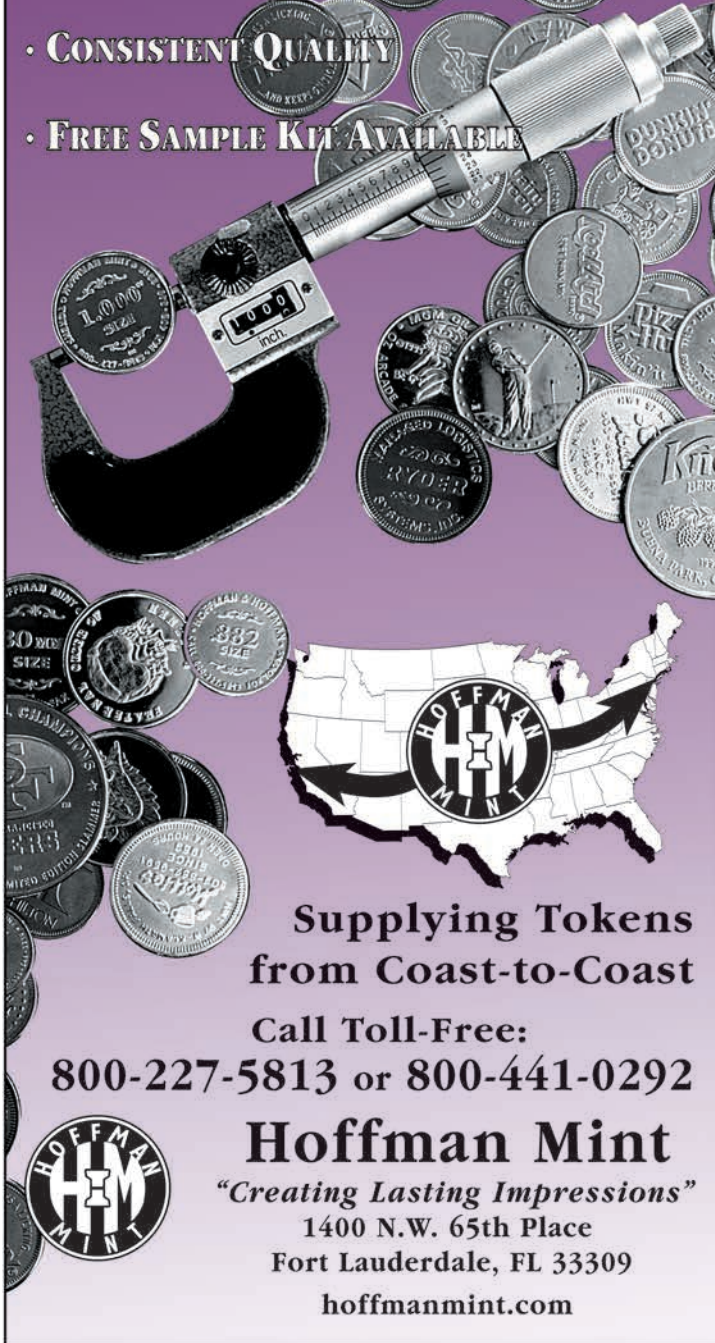
There is a wide range of opinion between the pure profit and the pure skill operators, and it is important that everyone contribute to the debate so we can move forward together. We need an industry standard that we outline as a guideline for operators and also for legislators. In other words, we need to self-regulate by drawing clear lines and committing to defend operators against laws and legal challenges that attempt to limit beyond these self-selected lines. It is important that operators are involved in both defining these boundaries and contributing to defending them. In addition to working on these big issues, there are some other steps operators can take to protect themselves against a potential backlash.

The reality is that cranes and most merchandisers do not require manipulated-percentaging to operate successfully. Operators should learn to operate equipment without this feature where possible. We used to operate 500 cranes and merchandisers, and none of them had manipulated percentaging. We are not unique; some of the biggest and best operators in the country operate this way. It is possible to maintain a cost of goods within a percent or two month after month for years on end.

One operator recently said

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to me, "We figured that out in the '80s." He has been operating pure skill games for over 30 years. It takes a little more effort from management to monitor costs, but that added effort helps control theft, game maintenance and employee performance, all of which help the bottom

line. It comes down to closely managing sales and product costs at the company level, machine category level, route driver

level and periodically by machine. If cost of goods is off at any of those levels then there is a problem; most likely with machine settings, theft, or maintenance, all of which management wants to address anyway.

I won't go into a long discussion of managing cost of goods sold but am always available by phone or email if readers have specific questions. In addition to learning to operate pure skill machines, we should avoid extremes. Companies should avoid self-serving settlements that hurt a majority of the

industry. Operators should avoid extremely high value prizes over and above the value of an iPad and certainly anything that is or can be considered currency. I think almost everyone can agree that this falls into the category of pushing too far.

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