The Bowling FEC

A Look at the Numbers

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Bowling-anchored FECs are the hottest trend in the family entertainment center industry. In recent, years more centers have come on line. Bowling is the leading asset to the mix, the prime draw and anchor. Bowling appeals to a wide age group as shown in bowling leagues spanning age groups from toddlers to seniors.

The appeal extends to both genders and every segment in terms of age diversity. The addition of redemption arcades, laser tag, miniature golf and even theater screens widens that appeal and helps diversify the audience. Bowling FEC attractions provide entertainment capacity for parties and groups, including a serious corporate component.

With many centers in their fourth and fifth year of operation, we have a track record to examine. In our consulting practice, we typically deal with two types of projects — new construction, ground-up bowling FECs and traditional bowling centers that convert existing space into family entertainment. Most of our work focuses on assisting owners to develop state-of-the-art redemption gamerooms, so those are the numbers we'll focus on.

The Game Mix

We customize each center for its market, but today's numbers often reflect a game mix of roughly 80% redemption (including cranes and merchandisers), 10% video and 10% miscellaneous novelty pieces like photobooths, air hockey and others. Within that mix, we create subsections of game categories to serve different age groups. Our objective is to draw the whole family, both together as a unit and separately as individual members. While the family unit might attend together on Saturday afternoon, the teenagers may attend alone with their friends on Friday and Saturday night. Mom or Dad and the toddler visit the children's play area on a weekday and so on. This allows us to expand the day's parts that bowling centers used to be limited to. A good attraction mix will also eliminate "veto votes" and help get the whole family in the car for a visit to our client's FEC.

Investment Levels

Both new and traditional centers have similar economic considerations. The process starts with space allocation — right sizing the gameroom. Many bowling proprietors make a common error in building the wrong size game room, often too large. They seem to think that sales volume equates to number of games. I've done $800,000 in annual sales in a 1,200-sq.-ft. gameroom with 25 games! We try to right size the arcade for the center's traffic and to maximize the return on investment.

The game mix dictates the game investment. We probably produce our greatest value here: by knowing the games that will perform best at the lowest cost. Knowing game performance, we choose Game A, which may cost $5,000 and should average $300 per week, vs. Game B with the same sales production at a cost of $10,000. We also include good used games from trusted sources to average down our client's game cost. Our mixes generally average about $6,500 per game with these techniques. We also work to maximize our player station to game cabinet ratio, maximizing player capacity with the games we select.

Operating Economics

In the example below, we illustrate arcade size in comparison to bowling lanes. Excess lanes can be converted to arcade space, at the least it creates perspective. Here's a snapshot P&L for a 2,400-sq.-ft. redemption gameroom:

This chart is all rough estimates but is a good illustration

Investment — 2,400 sq. ft.	
# Lanes Displaced (690 SF per Lane)	**4**
# Games	40
Game Cost ($6500)	$260,000
Other	$50,000
Total Investment	**$310,000**
Sales at $150 Game per Week	**$312,000**
Merchandise Cost of Sales (15%)	$46,800
Other Cost of Sales (3%)	$9,360
Direct Labor (15%)	$46,800
Parts & Service ($100 per Game/Year)	$4,000
Total Expenses	$106,960
Gross Profit	**$205,040**
Less Reinvestment in New Games (5% Year)	$30,000
Net Income From Games	**$175,040**
Cash On Cash Return	**56%**

Andy B's delivers new family entertainment attractions, along with 40 traditional and 16 boutique lanes, to the city of Tulsa. Andy B's redemption-heavy gameroom run on the Embed debit card system has demonstrated major earnings since its installation two years ago.

of the economics. A bowling lane consumes 690 sq. ft.; four lanes equals space for 40 games. A state-of-the art selection of 40 games plus other items such as a debit card system, merchandise inventory and other consumables should be just north of $310,000. In the centers we work with, we often deliver sales per game per week of $200 or more, but this illustration uses a realistic number at $150. That yields a little over $300,000 in sales. Using our operational economics, we should be able to deliver $175K in "net income from games (gross profit less the cost of new games), a healthy return on investment.

Reinvestment in new games is often overlooked but is a key to maintaining revenues at a high level over time. We recommend budgeting 5% of sales (net of trade in).

A diversified bowing center delivers additional revenues and benefits. Multiple attractions draw more people to the site where they bowl they eat, drink and play games. The center tends to do business in more day parts. Price packaging allows for delivering more value and fun. When that happens, people stay longer and come back more often. Parties and groups are attracted to the wide appeal.

Financing the Investment

There are three basic ways to finance the state-of-the-art redemption game room:

1. Center owns: cash or classic loan through bank or game-asset-based lenders. If the center is willing to learn this new business segment (as I often say "It's not rocket science, but it is science!") and provide quality management time and attention, this is the most profitable approach.

2. Center owns/leases: essentially same as the first option except the financing is structured as a lease (much like a car lease).

3. Contract with a third-party game operator: A game operator provides games and service. If a center owner does not have the capital or is not willing to invest in learning game operations up front and commit to managing the gameroom, then an outside operator can be the best choice.

There are dangers in option three: the owner is giving up control of a key segment of their business, and it's expensive as operators typically take a big percentage of revenue for their trouble. It is imperative that the operator has deep redemption experience in today's market.

Conclusion

Certain businesses, those that are capital intensive with mostly fixed costs, qualify for the term "top line businesses." With the up front investment in games, a predictable labor cost to staff the room, constant rent or occupancy costs, and a formula reserve for new games, most redemption game rooms are top line businesses. Once we cover our breakeven, a huge percentage of each additional sales dollar flows to net profit.

The percentage cost of merchandise sold is what determines the value equation for our players. Once it is right-sized for the game mix and the operation, it should be treated as a fixed expense and left alone. Once the cost of sales is zeroed in, a great redemption operator's focus shifts to driving the top-line sales.

We commonly plan for our client's redemption games to pay out tickets with a merchandise value equal to about 18% to 20% of their sales. Since there is a natural float in tickets paid out but not redeemed (they are taken home and saved, lost, etc.), we would expect the value of tickets actually redeemed to equal about 15% to 18% of our redemption sales.

This means that once we cover the nut or break even, for every $1 in sales our customer gives us, we give them back 15 cents in wholesale merchandise cost. If we do our job right, our customers will be delighted with this transaction! Doing our job right involves having a good system to pull together the many moving parts required to create a high-perceived value experience in the arcade.

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