



Photo courtesy of Redemption Plus.



Redemption by the numbers

Counting on installing or improving a redemption game room? Here's the how-to from the first *IBI* webinar.

Unless he or she has been on vacation for the last three years, it's hard to believe there is a bowling proprietor today who is unaware of a very hot trend in the market, the marriage of family entertainment and bowling. And a happy marriage it is. The honeymoon period is over, with many successful centers past their second and third years, and they are settled in for the long haul. The inevitable compromises have been made as both sides convert theory into practical reality.

IBI recently sponsored a webinar—*How Bowling Centers Can Profit from a Better Game Room*—in which I presented key issues in game room economics and operation. Judging by the Q&A afterward, participants were very interested in the numbers. Let's take a look at the game room's contribution to the bowling-FEC marriage.

When I advise centers on adding or improving game rooms I always start with the customers. The customer mix goes hand in hand with the game mix. Understanding who they are, what they like to play, and how they spend their time and money is the basis for creating a successful operation.

When I started managing an arcade in 1979 in New York City's Penn Station, our number-one game was "Space Invaders," and our game mix was 90% video games and 10% pinball. Our core customer was a 15-year-old male. Teenage boys are notoriously fickle, so it was hard keeping up with the demand for new and better games. Add to that the advances in home-game technology, and the video game industry crashed in 1983.

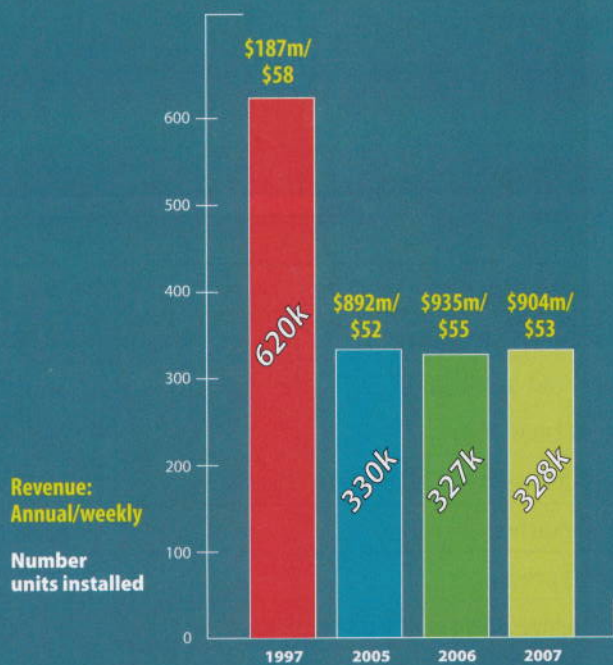
Game operators began experimenting with redemption to fill the void. I've written whole articles describing the trial-and-error evolution of redemption in arcades, but by the early 1990s it was well established. It has enjoyed widespread acceptance and continued growth since then, especially in the past three years.

Video games, by comparison, have about half the presence they did at the end of the 1990s. See tables on page 15.

Why the success of redemption? Because it appeals to both genders and virtually all age groups, because it's competitive, because it's a great social experience, and because it's fun. Today's numbers reflect a game mix of roughly 75% redemption, 15% video, and 10% miscellaneous.

By the way, does this all sound familiar? Let's see: core customer numbers decline—check; competition from other leisure outlets, including home—check; thinking about future survival leads to innovation—check;

VIDEO GAMES



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positive shift in gender acceptance—check; requirement for new investment to appeal to wider audience—check; product adaptation, appealing to wider audience—check.

Over the years I've been asked many times whether redemption is an art or a science. There is "art" in the merchandise: having a good feel for what customers want, picking the right prizes, and presenting it attractively.

Understanding customers is also something of an art. In our consulting work, we distinguish four motivations in redemption game customers.

The Super Saver

- ◆ Plays for the prizes
- ◆ Thinks of points as money
- ◆ Is frequent visitor to the arcade

Saver

- ◆ Plays for the game and a chosen prize
- ◆ Teens and older
- ◆ Often play same game to maximize winnings

Trader

- ◆ Plays for the game or a better prize
- ◆ Usually a little older than Impulse player
- ◆ Visits with family member
- ◆ Plays more to achieve a certain prize value
- ◆ Higher spender than Impulse player

Impulse Player

- ◆ Plays for games and prizes
- ◆ Skews younger

- ◆ Birthday party guests or occasional arcade visitor
- ◆ Spends about \$5 per visit
- ◆ Always spends all his points

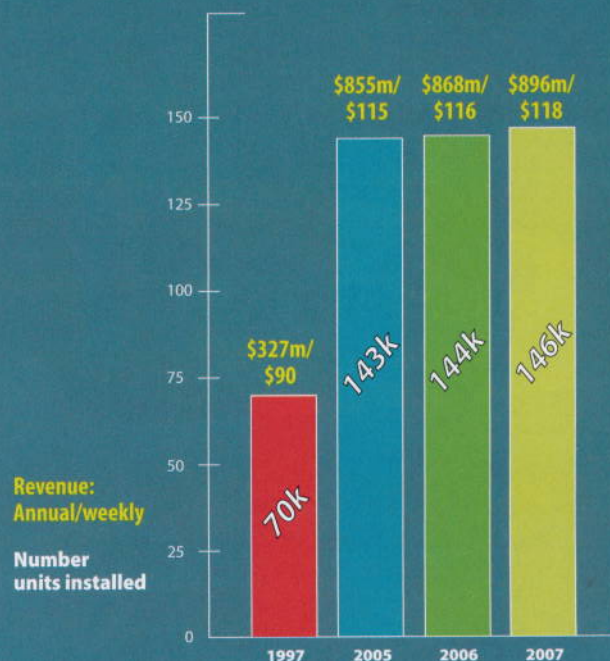
The "science" of a good game room starts with the numbers. What should my game investment be? What's my merchandise cost? Have I maximized my profitability by balancing my cost-of-sales percentage against my game sales?

Good redemption operators achieve balance; maximizing redemption sales and profits requires art *and* science. Spending all of our time in front of a computer crunching numbers means that we miss what our customers are saying, we may not notice that our price points are a jumble in our displays, and that our games are not playing correctly. But 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 just as fast.

Let's take a closer look at the numbers. The same metrics apply to both new/ground up and traditional centers modernizing to become bowling FECs. The process starts with space allocation—right-sizing the game room. A 2,400-square-foot game room in the table on this page allows 69 square feet per game, accommodating 40 games and a good customer flow. At a minimum, you should allow 60 square feet per game. In the example, the space needed for the 40 games is a little less than four bowling lanes take up (690 square feet per lane, or 2,760 square feet for 4 lanes).

A state-of-the-art selection of 40 games plus other infrastructure investment should be just north of \$310,000. In the centers we work with, we often deliver sales per game per week better than \$200. The table on the next page takes a conservative view at \$150. That

REDEMPTION GAMES



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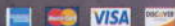
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GAMES

Investment	
Lanes displaced (690 sf @ lane)	4
Games (69 ft @ game)	40
Game cost (\$6,500 @ game)	\$260,000
Other	\$50,000
Total investment	\$310,000

Income	
Sales at \$150 per 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 and service (\$100 @ game @ year)	\$4,000
Total expenses	\$106,960
Gross profit	\$205,040
Less reinvestment in new games (5 years)	\$30,000
Net income from games	\$175,040
Cash on cash return	56%

yields a little over \$300,000 in this 40-game example.

With typical costs of merchandise (15%), labor (15%), parts and service (\$100 per game per year), and miscellaneous sales costs (3%), we should be able to deliver \$175,000 in "net income from games," our term for gross profit less the cost of new games—a healthy return on investment. Note that reinvestment in new games is often overlooked in game room economic planning, but is a key to maintaining a fresh image and revenues at a high level over time.

Add to the direct return on game room investment the contribution it makes to a diversified bowling center. The multiple entertainment venues under one roof draw more people to the site; while they wait to bowl they eat, drink, and play games. The center tends to do business in more day parts. Parties and groups find the facility more attractive. Package pricing allows for delivering more value and fun, and when that happens, people stay longer and come back more often. □

George McAuliffe is in his 30th year in family entertainment and is president of Pinnacle Entertainment Advisors by Redemption Plus, which consults with FEC and bowling center proprietors on the operation of games and FEC attractions (www.grouppinnacle.com). He also serves on the management team and manages the Customer Success program for Redemption Plus, LLC, a leading distributor of redemption and crane merchandise (www.redemption-plus.com). He can be reached at gmcauliffe@redemptionplus.com.

This article was adapted from the first IBI webinar, How Bowling Centers Can Profit from a Better Game Room, presented by George McAuliffe. The complete presentation can be downloaded free at www.redemptionplus.com/ibiwbeinar.