A Training Ground For Merchandising

By GEORGE MCAULIFFE

Whoopie cushions and Rolex watches? Diamond rings and goofy teeth? A head of lettuce and plush toys? Different worlds, no? What is the connection? The family fun industry can find a lot to emulate in other retail environments. There is a wealth of knowledge, ideas and expertise in traditional retail just waiting to be mined and put to use in our industry.

My brother Tom first taught me this concept when he hired me in 1979. Tom was the first VP of operations for Time-Out Family Amusement Centers, joining the company in 1971 when they had eight stores and playing a key part in its growth to 74 (before being sold to Sega in 1987). He was a leader in the industry and an innovator. Shortly after I joined the company, Tom visited my store in Staten Island Mall in New York City. "Let's take a walk," he said, which we did until he stopped in front of the jewelry store at center court. "See this store, we're in the same business," he told me. I probably looked at him as if he was crazy. We had just left Time-Out, which in those days was full of 15-year-old boys banging on pinball machines with a cacophony of noise from *Space Invaders, BattleZone* and 50 other videogames filling the air. How could he compare that to this high-class, sparkling dis-

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play? "We're both mall retailers," he said, "and the same principles of merchandising apply: eye appeal, traffic stopping displays, lighting, cleanliness, organization, knowledgeable staff and regular change. They are just as important for the arcade operator as they are for the jeweler."

I never forgot that walk through the mall. In fact, I repeated it with many new hires over the years, and it never failed to get their attention. Doubt and confusion changed to recognition and agreement as they saw the value in the argument, which became even stronger as the industry evolved into redemption, cranes and merchandisers. As the years went by we expanded the universe of retailers we modeled in our desire for continuous improvement and best practices, adding the big box retailers like Wal-Mart and even local or regional supermarkets.

Overdoing It

Before exploring retail's parallels, we should talk about how we can take the argument too far. While redemption can learn from retail, it is not retail.

A few years back, I talked to an operator who told me he bought all his merchandise at a local dollar store. If he paid a dollar for it he would "mark it up" as high as he thought he could get away with. He showed me an item he had out at 800 tickets and bragged that he "made" $7 profit on the item. This is a common mis-

conception in those new to operating redemption; they think you make your money at the redemption center. You don't. Redemption money is made in the games. The games are the cash registers. The players are motivated by the fun and challenge of the games, and they are motivated by the prizes, but it's not like retail.

In retail, the store owner knows the exact item the customer bought and the margin of each individual item. Not so with redemption. Think about this: a customer visits your center and sees a bicycle on display for 12,000 tickets. Obviously he or she will have to save their tickets over multiple trips to your location. After the sixth or seventh visit they see a new DVD player on display for 5,000 tickets. Since they have already accumulated 5,000 tickets, they decide to cash in and get the DVD player.

Not only did *we* not know what prize *the customer* played for, the customer didn't even know! This is a key difference to retail. Our money is made in our *games*; the *merchandise* is used to drive or *incentivize game play*. So back to our friend who bought an item for $1 at the dollar store and "marked it up" eight times to 800 tickets (I'm using a ticket value of 1 cent for simplicity of example). Let's assume his av-

The art and science of retail display can be used to create an appealing **merchandise display** at the redemption counter.

erage price per play on games is 35 cents and his desired game pay out is 20% on redemption sales. Our friend needs to pay out seven tickets per game (if his ticket is worth 1 cent). Our friend's customer would then have to play 114 games at 35 cents per game, spending $40 on games. In return, our friend hands him an item you can get at the dollar store for a dollar. How much repeat play will that stimulate?

Two sciences intersect here: psychology and econom-

ics. It's about setting up your system to achieve a desired set of economics. We do this in our work for clients by setting game ticket pay outs and a markup that establishes the value of each ticket so as to lock in a set cost of sales. We recommend a merchandise cost of sales of about 15%. Our mission as operators is to trade 15 cents in cost for a dollar in game sales, and to do that as many times as we can by applying proven merchandising techniques and manage-

ment systems and giving the customer a fair return in merchandise for their game play dollars.

Parallels with Retail

So you can take a retail-redemption comparison too far. But how can you learn and apply retail techniques to redemption? Just 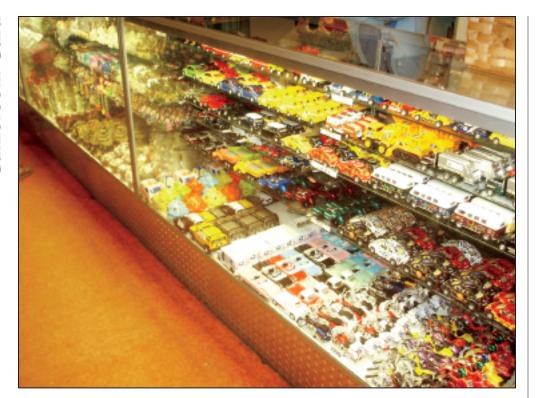like in retail, by having the right merchandise, delivering guests high-perceived value and by creating full, exciting, planned displays designed to drive sales on games.

Merchandising is all about the wow factor. Displays should be expansive, they should be kept full, they should have prizes people want to play for. For displays we recommend what we call the "produce aisle" approach. Like the produce aisle in any supermarket, displays are kept full to overflowing. The redemption center is usually the

guest's last impression of your facility. The redemption center or store should be organized to minimize guest confusion and to help guests move through the process efficiently. Keeping the glass clean and the redemption center free of clutter is one of the fine points of effective merchandising. It is a matter of training and leadership, creating a merchandising culture based on the mantra that "merchandise (displays) drives sales."

In 1990, the Time-Out chain was sold to Edison Brothers Stores, proving my brother's philosophy that arcades parallel retail in many ways. Edison was a $2 billion per year retailer with 2,800 menswear, shoe and ladies apparel stores. Edison liked the family entertainment business because they saw it as similar to what they already did. They called it "experiential retailing." Once we settled into Edison, I saw there was a lot to be learned from the retailers, not only with respect to merchandising — we "got" that — but on the management side of family entertainment as well.

Successful retailers focus on four key areas: *sales, merchandising, buying* and *controls*. When all four areas are working in harmony, sales and profits are maximized. *Sales:* having friendly, knowledgeable, well-groomed employees, who are dedicated to serving the customer, is just as important in Wal-Mart or in any jewelry store as in the mall. Successful operators succeed in creating an atmosphere of fun and excitement by having the right games, ensuring that they play properly, arranging them to maximize traffic flow and by introducing sufficient change over time.

Merchandising: Think of the science of shelf management practiced by major retail and grocery chains, the dis-

There are many parallels between **retail and redemption** but operators should remember that it's fun, not prizes, they are selling.

ment's job is to give them a framework, a system in which to operate, so that they are free to do just that. Operators have always been faced with the challenge of keeping customers entertained and keeping them coming back for more. The beauty of amusement merchandise is that it allows for the affordable introduction of change over time on the retail model. It should be managed accordingly. ◆

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plays created in mall retail and department store windows, the glitter of the jewelry stores and the exciting atmosphere created by the casino.

Buying: the buying process is critical in any retail chain, no less so in family entertainment. We can't be successful without having the right merchandise, at the right time, with cost of sales controlled. A good buying process systemizes the detail so management can focus on the big picture.

Controls: I'd submit family entertainment has greater control challenges than other forms of retail. A well-controlled redemption operation features a "closed loop" system, from the back door to the front with controls on the buyer, the vendor, the person who receives the deliveries, those who access the stock room, do the inventory and deliver the product to the customer. To this we add the game management component: developing the right mix of games with a blend of pay-out levels to meet our target for the facility pay out. At the game level, this includes setting and maintaining individual pay outs, ensuring that games play well, targets score correctly and seeing to it that crane mechanisms are cleaned and adjusted so claw strength is maintained. The best operators invest in the technology and other resources needed to control the business.

Hopefully, this retail perspective on redemption will get you thinking every time you visit your supermarket or local mall. The one parallel with retail that we haven't addressed in any depth is the customer service side. That would take another article by itself. Suffice to say that it is our staff who ultimately deliver *a fun experience to our player customers*. Manage-