BEC/FEC BASICS

By George McAuliffe

The Bowling FEC 101: How to Begin

Bowling-anchored FECs are the hottest trend in the family entertainment center industry. Bowling is the leading asset to the mix; it is the prime draw and anchor. Bowling appeals to a wide age group as shown in bowling leagues from toddlers to seniors. The appeal extends to both genders and every segment in terms of age diversity. With the addition of redemption arcades, laser tag, miniature golf and even theater screens, that appeal is widened and helps diversify the audience. Bowling FEC attractions provide entertainment capacity for parties and groups, including a serious corporate component.

With many bowling centers in their fourth and fifth year of redemption operation, we have a track record to examine. There are two models to draw comparisons: (1) new construction, ground-up bowling FECs and (2) traditional bowling centers that convert existing space into family entertainment. Because the market is mostly from the second category, let's focus on the traditional center that adds/converts space to family entertainment.

The Game Mix

Each center is personalized 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 sub-sections 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. A good attraction mix will expand appeal which helps to eliminate "veto votes" and gets the whole family in the car for a visit to the local FEC.

Investment Levels

Both new and traditional centers have similar economic considerations. The process starts with space allocation and "right sizing" the gameroom. Many bowling proprietors make a common error in building the wrong size game room, often too large. Sales volume does not necessarily equate to number of games. For example, a center might reach $800,000 in annual sales in a 1,200 square foot game room with only 25 games. "Right sizing," which takes into account the center's overall traffic, maximizes the return on investment.

The game mix dictates the game investment, and this is where a professional would be helpful. By knowing the games that will perform best at the lowest cost will give the greatest value to proprietors. With this game performance knowledge, the proprietor can choose the most cost efficient game, ie. 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. Including good used games from trusted sources to average down the overall game cost is a smart move for proprietors. With the mix of new and refurbished games, the cost generally averages about $6,500 per game. With a gaming professional, the proprietor can maximize the "player-station-to-game-cabinet" ratio, maximizing player capacity with the selected games.

Operating Economics

Illustrated in the example below is the arcade size in comparison to bowling lanes. Excess lanes can be converted to arcade space, and this chart help create some perspective. Here's a snapshot estimate P&L for a 2,400 square foot redemption game room:

Investment — 2,400 sq. ft. # Lanes Displaced (690 SF per Lane)	**4**
# Games	40
GameCost ($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%**

Economic Analysis: A bowling lane consumes 690 square feet; 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. Sales per game per week could be as high as $200 or more, but this illustration uses a realistic number of $150. That yields a little over $300,000

The redemption area at the new Lucky Jack's in Traverse City, MI.

in sales. Using operational economics, the games should be able to deliver $175K in net income (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. The recommended budgeting is 5% of annual sales (net of trade in). A diversified bowling center delivers additional revenues and benefits. Multiple attractions draw more people to the site where they bowl, 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 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 game room, then an outside operator can be the best choice.

There are dangers in option three: the proprietor is giving up control of a key segment of his/her business AND it's the most expensive option, as game room operators typically take a big percentage of revenue for their service.

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 breakeven is achieved, 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 the customers, or better known as players. Once merchandise 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 the player'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 (tickets are taken home and saved, lost, etc.), the value of tickets actually redeemed to equal about 15% to 18% of the redemption sales.

This means that once the breakeven is attained, for every $1 in sales the player spends, they receive back 15 cents in wholesale merchandise cost. IF the job is done right, the player will be happy with their winnings, and the proprietor will be happy with the profits.

Doing the 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.

By George McAuliffe, President of Pinnacle Entertainment Group