



A few years back, I talked to a redemption 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. The problem is that good redemption economics don’t work that way.

## Prizes with punch

A good redemption area needs a redemption center that clicks with customers. Here’s how to create it.

Looking at the last 10 years, we’ve seen game rooms become mainstream entertainment in which redemption is playing a growing part. When consumers look for family-friendly entertainment outside the home, redemption game rooms are in demand.

But the redemption boom has not corrected that common misconception in those new to operating redemption. They think you make your money at the redemption center.

Redemption money is made in the games. The games are the

*The prize center at GameWorks, Las Vegas.*



cash registers. The players are motivated by the fun and challenge of the games and they are motivated by the prizes. But

## My concern with rooms is that they disconnect the games from the merchandise.

it's not like retail.

At retail, the store owner knows the exact item the customer bought and what the margin of each individual item is. Not so with redemption. Think about the customer who sees an iPod on display for 12,000 tickets. Obviously he will have to save his tickets over multiple trips to your location. But after the sixth or seventh visit, he sees a new MP-3 on display for 5,000. He has already accumulated 5,000 tickets, and he decides to cash them in and get the MP-3 player. We don't know specifically what prize he was playing for. Even the customer didn't know!

Two sciences intersect here: psychology and economics. 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 payouts 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.

Here's the psychology part: we do that by having the right merchandise, giving our 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. The redemption center should scream fun and excitement!

Our philosophy in managing a game room is "Outside-In," meaning we want to start with the customers, understand what they want and what motivates them, and work to deliver it. We begin by

distinguishing four customer types:

*Impulse Players.* They play for the fun of the game and for prizes. Mostly younger customers, they are typically birthday party guests or occasional visitors to the game room, spend around \$5, and always spend all their points (tickets they win).

*Traders.* They play for the fun or for a

better prize. They will play more in order to get it. They spend more than impulse players, and are usually a little older.

*Savers.* They play for the fun of it and for a specific prize. They often play the same game repeatedly in order to maximize their winnings. They are teenagers and older.

*Super Savers.* They play strictly for the prizes. They see points they win as money, redeeming them as they see prizes they

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need or want. They are frequent visitors to the game area.

Once you understand your guests you can serve them, develop them as redemption players, and influence their behavior through the product mix in the redemption center.

**Redemption Center Options**

The redemption center itself is a good place to start. Right-sizing the redemption center is based on the number of games and sales volume those games will generate. There are three types of redemption centers in the marketplace today. Each comes with its own set of pros and cons; each has its place depending on size and volume of the redemption game room.

First, automated redemption centers like Smart’s Prize Center and Benchmark’s Tickets to Prizes are self-contained merchandise machines. Their principal value is that they allow for the operation of redemption in small game rooms, those with 10 to 20 games producing \$75 – to \$150,000 in sales. They do not require dedicated labor to dispense merchandise. Their principal negative is that they limit the operator’s ability to adjust the value of their tickets, and the amount of merchandise and display quality is limited.

Second is the traditional redemption center, typically consisting of low front counters displaying low ticket items, with rear storage and wall displays to display a variety of merchandise at a wide range of price points. These are staffed units.

Their main benefit is that they are modular, meaning that the number of cabinets and length of rear wall are adjustable to create a wide range of sizes. Traditional redemption centers are also secure, and maximize the visual connection and proximity of the prizes to the games. They are somewhat limiting in that the guest must choose their prize visually, separated by glass or

cabinet from the merchandise.

The third style is the redemption store or room, which has become a trend in the highest-volume game rooms. It is designed as a separate room adjacent to or in a corner of the game room. The guest walks into the space created by the four walls of the room and is surrounded by merchandise, including open displays where he can touch and feel the merchandise before deciding what to purchase, checking out at a desk like a retail store.

Advocates of this style describe the principal benefit as the touch-and-feel aspect, as well as the ability to display merchandise in a retail-like setting. The downside is shrinkage: it’s easier for dishonest guests to pocket merchandise. If retail security systems are used, more labor is required to install magnetic tags on each piece of merchandise.

My concern with rooms is that they disconnect the games from the merchandise. Since prizes drive game play, containing the merchandise in a separate room erects visual barriers between prizes and players. We are experimenting with several clients in creating rooms with three walls, the fourth being low counters, open above. This may well allow us to

deliver the openness of the traditional redemption center with the benefits of the redemption room—in other words the best of both worlds.

**Rerchandising Best Practices**

*Displays.* They should be expansive, full, and have a variety of ticket price points. They should be organized to minimize guest confusion and to help guests to move through the process efficiently. It is a fact that the redemption center is usually the guest’s last impression of your facility. They may have had a great time bowling, a great restaurant experience, a lot of fun playing games, but be left with a bad impression if the redemption “checkout” process is cumbersome.

*Technology.* Debit card systems come equipped with a redemption POS system, typically used in conjunction with a “ticket-eater” that converts tickets to a bar coded receipt or records the number of tickets directly onto the guest’s card. Centers that don’t utilize debit cards can install standalone redemption POS systems. In both cases, the guest arrives at the redemption center with tickets counted.

*Display organization.* We recommend a set series of price points, as illustrated in the table on page 34. This minimizes confusion. Price points should be placed

The Merchandise Plan											
Price Point	Novelty	Plush	Cool Stuff			Toys			Sporting Goods		
			General	Boys	Girls	General	Boys	Girls	General	Boys	Girls
5											
25	5										
50											
100			20	25	35						
200											
1,000											
2,000											
10,000											
15,750											
Above											

*Numbers in the table show the count of items in the category at each price point. This redemption center has 5 items each priced at 25 points. In the table headings, “Novelties” are items that cost few tickets, such as play rings. “Cool Stuff” is items currently hot in the market, such as Lava Lamps or Slinky springs. “Toys” are items such as slot cars that would be found in a toy store. (Table and its entries illustrate the organizing of the merchandise; they are not recommendations.)*

sequentially so that guests can easily see what the next level is. This helps generate incremental sales: human nature is such that if I have 10 tickets but see the nicer 20-ticket item, it's likely that I will play more to get more tickets.

*Inventory of prizes.* Every game room is a little different. The merchandise should be customized to the location. The market demographics, the competition, the customer base the game room has, the customer base it would like to have—all this should be put together systematically in organizing the price points and

## Two sciences intersect here: psychology and economics

inventory, as in the table. For example, if the game room has a lot of business from girls attending summer camps, the Cool Stuff could be heavier with items of interest to girls (35 in the table, as compared to 20 items of interest to both boys and girls and 25 for boys). If the bowling center has a booming party business, the inventory might be skewed toward younger children.

*Full displays.* We recommend what we call the “produce aisle” approach. Named for the produce aisle in any quality supermarket, displays are kept full to overflowing. We believe that this approach sells best.

*Front showcase: lower ticket items.* The front showcase is where impulse customers are served. These are typically younger customers. The front showcase must be lighted. We believe the bins containing the lower ticket items should be clear plexiglass so that the merchandise stands out. Organize items by ticket price from left to right, top to bottom in each case.

Larger, higher-volume centers and centers with a high percentage of younger guests and children's birthday parties may consider “mirroring” their front showcase. Mirroring means having 2-4 identically merchandised showcases on either end of the redemption center. This splits the younger crowd and improves throughput.

*Rear wall.* The rear wall is the bread and butter of a redemption center. It is the major sales driver, the area where we merchandise to our most loyal and valuable customers: the Savers and Super Savers. The medium- and higher-ticket items require either more play or more visits to accumulate tickets for these prizes. This is the holy grail for game room operators: customers who stay longer, spend more, and return often.

On the lower rear wall, use solid-door cabinets for storage with 3” slatwall above them up to 8 feet above the counter. Single bookcase-like adjustable shelf units, lighted with lockable glass doors, can be added on

each end to secure high-value items.

Slatwall allows for a variety of display fixtures such as pegs, shelves, baskets and grids, with unlimited placement flexibility to create interesting displays and to change the look over time. Add an electrical outlet or two in the slatwall, about 36” above the storage counter top, for “live display” of lighting products.

*Storage.* It's challenging to keep the redemption center displays full during busy periods, but if full displays are what drive sales, we need to drive sales the most during busy periods. The in-center storage as above will help, and adequate staffing to run merchandise at peak periods is required as well.

Finally, 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 supervising employees, creating a merchandising culture based on the mantra that “merchandise (displays) drives sales.” □

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*Lessons applied. Redemption area fronted by come-hither prize display, installed at Stop and Play, Bayamon, Puerto Rico.*

