



George McAuliffe

**George McAuliffe answers the age-old question, "Is redemption an Art or a Science?"** Actually, it doesn't have to be just one of those choices.

## Redemption: art or science?

**O**ver the years we've heard the question many times about whether redemption is an Art or a Science. The "Art" is in the merchandise: It's having a good feel for what customers want, picking the right prizes, and presenting it attractively. The "Science" side starts with the numbers: What do our games truly pay out in value? Does my shelf allocation match my item sales volume? 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.

**"Ticket value is actually a direct result of the 'markup' we apply to what we pay for a given item."**

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.

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.

### CONTROLLING MERCHANDISE COSTS

A well-managed redemption program goes beyond a well stocked redemption center. It actually starts with the games you select for your game room and how well you run your game operation. The Art comes in knowing your customers, who they are, their ages, what they like in games, and then tailoring the game mix accordingly.

The Science on the game side tells

us that every redemption game (including cranes and merchandisers) is designed with a certain "payout" level. Payout is tickets out, multiplied by ticket value, divided by game sales. It's important to maintain any game at or at least near its designed payout because that is how it will maximize earnings.

Science requires some infrastructure. Good management information systems with comprehensive but easy to read reports are the basic infrastructure of payout management. If you have an increase in your merchandise cost of sales, step one is to look at your game payouts.

If they have gone up that means that you have more tickets and, therefore, more merchandise purchasing power circulating in your game room. This can often happen when new games are introduced. For example, if your game room is operating at a nice, balanced payout of, say 20 percent of sales, and a hot new game is introduced with a 40 percent payout, cost of sales will rise.

To prevent this from happening, a game's payout level should be considered in the purchasing decision. To maintain your game room's payout level you can either remove another high payout game (perhaps trade it in on the new one) or add a popular low payout game to compensate.

The payout level for which a game is designed is often called the "natural payout." Once set and established, most game's payout levels don't change. When they do the culprit is most often a technical glitch such as



<b>Impulse</b>	<ul style="list-style-type: none"> <li>Plays for Games and Prizes</li> <li>Skews Younger</li> <li>Birthday Party Guests or Occasional Visitor</li> <li>Spend in the \$5 range</li> <li>Always spend all of their Points</li> </ul>
<b>Trader</b>	<ul style="list-style-type: none"> <li>Plays because of the Game or FOR A BETTER PRIZE</li> <li>Usually a little older</li> <li>Visits with a family member</li> <li>Will play more to achieve a higher prize value</li> <li>Higher prize value player</li> </ul>
<b>Saver</b>	<ul style="list-style-type: none"> <li>Plays for the Game and FOR A CHOSEN PRIZE</li> <li>Teens and Up</li> <li>Often play the same game to maximize Point winnings</li> </ul>
<b>Super Saver</b>	<ul style="list-style-type: none"> <li>Plays for the PRIZES</li> <li>Collects Points, thinks of them as money, using them as they see things they need or want</li> <li>Frequent Visitor</li> </ul>

switches that aren't scoring. Imagine being the kid who finally gets the ball into the 100 hole on an alley bowler and doesn't get the tickets! By checking payouts frequently, no less than weekly, good operators are maximizing sales while controlling costs. That's why payout management is often called "the first line of defense in redemption profitability."

**NEXT STOP: REDEMPTION CENTER**

The Art is in the merchandise: having a good feel for what customers want, picking the right prizes, and presenting it attractively. The Science side starts with the numbers. The "bottom line" for redemption numbers is cost of sales, the cost in prizes out as a percentage of our redemption game sales.

**"The customer's value perception is what drives sales."**

This measures the profitability of our redemption program and it is the key number in measuring the value that we deliver to our customers.

Retailers everywhere have the same issue. The customer's value perception is what drives sales. In retail it is easier to manage because the sale of goods is a direct transaction. An item comes with a specific cost and is sold for a specific price.

The store knows its exact margin on every item. For redemption operators it is more complicated. We buy our merchandise and place it on display in our redemption centers. The sales are collected by our games. As game operators we measure cost of sales in the aggregate: the cost of all of our prizes

out against all of our redemption sales in a given period.

Establishing the value of the redemption ticket or point is key and maintaining and understanding ticket value, how much each of our tickets is actually worth. Many centers incorrectly believe that ticket value is an arbitrary cost that they assign to each ticket. We often hear "our tickets are worth .01 cents," also known as "a penny a point."

In fact, ticket value is actually a direct result of the "markup" we apply to what we pay for a given item of merchandise. For our ticket value to truly be a penny a point means that we do not mark up the cost of an item.

If we pay \$1 for a piece of plush it goes on the shelf at 100 tickets. If we do have a markup, say a markup of

1.8, this means we multiply our cost by 1.8 to set the shelf price. When we do this our ticket value becomes .0055 (a little over 1/2 cent per ticket. The formula is 1/markup; in this case 1/1.8.

Understanding the effect of markup on ticket value is critical to managing our cost of sales. It affects the shelf price AND the game payout. A complete understanding of both is necessary to correctly measure the value we are delivering to the player. The player's value perception is what drives sales.

**UNDERSTANDING THE PLAYER**

Having operated redemption since 1983 we've developed a system to tie

all of this together. An underlying philosophy of the system is that redemption players fall into broad categories, which we've labeled Impulse, Traders, Savers, and Super Savers.

Impulse players "spend" all of their tickets each visit; they want instant gratification and tend to be the youngest customers. Traders play for a better prize and tend to be a little older. Savers play for a chosen prize, often playing one or just a few games to maximize tickets. Super Savers are the ones we all like to have, they are totally into the redemption thing, think of tickets as money, and save them for the biggest prizes (or best values).

Our system is designed to a) serve all of the audience and b) move players up the line as far as we can from Impulse through Super Savers. After all, players must come back more often and play more per visit to advance.

Again, the system requires that we be good at both the Art and the Science to consistently perform. Once we've used the Science to lock in our redemption cost of sales, we then apply the Art of knowing customer desires, creating attractive displays, and selecting great prizes, to drive customer visits and the sales that come with them. ▲

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