

VENDING TIMES

CRANKIN' WITH FRANK

Five Myths Of Redemption Management:

What FECs Should Know

By FRANK "the Crank" SENINSKY

Redemption games have been a vital part of the amusements industry for at least 30 years. Yet, many FEC owners and managers lack fundamental knowledge of professional redemption management.

Many facilities (that own their own games) do not collect and record each game's token count on a regular basis. They let the tokens pile up inside of the cashbox for weeks, and dump them when the bill changers run low.

These operators also often don't bother taking meter readings on token-operated games. They don't track ticket payout percentages, either.

Often, they don't know how many tickets are paid out by their machines, how many tickets are redeemed at their prize centers or the significance of what the difference between the two numbers means.

These operators don't know the real-money value of their ticket or token and don't pay attention to where certain games must be placed within a game area. They also fail to plan for proper placement and presentation of their redemption prize center.

Alarmingly, these operators don't pay attention to the core games that drive revenues in the most successful redemption operations. As a result, their game area lacks the key "workhorse" games (those 20% that generate 80% of redemption revenues).

All of these factors must be addressed if redemption games are to reach their full earning potentials. While the full scope of these topics is too broad for one column, this month's Crankin' With Frank will focus on the five biggest myths in redemption operations.

Myth #1 (the biggest myth of all): You only need to buy redemption games once for your FEC, and they will last forever. To remain profitable, you need only change the merchandise.

This myth goes back to the old amusement-park era, represented by the New Jersey boardwalk arcades of the 1950s. It is still preached today – and is even taught by some who are in the business of selling new redemption games.

This belief is a myth because FECs are much different from large amusement parks and boardwalk arcades. The latter types draw transient customers who visit once or twice in a season. But in a typical FEC, 85% of patrons are generally repeat customers, who eventually grow tired of the same old games. These loyal patrons notice and appreciate fresh games.

For this reason, redemption games also need to be changed (rotated), even though the frequency is lower than that needed for the video game category. Every year, three or four great new redemption games are introduced to the market. Adding these to the mix is a smart way to maintain a center's redemption game revenue at 70% to 75% of the total game revenue.

Myth #2: Young children will play anything that dispenses tickets.

This assertion may be partially true for very small children – but generally, certain redemption games attract children and keep them interested while others don't. The same holds true for their parents, who are equally important customers – even if they don't play a single game, but only watch their kids play.

Parents are also customers because they control the child's spending and are keenly aware of value. Even if the child is having fun, mom or dad may evaluate the experience negatively – from their perspective as someone who is much more conscious of the relative freshness of an FEC's games.

Myth #3: I can make a profit on the redemption prizes by putting higher point values on the prizes. My customers will never know.

This myth arises from some operators' fears that if they don't overcharge, the only alternative is "giving prizes away" and absorbing the cost.



The smart alternative to overcharging is charging a fair markup over what the same item would cost in a retail store. Customers are happy to pay this small premium for the entertaining experience of winning a prize, rather than buying it.

"Perceived value" is what a customer feels an item is worth. For example, if your customer can purchase an item in a store for \$4, they will feel great if they can win enough tickets to redeem that item and spend \$4 (or just a little more) in the process.

The operator profits because he buys the items at \$1 per unit wholesale, which generates \$3 of gross profit for each prize redeemed by his customers. To make this formula work, the operator must find merchandise that his customers desire and that carries a perceived value of at least three or four times its wholesale cost.

Many FECs are running at a redeemed percentage rate of less than 15%, which represents a markup of as much as seven times what the operator pays for merchandise. Few prizes have a perceived value that is seven times the operator's purchase price. FEC customers are not fooled by this gambit.

Strive for approximately a 25% redemption percentage that correlates to a 30% average ticket payout percentage. The difference between the two percentages is due to the fact that approximately 20% of the tickets awarded to customers are never redeemed. Redemption percentage is defined as the "value of all tickets redeemed, divided by total redemption game gross" multiplied by 100.

Average ticket payout percentage is "the value of all tickets awarded by the redemption games, divided by total redemption game gross" multiplied by 100. To calculate the value of all tickets awarded, the ticket meter differences (number of tickets) for the period from each redemption game are totaled.

If you have strong local competition, you might raise that 25% redemption percentage figure slightly, giving players a

reason to patronize your FEC rather than the store down the street. If competition is scarce, you can afford to lower the average payout percentage a bit.

Overcharging for merchandise opposes to the basic idea of redemption, which is to ensure that players receive good value for their money.

Myth #4: Get rid of fast-token action games. They fail to provide entertainment value, so customers don't enjoy them.

It's puzzling that anyone believes this myth, considering that fast-token action games include some of the sector's highest-earning titles. A decade ago, games like Cyclone, Smokin' Token, Wheel 'Em In and Dinosaurs, among others in this niche, were known as "fast-play games," "aggressive games" or even "vacuum cleaners" because they generated such strong revenues.

Today, these coin action games remain leading earners, along with newer titles such as Wheel of Fortune, Elvis, Monopoly, NASCAR, Jungle Jive II, Surf's Up and Spinnawinna. Novelty games – including Big Rig, Tower of Power, Wheel Deal, Gold Zone, Wonder Wheel, Slam-A-Winner and Speed Demon – boast high earning potential, as do Wheel of Fortune II, Winner's Wheel, Ticket Troopers. Other games such as Big Shot, Raptor Captor, Basket Fortune, three-player Monopoly, Water Blast, Break the Bank and Big Haul can be quite profitable as well.

If customers enjoy these games so much, why would any FEC get rid of them? Those operators who fail to regularly collect their token-operated games (the same operators who only count what's in the bill changer) will never realize which redemption games are strong money makers and which ones are merely fillers.

The truth is, fast-action games provide more entertainment value than believed. The key to ensuring that customers feel they receive their money's worth is the combination of entertainment value and ticket payout.

To maximize redemption game revenues, set ticket payout levels on children's games at approximately 20% to 25%. Pushers are set at 24% (make sure that the edge lips are angled properly and that the playfield is fully loaded with as many tokens as it can possibly hold). All other fast-playing, token action games are set at 30% to 33%.

Myth #5: You can sell merchandise that is in your redemption prize center and make extra profits.

This practice can be fatal to a redemption operation. Once you place a price tag on an item, you are telling your customers some-

thing that should be closely guarded: the value of your ticket in the redemption point system, or the actual value of each ticket in cents. If your ticket value is three-quarters of a cent and you set your prize markup formula at 1.5, your customers will perceive your ticket value to be 3¢, or four times what it actually is.

The practice of selling prize merchandise outright can result in short-term sales profits, but it can also quickly kill redemption revenues or even drive an FEC out of business completely.

This happened with one FEC whose owner put price tags on every item at his prize counter, allowing customers to buy the merchandise outright. In three weeks, his redemption gross dropped from \$15,000 per week to \$9,000 per week. Straight sales of merchandise generated only \$2,000 per week. Six months later, that FEC closed.

Why is this practice fatal to redemption? Because it destroys the factor of perceived value. The customers at the above-cited FEC originally thought each ticket was worth 4¢. After prices were put on the items, they realized each ticket was worth only 2¢, and they felt cheated.

There are times when a child wins a good quantity of tickets, but not quite enough to redeem his or her desired prize. Perhaps the family is about to leave the center and is unlikely to return soon or at all.

In this case, if the child does not have enough time to play more games and win the remaining needed tickets, should a prize counter attendant simply sell the item to the parents for cash?

The answer is no. The center should accommodate these customers by selling tickets to the parents – just enough to give the child sufficient tickets to redeem his desired prize. For this reason (and this reason only), the FECs operated by my company sell tickets as a courtesy.

However, when we sell tickets under these circumstances, they are priced at a premium cost, higher than the cost it typically would take to win them through a machine. This approach preserves the perceived value of both the tickets and the merchandise in the customer's mind, and avoids putting a price tag on any item. This practice is a standard policy across all the FECs we operate, but we don't promote it heavily because we want to put the emphasis on winning prizes, not selling merchandise.

Fortunately, the ignorant owners and operators described at the outset of this column are not the whole story. Because redemption is now so important to FEC success and profitability, in the last few years more owners and street operators have started taking

the time to learn these fundamentals. Trade show seminars and specialized educational conferences on this subject are packed year-round.

This quick sketch of redemption management basics only scratches the surface of the total knowledge that a good FEC owner or street operator requires to run their business successfully. At Foundations Entertainment University, an FEC educational conference with which I am associated, one-third of the three-day program focuses on redemption operations and how the games are the marketing hub of the entire FEC. Visit foundationsuniversity.com for details and how to sign up for the full course.

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