

VENDING TIMES

CRANKIN' WITH FRANK

Redemption Is Expected To Grow Tenfold... So How You Can Cash In?



By FRANK SENINSKY

Where does the redemption industry stand today? Poised on the brink of a successful expansion that will make yesterday's market look like peanuts. According to the latest *VENDING TIMES Census of the Industry*, some 144,000 ticket-dispensing units are operating across the U.S. I believe we can take this number to one million-plus units in operation in the next decade and beyond.

Naturally, this vastly expanded redemption market will look different from today's type of redemption. Machines and fun centers will both become more upscale, with classier designs, more sophisticated marketing, less of the atmosphere of the 1920s carnival or the 1980s video arcade, and more emphasis on convergence with other forms of retail, and dining as well. Some conservative bankers (who are the toughest to convince) told me recently that they are impressed with today's high-end redemption operations (including redemption inventory systems and debit card systems) and would be willing to lend serious money to help expand such businesses.

Where -- in terms of locations -- are the opportunities for redemption these days? They are endless, but let's talk about just one sector: bowling centers. I recently discussed redemption with the cream of that industry and it is strongly interested. The Multi Unit Bowling Industry Group (MUBIG) is comprised of the 50 largest bowling center owners who control more than 25,000 lane beds. They held their annual winter meeting at the Trump Sonesta Beach Resort, in the Sunny Isles section of Miami, FL, from Dec. 1 through 5.

Based on their response to the information I provided, it seems clear that many MUBIG members see redemption as a profit center and plan to get involved in redemption in the next few years. A significant majority will work with game operators who are willing to provide the proper mix and models of games, and get involved with discounting packages for birthday parties and corporate groups. As with the FEC industry, in general, I expect half of the bowling centers will eventually own their own redemption equipment if the traditional game oper-

ators in their area are not yet ready to change their methods of operation.

How can today's operators make sure they are part of this vast, profitable future market in redemption? First, become redemption professionals. It sounds simple and obvious, until you realize that -- surprisingly -- many if not all of today's typical operators across the U.S. remain video-based and novelty-based. Most of these operators are now involved in merchandisers, which is a good halfway step toward redemption.

But this is not the same thing as redemption, and I have to wonder if these operators are fully aware of what they're missing. The plain fact is that skill-based ticket redemption is the hottest segment for coin-operated entertainment. Today, redemption comprises 70% of my own business's revenues (video games are just 6% of our total FEC game gross; 20 years ago they represented more than 60% of our annual game revenues). My own story is mirrored in the experiences of arcades and FECs nationwide, if anecdotal evidence and IALEI member polls are to be believed.

The second strategy for how today's operators can cash in on tomorrow's redemption boom is to get in on the ground floor of a new, lavish location whose owners are planning to include a gameroom as part of the facility. Work with the designers and architects to ensure that the "entertainment zone" -- as it is now called -- gets its due. Otherwise, whether we're talking about bowling centers, water parks or any other type of leisure entertainment venue, the typical pattern is that planners and architects leave the game area until the last moment -- and then they stick it into whatever space is "left over." Generally, it's the smallest and/or least desirable space within the facility. This "afterthought" approach means the facility owners unknowingly lose out on what should be their highest-grossing, highest bottom-line revenue per square foot in the facility (that is, unless they are a casino).

This is exactly the reverse of the proper approach. The game zone should be the first priority in the early design phase. Does it make sense to put a manager's office or a pro shop at the front of a facility? The games should be located in that valuable space because that is the hub of activ-

ity, earnings and marketing.

Next, help the planners to plan their game area correctly. This will save headaches and boost profitability down the line. The current rule of thumb is to allot 40 sq. ft. per game, and plan to achieve a \$200 per game, per week average. This is a very safe weekly average earnings figure to use as a target. A properly designed facility, in fact, can generate from \$200 to \$1,000 per game (the latter figure represents the best, super-peak weeks in a top facility).

If the game averages are \$100 per week per game (or less), it indicates an improperly run facility. This, I suspect, is consistent with the average game earnings of most redemption centers and most game rooms across America. What does the average operator still need to know about redemption? Just about everything. I have given the same basic seminar on redemption for 25 years and I find the audiences are still as hungry for information today -- the basics -- as they were in 1985. Here are a few of the nuts and bolts of redemption operating:

Game layout: Many games have the same cabinet style, as seen with *Smokin' Token* and *Wonder Wheel*, among several others. This type of game should be placed in the middle of the floor, back to back in groups of four at most (counting two-player games like *Big Rig* as two games). The clusters should never be bigger than this and be placed in close proximity to the redemption prize center. These games should never be lined up against the wall.

Another layout guideline is to keep all the games that male teens and older patrons would play (video games and large basketball games, etc.) as far from the redemption prize center as possible and in the back section of the game zone. This separates the screaming, jumping teenagers from the game areas where moms with small children tend to congregate, ensuring that little kids do not have to pass by or through this older, louder group.

Game selection: Game selection in redemption focuses on "workhorses." We know that 20% of the games earn 80% of the money. You can estimate these workhorses if you judge by gross revenues. However, my "rubber band ratio" (weekly game net gross divided by game's current market

value) reveals that the same games offer the highest return on investment for the operator, as well. Net gross for a redemption game is the gross less the value of the tickets won. The only exception is that a few high-grossing/high-cost games (with lower rubber band ratios) may be justified as attractions to bring bodies in the door.

Another layout tip: Don't put a workhorse piece near a Dance Dance Revolution because the crowd around the dancing novelty will cut down on gameplay of the workhorse game.

Ticket payout percentaging: This is where operators can utilize their math skills and turn redemption into a true science. The basic principle at work here is that the ticket payouts of each game should be set in the inverse ratio to that game's "entertainment value." This helps avoid creating a situation where one or more games are viewed by customers as "the only ones to play." To achieve this balance, a game should either award lots of tickets per play, or it should be so much fun to play that it can award fewer tickets per play. The operator must balance these factors, no matter what the game, to ensure that the total value offered to players (tickets and entertainment) is roughly comparable across the entire portfolio of games in the center.

Try to eliminate "negatives" - as, for example, when a small child puts a token into a children's redemption game and gets no tickets. Smiles are what our industry is really selling. All kiddie redemption games should have a 100% hit frequency (percentage of times you win, divided by number of times you try). This is where the "mercy ticket" concept came from.

Even cranes should be set up this way, with hit frequencies of no less than one in 12 for the typical piece. There are exceptions and player psychology does change. For example, I notice that very high-end prizes are featured in such games as Giant Lighthouse and others. These obviously cannot reward players for typical play prices at such a high frequency. However, the core philosophy of a high hit frequency remains the basis of successful operation of cranes and other merchandise-dispensing machines.

Prize selection: This factor, of course, is critical. My company, Amusement Entertainment Management, recently did a study of cranes for the 2005 season on the New Jersey Shore, where redemption-style arcades have been running successfully for three-quarters of a century or more. The top 11 grossing cranes on the shore were not awarding plush toys; they were all featuring hot, retail, licensed items and hard goods ranging from designer pocketbooks for women to NFL team jerseys, plus the usual array of licensed sports items, electronics, jewelry and so on.

Basically, each crane functioned as a "retail store" unto itself with a single type of product or prize. In some cases, you would pick up an item with a sign saying "Bring this to the prize counter for your choice of any of 100 sports-related, signed plaques."

Although to some operators this concept may seem like a new wrinkle, the fact is this trend harks back to the start of the crane era in Great Britain. In the old days, the same people who dressed the fancy department store windows also dictated the "dressing" (prize selection and arrangement) of cranes and were called "crane dressers."

This is one reason why IAIEI supported adding a retail, souvenir and gift show as a co-location partner with Fun Expo and AMOA Expo, beginning in the fall of 2006. Our industries are increasingly converging with the "retail experience." We might as well take full advantage of this trend.

As a matter of fact, I think redemption is also heading for a convergence with high-end retailing in the design and "display" knowledge base, and we are heading for a further convergence with the restaurant industry. The hot dog and pizza era may be coming to a close. On the horizon, I can see that upscale pay-for-play entertainment will be integrated closely with the upscale food and retail functions that today's consumer demands. The bankers can see it, too. And now for the million-dollar question, which operators and FEC owners will see this trend... and cash in on it?

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