

### **Overcoming Operator – And Location – Sales Resistance by Frank “The Crank” Seninsky President of AEM and Alpha-Omega Amusements**

EAST BRUNSWICK, NJ — Occasionally I've had to turn down some very good, faraway game revenue sharing opportunities, mainly because the revenues didn't support the high cost of a start-up full-time technician. These are locations that could earn extremely substantial annual revenues, with an excellent return on investment. In the past I have always been able to find an experienced AMOA operator to enthusiastically supply and service these accounts. But now, when I talk to potential local operators about taking on multi-game accounts, I often hear: “If I had the equipment on hand to supply that location, I would take the account...but I don't want to finance anything, so I'll pass on it. Thanks just the same.”

I started hearing this demurrals about a year ago. Needless to say, it surprised me then. Imagine an operator turning down a great new account! Never before in more than 33 years in the industry had I heard operators reluctant to grab a promising location in their territory. Yet recently, it has become almost commonplace. Why is this happening and what does it mean for our industry?

It's happening because the old ways of doing business aren't surefire successes anymore and most operators have yet to learn new ways of doing business. As for what it means? Well, it means many traditional types of equipment aren't good long-term investments anymore. And it means that manufacturers have not created a new genre or adapted a new level of technology that can expand the remaining player base.

Finally, it means that the old headache of operator financing – which can be tricky and treacherous, even when credit is readily available – has become even more difficult. Operator skepticism that today's equipment is not worth the risk of taking on major, long-term debt, has reached new heights. I'm sorry to say that in certain cases, this skepticism is well-founded!

Fortunately, there are some short-term coping mechanisms that can help all of us in this situation. This column will review some operating fundamentals and also discuss some non-traditional ways for manufacturers and distributors to move equipment...all of which can contribute to more earnings for the entire market chain.

Let's begin by analyzing the problem more closely. When manufacturers complain about unprecedented levels of operator sales resistance, they may be thinking of operators like those who turned down the great accounts I mentioned. But blaming the operator for being sales-resistant does not solve anything for the manufacturer, the distributor, or the operator. In order to overcome sales resistance, it is necessary to understand why it exists in the first place.

Certain of the reluctant-to-grow, refuse-to-buy operators have become set in their ways. They are comfortable and don't want to work harder or expand their businesses under any circumstances. Yet these operators are still around and they are doing well. Most of these operators probably cannot be persuaded to change their business approaches.

Other reluctant-to-grow operators simply don't want to take on any debt at all or any additional debt. They only purchase new or reconditioned equipment when they have the cash in hand to pay for it outright. As indicated, this may actually be wise, under today's industry conditions. But some of these operators can be persuaded to invest in new equipment if the debt risk is made low enough to be attractive (for example, look at the great financing deals available on many countertops these days). Confidence in the product and the market can lower sales resistance in these cases.

The remaining group of refuse-to-buy operators is small street operators who are willing to expand when they are comfortable, even though they are afraid to take on large accounts that require multiple units of equipment. They fear that having a large number of different types of games in one location would mean that the debt load would be too large a risk for one location. They also fear that big locations are too demanding and pushy and require too many hours of service. This thinking is the easiest of all to resolve, because we are talking about simple misperceptions. A bit of education and back-up support by a good manufacturer, distributor, or even the location itself, can put the operator into a “comfort zone” that allows him to expand with confidence...to the mutual profit of all.

For many decades, most of the industry has preferred to buy its way to higher revenues by purchasing new equipment. Today that strategy doesn't work anymore. Instead of buying their way to higher revenues, operators need to educate

themselves to higher revenues. They need to learn that smarter operating, perhaps with reduced investment or at least lower-risk investment than would have been required in the past, can lead to expansion and growth.

In the past, in order to persuade a location to upgrade its facility (or even change operators), a lot of new investment was usually required. But in today's consolidated market, revenues have stabilized at many locations. Many operators...and for that matter, many locations...jump to the conclusion that they have maximized the location's revenue. So the location stops demanding new equipment or a different mix of equipment, and the operator stops buying new equipment. And he stays with the current mix of equipment.

Both the operator and the location are frequently harboring the mistaken impression that adding new equipment to the location (or changing the mix of equipment) will not increase the overall gross, no matter what. They are content to drift along on revenues that they believe are "as good as it gets." This leads to innumerable missed opportunities. It means both operators and locations are leaving money on the table and the customers are spending it elsewhere.

All right. If those are the problems, what are the solutions? In almost every case, after I have completed a "performance review" of these stagnant locations, I have found that with very little investment, the operator can go back and fix the fundamentals – proper number and asset value of games and game mix, efficient game layout, correct per-play pricing, ticket payout percentaging, fair merchandise value, initiating price discounting and value packages, having the right games to produce high throughput for peak attendance periods – and thereby achieve substantial revenue increases. A few core games that the location is missing can be acquired fairly cheaply. Some of the rest of the needed game mix may come out of the operator's current inventory. Creating a "free flowing" layout and setting the game pricing, play time, and ticket payouts isn't difficult if you know what you are doing. Sometimes this process of making basic adjustments can even boost the location's revenue by 50% or more. I know this because I've done it myself and our company is continually doing it for others. The operator and the location can both make more money!

Analyzing a location or facility may reveal that customers leave early and spend some of their remaining leisure dollars elsewhere. The question is, how can a location capture the rest of that per-capita spending, and how can they do it most efficiently? You've got the customer in the door and that is by far the hardest task. If he's only spending, for example, \$6 instead of \$12, how can you induce the customer to stay longer and spend more per visit? What combination of attractions, revenue-producing services, and investments will create the best ROI with the least risk and the least downside?

Sometimes the answer is a no-brainer: just ask the customers a few obvious questions as they're on the way out the door! Ask: What did you do during your visit? How long did you stay? What did you spend? Where are you going next? Where are you coming from? They'll tell you – and after doing enough of these casual 30-second interviews, you may learn that half of your location's customer base is leaving to get better quality food at locations just down the block, or going to a movie.

There's no magic to this process, just knowing what works and what doesn't work and having the back-up data to prove it. Again, it is a matter of addressing the fundamentals – the old idea of working smarter, not harder. It is the old goal of making your money (or your current inventory) work as hard as possible for you, by getting the most out of what you already have. I have preached this message in seminars for years, but somehow it seems that old habits die hard...most operators would still prefer to buy their way to bigger bottom lines if they could. Worse, they think they are maximizing net revenues from current equipment, but they're really not!

Sometimes, the process of bringing a location up to a high level does require investment in some new pieces. Today's slow market makes many operators reluctant to risk making even a small investment. But, the same slow conditions can also be turned to the operator's advantage. When times are tough, or when a location's base is stagnant, it frequently becomes easier for the operator to negotiate different (more favorable) commission splits for new equipment. At such times, it may even become possible to try certain attractions (with the location chipping in part of its share of revenues towards the purchase or rental) that would ordinarily be too expensive to even consider.

Making a major investment does not automatically have to mean incurring a big debt load. Too many operators equate the two. They shouldn't. Big investments can be made with relatively small debt. That's a good thing, because even if generous credit were desirable today, it's less available. Manufacturers have become much more cautious about extending credit to distributors in the wake of several costly business failures by large distributors in recent years. Distributors in turn are far more cautious about financing operator purchases today. This imposes greater financial discipline on the operator – and in many cases, that's a good thing.

So how can an operator obtain a major attraction without going into major debt? There are manufacturers around today who will consider revenue sharing or even renting equipment. Lacking sufficient sales, they are looking at alternative

methods of creating new revenue streams. Revenue sharing has a poor reputation in our industry because of some unfortunate practices that took place in the past. However, it doesn't have to be a negative. Factories can choose to work with operators who have integrity. In fact, that may be the only way to get certain equipment into the market. If the equipment proves itself, it will most likely be purchased.

By the way, that cuts both ways. If machines don't prove themselves, they won't sell. At the recent ASI show, I encouraged some of my major fun center accounts to visit the show with me. These location owners inspected many new units of equipment and said, "Don't bother to buy these, Frank, because they will not increase our overall revenues. They will only shift the money from one cashbox to another. Save your budget for pieces that will make a real difference for both of us." So instead of buying simulators and costly attractions, we put the bulk of our investment budget into redemption and other basics with timeless appeal – air hockey, classic skill games, sports games, and the like.

As an aside, let me say that today the real bright spot for new equipment, in my view, is redemption. (And for street operations, the self-contained prize and merchandise dispensers are the equivalent.) I could not be happier with the quality, price, and earnings performance of today's redemption equipment. The games are economical, the themes are creative, and (if the ticket percentaging in the entire location is set properly) the additional real dollar income is clearly worth the investment. But, as I've often said, too many locations don't operate their redemption games properly and accordingly don't realize anywhere near the full potential.

For this season, most of our new purchases at ASI are being paid for by short-term cash flow or supported with a credit line which will be paid back fairly quickly, not financed long-term. I have nothing against borrowing money in principle, but there are times when it's a good strategy and other times when it's a bad strategy. Financing video equipment on a longer-term basis made sense in the mid-1990s. That was the era when big, expensive simulators, big-screen video, and redemption games (which earned fast ROI at that time) were almost the only profitable types of equipment available. But by 1999, conditions changed and the ROI for big video simulators nearly dried up.

So there you have it: the short-term answer to operator sales resistance is a return to the fundamentals of solid operating strategy, combined with a new emphasis on reduced debt through creative financing or other creative forms of distribution. As some of the wisest members of our industry have said, today's market offers many opportunities — but we do have to work harder and change our business habits in order to take advantage of them.

Longer term, the solution to operator sales resistance – and, by implication, the source of broad industry growth for the future – remains basically the responsibility of our manufacturers. The industry's designers, engineers, and R&D experts need to invent something new, dynamic, and compelling that will earn a fabulous ROI in just a few months...something that will get players excited again, something that will draw new blood into the game centers and street locations, something that will get location owners on the phone to call their operators and say, "Hey, can I have this hot new thing? What kind of a deal are you looking for to get me one soon?"

Today we don't have that hot new thing in this industry. Not yet. We've been waiting for it for several years now. We may have to wait a few years more (I hope not!). But regardless, while we wait, we can still make a good living.