



Take care of the **BIG** details



Jerry Merola

***Don't delay
spending on
structural
replacements.
Deferred
maintenance can
have unforeseen
and unwelcome
consequences.***

The thought of having to replace things, particularly assets in one's business, can be a daunting task. After all, many of those items were brand new when the project first launched "way back when," to the point where it would seem inconceivable to have to do it all over again.

Truth be told, each of us in the entertainment industry has a tendency to invest in profit centers—things that actually generate foot traffic and fill cash registers. It wouldn't be unusual to spend in excess of \$100,000 this year for new amusement game equipment, but the idea of sinking those same dollars into structural replacements for your business facility seems like a step backwards.

Some of the really big items, such as roofing and heating, ventilating, and air conditioning (HVAC), often can't be seen by the guest, which leads owners to detest the concept of springing for replacements. As a result, most operators tend to delay these expenditures, often to the point where more serious degradation of the operating facility occurs.

Just last week, while traveling on the East Coast, I stopped at a regional fun center for a quick look around. It didn't take long to find the facility's rough spot: in this case, a parking lot that had all but disintegrated.

The building and signage, on the other hand, looked great, with recent evidence of paint and seasonal maintenance. That parking lot, however, really left a lasting impression on me. I could just imagine patrons trying to navigate the divots and potholes on a busy Saturday—or worse—trying to do it in the rain. It occurred to me that the patron's first and last experience at the entertainment facility would be one of frustration and dismay.

The longer you live, the sooner you realize that everything in the world is challenged by atmospheric pressure and

time. Something left exposed to the elements today will need replacement tomorrow. Yet rarely do we build in a line item on our financial statements for "infrastructure replacements."

Sure, we all tend to do a good job of keeping the entertainment and concession portfolios fresh, but when it comes to physical upgrades, this usually entails significant hemorrhaging from the corporate war chest, often at the most inconvenient time.

A quick study of the real estate management industry produced a series of worthwhile standards that all entertainment operators should consider adopting, as they are intended to allow for continuous maintenance of an operating facility into perpetuity.

Following are two key standards:

ESTABLISH A MAINTENANCE PLAN

For those of you who currently inhabit new structures, or are part of a common group of structures maintained by a landlord, your Maintenance Plan may be limited to interior areas of the facility only.

But for those operators who own the land and building in which they operate, and if that structure is nearing or exceeding its 10-year anniversary, a Maintenance Plan is an absolute necessity.

Included in the exterior plan should be a listing of all wear and tear items in and around the facility, including sidewalks, awnings, entrances, signage, and lighting.

Also included: bigger ticket items, such as retaining walls, window glass, roofing, and the aforementioned parking grid. Finally, an interior plan must account for flooring, paint, restrooms, signage, lighting, and entry corridors.

Each line item element should be identified along with its remaining estimated useful life, approximate cost to



re-mediate, and the date at which such remediation should take place.

ESTABLISH A REPLACEMENTS FUND

A Replacements Fund is nothing more than a glorified savings account, with the intended purpose of providing funds for future repairs and upgrades in and around the facility.

Many real estate groups allocate a portion of the rents they receive each month to a maintenance account. At the same time, they establish and update a schedule of physical plant essentials, including roof, windows, doors, and siding replacements, as well as HVAC, parking lot, signage, and landscaping maintenance.

At prescribed times, and during staggered periods, certain projects are undertaken. Repairs in one category that might also affect another category

are performed together, such as windows and siding.

Roof-mounted HVAC units are often replaced immediately after re-roofing a structure, as the necessary crane equipment is already on the site to hoist the replacement units, thereby reducing costs.

Although it may be tempting at times, a Replacements Fund is off limits for alternate uses, including working capital. Think of the Replacements Fund as a fully allocated asset, not a "rainy day" account. Doing so prevents unanticipated situations whereby deferred maintenance leads to catastrophic events not covered by commercial insurance policies.

And while we're speaking of insurance, it's important to note that insurance companies are well aware of the consequences of deferred or non-existent maintenance, and will deny or reduce damage claims that could have been prevented by timely maintenance.

KNOW YOUR TRUE PROFITABILITY

If you're not allocating for replacements, chances are that you're overstating earnings. Why? Just as we need to restock the paper goods inventory, we also need to fortify the Replacements Fund as well.

By doing so as a matter of course, the facility will always look and perform at its best, and in truth, will probably cost less to maintain in the long run.

It's no secret that deferred maintenance creates bigger problems down the road, and those big problems can cause guest inconveniences and even temporary facility closures.

So, let's take a page out of the real estate manager's playbook: Invest on behalf of your facility today, and feel confident in its ability to support your business tomorrow. ▲

Amusement Entertainment Management, LLC



Frank Seninsky, President

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Saves You More And Costs You Less"***

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