

# EVERYTHING YOU NEED TO KNOW ABOUT COIN OPERATED GAMES IN HOTEL INDOOR WATERPARKS

By Frank Seninsky

**W**hen a game center is set up properly, the revenues produced per square foot will be the highest in a leisure entertainment facility, and that includes hotels with indoor waterparks.

There are four game categories that make up a game center: redemption (ticket dispensing), video, merchandise dispensing (cranes, prize vendors), and novelty. In today's family game centers, redemption games can generate 5 times the revenues of the video games. Merchandise dispensing and novelty games (air hockey, pinball, kiddie rides, and other non-video games that do not award tickets or prizes) also now generate as much or more revenues as the video games. The general breakdown as a percentage of total revenues is approximately: redemption 70 percent, video 15 percent, merchandise dispensing 10 percent and novelty 5 percent.

Note that as far as floor space is concerned, the video games (which include the large simulators and driving games) take up almost as much floor space as the other games. In fact, the number of video games may approximate the number of redemption games even though the redemption game revenues are much greater.

How profitable can redemption games be? Redemption is one of the greatest marketing concepts ever invented. Everyone loves to win. One of life's greatest thrills is watching children playing with their parents, all of them jumping for joy as they collect their tickets - especially when they are playing well-maintained redemption games that frequently dispense a fair amount of tickets. (We who work in this industry do indeed have it all!)

A well-run game center will average \$200-\$300 per week per game during regular attendance weeks and could increase to as much as triple that amount during peak weeks. There are, however, many game centers that own their own games or deal with a vendor who is not experienced in operating redemption games whose averages are more in the range of \$100 per week per game. In most cases, understanding the concepts of redemption can greatly increase game revenues.

## Price Redemption Concepts

Learning the fine points about redemption is the most important aspect of running a profitable game center. The following is glossary of some of the keys terms and concepts.

### BASIC OVERALL FORMULA

$$\text{Win Percentage (Win \%)} = \frac{\$ \text{ Cash Value of Tickets Awarded} \times 100}{\$ \text{ Total Gross Revenues of all Redemption Games}}$$

### REDEMPTION FORMULAS

There are actually three different redemption percentages. It is important to calculate each of these percentages for every collection period:

$$\text{Individual Game Ticket Payout \% (also known as Ticket Payout \%)} = \frac{\$ \text{ Cash Value of Tickets Awarded for a Game} \times 100}{\$ \text{ Total Gross Revenue of that game}}$$

$$\text{Average Ticket Payout \% (of all of the redemption games)} = \frac{\$ \text{ Total Value of all Tickets Awarded from all Redemption Games} \times 100}{\$ \text{ Total Gross Revenue of All Redemption Games}}$$

$$\text{Redeemed \% (at the Redemption Prize Center for a weekly period)} = \frac{\$ \text{ Value of All Tickets Redeemed (Value of All Prizes Given Out)} \times 100}{\$ \text{ Total Gross Revenue of All Redemption Games}}$$

$$\text{Hit Frequency \% (of an individual redemption game)} = \frac{\text{Number of Wins}^* \times 100}{\text{Total Tries}}$$

### KEY TERMS

A *win\** is anytime one or more tickets are won. It is recommended that every children's redemption game be set at a 100% hit frequency. This is known as awarding a "mercy ticket" for each game played so everyone is always a winner! Some jurisdictions require the awarding of a "mercy ticket" for each game play.

**"Entertainment Value"** of a redemption game — the sum total of the attributes of a game which include: average time of play, physical nature of play (throw or roll a ball or coin), competition factors, lights, sounds, color, activity. The predominant attribute is "time of play."

**"Golden Rule of Redemption"** — A game's ticket payout percentage is the inverse of the game's entertainment value.

Redemption games with high entertainment value such as Skee-Ball must have the lowest ticket payout percentage, and the games with the lowest entertainment value (some of the quickly played token action games) must have the highest ticket payout percentage. The best balance that can be obtained to end each week with an average "Redeemed Percentage" of 25 percent is to use a range of Average Ticket Payout percentage from a low of 15 percent to a high of 40 percent.

**Perceived Value of a Prize** — The retail price that your customer would expect to pay for that item in a store. Our industry purchases prizes at "wholesale" prices. The key is to search for prizes that have a perceived value of four times the wholesale price. This is not always possible, but if your average redeemed percentage is 25 percent, the players will receive the same perceived value of prizes as they actually spend in the redemption games. As you will not realistically be able to always purchase items with a 4-to-1 ratio, the difference between the money the customer spends playing redemption games and the perceived value he/she wins in prizes will be the fun and excitement value that the player experiences. When this difference is increased, it is well known that the redemption game gross revenues will decrease, as will the other revenue areas of your facility.

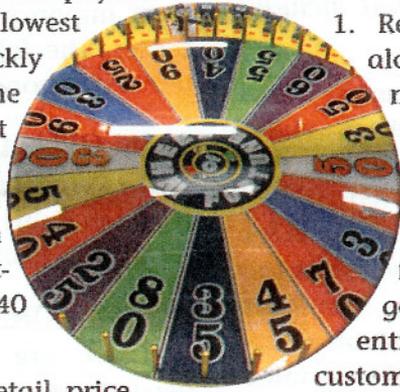
**COST**

Average Redemption Game (Per Player Station) = \$3,500-\$4,000 (combination of new and reconditioned).

**RECOMMENDED REDEMPTION TICKET PAYOUT %**

Entertainment Value	Ticket Payout %	Game Type
Very Low	40%	Roll Downs
Low	35%	Token Action Games
	30%	Token Pushers
Medium	25%	Kiddie Games
	20%	Sport Games
High	15%	Alley Games

Overall Average Redemption Ticket Payout for Game Arcade - 25%



**SPACE REQUIREMENTS**

Redemption games require 30 sq. ft. per game. Video games require 50 sq. ft. per game. When combined with video and novelty, it is best to use 40 sq. ft. per game (including aisle space and space for a redemption prize center).

**Frequently Asked Questions**

*How is the best way to set up a Game Arcade?*

Let's look at two basic room layouts:

1. Rectangle where the entrance is somewhere along the length. This layout provides the most benefits because the front sections can have glass sections and glass doors so that the customers can see the entire Arcade as they walk up and down in front of it. Depending on where the traffic comes from, it is best to place the low redemption games in the front section right after the entrance. In a perfect world you want the customers to walk through the games with no barriers, but in a waterpark you must control the environment and therefore a separate enclosed Arcade is utilized.

2. Rectangle where the main entrance (or only entrance) is at one end of the short width. In this case you want to place the redemption center either to the right or left front section and all of the redemption games in the front half of the room. Keeping the video games in the back half will keep the male teenagers in that section and have the front section open to parents with small children, female teens and even older couples.

**What are the lighting, music, and theming considerations?**

Having a well-lit game center is very important to attract and keep families. Families are now defined as parents with young children. Teenagers are not normally included anymore in the definition of family, but an indoor waterpark is one of the few entertainment facilities that teens are willing to go to with their parents and younger brothers and sisters. To keep the teens separated, the lighting in the video game section can be somewhat less than that of the redemption section. After 9 p.m. when the smaller children should be back at the hotel, some facilities turn down the lights, turn on the neon, crank up the music and become a teenage and young-adult game center. This is not easy to do, but it can be done. The best-performing game centers also provide two different types of music: one that is comfortable for the teens in the video section and another for the families in the redemption and merchandise dispensing areas of the game area.

### ***How do I determine what size to make my game center?***

As a general rule, 40 square feet per game is used when utilizing a mix of games that include large driving simulators, air hockey(s), Skee-Balls and basketballs. Aisles should be a minimum of 5 feet, and space needs to be allocated for the redemption prize center and bill change machines or debit card tellers as well. Each game should generate a minimum of \$150 gross revenue per week, assuming an average asset value per game of \$4,000. As the average asset value of your games mix increases, make sure that the average gross revenue per game also increases. *(Please refer to article titled: 'The Most Important Number An Operator Can Have' by Frank "the Crank" Seninsky from RePlay, September 1996 to learn more about using the 'Rubber Band Ratio' to determine profit and loss of any game mix).*

### ***How does per capita spending relate to the Arcade games?***

Per capita spending is the average amount of money that each patron spends during a visit to your facility. Each revenue-generating attraction and service included in your facility will have its own per capita rate, with the sum of all of the attractions equaling the per-capita rate of the entire facility. Each local area has a pre-determined per capita spending rate for a leisure entertainment experience. An indoor waterpark attached to a hotel would be best served to measure "the average revenue per occupied room night" (POR). Ranges are running from \$15 to \$40 in the premier facilities. Of course, each facility will be different depending on how many persons per room are permitted, the number of rooms and the average room rate during each season.

### ***What are the most important items for an indoor waterpark to consider?***

1. What per-capita expenditure will the game center generate, and how will this affect the per-capita expenditure of the other components of the facility? If you charge a high rate for the waterpark pass, less money will be available for the customers to spend in the Arcade. In some cases you will generate less overall revenue with a high waterpark pass rate. One of the unique qualities of having an Arcade is for the customers to start playing the games and find out that they are having such a good time that they willingly spend additional money. Had they made a decision not to go to the Arcade, then this opportunity is missed, as is the "repeat" visit factor due to the saving of redemption tickets.

2. Where is the best location for the game center within an indoor waterpark? The best location is one where

the guests must walk past the game center as many times as possible during their visit to your facility. Having the game center on the main level is always best, but it also will work on a second level where many patrons will gather to overlook the people enjoying themselves in the water attractions. One successful facility has placed the bar adjacent to the Arcade with an open entrance way so parents can watch their children playing in the arcade from their relaxing seat within the bar area.

3. Choose your game center location with a plan for the future. Make sure that you are going to construct and lay out your facility for future growth (expansion). A facility often will not correctly determine beforehand the proper size of the game center. If it is too large, it will not be profitable to fill up the space with the proper mix and quality of games, and patrons will surely notice this. If the game center is too small (including the redemption prize center), then you will not be able to properly provide your customers with an exceptional experience. In either case, your business will suffer.

4. How are you going to operate the game center inside the facility? Will you allow guests off the street to utilize the game center, or are you going to allow only hotel guests to use it? What about day passes for locals? Some indoor waterparks with hotels/lodges only permit their hotel guests to use the game center and the other waterpark attractions. The belief is that if a family is paying \$300 per night for a room/waterpark package, they want to feel that they have an exclusive deal. Decisions must be made on whether to allow local and daily drive-in customers access to the waterpark when the hotel and/or waterpark is not at capacity. The problem here is that customers will not read the rules or pay attention to them even over the phone. They will drive for hours only to be turned away from the Arcade area, and this is not a good business practice.

5. Are you going to create birthday party and group packages for the game center, or is the game center always going to be utilized for parties/groups as just one component of bigger packages for the entire facility?

6. Are you going to own your games or use a qualified games operator well versed in redemption games? There are both pros and cons to owning your own games. Much depends on how much time you are willing to devote to learning the game business and staying on top of it every day and how much you are willing to pay for experienced technical staff. In general, a game operator who has experience in redemption games can generate more revenues from

the game center and also help increase overall facility revenues. This is done by discounting the games for all groups and parties and by creating value packages. A good staff also makes the game center the 'hub' of the facility. (See article titled *Profiting from Redemption in an FEC "Priming the Pump" by Frank "the Crank" Seninsky, from Tourist Attractions and Parks, December 1993/January 1994 for more details on how to create value packages that will drive facility revenues.*)

### Advantages of Revenue-Sharing the Games

- No cash layout for the games (cost can vary from \$4,000 to \$8,000 per game).
- Game technician(s) not required. Cost for an experienced game technician will vary between \$500 per week to \$1000 per week. You will most likely require two to three full-time technicians to operate a 100-unit game center that will be operational 12 hours per day (80 hours per week), plus collection times and preventative maintenance time.
- Don't have to make new game purchases every six to 8 weeks and dispose of the games that are rotated out.
- Parts costs are very expensive. Vendor pays for all parts.
- The latest upgrades, game modifications, and service techniques for better operations.
- Redemption tickets, tokens, prizes, and game licenses are usually costs that are equally shared by your games operator.
- You can concentrate on your core business: running the indoor waterpark and hotel complex.
- You don't have to utilize your most talented people to oversee the daily game repairs and make all purchase/sell/trade-in decisions.
- You have a free consultant with an experienced games operator who also should have vast experience in helping you choose the best prizes at the best prices and help market the entire facility.
- Your game revenue will be higher then it would be if you operated your own games.

### Advantages of Owning Your Own Games

- You pay 100 percent of all expenses but you keep 100 percent of all the revenues.
- You can provide as many free tokens as you desire to your customers.
- You make all of your own decisions regarding the games, prizes, pricing, win percentage, etc.
- You get the depreciation benefits.

### 7. Quarters, Tokens, or Debit Cards?

#### What are the advantages and disadvantages of each?

Most leading game centers operate their games on tokens rather than quarters. Tokens not only provide security from cashbox break-ins, but also provide the ability to offer promotions (free tokens and bonus

tokens) and discount their value for high-perceived value token/attraction/food packages. The only disadvantage is the possible loss of the impulse quarter as the customer would have to go to a bill changer to exchange the quarter for a token and then return to the game of his/her choice.

Until very recently, card systems have been viewed by industry professionals as very expensive for games, compared to the return on the investment. But as with other technologies, competition has increased and prices have dropped. Several years ago, it cost \$100,000 or more to install a cashless system for an 80-100 game arcade. Today a system can fulfill the same requirements for as little as \$60,000 or even less, while offering unprecedented levels of flexibility and reliability. There's no doubt we will continue to see this cycle working in our favor. In the next few years, systems will be offered that cost less and less, but do more.

Cashless payment systems offer several advantages for fun centers, although to date they have been less effective for street locations. (That may change soon as costs continue to drop, however.) The benefits of card systems include flexibility of pricing, marketing functionality, data management, and increased security and convenience (after all, there is no collecting of cash from cashboxes). The basic technology is a data chip that can be embedded in a plastic card or a key (or anything else for that matter). ☺

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