



## By FRANK SENINSKY

Frank is president of the Alpha-Omega group of companies (Amusement Entertainment Management, Alpha-Omega Amusements, Alpha-BET Entertainment and Alpha-Omega Sales).



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## Setting Up a Gameroom: Soup to Nuts

**W**e have never been busier. Our game revenue-sharing company just took on two new major amusement park accounts and a hotel/indoor water park for a total of 425 games added to the route over the next three months. Our consulting company is performing dozens of feasibility/business plan studies and assisting several new and existing entertainment facilities in planing and setting up their games and attractions.

Calls come in every day from motivated entrepreneurs opening FECs. And people say the industry is dead? This is not the time to sit back and use doom and gloom as reasons not to improve your business and take advantage of the opportunities staring you in the face and even calling out to you!

As part of this month's focus on redemption, I am going to take you through the process of how AEM handles a new client looking to open an FEC with particular focus on how the game space is set up.

Our first step is to get a basic feel for the size and style of the facility. Everyone has a vision, and we listen and most often tactfully bring it back to reality. This information lets us zero in on the project cost versus the projected earnings and estimated attendance and

per capita spending levels that will be necessary to run a profitable business. We are trying to realistically figure out — from overall per capita spending — what portion of the total revenue the games should generate. You have to do this honestly — ensuring the games don't cannibalize revenue from other attractions or services. If the games are capturing too much of the total revenue, then the facility is hurting and probably won't make it over the long haul.

Ultimately, it is the other attractions that draw people to the facility. The games are there to capture impulse play and as a means to help market the facility. The saving of redemption tickets creates repeat customers, and including tokens (or additional game credits) is a proven way to add value to packages.

From the overall numbers, we will come up with estimated revenue from games, including discounted revenue for birthday parties and other group events and discount packages. Then we will look at the space. If we are involved in the project in the early stages, we can provide valuable input about all of these aspects, including the mix of attractions and design of the entire facility.

Of course, we are going to put the game area where the games will receive the most

customer traffic and where the space looks and feels the most attractive to the customer. We use statistical data and experience that show most people look to the right and are prone to move in a counter clockwise direction. Ceiling height is also critical to a game space. This is the conceptual phase or where bubble diagrams are made to scale so they can be easily moved around the floor plan. We are looking at where the games and attractions will physically fit but work best as a combined package.

### Revenue vs. Space

When it comes to the game space, we currently are using \$200 a week gross per game as a base revenue figure. (It should be noted that the games we pick can and do generate double or triple per game weekly revenues during peak and super peak weeks.) In today's market where redemption games generate 70% of total game revenues, this amount dictates an average of 50 square feet per game that also includes the redemption counter operation and the aisle space between games. For our example here, let's assume this facility is projected to gross \$500,000 per year. That's an average of approximately \$10,000 a week (using 50 weeks per

year), which means that 50 games are required to keep your numbers in line (50 x \$200 = \$10,000). This particular game space should measure about 2,500 square feet. Laying out a list of 50 specially-picked games will show that they indeed fit nicely into this size space.

All of the above design guidelines are based on our own experience in the field, that as much as 70% of the revenue will come from redemption games. This percentage has been increasing steadily over the last 10 years as the video category has been steadily decreasing. Note that this does not mean 70% of the games will be redemption games because the redemption games will earn far greater revenue than the video and novelty games do.

For design purposes, we estimate that 15% (half of the remaining 30%) of game revenue will come from merchandise dispensing or instant-win games such as cranes. This 15% figure has increased a few percentage points over the past few years due to the success of merchandisers with high value prizes such as *Lighthouse*, *Stacker*, *American Idol* and others. The remaining 15% of revenue comes from a combination of video and novelty, categories that are certainly not what they once were. For simplicity we have included air hockey, pinball, kiddie rides and other games that are not redemption, video or merchandise dispensing machines.

## Revenue vs. Budget

How do you budget for the cost of games and related equipment? AEM's last 70 projects have all ranged between \$4,000 to \$5,000 per game. The range spread depends upon whether you pick one or more of the high-cost games. If you are willing to source some of the quality reconditioned "workhorses" (20% of the games that generate 80% of the revenues), and trust me they are out there, you are going to come in at \$4,250 per game on average. That brings game investment to about \$212,500.

Operators also have to consider the cost of related equipment like two token dispensers, two ticket centers, one or two ticket counters, two million redemption tickets, 50,000 tokens, coin counter, bill counter and a months' supply of prizes for the redemption prize center displays (\$8,000) and instant win games (\$4,000), prize bins and the redemption prize center showcases and slat wall dis-

plays. Furthermore, you have to make a decision about implementing a redemption inventory system with wireless scanners and ticket receipt printers (such as Redemption Master at about \$11,000). At this point, you are easily looking at \$300,000. Lastly, there is the debit card system option, which can add another estimated \$75,000 depending on the type of system.

You could lower your investment by cutting corners, but it will also lower your earnings. This average would include some high-end video but not a lot. An important figure to calculate is the average cost of sale for the redemption and prize dispensing machines. We design for a redemption cost of sales of 25%. With 70% of the revenue being redemption, a good rule of thumb to use is 20% of the total game gross revenue will be your cost of redemption prizes. In this example that would be \$2,000 a week or \$100,000 annually. There is also a 25% to 30% cost of sales for the merchandise dispensing machine prizes. If this revenue is estimated at \$1,500 per week, then \$400 per week or \$20,000 per year would be a good figure to use.

This is all baseline design, and the whole reason to go through this process is to lay out the gameroom including the electric floor and pole outlets. Other important gameroom layout issues include site lines, game spacing for customer traffic flow (aisle planing), egress codes and the proper position of games including placing instant-win machines near the exit to catch impulsive spending.

At our company, we do the layout work on paper, although some firms do it by computer these days. We're still old school. We put it all down in a full-scale drawing and gather the team around to do serious thinking about ceiling heights, color coordination and other aesthetic questions that will have a real impact on earnings. We keep at it until we all feel good about the way it looks. After 38 years, it is amazing how one develops a feel for where people will congregate and feel comfortable. When the facility actually gets in operation, and we can visit and see the results, it is rewarding to know that we nailed it!

Laying out the electric is also crucial, making sure we have sufficient and properly placed floor and perimeter outlets. Most of the games use standard 110 volts but we calculate each game and related equipment amperage so that each 20-amp circuit is not overloaded. Some

attractions and even games like *Highway 66* mini-bowling require 220 volt and higher circuits. Some of the attractions require a separate transformer or use compressors. If debit cards are being utilized, we have to pick nearby space for the server room and run CAT5e and a female RJ45 connector to each 20-amp circuit. We recommend that each new construction facility be wired for a debit card system even if one is not being used currently. This small additional upfront cost will save loads of money in the future. By doing that, we already have the lines in place for a credit card reader or online tournament games. We try to take as much future growth and expansion into consideration as possible and design a flexible electrical layout that will cover all future game rotations.

## Own vs. Revenue Share

Now it's time to make decisions about the most practical way to obtain games. Some of these decisions will be dictated by budget and financing options and the capability of the facility to repair and maintain the games and related equipment on a daily basis. The \$200 per week per game average revenue guideline will work for either option. A game vendor who is experienced in operating redemption games and who is willing to make the necessary investment is an option worth considering. In many cases game operators can gross more dollars than FEC owners due to their ability to rotate games, supply new ones as soon as they are released and maintain them on a daily basis.

## Game Mix

When it comes to game mix, a good rule of thumb to remember is that on average redemption games will earn five times as much revenue as videogames. For this hypothetical FEC we would suggest the following game mix:

- 32 redemption games
- five instant win/merchandise machines
- 10 videogames
- two air hockey tables
- one novelty game

You have almost a third as many videos as redemption games just to generate that 15% of the gross revenue. You need to provide videogames or you run the risk of generating 10%-15% less revenue. The exception is if you are strictly a children's venue, you can get by with

fewer or even no videogames.

After a few weeks of operations, the game mix can be adjusted if you see that one game category is stronger than expected. This is simply a good starting point. Of the 32 redemption games, your core games or workhorses will make 80% of the redemption revenue. These include:

- Three to four alley bowlers (*Skee-Ball*-type games)
- At least two token pushers out of the many models to choose from
- Six or eight low coin action games like *Smokin' Token*, *Big Haul*, *Wonder Wheel*, *Big Rig*, *Speed Demon*, etc.
- Circular games like *Cyclone*, *Tower of Power* and *Wheel-a-Win*
- Top earners: *Wheel Deal*, *Gold Zone* and *Slam-a-Winner*

When we set up a location, we choose the best product from all the key redemption game suppliers. The industry is fortunate to have many great games to choose from. Note that some of the top-earning games are no longer manufactured, but they are worth looking for as reconditioned models.

Now you have time on your side to start sourcing the equipment, trying to

get as close to your list and deciding whether you are willing to live with some pre-owned substitutions.

As you can see, a great many details need to be accomplished in order to put together a top performing game operation. It is a shame that most facilities leave much of this work to their architects and others who are not experienced in this specialized field. My advice is to get someone with experience on your team at the start of the project.

### Revenue Share Agreement

If the location is working with a game operator on a revenue share basis, the agreement must be fair to both parties. I have witnessed instances where once the facility opens, the owner/manager starts marking up the points for the redemption prizes to reduce the cost of sales and save a few dollars, and then the operator increases ticket payout to compensate and drive more revenue.

This can easily become a cat-and-mouse game, meaning you have to structure a very delicate deal between operator and location to make sure that both

sides are on the same team. Sounds like a good topic for next month, right?

*Frank Seninsky is president of Alpha-Omega Group of companies, which includes a consulting agency, Amusement Entertainment Management (AEM) and a nationwide revenue sharing equipment provider, Alpha-BET Entertainment; all are headquartered in East Brunswick, New Jersey. During his 38 years in coin-op, Seninsky has presented nearly 250 seminars and penned more than 1,000 articles. He has served as president of the Amusement and Music Operators Association from 1999-2000, sits on the AMOA board of directors and is past president of the International Association for the Leisure & Entertainment Industry (IALEI). Seninsky can be reached at telephone: 732/254-3773 or by email: fseninsky@aol.com and www.AEMLLC.com.*

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Phone: (732) 254-3773 Fax: (732) 254-6223

E-mail: fseninsky@aol.com Web: www.Alpha-BET.net