RePlay magazine

frank talk

Surviving Tough Times in a Changing Economy

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).

Making money is not supposed to be easy, but there's always opportunity if you can find a win-win formula. That's my mantra in good times and in bad.

As 2008 gets underway, it's pretty clear that we are heading into rough economic waters. The housing market continues to flounder, fuel costs are way up and Wall Street is in a panic. That said, even downtimes offer opportunity, and our first and best strategy for staying afloat is finding whatever islands of growth are out there.

In the out-of-home entertainment universe, that would be restaurants, which are expected to increase about 7%; with slower growth, maybe they will only grow 6%. That's the only sector of the entertainment business that's growing, and in all likelihood it's because people are working more hours and have less time to prepare meals.

That's where we have to focus, learning about how to get serious about food, either by adding or enhancing our food service business. I have been watching this sector for several years, maybe longer, and now it's so obvious.

People are very value-conscious in today's world, even as they remain marked by the "experience economy" we have been talking about for a number of years. Like my last column, where I discussed the growth of all-you-can-eat sushi restaurants, people are now looking for both experience and value. Sushi is traditionally an expensive option. All-you-can-eat sushi may not be cheap, but it's a better value than traditional sushi and also a wonderful experience.

Experience economy thinking was really predicated on a growing economy, but most people are back to being seriously conscious of price. So people are looking for value, while still expecting some form of experience. One example is the expected slowdown of Starbucks, which I suspect will close a number of its stores. People are realizing that good coffee can be found at a better value but with less ambiance. The competition has found a way to offer the same or better quality but at a lower price.

The current economy can be broken down into three major sectors: the very rich, who are not affected by normal economic swings; the large majority that wants quality/experience and price, if they can get it, but who are now swinging towards the lower price; and the third sector which is small but growing and have to almost always forego quality/experience for price. For starters, this should logically start with a 20/60/20 bracket but could go to an extreme 10/40/50 in a few years' time if the cycle isn't broken.

For 2006-07, average U.S. family spending on entertainment has been at $2,207 on an annualized basis. This figure is lower than most people in our industry realize, but it encompasses everything you do out of your home for entertainment with the exception of food. Because of the media scaring everybody about the economy, sub-prime mortgage defaults and high gas prices, I believe that this spending category is the first one that decreases.

Everyone seems to agree that people still need to get out of their homes, apartments, condos and going out to eat is the number one choice. Therefore, a large majority of people are going to consider a place to eat that also has an entertainment and/or experience component. People don't just want to go to boring restaurants on these out-of-home adventures, so this kind of value-consciousness might be helpful for local entertainment venues, at least those offering good food at reasonable prices.

According to a recent meeting of MUBIG (Multi-Unit Bowling Industry Group), a group of bowling proprietors that own more than 25,000 lane beds, bowling center revenues have been flat, except for food and

beverage revenues which grew over 15% from fiscal 2005 to 2006. That's where this group has decided to invest their resources, and they have been rewarded for seeing this growth potential. Note that the coin-op industry now has such a group (Club Lucky), and hopefully soon the FEC industry will also see the value of such a group of owners who get together and share their financials and look at real trends rather than depend on industry surveys (and I am not knocking industry surveys because they are all we currently have).

Now, look at the FEC industry, which probably presents some of the worst food on the planet. Most operators have been afraid of food and choose to present it in a simple way. They don't want to get caught with perishable inventory losses. It's a hard business, but like I said at the beginning, making money is not supposed to be easy.

So now we're avoiding the fire and jumping to the frying pan with a lot of our clients, helping them modernize their operations, especially their food service. We are trying to show them what competition they are up against, specifically how much per capita (per check) people are spending in food establishments that surround their facilities

An FEC should be able to get a minimum $3 to $4 per cap spending for food, but the number can really be a lot higher if you offer good food at a decent value. People are going to get hungry while playing games and enjoying the attractions, and if you can't fill the needs they will go elsewhere.

Look at the Enchanted Castle in Chicago, which has a quality food service that is capable of feeding 300 at one seating and entertaining them as well. This is not surprising because "the Castle" was started by Harold Skripsky, a former food executive from McDonalds, and today Rich Oltmann continues this tradition.

Using Promotions to Survive and Grow

There are many other ways to weather tough economic times, especially when you couple value with state-of-the-art operations technology. Just about every facility we help open today has a cashless payment system because of all the doors it opens. A debit card system pays for itself in less than two years just from the 6% to 8% float (money put on the cards that is not spent). It's a great help in lean times because the marketing aspects are phenomenal, giving people more value on games, attractions and food and further rewarding repeat customers.

Restaurants and LBE (adult FECs with alcohol) locations are picking up on that, giving away $10 to $15 game cards, when a customer purchases a meal or a glass of wine or appetizer or dessert with an after-dinner drink. The cost of sales on a game card is on average 20% of the value of the card because that is the average redeemed prize cost, well worth the margin made on that drink or food item.

I see time and time again that there is a guilt factor in consumers that dictates if you give them something for free they are more likely to spend a few extra dollars. Plus, they walk away grateful for the experience, and they are more likely to come back. They are also more likely to tip the waitress/waiter/server that gave them the free offer, which puts more money in circulation in the location and helps retain good employees.

If I am staying at a hotel and the front desk clerk gives me a $5 gift card to play games in their gameroom, I am just as likely to spend another $5 of my own money. They got me in there, and then I spent more money, even though I might not have gone in that game center at all. Multiply that by thousands of guests each year, especially families with children. Yet very few hotels see the value of this type of guest reward program. I also would guess that a large majority of game operators don't see the value of promoting this either because people would be playing their games for free and wearing them out and causing a large increase in the number of service calls, and who needs that — even if the game revenues could triple?

My revenue-share company has been running these types of promotions for years. Back when we were heavy into college gamerooms, we were watching the average purchase at the checkout line in the cafeterias, which in 1967 was about $2.75 per person. We were successful in having the cafeteria put up a sign that said if you buy $3 worth of food, you'll get two tokens for the gameroom. That helped increase food sales to over $3 per capita at the college's cafeteria (9% increase) without doing anything more than putting a sign up and making sure that the cashiers gave out two tokens to each person that spent more than $3 and that they always had enough tokens on hand to do so. This simple marketing effort helped our gameroom increase substantially by driving guests to play.

The simple fact is you have to offer more in a shrinking economy, whether it be better food or more game play for less. Tough times are actually an opportunity to increase revenues and best your competition. We already know that a lot of the doom-and-gloomers are not going to take the steps they need to survive and thrive in tough times. That kind of lazy attitude always becomes a self-fulfilling prophecy.

Now is not the time to hunker down because now is when you can really make money if you're smart and willing to change. If you've been milking your business for the last 10 years, now is the time you have to provide more value because if you don't you won't be around for the next economic growth cycle in this country.

We are just back to reality. The unrealistically inflated housing prices will cycle back to their realistic values. Those who work harder succeed, and those who don't, close up shop, which is even better for those who work harder. A lot of people accuse me of finding the silver lining in any situation, and that's true because I stay up nights looking for it. If you can't create win-win and win-win-win (win cubed) scenarios, you are wasting your time in business. That's why you have to be creative and positive, both in good times as well as bad. One of the oldest sayings still rings true: "To the victors go the spoils."

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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 36 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, is a past chairman of the International Association for the Leisure & Entertainment Industry and sits on the AMOA and IALEI board of directors. Seninsky can be reached at telephone: 732/254-3773 or by email: fseninsky@aol.com *and* www.AEMLLC.com.