

"Consulting" Is Just Another Word For "Education"

By Frank Seninsky



Consulting has become a big buzzword in the industry in recent years, especially with the rise of FECs and LBEs backed by so many newcomers to the industry. Like so many other things in this business, using a consultant can be a blessing or a curse. When you get hold of the right consultant at the right time, he can save you a bundle of money. In fact, a good consultant can be an essential factor in profitability. He can guide you to increasing your ROI by (at least) a factor of five, compared to what you might have done on your own.

On the downside, the wrong consultants can almost be viewed as running kind of a "ticket." They charge high prices. They stretch out the amount of billable hours (sometimes because they don't have much else to do). Worst of all, they fail to deliver the vital insights and on-point suggestions that can maximize FEC, LBE or route revenues.

In case some readers are wondering what qualifies "the Crank" to spout off on this subject I'd be happy to trot out my credentials. I do a lot of consulting in partnership with Jerry Merola and Joe Camarota of Amusement Entertainment Management, LLC, a subsidiary of Alpha Omega Amusements Inc. (Jerry is CFO and Joe is COO.) During an average year, we consult to about 25 large clients on an ongoing basis, representing hundreds of sites. We also consult to 40 or 50 shorter-term clients who just need two or three days of our time initially to evaluate a plan and deliver quick and simple suggestions to improve the plan's effectiveness.

We also provide some weekly and quarterly evaluations on an ongoing basis (that is, tracking of game income, states of readiness, parts and equipment sourcing) and data entry for centers that don't have the staff or resources to perform this function in-house. AEM provides advice on when and how clients should buy, sell and rotate equipment, in an effort to protect investment capital and promote reinvestment. We even provide technical support for our clients' technicians, who can utilize our Technical Support Hotline to solve game problems.

So, Jerry, Joe, and I think we have a pretty good handle on what consultants should do and what they should avoid ... on who should utilize a consultant, and how ... and most important, on what makes a good consultant and what the client should expect from such a relationship.

A big misconception about the whole issue of using consultants is that it's only for the "big boys." The truth is, smaller independent centers need education and expertise just as much as the big chains. In fact, education is even more important for those with limited resources, because they have less of a financial "cushion" to absorb their mistakes.

As Jerry says, "Many new, existing and planned FECs need somebody to show them the basics. Yes, there's been a lot of high-level consulting or advice aimed at multi-million dollar locations, top shelf centers, and national chains. But consulting services can have an even bigger impact on smaller sites, where existing resources and smaller budgets necessitate the use of proven programs, geared toward providing immediate results."

Can the smaller guys afford consultants? Sure. Another misconception is that consulting has to be a long-drawn-out, expensive process. "Consulting doesn't have to take a lot of time and money," is how Merola puts it. "After a single day of working alongside the client, a food consultant can grasp the essentials of the client's business—his needs and plans. The consultant can then move very quickly in offering a precise, custom-fitted prescription for what that location needs."

"Too many facilities make decisions on attraction selection or facility layout before they know the facts about such things as population demographics," Jerry points out. "Our prospective client may have bought a soft modular play unit or other attraction which it later turns out, does not fit the age, ethnic makeup or desires of the location's end user. It can be difficult to reverse this situation if we're not contacted early in the planning process. When you buy a house, don't you get a real estate appraisal first? The same approach applies to FEC/LBE operations: understanding the strengths, weaknesses and opportunities of the specific center ... and doing so ahead of time ... permits the development of a sound investment strategy. A quality consultant can give you just that."

I would like readers to realize three very important facts about consultants and the subject of "industry expertise."

First, there are many issues and subjects on which a fun center owner should educate himself before spending lots of money. And I do mean "educate himself," not "rely on a consultant to do 100% of his thinking." A good consultant is a teacher, not a dictator. That old principle applies to this industry like everything else: "Give a man a fish and he eats for a day; teach a man to fish and he eats for the rest of his life."

Second, there are many valid sources of information where an owner or operator can get the educational information necessary to craft a successful FEC or LBE business plan and strategy. Trade associations, seminars, and trade magazines are excellent informational resources. So are the more-professional distributors. Qualified consultants can and should be part of this mix, especially in the FEC's or LBE's planning stages. Just copying somebody else's facility is not necessarily a good idea- if done mindlessly, it also means you will copy their mistakes.

Third, if you do retain a consultant, get a good one. All men may be created equal under law according to the Declaration of Independence, but not all consultants are created equal in business acumen, helpfulness, and plain value for money. How do you recognize a qualified consultant? That's what the rest of this column is about.

The best way to judge the value of a consultant is to ask questions and see if you get satisfactory answers. One such question is. "What methods and moves can I make today to increase income, improve operating performance and control expenses?" That's a good gauge for a client to use when determining the scope of the consultant's offerings. Is the consultant giving me advice that I can use for immediate, positive change?

For example, individuals trying to run FECs outside of industry norms can quickly make adjustments that return them to the mainstream. Failure to discount tokens, for example, is a seemingly "innocent" business decision made by many newcomers. What's wrong with it? Well, nothing, except that it hurts your level of player participation and ultimately your income. But many new FECs don't understand this. A good consultant can spot that type of problem and turn it around in the first hour.

Problems with control procedures for cash or coin - or lack of same - can also be corrected very quickly. That's an instant way off improving the bottom line without spending more money on new games or attractions. Ask your would-be consultant "Have you developed sophisticated tracking procedures aimed at eliminating inventory shrinkage and revenue disappearance? Do you have mathematical models, based on real-world examples, for FECs that show you when and where to offer deep discounts for more entertainment value?" The answers should be "yes," followed by a quick hands-on lesson in how to apply those tools to your business.

Lots of consultants give you vague advice such as "add value for the customer." But, exactly how do you do that? A good consultant tells you how and trains your staff. In redemption, for example, merchandise cannot arbitrarily be marked up. Prizes are not necessarily a profit center, first and foremost they are an incentive to spur gameplay. You can mark up the prizes in some cases, as long it's balanced by correct payouts and hit frequencies on certain games. Which games, and when do you know how to adjust all these factors to account for each other? A good consultant provides statistical models and machine settings that support his or her conclusions.

Controlling fixed assets within a facility is another key lesson that a good consultant can offer. It's easy to say "buy this" or "sell that," but how do you measure the resulting improvement in revenues, or return on investment? Real depreciation is a tremendous factor that plays a role here. We call this the "hidden end of the balance sheet" and we've developed a simple tool to take it into account.

"Market penetration" is another vague term that can be easily overestimated. A good consultant needs to give you each variable that is used to measure market penetration, so that the conclusions can be adequately supported. It's not enough to make an educated guess about how many people will patronize your center, and from what geographic area. Per capita revenue estimates, including a breakdown for every single revenue source within the facility, are vitally necessary pieces of information to use in determining the attraction size, type and cost.

A good consultant will give you a solid gameplan for the life of your business. That means tools to constantly re-evaluate the center's performance to readjust strategy and direction quickly, if necessary. The "big bang theory" of focusing too much of the annual reinvestment budget in the early stages can result in a static position later, and ultimately lessen the likelihood of repeat business. A good gameplan also means "building in" exit strategies and/or reduction strategies from day one, not just counting on constant expansion and attendance increases.

All this may sound complicated to new FEC owners. But to people who work in this industry every day, it's simple.

Here's a checklist of some additional things to ask your consultant before you enter into the FEC or LBE business, and/or before you sink lots of money into refurbishing a fun center.

1. What is the makeup of the surrounding population? What portion of that population is geared to your type of facility? Has the makeup changed since you have opened? What will the makeup be in three or five years?'

2. What is the per-capita income and average household income of your service area? What is the age distribution?
3. What is the ratio of local leisure and entertainment spending to the national average? How should that factor into the fun centers plans? (This can have a huge impact on per capita revenues, determining whether your strategy is to get small per caps from a large volume of customers or vice versa.)
4. What are typical travel times (to work, etc.) in your service region? How far will customers travel for entertainment, as a result?
5. What type of jobs do your potential customers have? Physical or sedentary? What is the local or regional level of employment, and how will this affect fun center attendance?
6. What financial models or historical precedents can the consultant point to, that shows this particular planned mix of attractions will be successful in this particular type of competitive and demographic environment? (All operators know, for example, that putting a new twin racer next to a Daytona has a certain impact on machine and gameroom income: a good consultant needs to have a feeling-and real hands-on experience- for similar types of impacts of offering, changing and combining major attractions in a facility.)
7. What precise impact will seasons, times of day, and other environmental variables have on income of specific attractions and facilities? What statistical models or historical precedents are available to back that up?
8. What is the ratio of income to space utilization/investment for major attractions? What statistical basis is used to arrive at this conclusion? What will each attraction's market value be in six months, one year, two years?

Finding a good, qualified consultant is so important. Using him or her properly is just as important. Explore your options and choose a consultant who has years of operational experience, who has worked on many successful projects, and who is "always busy."

A good consultant can give you the ground rules so you can avoid mistakes and improve your ROI significantly," as Jerry says. "Whether you're currently operating a facility or planning to open one, contact your consultant as early in the process as possible. The nature of our industry dictates that regardless of whether your revenues are increasing, flat, or decreasing, upgrading of the internal operating plan is an essential element in achieving your goals and preserving your investment."

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