RePlay magazine

frank talk

Would You Like Some Fries With Your Fun?

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).

Food service will play an ever-increasing role in the changing face of today's family entertainment business. Here we are again talking about the pre-eminence of family when it comes to discretionary spending decisions, the source of a significant amount of revenue in this industry. Well, if you have kids, or even just know a few, you are well aware that food is an important, tricky part of a successful formula for attracting and keeping customers.

As the coin-op amusement industry continues to shake out, traditional venues and the companies that serve this segment will continue to disappear. Most people I talk with agree that our industry will be cut in half again in the next five to ten years, just as it has decreased by more than 50% over the past 10 years. There is good equipment out there, but it doesn't sell because of the high price tag, and too often the addition of new games does not generate enough incremental revenues. The earnings just can't justify the investment so that continues to fuel a deflationary cycle in traditional markets like the street and game room businesses.

Fortunately, new, family-focused markets continue to open up. Take any single attraction venue, like roller skating/hockey, bowling or driving range, and you will see how they are all now going after the family entertainment component. And the universe of themed restaurants also indicates they are going to take another shot at adding redemption games and small footprint FEC attractions. In the past, the food chains have largely failed at mixing food and entertainment. It is only in the adult market that there has been success with concepts like Dave & Buster's.

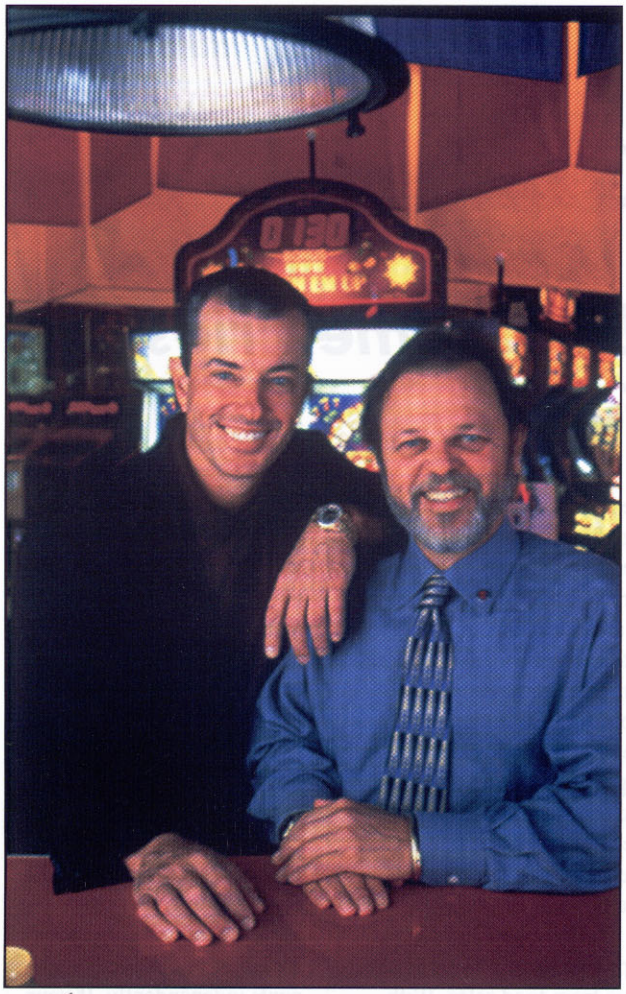
The average FEC derives approximately 30% of its revenue from food sales. With average per capita spending ranging from $12 to $15 per visit, $4 to $5 spent on food is really not considered a meal. It's a snack bar venue at best: a couple of cans of soda or a slice of pizza. Even Dave & Buster's, with half of their sales being made up of food and beverage, still garners only about $10 to $12 average per capita for food and beverage. And much of that total is beverage (i.e., liquor sales)?

Now comes the challenge for the casual dining chains. A typical Applebee's generates $2.2 to $2.4 million in gross revenue on a fairly uniform restaurant pad. Can we create an FEC model that does half of that gross revenue in food? Not yet, although the boutique bowling industry is leading the pack. It would seem that the moment you define a facility as an FEC, it is no longer perceived as a restaurant.

An FEC has a visitation time factor of approximately two and a half hours per stay, while the stay at a typical restaurant is probably half of that. When you go to an FEC, there is a conflict on how you can balance per capita spending on food and fun in about two and a half hours and still feel like you've gotten your money's worth.

If the restaurant/FEC concept is to succeed, the goal, of course, is to create repeat customers who will come back for either of the two components independently. If your food product is good enough, you can capture their food budget as well as a small portion of their entertainment budget when they decide to have a meal. But it's tricky to accomplish this and remain profitable. You have to balance the investment and the design properly.

How do you develop the ambiance or hire the good chef for less money than the restaurant competition? Are you going to be a casual dining clone with games or a game facility with exceptional food? The latter makes more sense for people already in our business. Branded casual dining chains have a following and are already turning good profits. They are simply looking to our industry for incremental revenues that won't disturb their ongoing food sales, while FECs feel they need to boost overall per capita spending and still maintain



Dave Corriveau and Buster Corley

reasonable net margins.

Casual dining chains are already trying to add games and redemption in a way that doesn't take away from the restaurant's perception. But they have their own challenges. The uniform restaurant pad that most of them employ offers a pre-set amount of square feet and the same number of parking places. So is there enough space within that configuration to really add games and attractions without hurting restaurant sales — either by not turning tables fast enough or by taking away valuable table space, a proposition that very few chains would be willing to accept?

Locations like mom and pop restaurants and sports bars have a much better shot at incorporating FEC components like redemption games. Think about a roadside barbecue restaurant, for example, that draws everybody in the area. With enough land, they might say, "Let's add an FEC to boost our revenues and client base." That makes more sense than an existing FEC trying to add a high-end, ambiance-driven food component or a successful specialty restaurant. In that case, you must have vision, good food and a super chef; plus you better be a genius at keeping down costs.

Another growth area for family entertainment is through new retail developments, many of which are incorporating some kind of family attraction business as part of their restaurant and retail cluster. This creates a great opportunity to cross-market to the food and retail businesses in the same commercial zone, although it pretty much rules out significant food sales at the entertainment site. This commercial zone, adjacent to thousands of newly developed housing, works best when one owner/operator controls the entire commercial development and carefully chooses the businesses that will work together for the good of the whole.

I wouldn't be surprised if we see this produce a hybrid operator with one foot in amusement and the other in food service. It's been tried before, but not always with a complete understanding of these two separate markets. If you have a good bar or local restaurant, you could do well with a decent game room or family entertainment area as long as you have the required space (with the proper investment and design) so that you are not robbing Peter to pay Paul.

A few years ago, I consulted for a well-established food chain to research and recommend how a 30-piece redemption-based game room could be created within the existing footprint, including enclosing the outside deck. Everything looked good until we realized that to have enough room for the proper mix of games, they would have to remove four tables and 16 chairs. They wouldn't do it; the revenue per table was just too strong, even if the games grossed $250,000 to $300,000 per year! On the other hand, a restaurant that is willing to give up several tables to create the needed space, probably is not a viable candidate either because the return on the game investment may be too low.

Lastly, what about fast food? Why doesn't dropping a mini-McDonalds or Burger King into an FEC work? The main reason is because restaurant chains have not been willing to be flexible in offering discount value pricing for food, something that is essential for birthday party promotions and other marketing opportunities. If you think about it, a birthday party package is largely a volume discount on food and attractions. So fast food chains do work in transient locations like gas stations, tourist locations and airports where people are on the move and not expecting discounts. They expect to pay retail or higher in those venues for convenience.

What does all this mean for the FEC industry and for game operators? We don't know for sure, except that it's pretty easy to see how food will be crucial to making sure family entertainment remains part of the mainstream mix of family spending. It's happening right before our eyes. The restaurant industry is predicting a 7% increase in gross sales for 2006. We know that our industry is leaving money on the table, and the restaurant chains would like to eat our lunch but also incorporate our games and attractions so they don't leave money on their tables. We just haven't seen the right models emerge yet, but I predict that we will see a convergence between these two industries. ◆

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, currently sits on the AMOA Board of Directors and is president of the International Association for the Leisure & Entertainment Industry (IALEI). Seninsky can be reached at telephone: (732) 254-3773 or by e-mail: fseninsky@aol.com *and* www.AEMLLC.com.