

The Debig Card Test Goes On!

By Frank Seninsky

Earlier this year, I wrote a glowing report of the new Coin Tech Game Systems debit card system, based at that point on my review of its features and capabilities in operation at Dave & Busters in Mexico City and at two other FEC's in Mexico. At that time there were 123 Game System installations world wide but none in the US.

Coin Tech offered to supply a complete system for testing purposes, and our test started on March 26, 2004. Now, after 14 weeks of an anticipated one year test of the system (we converted a token operation into a full debit card system) here in the United States at the Cyber Quest Arcade at the Soaring Eagle Casino Hotel in Mt. Pleasant, Mich., I am reporting that my expectations were easily met and exceeded by the product.

Alpha-Omega Amusements and Alpha-BET Entertainment are expecting even more in terms of increased productivity and higher revenues as we move forward with this test (in full cooperation with Kids Quest - our partners over the next 9 months).

Peak Weeks See 35% - 42% Increases

Lets start with the best news first. During one of the peak weeks in which the system was in operation (Spring Break Week), our gross revenues we up 42% for that week as compared to last year's Spring Break Week when we operated on tokens.

These peak times are when the system really performs for our game room, increasing efficiency when our staff and game usage are under the most stress. During this period our 63 games grossed \$34,301.02 (\$544 average per week) that week as compared to \$24,146.75 last year. This was our highest grossing week ever over the past several years, breaking the previous record by more than \$5,000. This was partially because we set up the system to offer free debit cards to any customer who initially put \$5.00 or more on their card. If they purchased purchased their initial card with less than \$5.00 they were charges 25 cents for the card.

During each week only 20-40 people started off with putting less than \$5.00 on their card, and perhaps some of these customers didn't read the signs or they would have opted to purchase \$5.00 or more and not have the 25 cents deducted from their credit balance.

During what I would call normal or average weeks, revenues have been up between 15% and 20%, while on a couple of slow periods, revenues were essentially flat, meaning that even increased efficiency cannot offset a fundamental slowdown in business. If the game room is sparse with customers, the few have many open games to choose from and they are in no particular hurry to spend money! In the interest of full disclosure, there were two weeks of unexplained dips in revenue where we actually did less money than the previous year - as they say in many corporate earnings reports, quite possibly it was weather related or perhaps (for one weekend at least) the entire country was watching Smarty Jones attempt to win the Triple Crown and game revenues were down in most of our locations.

We chose this particular game location for our test because we wanted to experiment with what happens when you switch a long time established 'token system' location over to a debit card system. This can be a mind-blowing transfer for both customer and staff, but despite the learning curve, we can already see immediate results, and not just in the cash box.

For instance, my techs have almost a while extra day each week to do a preventive maintenance on the games because only the token action games need to be collected. Game System tracks the number of tokens and tickets awarded, but we still have to collect the tokens on approximately 20 token action games, so the tokens can be loaded back into the token dispensing card swip machines. Checking the number of tokens collected from each token action game and comparing it to what the system indicates should be in the cashbox has proven the system to be extremely accurate.

Because this is a highly structured test, we installed the



system with a plan B in mind, namely that we could convert the location back to tokens in an hour or less, should the system fail for any reason that we were not prepared for. I even put in a back up server and have two independent harddrives to cover most anything.

The system allows player to insert their money and receive credits on their debit card to play all the games (with exception of the token action games) we have also connected three Rowe BC-3500 changers to the debit system for player who need tokens for the token action games and want to get a handful with just one swipe of their card. The customer can swip their card at the \$1 changer and receive 4 tokens at the \$5 change and get 20 tokens or at the \$10 and receive 40 tokens. Note that we sey up the test with no discounts of VIP programs or promotions of any kind to establish a baseline of system revenue performance without promotions. This will permit us to accurately measure the effects of introducing promotions one as a time and seeing the true success or failure of a promtion or discount program.

Each player position station has a card swipe reader with a conveniently located LED display (see pictures 1& 2). The Coin Tech small circuit board can be wired directly to the main CPU and read credit counter pulses, thus bypassing the game meters (picture 3). With additional cabling, the number or tickets dispensed can also be wired directly to get an accurate reading of tickets awarded. This eliminates a lot of false meter readings (or employees misreading 3's for 8's or 2's for 5's or vice-versa) because, as most of you well know, the cheap \$3 meters that come with out games, break or miss pulses for more frequently than the zero tolerance that we should require in this industry.

Picture 1: The simple and efficient Game System Debit Card Swipe Reader.



Picture 2: Four Swipe Readers are installed on each of the four-player stations of *Knock It Off* rotary (designed by Amusement Entertainment Management/Elaut with assistance from Betson several year ago - still a workhorse in all of our game centers).



Picture 3: The Coin Tech Game System 'kit' installs easily into any game. We found it much easier to Velcro the small computer board inside of the game's cashbox but for our first install, we wanted to be able to quickly convert the entire game room back to tokens in case the system and its back-up went down (which it has not).

Not Switching Back to Tokens

So far, there appears to be little chance that we will be switching back to tokens any time soon. The system is also completely accessible online with high security (password protected) access through VPN, for from a remote location (or on site) in real time you can see everything that is going on in the location or run and of more that one hundred different reports. You can tell what games are being played, the name of the gams each registered customer is playing, the order in which each customer plays games, and of corse, how much money each customer is spending per visit. When a game runs out of tickets or is not played for a preset number of minutes, you can have the system flag or alert you. It's almost like having 63 cameras in the location and a virtual technician!

To facilitate our redemption operation, we utilized the three computers and four wands from the Ideal redemption inventory system that was previously used. [Please do not take this to mean that the Ideal System was replaced because of any problems. AEM and Alpha-Omega will continue to use the Ideal redemption software in our other token operations and will continue to support Ideal]. As you know from my 35 years of writing and speaking, I am a firm beleiver of using tickets in my family redemption operations rather than putting the redemption points directly onto the cards after each redemption game play. But be assured, I am astrong supporter of the customers then taking their tickets and inserting them

into a ticket center or ticket eater and receiving a bar coded receipt or directly putting points in their account. We have been doing this for years with both the Deltronic Labs TT-2200 and the Smart Ticket Center units.

Our next step was to further reduce the redemption center labor costs to handle customers who wanted to have their tickets put directly into their accounts (even if we did not yet register them by name) for future use. We started with our existing three Deltronic ticket eaters with receipt printers, and constructing a cable connecting each of the ticket eaters to the Coin Tech System in a way that allows the ticket eater to transfer that data into the customer's account. A card swip reader was mounted onto each ticket eater with a large lighted button. A customer goes up to any of the ticket eaters and swipes their card and the light goes on. The light will stay on until there is a ten-second span when no more tickets are being fed in or the customer hits the button to let the system know they are finished inserting tickets. The number of tickets counted is transferred into the customer's numbered account. The total cost for this upgrade was \$60 for the swipe reader with LED and \$17 in spare parts (backlit button from an old video game, wire, connectors) and one hour of labor. Not bad for the value added.

This is just another example of how incredibly flexible this system is; it can do anything you want it to, and Coin Tech has a whole team of exceptional programmers in Argentina that allows me as a U.S. operator to leverage their lower programming costs. Coin Tech has been super cooperative in addressing even my most challenging requests even though they know I am doing my best to push the system to its limits and see if I can make it lock up or make an improper programming decision. This is, after all, one of the main purposes of the year long test, another being to come up with the best marketing and promotion features that I can pass along to other debit card system users and manufacturers and see if their system can do likewise.

In order to put the system in place, we had to wire the game room with standard computer cabling with an eye to where the hubs should be. As I said earlier, each player station has a reader and then these wires feed back to one of the several hubs. The wires to the games in the middle of the room were run under the carpeting. It took the better part of three days (after hours of course) to install and initialize the system.

Coin Tech's president Daniel Giovannoni and senior software technician Santiago Pablo Barbero assisted the Alpha-Omega IT staff of George Brooks, Greg Brooks, Steve Achinson, and Kyle and Marty (who came up from Frankenmuth, Mich. to help install the system kits into each game), along with Cyber Quest manager Rich Delvecchio; operations manager Emily Frye, and Assistant Controller Jon Braun, the installation and initialization of the system. The installation team (see picture 4) was able to accomplish the whole conversion without shutting down more than a couple games at a time during the Monday-Friday period and working through the middle of the night. The best part was being ready for the big weekend and having things run smoothly as the customers quickly learned how to use the debit card system.



Picture 4: The real installation team: (l to r) Greg Brooks- Alpha-Omega, Santiago Pablo Barbero- Coin Tech, Steve Achinson- Alpha-Omega, George Brooks- Alpha-Omega, Daniel Giovannoni- Coin Tech, Rich Delvecchio- Kids Quest

There are currently 63 games in the location with 75% of the revenue generated from redemption games, 15% from video, and the 10% balance from merchandise dispensing machines (cranes, rotaries, *Lighthouse*, *Sports Arena*, etc.). Cyber Quest is set up in much the same manner as Alpha's and AEM's clients are, with the 20 redemption game workhorses generating 80% of the total revenue.

We chose this particular location for the test for four reasons:

- 1.) The Kids Quest management is both open minded and dedicated to the success of the test, and Laura Roehl, director of marketing, has always been excited and ready to help create great marketing programs whose success can be measured.
- 2.) Kids Quest was willing to take a chance on switching over from the tokens to debit card when the industry grapevine myth said that this cannot work and the revenues will either be flat or actually decrease.

3.) All three parties (Kids Quest, Alpha-BET, and Coin Tech) wanted to see if we could achieve a 25% increase in revenue or better (jump from \$800,000 annually to over \$1 million - the magic number!).

4.) Kids Quest manager, Rich Delvecchio and Alpha's game technician, Steve Achinson, both enjoy working with computers. Let me mention here that the game system administrator does not need to be well versed in computers and this is a very important item to recognize.

Establishing a Baseline

The first goal we wanted to accomplish was to establish a 14-week baseline revenue measurement without doing any marketing or promotions. From past experience in installing and programming other manufacturer's debit card systems I know I can always boost game revenues by 10-15% with promotions (even on handcuffs and blindfolded).

What to do about the 28 cent cost of the 4-color debit card was the next logical question. There are currently only two sales models for debit cards system suppliers:

- 1.) Make money on the initial sale and installation of the system and sell cards at cost or provide option for customer to purchase the cards elsewhere; or
- 2.) Discount the sale of the system to just above cost and make money on the sale of each proprietary card. Coin Tech has opted to sell their system as a low cost (in some cases 50% less), and they hope to turn a profit through proprietary card sales.

With an initial order of 50,000 cards, a debate followed on the best way to pass some of the cost onto the customer.

For our initial 14-week period, we ended up offering a free card to anyone who initially purchased \$5 or more worth of credits. For any purchase lower than \$5, the customer's credit balance was decreased by 25 cents. Cards can be obtained at the two automatic point of sale terminals (APS) that each have three separate services. (picture 5):

- 1.) Customers can put in bills and/or coins and have Cyber Points put on their cards;
- 2.) They can put in their card and insert bills and/or coins and add unit credits to their card; and
- 3.) They can check the unit credit and ticket point balance remaining on their card.

I can report that out of more than 4000 transactions per week, 1/2%-1% of the customers opted to spend less than \$5 to purchase their initial card. I believe this is why we have seen substantial revenue increases in 11 out of the 14 weeks over the same weeks a year ago.

In addition, we have experienced a fairly significant 'float' (i.e., money and redemption points left on cards and not used for game play or to redeem prizes).



There are 3939 active accounts (over last 30 days) holding \$8383 worth of credits and tickets and 9189 inactive accounts (card hasn't been used in over 30 days) holding \$9520. The total 'float' over 14 weeks of \$17,909 is averaging \$1280 per week (annualized at \$66,560) or projected to be enough to pay for the system in one year. In all fairness, some float is most likely occurring because there has been no reason yet for customers to keep their free card without promotions in effect. My guess is that the weekly float will decrease as there is more incentive to reuse the card through the VIP programs that will start in the 15th week. So far, that conclusion that I have drawn is that ease of use and throughput efficiency of the systems tend to increase the per capita spending per visit.

During the past 14 weeks, we have only registered about 400 customers into the database manually. During the first test period, the number of people who bought cards with less than five dollars was so nominal that it all but proves that the players feel ripped off if you charge them for the cards, I have interviewed many teens on this subject and this is exactly how they feel. Adult arcade locations can get away with selling the cards because adults are less reluctant to make this an issue. Starting with the 15th week, there will be no charge for a debit card, even if you wish to get a card with only 25 cents.

In researching how Coin Tech deals with the selling of cards in their 125 game facilities worldwide, 100% of them charge the customer a small fee for the debit card because the benefits far exceed the cost of the initial cost. Maybe I am being extra cautious here in the U.S., but my research shows me that a very high percentage of our game players do not want to be charged for the cards. My feeling is that it is not worth having even one negative aspect occur during a customer's leisure visit and I would much rather have happy repeat customers.

The cost of core hardware is roughly \$280 per player station, plus you have your hubs and all the other necessary hardware. When all is said and done we're talking about \$500 a game, is still about half of the traditional cost of a \$1000 a game for a debit card system (based on 80-100 games).

There is also an online service system maintenance fee that can range from \$150-\$300 a month, and believe me, this is well worth it. At least for the test period, our staff and the Cyber Quest staff, are in touch with Coin Tech on a daily basis to find new ways to create reports and come up with some unique promotions.

Launching the Club Card and VIP Club Promotions

Now, that we have a solid baseline data, we are ready to launch the Club Card and VIP Club promotions that Alpha, Kids Quest, and Coin Tech have been working on this past month. In fact, we have already created a new brochure with three different promotions.

The first simple promotion will encourage all customers to charge extra money on his/her car at the POS (at the redemption price center) or APS, by offering them a 10% extra bonus if they charge \$20 or more during a single day. This promotion will be valid for all customers, registered or not. (Of course, this may raise the specter of players pooling their money on one card. This should be interesting to watch.)

The second of the three initial promotions is the implementation of our VIP program. This promotion will reward the customers with a lifelong 10% discount on all game pricing once they reach the amount of 1500 points (\$375) in their accounts (the system will give one game point for every \$0.25 spent on games). This promotion will be valid only for the registered customers, so the player will need to first come to the redemption center and register their name, gender, address, birthday and email to get the bonus pricing plus 100 additional bonus credits (\$25 value) added to their account.

Coin Tech is currently reprogramming the system so that any VIP who spends \$20 or more in any one day will not only receive their VIP 10% bonus, but also an additional 10% for a total of 20%. At the end of the day, the VIP card will go back to the 10% discount feature.

Our third promotional program offers \$25 in bonus credits to anyone with a Club Card or VIP Card who brings in and helps register a friend. At a maximum cost of sales of 25 cents per dollar, it's well worth my and CyberQuest's \$6.25 maximum cost to obtain a new customer who will spend approximately \$200 annually. Plus, the actual cost of sales is considerably less if the play video or air hockey or a non-prize game (more like 20% or only \$5).

We will currently allow all the games to receive the bonus reward, but later on during the test I want to use the configuration features of Game System to restrict the use of the customers bonus to avoid certain VIP's using all of his/her bonus credits to play a certain crane, for example, and win more than the total value of the bonus credits.

With all these promotional opportunities in play, we are certain that players are going to try to find ways to beat the system, and we are equally excited to figure out ways to stop them or cover any financial shortfall, while still letting the player think they are receiving something of unique value and perhaps getting one over on us. I cannot tell you how many adults will reach over and place a ball in the top 50 point hole on the kiddie game *Toss 'Em* when they think nobody is looking. They think they are cheating, when in fact, they have given me a quarter, and I have given them a nickel back, as the game is set for a maximum award of seven tickets (valued at 3/4 cent each).

When I was in grade school (and even in junior high) me and my friends used to sneak used to sneak into Palisades Amusement Park in Cliffside Park, N.J., through a hole in the back fence. Years later, I learned that the owner of the

parkhad actually had his security cheif cut that hole so that the local kids could come in for free. We thought it was great and we could bring friends and show them how you could sneak inl for 35 years, I thought I got away with that. It's funny how the security cops (and even real policemen) always chased us but never actually caught us. They always seemed to stop after running less than 30 feet.

I want to create some kind of a model that emulates that psyche with this system; it's all about one step ahead, and that's what we are trying to do with the system - disprove the old myth that you cannot convert a location from tokens to debit cards and boost revenue enough to justify the system investment. Well, rest assured that should this test show a \$200,000 increase in annual gross revenues, the spell may finally be broken. And remember, I have already gone 14 weeks without implementing any promotions and the results are still noteworthy. So the debit card test goes on!