

The Most Important Number An Operator Can Have



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Perhaps the most important question for successful operating is this one: how do you actually measure whether or not you're making money (or losing money) on specific coin-op games and on a particular location? Everybody has cash box figures — daily collections, weekly collections, monthly collections. But in many cases, operators don't know how to analyze these numbers, nor what to compare them to. This means they also don't know when to purchase new games and when to get rid of old ones!

If you've got route management software for your computer, a wealth of data is available at the touch of a button, but, which reports are valuable? Which statistics are meaningful? You can measure ticket meter readings, payout readings, percentages. You can measure similar types of games across your route, all games within a certain location, all games or certain games within specific time frames, etc., etc., etc. But no program will tell you what all these numbers mean. No program tells you which numbers to concentrate on and which ones to ignore.

In my view, you must first set a standard formula to which all games and locations are compared. The most important statistical yardstick the operator can have is the current market value (asset value) of a game, as compared to what the game earns on location in a week. Generally when the game stops earning a sufficient percentage of its market value each week, it's time to sell that game. This is known as the "rubber band test" or the "Crank test" because it's a good general rule with room to "crank" and stretch in any direction for particular situations.

First, how do you establish a game's current market value? Calculating market value of a game has nothing to do with depreciation; the "real world value" is the price you could get, if that game were to be sold right now. If you can't figure out the correct price, check the Blue Page classified ads in industry games magazines; the prices there are a good starting place (although you may want to knock off 15% for their profit). You can also talk to other operators or call your distributor and ask for trade-in guidelines, realizing their offers are usually way below current market value.

Now, what percentage of market value should a game earn each week? Based on a 50-50 split...and judging from a 20-year average of Alpha-Omega's financial statements, I have chosen 5% of fair market value as my benchmark number. That is, if a game is worth \$3,000 it should earn \$150 per week in gross revenues (after deducting cost of prize goods, in the case of merchandise and redemption equipment). To get to that 5%, I took into account the original cost of the game, shipping, salaries, interest, weekly service, parts, insurance, overhead, the whole range of costs which you incur in an operating business. You may choose a different percentage, slightly higher or slightly lower, The important thing is to have one, and use it as a consistent yardstick! All else will then fall into place; games and locations can be ranked based on profitability.

The "rubber band" or "crank" aspect of this test comes in your mental flexibility in applying it. You first need to know what direction the earnings (versus current market value of the games) are moving. Did the game earn 7% of asset value two weeks ago, 6% last week, and 5% this week? Maybe next week, the number won't look so good. You have to measure all these numbers against each other (that is, if game A dropped from 5% to 3% it could be due to the impact of game B beside it, or game A could have a service problem). You also need to measure these numbers against previous (and expected future) results.

You already know what direction the fair market value of your equipment is moving —down! But it's important to have a pretty good sense of how fast it is moving that way. This is known as a "delta" or differential. As a quick check, I also make the assumption that every game's real market value will drop 50% every year. I have named this the "half-life value rule". So on average, a game purchased for \$3,000 is worth \$1,500 after one year; it's worth \$750 after two years; and it's worth \$375 after three years. Again, this is an average based on all kinds of equipment operated for many, many years. Obviously there will be many exceptions. But as a general rule of thumb, it's useful to remember that "most" games on average lose 50% of their value per year.

Some might say that a 5% weekly earning figure is an unrealistically high number to use when a location owns its own equipment. But I believe it's still applicable since most FECs, arcades, etc., face many hidden operating costs. These may include inability to rotate games; generally getting lower trade-in prices on equipment; inability to learn about game modifications and upgrades; possible lack of knowledge of industry trends; reluctant to spend money on parts; no reconditioning; no rotations, etc. In the case of a few (very efficient) multiple owned FECs and arcades which can overcome these drawbacks, a 4% figure might be more accurate. But the point is, you must have a consistent yardstick to use so you can measure your profitability!

Once you have used this basic formula (asset value vs. weekly earnings) to establish where your equipment stands in terms of profitability, you can now think about new equipment purchases in terms of how they might affect the value and earnings of your total current inventory. For example, when a video game sequel appears, earnings and asset value of the original may drop. Or, if you can get a new game at closeout prices; overall profitability may go up. You must also take into account the fact that an overproduced game can lower the value of your unit, totally apart from anything you can do!

Also, using the rubber band measurement will show you that certain types of games are more profitable than others. If a location's overall profitability is down, you can usually boost it by adjusting your equipment mix to emphasize more of those types of games which are highly profitable ...not necessarily the ones with the biggest price tag or the fattest cash box!

The "Crank test" can also help you determine when it's time to sell a game. That time obviously arrives when your earnings are approaching the 5% target (or have dropped below it), and when the resale value is dropping quickly. Perhaps you know that nothing will bring up the earnings: not repairing or reconditioning the game; not setting the correct win percentage (if it's a merchandise or redemption unit); not promoting the game; not rotating it; not changing the surrounding mix. If so, then it's time to sell. Put this money toward something that will earn above 5% of its market value.

On the other hand, some long-lived games may be earning less than 5%, but you know the earnings and asset value will hold up pretty well for the next period...such as a Skee Ball or other classic redemption game. In this case, you would hold onto the game longer. You must also know the cost of parts and service on each game, and realize parts and service costs will rise as the games age, and take these factors into account.

The "Crank" formula helps you evaluate the profitability of each location. Here's how. First, get an average value per game in that location. Next, track this figure against weekly location revenue. Then you can rank locations based on current profitability and long-term trends, which is a far better measurement than merely looking at gross dollars earned over a week in the location. The highest-grossing location may not be your most profitable. It's also important to realize that location averages are far more useful than game averages. Sure, you can put a new game in a location and it may earn great. In fact, it may earn way over 5%...but if the location's weekly earnings are not improved, then your company's bottom line has not been helped by the new game purchase. However, you may have taken a step toward preserving the location's overall asset value if you make a wise purchase and rotated out (or sold) a game whose asset value and/or earnings power was dropping quickly.

Keeping all this in mind, you will have a simple but accurate mathematical way to tell how many games you need in a location...how much the games should earn...and how much you should have invested in equipment. You can check all the numbers weekly and adjust equipment mixes based on a meaningful relationship of hard numbers, not just raw data which may or may not be important. You can concentrate your assets in locations where the "Crank test percentage" is the highest. You can save money by not investing as many games in places where the "Crank test percentage" is low or has been falling.

I have been analyzing the locations of some large operators and showing them how to make money in this business. What I've noticed is that overall, large operators and FECs and arcades who own their own games, are grossing under \$100 per week, per game, on average, with high average asset losses. That means they are losing money. If they paid attention to the "Crank Test" they would all become profitable!

There's nothing like the feeling of confidence you get by knowing your company is running "by the numbers"...as long as you know which numbers to pay attention to!