



Feasibility:

The Three-Year Itch

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So you did a feasibility study before you opened a few years ago; why would you need one now? By any chance does your revenue curve look anything like the one in Figure A? If you are considering opening a new leisure entertainment center, do you really think that not having an accurate feasibility study performed will keep your revenue curve from mirroring Figure A? The absence of a feasibility study is the first sign that you, the owner/developer, may not have a full understanding of the target market and have not right-sized the project to ensure success and keep out future competition. Before you make any investment in your current or future facility, strongly consider this statement: A feasibility study is the most cost-effective investment you can make, as it greatly assists in steering your major investments into the areas that can generate the greatest returns and operating longevity, and provides a partial or full exit strategy.

Years ago, when amusement attractions and equipment were less expensive and many markets were still new to the concept of family entertainment centers, it was less nerveing to invest \$500,000, \$1,000,000, or even \$2,000,000 into a brand new facility or, perhaps, an existing one. An abundance of new product, limited competition, and strong consumer interest created an ideal platform on which to develop or integrate additional attractions into various types of leisure facilities.

Currently, with the arrival of many new national competitors with deep pockets and a thirst for market share, the playing field of our industry is rapidly changing. The bar has been raised, and entry costs and renovation costs have escalated. The decision of the independent owner/operator to make such investments must be based on a rock-solid business plan that is formulated around a strong foundation of market-specific data, the components of which are included in a good

feasibility study. Facility developers are discovering that markets in which they operate, or plan to expand into, are changing. Shifts in population, employment, family composition, road networks, and competition are all impacting where our potential patrons live, how much they spend, and what type of activities appeal to them. In the last year alone, our consulting firm has received more calls from concerned location owners than in the five prior years combined, each asking the same questions: "Why are my revenues stagnant (or dropping)?" and "What can I do to fix the situation?"

Purpose of the study and questions to be answered

A good feasibility study doesn't have to cost you an arm and a leg. There are several experienced industry firms that charge from \$4,000-\$6,000 and can do an excellent job of being your private investigator to search for the not-so-obvious roadblocks and opportunities

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present within the project's market region. These may include discovery of other planned projects, potential movement of current anchor tenants critical to your project's success, and/or pending or current legislation restricting leisure-based activities. It is highly recommended that you select a consultant with many years of operational experience who has worked on many successful projects, who always safeguards the clients interests ahead of his or her own, and who is always busy. Choose a professional that loves to teach, is flexible and capable of compromising with other project team members and co-owners, but is always prepared to fully discuss the pros and cons of every recommended project decision, popular or not.

The study process must be interactive, with the consultant and developer reviewing, sometimes daily, issues that are uncovered during research. This two-way communication ensures that

both parties are targeting the same objectives, thereby preventing the consultant from recommending a project size or concept that does not meet the desires or capabilities of the developer.

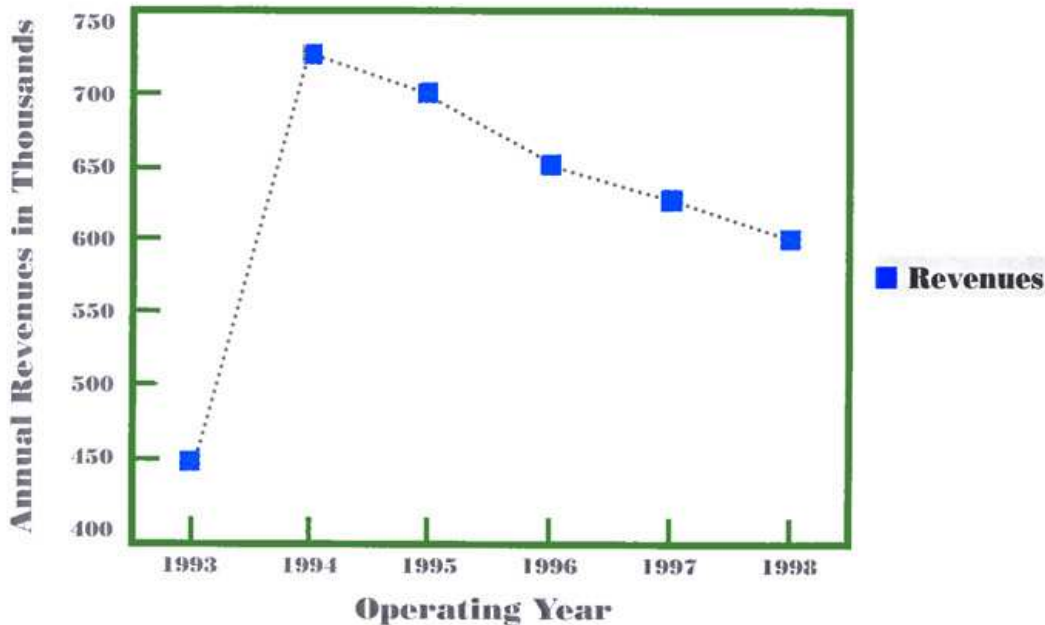
Recently, our firm performed a study for a developer in the southeast part of the United States. The principals were prepared to enter into a long-term lease with a landlord who was offering an attractive lease arrangement in what was considered the premier shopping center within the region. As directed, we carefully studied the area's demographics, competition, and market conditions to assist our clients in determining the effectiveness of an FEC at this site, as well as the appropriate selection of attractions and revenue streams best received by the targeted consumer.

In the course of our study, we uncovered two interesting facts. First, construction of a highway bypass road approximately two miles from the site

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Figure A

EARNINGS PERFORMANCE



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had just been approved for development. This road would allow patrons traveling along the main interstate artery to exit via this bypass onto the local thoroughfare. Currently, interstate travelers would have to travel almost 15 minutes more to reach the same destination using the available road network. Good news, right? Our client couldn't resist signing the lease. Read on. While routinely researching the exact intersection of this bypass and checking on the lease terms and options of other tenants in the shopping center, we "accidentally" discovered that the major anchor retail tenant (from the shopping center) had executed an option to purchase land adjacent to the highway intersection for development of a mega-center. Naturally, their current store would close and be relocated to the new site, leaving our client in an empty shopping center and with a mountain of debt. Subsequent calls to the listing broker, who had previously touted the merits of aligning with the shopping center's

anchor tenant, reluctantly admitted that the anchor's lease was due to expire "shortly." A consultant that goes the extra mile and knows what to look for can save you a tremendous amount of money and grief, not only currently, but also in the future.

Exploring Your Demographics

What is the make-up of the surrounding population, taking into consideration such variables as age, gender, ethnicity, household composition, and income-related statistics?

What realistic market is the project targeting and is that market large enough to support the facility's economic thresholds?

Has the population's makeup changed over the past few years? What is the anticipated makeup of the population three to five years from now?

How will tourism levels, transportation systems (current and future), housing composition, and employment characteristics affect attendance levels of the project?

Have the attitudes of the community changed toward family entertainment and any of your attractions?

What can you do to enhance your facility's value to the community?

Answers to these questions will help identify the best types and quantities of attractions used within the facility and provide a highly reasonable basis for developing a pro forma performance plan. Matching the market is extremely important, as effective matching will insure a high level of visitation (and repeat visitation) by patrons and preserve economic integrity over a longer period of time.

To Spend or Not To Spend

Is it completely clear how per capita spending patterns must relate to attendance and total facility revenues? Every revenue source needs to be bro-

ken down into realistic per capita spending and time utilization spreadsheets to confirm that projected attendance, facility size, attraction types and throughputs (capacities) will meet targeted investment returns after accounting for true operating costs.

What is the per capita income and average household income for your target markets?

How do the population's leisure and entertainment spending levels compare to the national average?

Do the per capita spending levels and market penetration rates match the facility's projected revenue targets, and are they realistic based on length of stay and outside competition options?

Are you looking for small per caps from a large volume of customers or vice versa?

Will the throughputs of each attraction compensate for the peak attendance days and provide the customers with a high perceived value for their length of stay and money spent?

Per capita spending and perceived entertainment value must be carefully evaluated and compared for each project. A facility that requires spending levels in excess of a targeted patron's abilities (or cultural traditions) will not only miss its revenue projections, but leave the patron feeling unfulfilled and ripped off. Accordingly, improved value at competitors' facilities will cause patrons to shift their attention to those alternatives, and reduce or end visitations to your facility.

**Attractions & Layouts:
The Tools To Success**

What is the best mix of attractions and revenue streams for your market?

What hard data is available to support the performance of these various revenue streams in markets similar to your own?

What effect will selected attractions have on each other's revenue potential, guest experience, and perceived entertainment value?

What is the best operational layout for these attractions that will minimize labor costs and at the same time enhance customer throughput?

Attraction selection and layout are each critical to an entertainment center's success. Each attraction's historical performance must be examined within markets that maintain similar demographic profiles to the subject, in an effort to ensure that acceptable investment levels can be realized. Not all attractions will work in harmony with each other, and in some cases, may actually hamper revenue performance. As such, it's important that the facility be examined as a whole rather than through a "sum of its parts" concept. Correctly designed layouts will enhance throughput, add visual excitement, and generate greater revenues than poorly developed concepts that do not adequately showcase select attractions and subconsciously draw patrons through the facility.

Preserving the Almighty Dollar

What is the ratio of income to space utilization and investment level for each attraction?

Has an attraction reinvestment strategy been established for the next five years?

What are the projected real depreciation levels for each attraction in six month, one year, and two year intervals?


At what time in the future is it best to sell or trade for a different attraction?

How easy will it be for you to change out attractions?

Which attraction are you willing to offer as a loss leader, if necessary, to draw additional customers and add to their perceived entertainment experience?

Preservation of capital must be considered when acquiring and/or liquidating the center's attractions. Holding attractions and games beyond their prime resale term will put unnecessary

*Get your money's worth.
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pressure on cash flows in future periods and greatly diminish the entertainment value of patrons. The trick, naturally, is to maximize investment returns from each attraction by trading in or liquidating attractions and then replacing them with new, strong performers before extreme levels of depreciation set in.

Planning For The Future

What expansion, reduction, and exit strategies have been planned for?

In some cases, if the business is successful, is there room for expansion?

If during a future period it is determined that overhead can be reduced and profitability increased through reduction of size, what can be done with space that is no longer required?

Is there a plan in place to sell the business, if necessary, or liquidate the assets, or perhaps move them to another location?

Even before the doors are opened, management must establish the boundaries by which it will operate. While the future is never fully predictable, management must work diligently to identify worthwhile exit strategies or reduction strategies, the latter to preserve investment capital in the event of a market downturn or

recession. Conversely, expansion strategies must always be considered, particularly if performance results are consistently exceeded. Inadequate capacity, a condition resulting from a facility that is too small in size, can seriously impair per capita spending and perceived entertainment value, and cause patrons to seek alternate leisure destinations.

Additional Questions: Don't Forget the Little Details

What impact will seasons, holidays, times of day, day of week, and other variables have on the income of specific attractions? A full analysis of peak hour, peak day, and peak week should be performed to insure that true operating efficiencies and capacities are fully addressed.

How will your marketing program balance out and add perceived value for all of your attractions and revenue streams? A good program will ensure that patrons will experience as many of your attractions as possible during their visit. This is often accomplished with discount packages.

What are the typical travel times to work and shopping for the region's residents?

How far and for what length of time will your potential customers travel for entertainment?

This distance and travel time can weigh heavily in determining a facility's penetration rates for the different target market regions. It is one of the factors frequently not fully taken into account.

What classes of professions are most common in your market?

Are these careers physical or sedentary in nature?

What is the local and regional level of employment and what ethnic groups report high unemployment?

The answers will impact the types of leisure activities in which heads of households will likely participate on their days off (and evenings off) from work. Unemployment rates and their changes can often be used to predict future population group shifts in a region, and should not be ignored.

A final word about feasibility studies: Get your money's worth. A feasibility study should include a full review of the location-specific population, not simply the generic data recorded by city or county. Generic data will have no value to you, particularly if the subject site is anywhere other than the exact center of the region under review. Don't be fooled by statistics that you feel are important without fully understanding the interrelationships. Expect information regarding age and gender breakdowns, particularly of younger age groups, as well as ethnic, household, and income-related statistics. Require that tourism levels, transportation systems, housing composition, and employment characteristics be studied to determine actual "in-region" population. A quality study will determine the proposed facility's likely penetration into the surrounding markets and estimate attendance and frequency of visits after taking into account the proximity of direct competitors and similar leisure destinations.

Next, these findings should be used to determine entertainment capacity and space requirements, attraction sizing, and number of entertainment components and games necessary to

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support the projected attendance volume. Hard performance data within the region must be studied and compared for similarities and differences. Projected revenues can then be determined and evaluated against development and operating costs to ascertain whether net income returns will appropriately support required investment levels and operator/developer income thresholds. All revenue data must then be matched with projected per capita spending levels to confirm that the spending targets are in fact realistic. Throughout the entire process, the consultant must constantly compare interim findings with changes that are occurring in the immediate business community. The local chamber of commerce and economic development council are typically good sources of such market activity. Finally, the consultant's recommendations should be fully supported by data contained within the report, with each conclu-

sion built on the strength of a confirmed fact, much like a building block concept.

The days of making large-scale investments in top quality games for a new or recently expanded facility without careful study are long gone. Investment risk can no longer be adequately offset by reducing the number of attractions or games on-site and liquidating the rest. Instead, you must get it right the first time. None of us get excited about the thought of investing in "paper." At times it seems more rewarding to buy a hot new attraction or redecorate the facility. But for those of you willing to make a small investment in knowledge, a feasibility study can mean the difference between operating in a well-designed, profitable location or liquidating your kid's college fund to support the facility's loan payments. The added plus of a good feasibility study is the ability of the location owner to make decisions that are based upon solid current and projected future market criteria rather than speculation or assumption. In an era of global competition and rising equipment and labor costs, the question should not be "Can I afford to have a feasibility study done?" but rather "Can I afford not to?" ●

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