

Attention new developers: Bigger might not always be better



Jerry Merola

Slowly but surely, development activity is beginning to return to our generally recession-resistant entertainment sector. Now that the shock of a downward spiraling economy is beginning to feel a bit long-in-the-tooth, the entrepreneurs of the world are back at work building the future.

Sure, we've still got some softness in our country's employment statistics, and many would report that things still feel tough out there, but the reality is that the worst is over. That's right, folks, the doom and gloom can't last forever. By design, economies must run through a life cycle; for us, a new

Still, we remain a country of innovators, and because of this, we'll find more efficient ways of developing and operating our businesses. As an industry, we'll continue to reinvent entertainment in much the same way that our entertainment forefathers did almost 150 years ago.

SIZING FOR THE "NEW ECONOMIC AGE"

If we've learned one thing over the last 10 years, it's that debt is not your

*Our resident economic expert
sees a light at the end of the
recessionary tunnel.*



life cycle is fully underway. But don't expect it to begin where 2007 left off—We've got to climb the hill first to see beyond the murky horizon.

The pain of recession has been a great educator for all of us. For starters, we've learned that markets don't just move in one direction, they move in two (up AND down). This will ultimately help us in our future planning, as we'll give more credence to the concept of "planning for a rainy day."

We've also learned that the use of credit may not actually be in our best interest over the long haul, and might curtail grandiose plans in favor of more manageable ones going forward.

friend. In hindsight, it's become clear that many entertainment developments of the last decade were sized with an eye toward the "wow" factor, rather than economic sustainability. Bigger seemed to be better in virtually every aspect of modern society. Need a bigger house? Welcome to the world of the "McMansion." How about a bigger car? Step up to a full-sized SUV. Ready for a bigger lifestyle? Welcome to the world of credit cards.

Even our food got bigger, with the advent of the Super-Size fast food meals and 64-ounce Big Gulps. While the marketing types have now bent

the ear of most advertisers with a message of "go lean and go green," I still believe that the underlying fabric of American culture likes to do things big.

But here's the thing: When it comes to developing your next entertainment business, the more effective approach to development might be to create moderately-sized venues in local markets instead of mega venues in regional markets. For starters, a smaller venue carries substantially lower running costs—particularly during off-peak operating hours—and while a smaller venue might give up sheer occupancy capability during peak periods, the inherent efficiencies of a smaller design will likely more than compensate.

The added bonus of a right-sized venue is the remarkably greater resistance to negative impacts, particularly downturns in guest attendance and/or increases in utility costs. Just ask the big box retailers. Most are already renegotiating with landlords in hopes of occupying less square footage in their current locations.

So, let's say you've developed a moderately sized entertainment venue and find yourself busting at the seams. Should you simply add on? Possibly, but another consideration might be to develop a new venue in a complimentary market that diversifies your investment a bit. After all, diversification seems to be the rule when it comes to investments in general, so there might be some relevance to this approach.

As many operators in the U.S. have learned recently, not every market has been affected the same way by the changes within our national economy. Some operators report business as usual, with revenue slightly above or on par with the prior year. Others report declines in performance by as much as 15-to-20-percent, the byproduct of a marketplace plagued with high

rates of unemployment and dwindling corporate infrastructures.

Oddly, these two sets of characteris-



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tics are occurring within the same general market areas, differing only by town name and demographic make-up. An operator that has created two moderately-sized venues in separate demographic markets has the ability to offset downturns experienced at one venue with growth generated from another, allowing for a more consistent operating level during uncertain times. The phrase, "avoid putting all your eggs in one basket" applies here.

CAPITALIZING ON BATTERED MARKETS

Every cloud has a silver lining, or so I'm told. As any entertainment operator will tell you, two of the

largest hurdles within the business model continue to be the cost of labor and the cost of facility occupancy.

Together they garner the lion's share of annual operating expenses, and often affect how far the pendulum swings into the profit column.

Enter today's commercial real estate debacle: Thousands of mid-sized and large-sized commercial structures remain dormant, victims of a failing consumer retail market. The large majority is surprisingly well located, having been home to many of the national brand names we all once frequented.

Today, though, most of these boxes can be secured for one-half to one-third of their previous rental rates, often with the added enhancement of attractive landlord improvement incentives. Suddenly, the idea of expanding one's entertainment business portfolio starts to become rather interesting. For potentially LESS than the current occupancy cost at an entertainment proprietor's present location, an additional satellite location can be secured, often with better visibility and access. Coupled with the improved buying power triggered by a soft market, today's developer can expand market share and brand presence at remarkably lower costs than just two years ago.

SAFETY IN NUMBERS

Diversification creates stability. And ultimately, stability breeds innovation and efficiency. While making the decision to expand one's business should never be taken lightly, knowing when to make the decision is ultimately more critical. As uncomfortable as it might seem at this juncture, now is the time to take that leap. Now is the time to catch the market on the way up. And now is the time to build in the protections that many developers forgot the last time around. It's not about being bigger; it's about being better. ▲