

A FEASIBILITY STUDY MIGHT BE THE BEST INVESTMENT YOU'LL EVER MAKE

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Years ago, when amusement equipment was less expensive and many markets were still new to the concept of family entertainment centers, it was less nerveing to invest \$50,000, \$100,000 or even \$200,000 in game equipment for a brand new facility or perhaps, an existing one. An abundance of new product, limited competition, and strong consumer interest created an ideal platform by which to develop or integrate a game operation into various types of leisure facilities.

As we enter the Millennium, however, the playfield is rapidly changing, and the decision to make such investments must be a careful one. Operators and facility developers alike 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 game operators and independent 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 it?"

As an operator, consider the following scenario: One of your best clients, for which you provide games to one or more of its current locations, asks you to consider a new site outside of your normal trading area. Several thoughts pass through your mind. First, you've worked hard to earn the trust and confidence of this client over the years and wish to maintain the relationship; second, you would prefer to control all of the client's sites rather than succumb to the risk of allowing a new competitor to enter the picture; and third, the client's initial sites have performed quite well, so why not take a chance with the new one? From a relationship standpoint, the decision seems simple, but from a financial standpoint, it could be devastating. One or two bad business decisions can bury an otherwise healthy operator. Want to keep your client and your business happy? Do your homework!

Operators and location developers are banding together in surprising numbers to study the feasibility of new and existing projects, BEFORE making substantial capital investments. For \$3,000 - \$5,000, these "partners" are hiring industry professionals to research and confirm the exact demographic makeup, consumer capabilities, and levels of current and planned competition within their markets, so that capital investments can be sized according to a project's income potential and attraction requirements. With accurate information in hand, it becomes much easier for a location owner and operator to reach a mutually acceptable investment level, and virtually eliminate differences of opinion down the road. Just ask yourself the number of times that a location owner has insisted on having the top game titles on site, only to find out that the games' earnings are insufficient to even cover the loan payments! Feasibility studies are, by design, a tool to protect both the location owner and operator. In fact, our route operating companies now require submission of a feasibility study from new clients to confirm that we and the location can generate sufficient revenues to support the required investment. The absence of such a study is the first sign that the location's developer may not have a full understanding of the market. As we all know, the best split percentage in the world can't compensate for lackluster location revenues.

Let's say that a new business opportunity crosses your desk, but the potential investment level leaves you a bit uncomfortable. You determine that it is in your best interest to bring in an experienced consultant. What now? The next step is more than simply opening a phone book, retaining a qualified individual or firm, and sending a check. It's imperative that a consultant familiar with the proposed project type be selected, particularly one that has access to a large database of current game and attraction performance results for every area of the country. There's no substitute for hard performance data - pure reliance on formulas and "industry averages" may raise more questions than answers, and ultimately skew the study's conclusions. Rather than just producing "boiler-plate", the consultant has to act as your private investigator, turning over the stones that create both roadblocks and opportunities. Additionally, the study process must be interactive, with the consultant and operator/developer reviewing, sometimes daily, issues that are uncovered during research. This two-way communication insures 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 operator/developer.

Recently, my firm performed a study for an operator and developer in the Southeast part of the country. 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 games and attractions 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 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? Read on. While routinely researching the exact intersection of this bypass, we "accidentally" learned that our major anchor retail tenant (from the shopping center) had executed an option to purchase land adjacent to the intersection for development of a mega-center! Naturally, the current store would close and be relocated to the new site, leaving our clients with an empty shopping center and 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 revealed that the anchor's lease was due to expire "shortly". A consultant that goes the extra mile now, can save a tremendous amount of money, and grief, later.

There was a time when the thought of hiring a consultant to perform a feasibility study was reserved for the large operators and multi-store FEC chains. It's true that these two groups have made substantial use of feasibility services, but it's also encouraging to note that many small and medium-sized operators and developers are protecting their investments as well. The large operators and multi-chain stores are now even larger (and more profitable), as they have been able to enter new markets in an informed, and often strategic, format. "Build It and They Will Come" is no longer a phrase that holds much weight in this industry. Instead the new phrase might be, "Research It, Define It, Match It to the Market... Then Build It."

One 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 middle of the region under review. 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 games and entertainment components necessary to 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 conclusion 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 location, without careful study, are long gone. Investment risk can no longer be adequately offset by reducing the number of games on-site and liquidating the rest. Instead, we 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 game or hire another employee instead. 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 and liquidating your kid's college fund to support the equipment loan payments. The added plus is the ability of the location owner and operator to negotiate a fair and equitable operating arrangement based upon solid 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 do it?" but rather "Can I afford not to?"

[Return to top](#)
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