How Big is BIG?

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I've just completed a 20-year analysis of the amusement industry for one of AEM's new financial services clients and can't help but notice the clear trends that are occurring throughout various amusement sectors, particularly in recent years. In looking at the success stories and failures of many of the industry's participants, one of the key ingredients continues to be "size". With size comes infrastructure, and with infrastructure comes cost. The more you build, the more you maintain. Take a look at some of the components: retention ponds, parking lots, traffic signals, foundation supports, site stabilization - you name it, it all costs money. After all, we are a "build it big" society with big cars, big houses, and big business. But is big always better?

During my childhood I observed three separate additions to my family's home - an additional bedroom, a family room, and later in life, a separate master suite for my folks. The house grew as our family grew, and probably, as our means grew. My father, too, was an accountant by trade, and supported the "building block" concept for much of his life - as you gain strength, move to the next level. The years have passed, my older sister and I have long since moved out to raise our own respective families, and my mother remains as the curator for the "seems-to-large-now" house. Fortunately, the debt burden has passed, save for general ongoing maintenance.

Many of our LBE brethren are not as fortunate, however. In performing operations audits for a number of LBE's this past year, "building it big" appeared to be the driving force behind many of these projects. Support for facility size revolved heavily around present and future perceived increases in population growth, with the general understanding that a bigger facility would be absorbed over time as market share increased. The trouble is, much of these anticipated market share increases have been gobbled up by incoming competitors in many of these markets, an occurrence that never appeared to be part of the original plan. Additionally, trends in consumer spending are pulling dollars away from our core business attractions. Take a look at the published data: home game sales have topped $6.6 billion annually while on-line amusement gaming is projected by analysts to capture another $6 billion per year by 2004. In comparison, our amusement game industry estimates its year 2000 performance somewhere in the area of $5.7 billion. What does all of this mean? In my opinion, it means that the term "right-sizing" will become critically important in future years, as LBE developers and operators carefully forecast future market changes so that new facilities are correctly matched to their corresponding markets.

Here are some considerations to keep in mind when designing a new facility, purchasing an existing one, or entering a long-term lease:

1. What level of infrastructure is required to develop the facility at the proposed level? The larger the facility, the more parking spaces. The more parking spaces, the more lighting and traffic signals. Ditto for the number of rest room fixtures, size of septic and water supply systems, fire suppression systems, and foundation load requirements.

2. How much ongoing maintenance is required? A 100,000 square foot facility is much more expensive to clean, heat, air condition, light, and maintain than a 70,000 square foot alternative. Accordingly, snow removal, landscape maintenance, and security all require enlarged budgets.

3. Are the proposed attractions the best choices for meeting anticipated patron throughput requirements within the most effective square footage plan? For instance, a project may fair better by selecting higher throughput attractions that maintain more concentrated footprints, thereby reducing overall building square footage requirements. Some attractions look great because of their immense size, but their performance leaves something to be desired. When considering attraction value and cost, remember to factor in the infrastructure changes necessary to support such an component. When the budget is complete, you may find that a particular attraction is actually costing the facility more than it is generating.

4. Have you created three separate development scenarios? When determining whether a project is feasible, it's critical do determine which development size is most feasible. Many times I hear new developers comment that "The feasibility study says its feasible!" The words that are commonly missing are 'most feasible". A 100,000 square foot LBE design might in fact be feasible, but a 70,000 square foot design might have greater longevity, enjoy reduced impact from negatively changing economic conditions, and be capable of more efficient (and less expensive) city approvals. Ask yourself how much of the seed capital you care to throw at obtaining such approvals, as the more complex the project, the more dollars that are likely to be spent navigating through the red tape.

Here's an interesting statistic: almost 40% of the facilities that we've analyzed recently could have been developed on a smaller scale and still have maintained the same revenue base. Just imagine reducing your monthly expenses by 30-40% while generating the same level of revenue. I'm a big fan of "leaving something on the table", that is, designing facilities that capture 90% of the target market without always bumping the rev limiter. During an economic slowdown, fuel crisis, real estate tax reassessment, swing in population, or other bump in the road, you'll be glad that a cushion exists by which to weather the storm. Besides, the initial planning process can always include an expansion plan that permits controlled growth where warranted, without the pressure of the heavy debt load on opening day. Remember... Rome wasn't built in a day.

Return to top

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