

Pioneering New Markets

Article Written By: Jerry Merola
Amusement Entertainment Management, LLC

As we quickly approach the end of another year, I always enjoy taking some time to reflect on the events of the last year - where I've been, what I've seen, and where, as an industry, I think we're going. It's been an extremely busy year overall, and I believe most industry vendors would attest to a higher volume of inquiries, and hopefully, sales. What I find most interesting though is the source of this new business. Our trade shows were busier this year and certainly more upbeat, and the new developer educational seminars were the most populated in their history. You might be surprised to know that our industry is attracting a significant number of professionals from other specialties, including medical doctors, real estate and tract builders, mall developers, and manufacturing executives. While this would be considered a unique group in and of themselves, the location of new development is even more unique. Instead of the all-to-common metropolitan hub cities, this new line of entertainment developer is aiming squarely at submarkets, almost all of which are without competition.

Identifying The Value of Submarkets

So if it's not New York, Atlanta, Los Angeles, or Dallas, where's all the development taking place? Of late, the hands down favorites have been Wisconsin, Illinois, Iowa, and Michigan. There's also a great deal of activity in Texas, the Carolinas, Washington state, and Alaska. In my travels I couldn't help but notice how significantly the populations have grown in these areas as well as the supporting commercial infrastructures. In fact, every one of these markets was found to be well represented with mid and big box retail but almost completely devoid of multi-zone entertainment centers. The entertainment options that did exist fell into the more traditional classifications - bowling centers, roller skating rinks, and golf driving ranges. The good news for new developers is that entire markets are still available for capture, a unique condition considering that the retail sector has literally blanketed all of these areas.

One other interesting statistic I've found within these submarkets is a propensity for consumers to travel significant distances for shopping and recreation. Here in the northeast, if a 1 million square foot retail mall is more than a 20 minute drive, most consumers will likely opt to stay home and watch the Jet game. But in these emerging markets, we're observing drive times that approach two to four hours. That's right, consumers are willing to travel 100 or even 200 miles to visit a large regional mall complex or supercenter complex. In my recent visit to Alaska, some consumers were traveling 70-80 miles to visit a super Walmart, complete with food center. With respect to entertainment, I often hear from consumers that they commonly travel forty or fifty miles to visit a Chuck E. Cheese's facility. This represents a vast amount of territory and suggests that a real opportunity exists for more localized entertainment offerings. So, if you considering the development of a multi-zone entertainment facility in a submarket, here are some tips to consider when selecting a location:

Aligning With Anchor Retailers

It comes as no surprise that the Walmarts, Targets, and Home Depots of the world have had a profound impact on the way consumers shop and spend money. These mega-retailers all support the same shopping philosophy - offer a plethora of product options, price them attractively, maintain adequate stock, and offer revolving financing. Not only can you get it today but you don't even need to pay for it until next year. The retail model is actually quite simple, and consumers have shown their acceptance through the increased frequency of visits to these sites. But how do these mega-stores help our entertainment projects? They solve the biggest challenges our industry typically faces - visual exposure and sheer patron counts. Every submarket appears to be developing in much the same way, with the mega-stores placed on the outskirts of town near high speed road networks. A quick ride through the downtown areas will confirm the migration shift of patrons (and retail) to these more remote areas. While it is often too expensive to obtain real estate parcels or leasable structures within a mega-store complex (or on its pad sites), there are commonly land tracts available along the corridor roadways. The key is to position an entertainment business on the most heavily traveled secondary connector road that links the interstate with the mega-store. In this way, the car count in front of your facility includes travelers from a much wider demographic that your advertising budget will allow. In essence, the Walmarts of the world are doing the advertising for you - your job is to lure the patron through effective exterior theming and careful placement of any exterior attractions.

Controlling The Market Early

An increasing trend that seems to be taking hold in the submarkets is the big box philosophy of entering a market before the market actually takes hold. If you've ever been curious why a mega-retailer built a 120,000 square foot behemoth in a town with a population of 25,000 people, chances are there's a good explanation. The most likely explanation is that the

location is or will serve as a regional hub for a much larger demographic in future years, and getting in early offers several advantages. For one, the cost of the real estate will be lower, which is one of the key ingredients in making these discount operations work effectively. Second, the availability of physical locations is better, with a reasonable degree of undeveloped land still available in these virgin markets. Although I have no factual evidence to support it, I believe that these chain stores build in a loss period for the ramp up years but then command the market thereafter.

Executing this strategy requires a fair amount of upfront capital to carry the business through the loss period. But for a retailer with 500-1500 stores nationally, the model has become tried and true, with the light clearly showing at the end of the tunnel. Can entertainment facilities benefit from this same strategy? Sure, but our more limited resources will require us to phase in our entertainment offerings. For instance, an entertainment project can be broken down into three distinct phases - interior development, exterior development, and interior expansion. The market in 2004 may only be able to support the acquisition of a suitable real estate parcel and construction of the initial interior phase. As the market grows, the exterior attractions can be added. And as the regional population arrives, drawn heavily by the mega-retailers, the interior and structure can be expanded under the guidelines of the phase-in program. By phasing the development, we allow the project to grow within, but not beyond, the capabilities of the market, which in turn preserves cash flows and enhances investment returns.

Adopting A Development Strategy

Sometimes the future of our submarkets is not always clear. Many large scale retail projects have made it as far as the planning board, only to be withdrawn by the applicant. In fact, I've personally observed more than 10 events whereby a mega-retailer has passed on a city/town site in favor of an alternate site - at the eleventh hour. With an almost unlimited amount of territory to cover, mega-retailers make a full-time job of analyzing future markets and opportunities. With this in mind, I believe its important to tie an option to purchase/lease nearby real estate with the requirement that the mega-store actually opens its doors.

So if you're out there looking to develop a new entertainment project or are expanding your existing entertainment business, the anchor alignment strategy might work for you. Of course you'll want to be careful about who you ultimately seek alignment with, particularly if the anchor is struggling on a national level. If anything, analyzing the movements of the mega-stores will provide real insight into an area's future path of development and allow you to make informed choices to protect the health and welfare of your entertainment business.

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