

## Tips and Suggestions For Opening Your New Amusement Business

**Gerald J. Merola, CFO**  
**Amusement Entertainment Management, LLC**

With the fall of our nation's stock and bond markets over the last year, my firm has been fielding a significant number of telephone inquiries relating to the development of new amusement-based businesses. A surprising number of professionals, once nestled in the framework of corporate America, have found themselves on the outside looking in. In some cases, many are questioning whether they actually want to go back to the daily grind. The lure of entrepreneurial endeavors, particularly in this economy, can be too strong to overcome, and has set many on a course toward self-employment and the establishment of new businesses. If this criteria fits you, below are some friendly tips to consider when embarking on a new business venture, and in particular, a venture where "fun" becomes the understood standard.

### Is This You?

In general, there are three general comments that most often hear from new developers, all of which are entirely legitimate and, at times, well-founded:

*"There is no entertainment available in my town"*

*"The family entertainment center down the street is literally packing them in"*

*"With the right facility, I can put the competitor(s) out of business"*

With respect to the first example, it's often found that some markets maintain little to no similar entertainment options. Of course, there could be a reason for that. Consider also that there are many forms of entertainment over and above the typical family entertainment center, in which consumers can spend their leisure dollars. These alternate options include bowling centers, cinemas, skate parks, paintball facilities, indoor sports facilities, and outdoor amusement parks. Many appeal to the varying desires of the region's consumers and ultimately compete indirectly for the same leisure dollars. More often than not, when our firm conducts an investigation into an area, we tend to find more forms of competition than our client initially believed to be present. Identifying and assessing the competitors early in the process allows for more effective development planning and a more accurate determination of the new project's market niche. I've always expressed to our clients that "competition is a good thing", largely because the existing competitors - by merely existing - help us to understand where the current entertainment benchmark stands and what must be done to surpass it.

The second example follows a similar path, in that an individual has made an assessment of a particular entertainment facility, possibly based upon visits during a certain day of the week, time of the day, or time of year. Without question, entertainment facilities possess peak periods, at times creating a "standing room only" operation. But at other times, the facility may be operating at 15-20% of capacity or not be operating at all. "Monday" is a common example. Many entertainment facilities choose to close their businesses on Monday as a result of historically low attendance numbers, as the majority of consumers within the region have paid a visit over the prior weekend. With this in mind, the observer must consider that the entertainment facility still possesses seven days of bills but only six days of income. By determining estimated patron frequency and visitation volumes in advance, new business owners can more accurately establish an operating plan that matches the visitation pattern and reduces variable expenses. After all, you don't want to win big on Sunday and lose it all on Monday.

The third statement is by far the most commonly heard. The decision to open a new family entertainment facility is often fueled by a general dissatisfaction with the current market offerings, particularly those that have been open for many years. Older facilities tend to show their maturity a bit, from aging attractions to worn carpeting, leaving many visitors to question why a competitor hasn't come to claim the market. There's no doubt that new arrivals into the marketplace have sent many older, less capitalized facilities packing, but the likelihood of such can never be assured. Few new developers consider, nor plan for, the possibility that the existing competitor will "fight back". It is this underestimation of the competitor(s) that can spell trouble early on. These "worn and tired" challengers probably possess two things that you don't: 1) an existing control of the market, and 2) a lower cost basis. The former is important to acknowledge and accept, as the region's patrons have been visiting this same competitor for years, and may have established relationships with the facility's managers and staff. With respect to the latter, a lower cost basis generally means that your competitor has the ability to compete based upon price, which can be a determining factor in some markets. A new facility developer can create a truly dynamic complex

filled with the latest and greatest attractions, but if he hasn't designed a operating program capable of functioning within multiple price structures, he may soon find himself wanting for customers.

### **Doing Your Homework...For All The Right Reasons**

If you're new to the industry, strongly consider the use of an amusement expert to guide you through the site and market selection processes. These are the two issues that can't be easily reversed later without big penalties, and must ultimately serve as the foundation for every dollar spent on pursuit of the dream. This is the crossroad whereby many projects fail, with investments made using incomplete, inaccurate, or improperly interpreted data. What appear to be perfectly reasonable choices to many new folks entering the industry are, in fact, glaring mistakes to seasoned industry veterans. It's very frustrating to miss the appropriate target market because of an improperly balanced attraction portfolio or fall short of projections as a result of a poorly selected operating location. Extensive time delays resulting from cumbersome approvals, unnecessary construction designs, or unanticipated attraction rigging requirements all add significantly to the cost of a project, and are often easily avoided if effective planning is performed at the outset.

### **Who's Going To Pick Up The Tab?**

What about financing? Many new developers assume that internally-prepared projections and estimates will adequately serve as the foundation for acquisition of financing. Sadly, because of the limited level of performance data available in the amusement marketplace, lenders have little basis by which to test projections, and in the absence of such assurance, will typically classify them as "unfounded". Even worse, you have little recourse, as lenders will generally only acknowledge sources deemed as 'expert in the field'. Enter a trained amusement consultant. A well-versed consulting firm maintains a working database of facilities from which performance data can be gleaned, compared, and matched to the market under investigation. By comparing performance among existing facilities, the consultant can formulate and support projections capable of scrutiny by lenders. After all, it's hard to debate projections and estimates that are based upon actual market data, particularly when the markets are also compared and adjusted to accurately reflect current conditions. With this type of support, a project is significantly more likely to be favorably received by lenders and investors alike.

### **Getting Started**

It's amazing how overwhelming many of the trade shows can be, yet this is often the first stop for most new developers. During this early stage, it's important to keep an open mind and not lock yourself into specific products or concepts that might not appropriately fit the market that you're after. The time to buy is after you've completed feasibility work, selected the ideal operating site, and arranged financing. Timelines have a tendency to change, and with them, changes in amusement and entertainment componentry. Take some time to meet all of the industry vendors, suppliers, consultants, trade magazines, and industry organizations, and establish a working file on each, noting the history and capability of each identified. Join one or more trade organizations and attend as many of the show seminars as possible. This will permit you to voice your questions amongst knowledgeable industry veterans and help to introduce you to other developers with similar intentions.

Still have questions? Feel free to call our firm's Developer Hotline (800-253-4045) and ask for me, or use our Priority Email Response at [AmusementEntertainmentManagement.com](mailto:AmusementEntertainmentManagement.com). Whether you need some advice or just a bit of moral support, I'm here to help!

**[Return to top](#)**  
**[www.AEMLLC.com](http://www.AEMLLC.com)**