

Chapter 1: Overview of the Family Entertainment Center Industry

A macro overview of a company's industry and the economy are critical starting points for any valuation analysis. In many cases, the family entertainment center industry trends are better indications of the future than a review of the company's historical operations.

History

Amusement parks have been an integral part of American life since the Industrial Revolution in the mid-1800's. The earliest amusement parks date back to Europe in the seventeenth and eighteenth century, which were considered pleasure gardens at the time. They, however, lacked the technology to incorporate any form of moving attractions into their offerings. After the Industrial Revolution, the appropriate technology was developed to create rides and other amusements for Americans, and individuals around the world to indulge in.

Origination

By the early nineteenth century, the first American attraction was established, named Jones's Woods in New York City. The park featured billiards, bowling, and donkey rides. Coney Island was later established, which began featuring mechanical rides in 1884. Ease of travel to these parks was a huge determination of their success, and in response to this, a railway line was established to help make the park more accessible. A subway was later built connecting Coney Island to New York in 1920.

As amusement parks became more popular, problems began to arise. Controlling noise, cleanliness, and crime were all problems that afflicted amusement parks; and, to compound problems, Americans' access to cars became more readily available, allowing them to venture further to seek out other amusement parks. **The International Association of Amusement Parks** was then formed in 1920, in response to growing concerns of where the industry was headed as well as the image it was beginning to form. Other amusement parks began making an effort to ensure safety and cleanliness to promote a family oriented atmosphere.

In 1955, Disneyland opened its doors and became an instant success. Riding the wave of success, Six Flags (1961) and many other large theme parks established their first locations throughout the United States.

Today, there are over 2,500 amusement and arcade companies in the industry, with total revenues of over \$10 billion. They have gone on to offer a wide variety of attractions, both state of the art and some reminiscent of the first theme parks.

Development

The **Family Entertainment Center (FEC)** sector of the entertainment industry places its roots in the first amusement parks of the eighteenth century; although, they have grown to include activities such as Go Kart racing, state-of-the-art simulations and full arcades, all of which are developments of the twentieth century. FECs have become popular throughout the United States as a local alternative to large theme parks and long lines. The most popular areas for family entertainment centers, however, have been Southern California with close to a full quarter of all FECs based there.

Entrance fees are typically less than ten dollars, if not free in many cases. The bulk of the family entertainment center revenues come from birthday parties, food, games, and other attractions offered that require fees of some sort.

Industry Profile

Industry Snapshot

The family entertainment center industry was originally known for having a miniature golf course and possibly a few other offerings. Today, family entertainment centers have evolved beyond the miniature golf course and have gone on to offer attractions such as bumper cars, laser tag, outdoor mazes and many other activities. The offerings, however, are generally limited by the size of the facility, which can range from 15,000 to 20,000 square feet for indoor facilities and up to 16 acres for outdoor facilities.

Facilities target a wide range of clientele, ranging from young children, to teenagers, and as of late, even adults looking for a different form of entertainment. The family entertainment center industry is constantly on the move for newer, more innovative ways to captivate and entertain their customers. Without innovation, a family entertainment center can become stagnant and lose its allure within a given area to one of the many other forms of entertainment available, such as movie theaters, parks, zoos, museums, etc.

Industry Makeup

The family entertainment center industry is highly fragmented due to geographic and demographic limitations. A typical park is designed to attract guests within a 15 mile plus radius and thus does not have the national presence of a large theme park.

Family entertainment centers usually offer a variety of attractions including bowling, arcades, outdoor go-kart racing, miniature golf, thrill rides, batting cages, and other attractions. The size of the location determines the offerings, however, most family entertainment centers include miniature golf and some form of an arcade.

Associations

The International Association of Amusement Parks (IAAPA) was established in 1918 and is the world's largest trade organization for amusement parks and theme parks by representing 4,500 facilities, suppliers, and individual members. Their "...mission is to serve the membership by promoting safe operations, global development, professional growth, and commercial success of the amusement parks and attractions industry."¹ They do so by working with members, community leaders, local governments and national governments in order to promote a favorable image of the amusement park industry, enhance safety measures at parks, and increase business profitability of members.

The International Association of Amusement Parks (IAAPA)

IAAPA represents all types of amusement and theme parks, including waterparks, family entertainment centers, zoos, aquariums, museums, science centers, resorts, and casinos.² Family entertainment centers (FECs) comprise about a third of membership of IAAPA. In 2006, the association began offering a new FEC Specialty Track program at their annual IAAPA Attractions Expo. The program, which has 30 hours of targeted sessions, roundtable events, and tours, "focuses on a broad range of topics relevant to the FEC community, such as staff recruitment, improving revenues during down time, legal issues, internet marketing, and how to sell your facility."³

IAAPA has a government relations department which tracks U.S. Federal and State Legislation and keeps members informed. It has active lobbyists and a political action committee. In recent years, IAAPA has worked with FECs with regard to the application of the Americans with Disabilities Act (ADA) to miniature golf courses. The U.S. Department of Justice provided input for IAAPA, regarding the enforcement of the final rules. IAAPA has also been involved in the prevention of earlier starting dates for schools, and in some states such as South Carolina, Florida, and Texas, they managed to pass legislation preventing schools from starting before a certain date.

Preventing early start dates for school has been crucial for family entertainment centers and the amusement park industry as a whole. August is the busiest

1. The International Association of Amusement Parks and Attractions, "About Us," <http://www.iaapa.org/aboutus/index.asp> (accessed January 29, 2008).

2. Ibid.

3. IAAPA, "Year in Review: 2006," <http://www.iaapa.org/aboutus/reports/documents/yearinreview06.pdf> (accessed January 29, 2008)

month for family travel, and FECs need to retain their high school employees during this time period.

The International Association for the Leisure and Entertainment Industry (IALEI)

Another association, **The International Association for the Leisure and Entertainment Industry (IALEI)**, represents family entertainment centers as well. The IALEI serves as an educational outlet to make members more profitable. They perform market research and compile them into industry reports, which help members determine issues such as how much to compensate employees, where to find employees, how to determine the reliability of products, and how to increase sales and reduce costs. IALEI also hosts the Fun EXPO and Fun Academy, both of which serve to educate entertainment operators. The Fun Academy is “developed ‘by’ FEC operators ‘for’ FEC operators [where] they share their successes and failures.”¹

Industry Focus

Guest Experience

The family entertainment center industry is, in large part, driven by repeat visitations by guests. The average expenditure per guest per visit is between \$8 and \$20. With a limited number of individuals within the geographic area, visitations by the same individuals, multiple times a year is necessary to ensure success. To reach this objective, a FEC operator has to ensure a pleasurable experience to its guests, which means that the facility has to exceed guests’ expectations by providing clean facilities, quality food, and well planned attractions, all at an attractive price.

Employees serve as an integral part of meeting guests’ expectations, and thus, must be properly trained in dealing with a multitude of situations. Many facilities follow the motto that the guest is always right, and do whatever is necessary to accommodate that customer. One discontented customer has more of an impact than numerous satisfied customers, as he can hinder growth and decrease repeat visitations through friends and families.

Optimization of Existing Operations

The overall layout of equipment within a family entertainment center can also determine the success of the facility. Arcade games and other attractions must be arranged in a manner that compliments other machines; and, doing so depends on demographic preferences. According to Frank Seninsky, president of Amusement Entertainment Management, “[e]verything has to be worked out to the finest detail...from how many tickets a machine pays out (“hit frequency”) to where machines are located in relationship to the others.”

Placement of Point-of-Sale (POS) systems is important as well, with convenience of location being the driving factor. Once again, everything should be placed in its respective area for a reason.

1. IALEI, “Fun Academy,” <http://www.ialei.org/ContentPage.aspx?WebPageId=3713&GroupId=1018> (accessed July 6, 2007)

The American society has grown to be a cashless society. Many individuals frequently opt to charge items less than \$5 to their credit or debit cards due to convenience, and possible personal factors.

Payment

The desire for cashless systems provides an opportunity for FEC operators to increase revenues. According to IAAPA, consumers with credit cards spend an average of 30% more than consumers paying with cash. Furthermore, credit and debit card transactions that do not require signatures are often quicker than cash transactions as no change has to be given or cash to be counted. The average cash transaction, in an IAAPA study, took 34 seconds, while card transactions took 25 seconds. Reducing cash transactions has also increased accountability from staff, thereby reducing risk of stolen or lost money.

Issuance of a debit card payment system for games can also boost revenues due to a variety of factors. First and foremost is the credit card theory where users do not realize how quickly they are spending money. In addition, promotions and bonuses can be attached to cards as an incentive to keep the cards. By keeping the cards, the consumer is reminded of the facility and has a slight preference for that particular FEC due to the card and any remaining balance or promotions attached. Promotions on existing cards can be used to cushion non-peak times by offering unlimited games for certain time periods for a flat fee or similar offers.

Since card payment systems are run by computers, integration into the accounting system is simple and provides operators with real-time earning reports. With the adaptation of a cashless system, operators are able to increase accountability, boost revenues, reduce theft, and increase customer satisfaction through convenience and ease of use.

Increasing the success of the family entertainment center does not necessarily mean finding cheaper alternatives, and in many cases, such practices will yield negative results. Instead, the focus should be revenue growth. These measures do not necessarily need to be capital intensive either. Depending on the size of the FEC and the traffic it garners, local sponsorships might be an option available for operators.

Revenue Growth Initiatives

Other opportunities can lie in the type and quality of food offered. If the quality of food is poor, and exorbitantly priced, guests might choose to eat elsewhere before entering the premise. Americans have also grown to be more adventurous, as well as discerning with their food preferences and are willing to try various ethnic foods. Knott's Berry Farm, based in California, has already begun offering Chinese and Mexican eateries at their facility, and both have been a success.

Palace Entertainment, a large chain operator of FECs, based in California, has begun offering a wider variety of food. According to Chris Bailey, vice president of food operations for Palace Entertainment, chicken has become as popular as pizza at their locations; salad also saw an increase in popularity over the