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مجلس الشرق الأوسط وشمال أفريقيا للترفيه والحدب السياحي  
Middle East and North Africa Leisure & Attractions Council

## VENDOR TALK – APRIL 2024



### THE IMPORTANCE OF REDEMPTION IN THE FEC ECOSYSTEM

YOUR COMPLETE GUIDE

Article by:



## Introduction

Many operators think they can run an arcade by plugging in the games, throwing a few prizes up at the redemption counter, and hoping things take care of themselves. That is not the case! The game room can be a very profitable part of the Family Entertainment Centre if it is run and cared for properly. In this article, we will cover arcade basics, explain why redemption is important, and look at game payouts and ticket markups and how the two work together.

## Arcade Basics

First things first. You must have an arcade or game room before you can think about redemption, and all arcades are not the same. Classic, Retro, or “Barcades” typically operate nostalgic games from the 1980s and 1990s and rely heavily on food and beverage and private parties. Catering to an older crowd, these game rooms typically do not offer ticket redemption.



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A modern arcade caters to the younger crowd, offering newer video games like virtual reality experiences, racing simulators, and first-person target games, in addition to ticket redemption games and self-merchandisers like claw machines. This is by far the most popular type of arcade and is often paired

with attractions such as bowling, laser tag, and mini golf to entertain the whole family.

As the name implies, ticket redemption games pay out tickets (or points) that can be redeemed for prizes at the room or counter. These games are a mix of high payout/low play value games like Big Bass Wheel, and low ticket/high play value games like Skee-ball. A high-performing arcade will usually have about 65–70% of its game mix dedicated to redemption games. Popular redemption games include Big Bass Wheel, Down the Clown, Pushers like Marvel Avengers, and Whack N Win.

Video games provide an experience for guests rather than a ticket payout. The play time is longer, and the fun is the reward. Most game rooms will allocate 15–20% of their game mix to these types of games, titles such as Virtual Rabbids, Mario Kart, and The Walking Dead.

The remaining 15-20% of the game mix is made up of self-merchandisers- machines that pay out a prize directly to the guest. Styles vary greatly but often include some sort of crane or claw function or other skill-based activity such as pushing, spinning, or other forms of navigation to earn a prize. Examples include Prize Time, Fantastic Prize, Prize Locker, Over the Edge, or Lucky Duck.



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### Why is Redemption Important?

The draw of redemption games is the chance to earn tickets. Tickets, in turn, are redeemed for prizes. Therefore, there must be a robust selection of prizes to motivate guests to play the redemption games. **Prizes drive gameplay.**



Many players stop at the redemption centre to look at their options and pre-select prizes before gaming, keeping in mind the number of tickets they need to earn throughout their visit. If they haven't achieved their needed amount, many will add additional funds to their game card so they can play more games to earn more tickets—instant repeat business. If a guest is playing for a particularly valuable prize, they may save their tickets and return for additional visits to earn the amount needed to redeem. Family entertainment centres, like most operations, thrive on repeat business. Redemption helps drive the desire to return, so it is in your best interest to provide prizes to motivate this behaviour.

If, during their visit to the redemption centre, your guests find themselves faced with few choices, old or outdated products, dirty, dusty, or worn items, or the wall or counter generally looks picked over and not enticing, guests may feel that they are not getting a good return on their investment. They may look elsewhere to spend their discretionary or entertainment budget. They will be unmotivated to play the redemption games, and they'll have no reason to add additional funds to their game card or save their tickets for a return visit. The perceived value of your attraction has decreased. The redemption centre is often the last stop of a visit before the guest leaves your building—the very last defense between you and online reviews. Studies show that one negative review can turn away 30 guests from your venue, so you want to ensure that your guests have a positive experience in the redemption centre.



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Part of that positive experience is winning prizes, whether from the redemption centre or a self-merchandising machine. Winning a prize creates a positive association with your guests. They take it home and are reminded of the fun time they had in your facility, which encourages them to return. Winning a prize from a machine can generate excitement! Many guests won't save up enough tickets to redeem a prize of the same value that could be won with one play on a crane or merchandiser machine; this allows more guests to walk away with something tangible. It's a great practice to set a machine or two to Winner Every Time, paying out low-cost items such as knobby balls or rubber ducks.

Another thing to consider is that other guests see those winners. They see the crane dispensing a ball that the guest then bounces around the game room. They see kids running away from the redemption centre clutching their items, showing them off to friends and family. This creates another positive association in their minds—that they, too, can win these prizes by loading funds onto their cards and playing the games. **Winners make players.**

### Game Payouts and Ticket Markups

Now that we've established why redemption is so important, we can discuss the numbers behind the games and redemption—game payouts and ticket markups. Think of these two as a teeter-totter. You want them to balance. There are different models used throughout



the industry, but what we'll discuss here tends to be standard. Every business is different, and you should tailor your model to your specific location. Whatever format you use, remember that the guest is the most important piece of the equation—is what they are receiving worth what they are spending?



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Ask 10 game room operators what the correct payout rate is and you'll get 10 different answers, but most will agree that 20-25% is a fairly standard payout for the arcade as a whole. Each category of game pays out differently, so you'll have to blend those payouts. For example, a quick-play redemption game might pay out at 20-25%

because you're receiving a lower amount of entertainment but a higher reward. A longer-play redemption game, where your entertainment value is higher might pay out at 15-20%. Video games typically pay out very few or no tickets, and Self-Merchandisers pay out around 25%.

To make for easy math, let's assume that your game room pays out at 25%. If a guest puts \$10 on a game card, they should expect to receive tickets with a "purchasing power" of \$2.50. But how much is a ticket worth? Again, there are multiple ways to do things, but most operators will agree on about a half-penny per point.

So, what will 500 tickets buy? The industry standard for ticket markup is 2x, meaning that a prize that costs you \$1.00, marked up 2x would be 200 tickets. (Doing that math backward brings you back to that half-penny per point:  $\$1.00/200=0.005$ ). And for our 500 tickets, that would mean an item of about \$2.50, or roughly the payout we received from our \$10 game card.





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Many operators will go further than the 2x markup, setting up a tiered model where the lowest-cost items are marked up 2x, mid-cost items are marked up 1.75-1.5x, and the highest-cost items are marked up 1.25x. This makes those higher-priced items more attainable to guests, while still fetching a healthy margin. Every location is different, so again, do what's best for you and your guests.

### Cost of Goods Sold

Now that we've gone over payouts and markups, we can put the two together to help determine your COGS, or Cost of Goods Sold. Simply put,  $COGS = \text{Money in, value of prizes out on cranes and merchandisers} / \text{Ticket Value Out} / \text{redemption revenue}$ . \$10 into the game room, \$2.50 of prizes out of the redemption room.  $2.50 / 10 = 25\%$ . Most operators aim for a COGS anywhere from 18-22% on their merchandisers and redemption games, so while our example might be a little bit high, it's not far off, and it means that we're giving a good value to our guests.

### Conclusion

The overall goal of any family entertainment centre is to show guests a good time while encouraging them to return. They need to feel that they are receiving good value for the time and money spent. In redemption, this perceived value comes from a great experience in a well-stocked counter or store. Game payouts should be right in line with the ticket markup, which in turn informs COGS. Guests should be walking away from your facility



with a smile on their face and a prize in their hand, whether a small 5-ticket figurine, a 5,000-ticket gaming headset, or a plush bear won from a claw machine. Prizes drive gameplay, and winners make players.



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### Author Credits

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Megan has been with Redemption Plus since 2016 and has worked with hundreds of family entertainment centres. Her favourite games to play are Skee-Ball and Fishbowl Frenzy and will always spend her tickets on banana Laffy Taffy.

Redemption Plus partners with Entertainment Centres to create incredible guest experiences through innovative services for redemption prize management. It's our goal to design, develop and curate an incentive model that is proven to work and always available. Some people may look at us and say, "They just sell toys." What we actually do is help our customers create experiences their guests will remember for years to come.

*Disclaimer: The advice shared above expressed the expert views, best practices, thoughts, and opinions of our author, and not necessarily those of the author's employer or MENALAC.*