

# Disruption Gives Rise to a New Business Model

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*Future Proofing Community-  
Based Entertainment Venues*

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A White Paper Presented by:



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26 years ago when our company, the White Hutchinson Leisure & Learning Group, first started working in the community-based entertainment (CBE) industry that includes what are referred to as family entertainment centers (FEC), it was a significantly different world than it is today. Back then there was no Internet for public use; there were no Internet video games let alone any massively multiplayer role-playing online games (MMORPGs). Social media and streaming video did not exist and the smartphone was almost two decades away from being invented. At-home entertainment was basically limited to cathode ray TVs, films on VCR cassettes, early versions of video game consoles and board games.

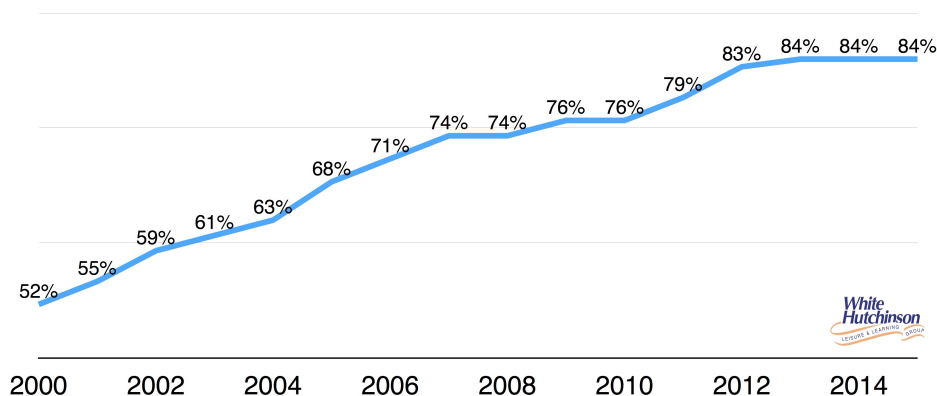
Back then when the first generations of indoor FECs appeared, the centers were basically modeled after carnivals and seashore boardwalk attractions with the focus on featuring entertainment attractions for 'families,' meaning a little bit of something for every age group. Back then only offering entertainment attractions and/or game arcades would get people out of their homes. Yes, there was often a snack bar, but 90% of the emphasis was on the entertainment with the food and drink offerings given little priority – heck hot dogs, pizza and snacks seemed to be more than adequate. And back then CBEs found they had to always be chasing after the next big thing every few years to keep their attendance up. That practice resulted in the development of the paradigm, a business model that CBE and FEC experiences are all about the entertainment for the entire family. This paradigm still continues today.

Over two decades ago, if you wanted to socialize with your friends, other than a one-on-one conversation on a hard-wired phone, you had to meet up at some physical location. Back then at the end of the Twentieth Century, the main reason people left their homes and went out in the real world was for entertainment and to socialize face-to-face, as so much of it was unachievable at home. Back then, the digital virtual worlds of socialization and entertainment didn't exist.

## It's a whole new world today

It's sure a far different world today. Now we have the World Wide Web available everywhere via wire, WiFi and cellular services, often at incredible speeds. Now we have email, instant messaging, Skyping and other video chatting apps, multiple forms of social media, instantaneous access to the World's information, video games including MMORPGs, Ultra HD large-screen televisions with surround sound, on-demand and streaming video and movies and coming soon, at-home virtual and augmented reality. And this is all available in the security of our home digital cocoons as well as on our mobile screens.

Percent of American Adults using Internet



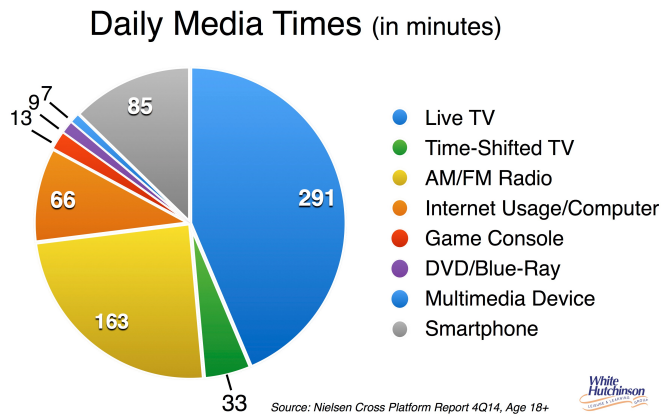
Source: Pew Research Center Surveys, 2000-2015

Digital technologies and their accelerating evolution of getting better and better every day causing a major disruption to the entertainment landscape, especially to all types of location-based entertainment venues, including CBEs. Yesteryear's old school business model has become a dinosaur in the 21<sup>st</sup> Century.

## Leisure time is a zero sum game

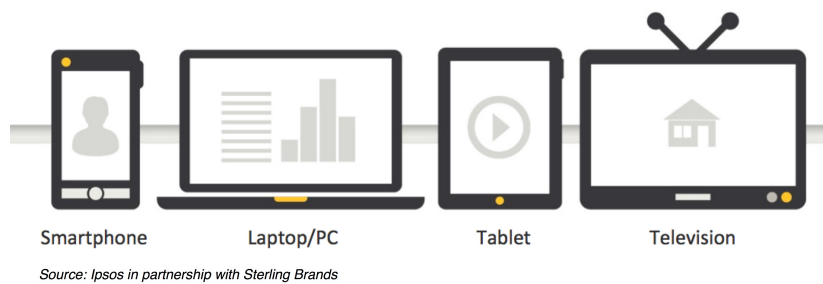
The amount of leisure time for the average American has changed little over the past three decades. It has remained at just over 5 hours per day with minor fluctuations of just a few minutes year to year. In 2014, average leisure time for Americans stood at 5.3 hours per day. With leisure it's a zero sum game of time. There are a fixed number of leisure hours during which consumers have to make choices of how to spend their discretionary leisure time as well as their discretionary dollars.

Nielsen reports that back in 1989 the average television viewing time was upwards of 4 hours each day. However, in the 4<sup>th</sup> quarter of 2014, Nielsen reports total screen time has increased to 8 hours 24 minutes per day including time spent not only on television, but also on screens that didn't exist in 1989 including smartphones, mobile devices and time-shifted TV (total time includes multitasking on multiple devices). Nielsen reports those 8 hours and 24 minutes increased by 10% compared to just two years earlier in 2012.



We now spend 4.4 hours of our daily 5.3 hours of leisure time in front of a screen, whether as the primary or secondary activity.

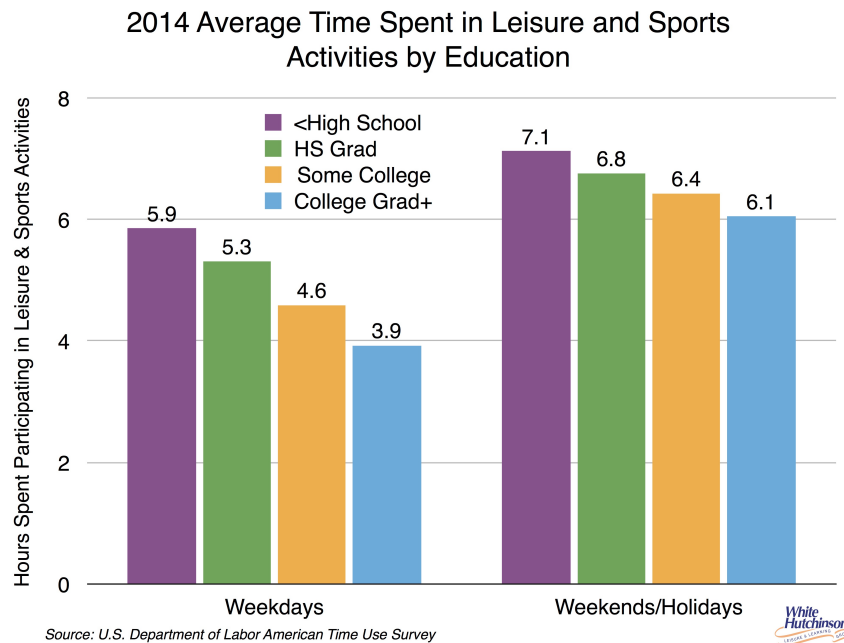
On Average We Spend **4.4 Hours** of our Leisure Time in front of Screens each Day



### Leisure time inequality

Although average daily leisure time is 5.3 hours, there is a significant inequality based on a person's socioeconomics. High-educated people and correspondingly those with the highest incomes have less leisure time than low-educated and low-income people. In 2014, college graduates had

84 minutes less leisure time on a weekday and 42 minutes less leisure time on Saturdays, Sundays and holidays than high school only graduates.



Researchers have found an opposite inequality in the quality of the leisure time people enjoy. Quality is lower for the low educated and higher for the high- educated. High-educated individuals are spending more leisure time with their spouse and other adults in social leisure, have a higher percentage of pure leisure – leisure time spent only in leisure activities with no secondary non-leisure secondary activities, such as answering business emails – and longer periods of uninterrupted leisure. This is consistent with what is known as the model of quality and quantity of leisure – individuals substitute quality for quantity as their education and income rises.

### **New competition from the digital world**

Today digital technology offers serious competition for both consumers’ discretionary spending and discretionary leisure time, including for their out-of-home trips to CBEs. What worked back during the end of the 20<sup>th</sup> Century for location-based entertainment no longer works today. Digital and interactive media is increasingly marginalizing out-of-home entertainment. Digital technologies are creating more attractive screen-based entertainment and social options at an accelerating pace. The

digital disruptive forces affecting the CBE industry are powerful – they are major game-changers and the technology is getting better everyday. The very idea of location is being disrupted. Yet, much of the CBE industry continues to go about its business following an old school business model – thinking it's only the entertainment in a venue designed for everyone that will get people out of their homes and away from their digital screens and hoping that every few years a new attraction will come along that will be the next big thing to keep people coming back.

### **Why the business model is obsolete**

The first problem with this out-of-date old school CBE business model is that the out-of-home entertainment venues of yesteryear are no longer as attractive as they used to be. That's due to the phenomenon that the better the low or no cost, readily available, convenient at-home and mobile screen digital entertainment becomes, the higher the quality of far more expensive out-of-home entertainment has to become to get people out of their lounge chairs and away from their screens. We call this the High Fidelity-Convenience Trade-Off. In our experience economy, people make choices in terms of two dimensions, experience and convenience. They make decisions between the trade-off of Fidelity (the quality of the experience) and Convenience (the ease of getting and paying for something). The more convenient digital options become, both in accessibility and cost, the higher the Fidelity of out-of-home entertainment has to become to counter the draw of digital screens. And when social fidelity is added to the experience, it raises the Fidelity even higher.

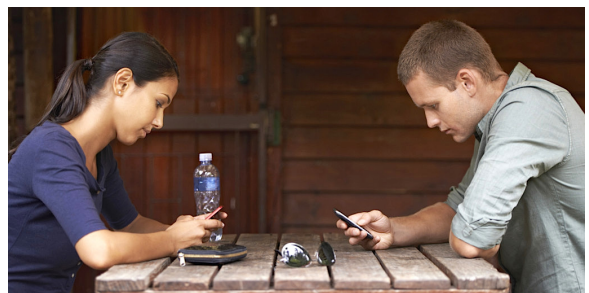
One example is rock concerts. They are not very convenient; they take time, effort and money to experience, but they offer a High Fidelity, premium experience. MP3 music on smartphones is compressed so that it removes 95% of the sound wave, offers a low-fi experience, but is cheap and convenient. Another good example is movie theaters versus at-home movies. Back three decades ago, non-stadium seating theaters showing analog film movies could compete with VHS videocassettes played on low definition, small television screens. Today, with movies available for instant streaming on high definition, large screen TVs, movie theaters have had to up their game with stadium seating and state-of-art 4K digital film and super duper sound. In fact, now the smart progressive theater

chains are raising the Fidelity of moviegoing even higher to try to attract people away from their cushy multi-media family rooms by offering 3D, IMAX, reserved reclining leather lounge seating, bars and restaurant-quality food in addition to the traditional concession fare.

## **Changes to socialization**

The second problem with the old business model is that the major appeal of going out to a CBE or FEC is face-to-face socializing with friends or family. However, the way people interact socially has drastically changed over the years due to the evolution of technology, especially social media. Research indicates that a growing share of the population embrace social networking as a preferred social interaction strategy versus face-to-face, especially due to increasing time pressure. According to a survey commissioned by *Chinet*, people today spend on average 23 hours per week on social platforms, almost 93% of those consumers are using social media in place of face-to-face activity and only 11% of people have seen their online connections in the past three months. *The Cassandra Report* reported in an October 2014 national survey of 18- to 34-year-old device-owning Millennials that almost one-third (31%) now feel that “digital relationships are just as meaningful as in-person relationships.” Yes, that’s right – they said connecting with others online and forming “relationships” is just as meaningful as face-to-face relationships.

Larry Rosen, a professor of psychology at *California State University, Dominguez Hills* has studied the impact of technology for the past 30 years among 50,000 people in the U.S. and 24 other countries. He says the effect of the digital technology has been, “to allow us to connect more with people in our virtual world—but communicate less with those who are in our real world.” Just look at people texting when they are in the real world sitting across from each other.



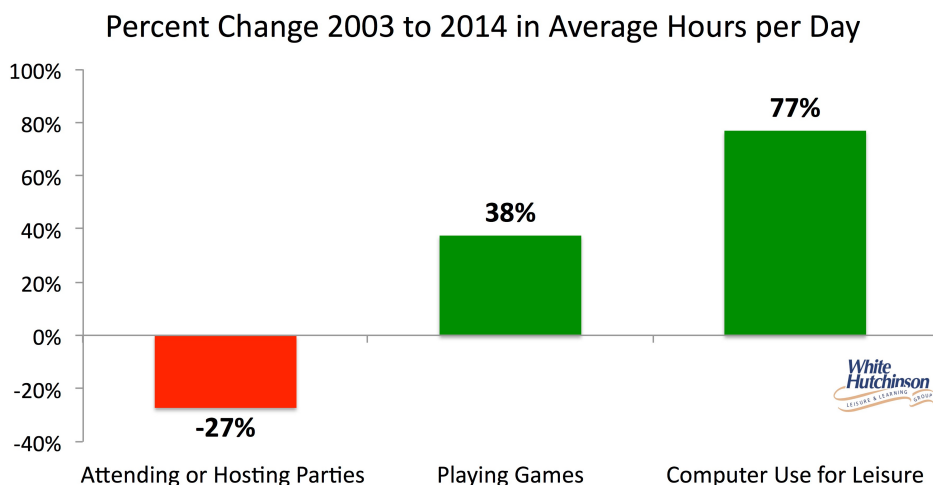
Social media and digital communication is also making forms of at-home entertainment, such as watching television, *YouTube*, or sports and playing video games, far more social than in the past. Now TV viewers can use their second screens to connect with other viewers and game players

can use their game consoles to socialize around what they are watching or playing with other players located at other physical locations.

Research in the fields of applied psychology, sociology and communication science show that Internet-based activities clearly play a positive role in the benefits we derive from what is called *social capital* despite the lack of in-person interaction. The technology revolution has reduced the need for physical proximity without any negative effects on the trust or engagement components of social capital. Numerous people use the Internet to stay informed about what happens in their community, to stay in contact with friends and family who do not live close by or to express their opinion on topics important to them. While all these activities in the past might have required a real world physical meet up, this is no longer the case.

### The data proves it

Data on changes in time use, participation and spending over time support the exodus of people from the real world into the virtual for entertainment and socializing. Between 2003 and 2014, the average amount of time Americans age 15 and older spent attending or hosting parties (real world social occasions) declined by over one-quarter (27%), while the amount of time they spent playing games (predominately video games) increased by over one-third (38%) and their screen time for leisure (not including video games) increased by three-quarters (77%).

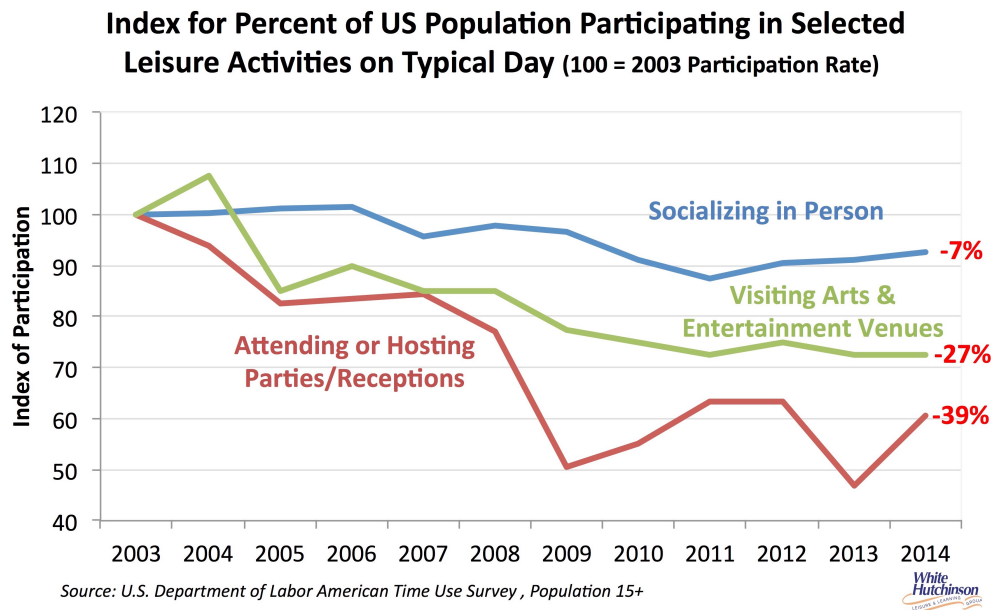


Source: American Time Use Survey



## Declining participation

Since 2003, participation in face-to-face socialization, attending or hosting parties/receptions and visiting arts and entertainment venues has been on a steady decline. Socializing in person is down 7%, visiting arts and entertainment venues is down by over one-quarter (-27%) and attending and hosting parties or receptions is down by 39%.

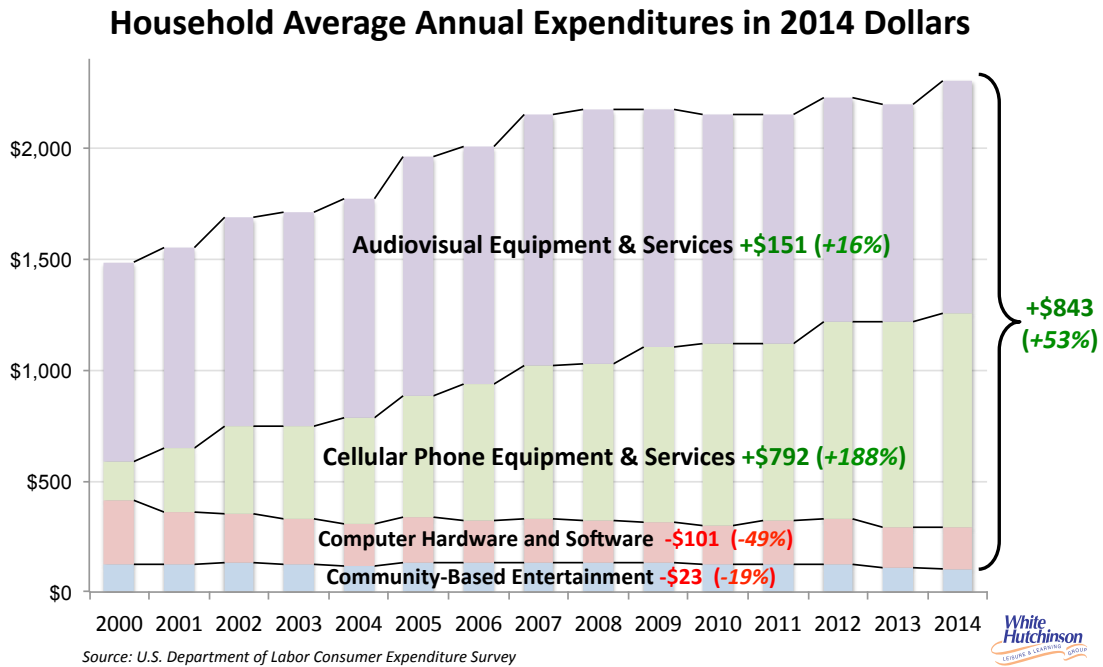


Individual CBE attractions show a similar decline in participation. The most popular form of out-of-home entertainment is going out to the movies. 2014 per capita attendance at North American cinemas is down by one-quarter (24%) since 2003. The second most popular form of entertainment is bowling. In the U.S., the percent of the population that bowls at least once a year has declined by one-quarter (-24%) since 2007.

## Electronic technology spending is winning

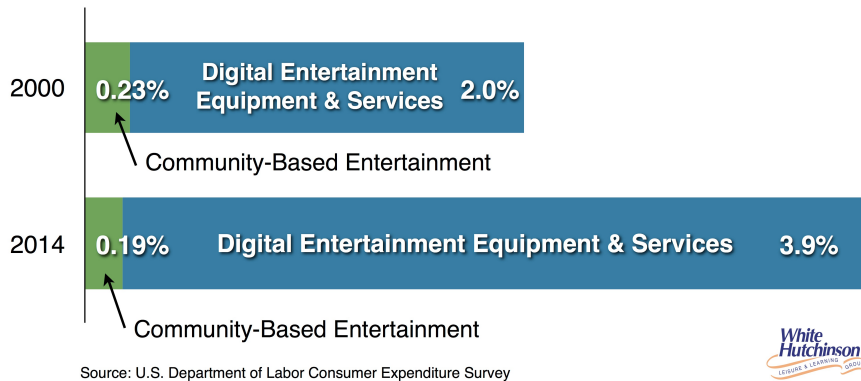
Since 2000, inflation-adjusted average household spending at CBEs declined by one-fifth (-19%) while spending for personal use electronic hardware, software and services increased by one-third (+54%, +\$843). The amount of the increase for at-home and mobile technologies spending was more than eight times the total average household spending at CBEs.

CBE spending share has declined from 9% to 5% of all CBE and digital entertainment spending combined.



The share of all household spending at CBEs has declined while the at-home and mobile digital entertainment's share has grown.

### Share of all Household Spending



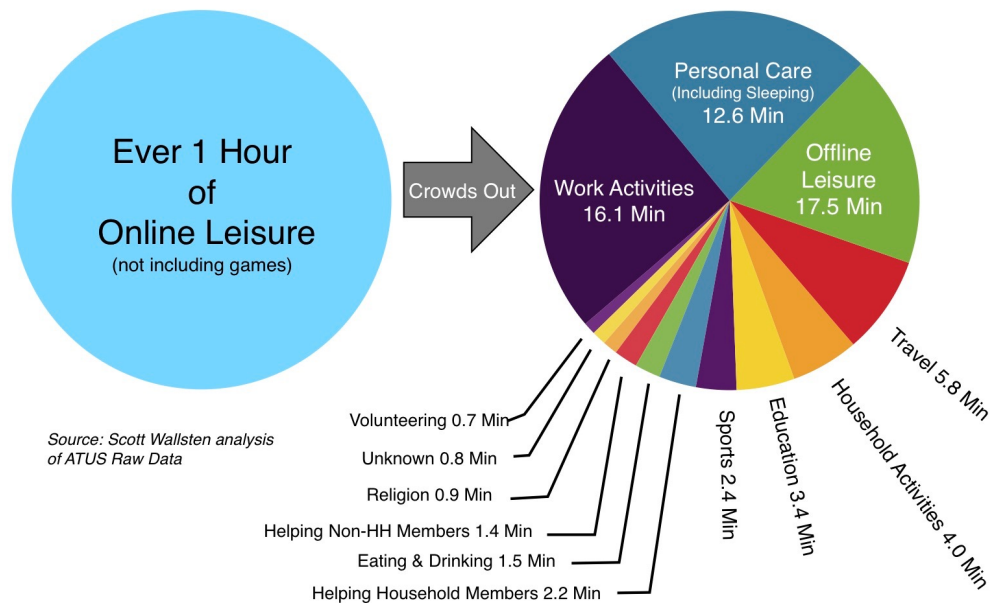
### Crowding out of offline leisure

Academic research has also validated that the digital, virtual world is crowding out time spent in the real world. A research paper by Scott Wallsten from the [Technology Policy Institute](#) shows that online leisure activities are displacing time spent face-to-face.

Scott Wallsten reported his research in an October 2013 working paper that is aptly titled [What Are We Not Doing When We're Online](#). Wallsten found that although the total amount of leisure time has remained constant 2003-2011, the amount of time spent online and the share of the population engaged in online activities has been steadily increasing. It's a zero sum game – when time on online activities increases, there is a crowding out, a decrease of time spent on other leisure and other type activities.

Wallsten found that for every additional hour the average American spends with online leisure, they spend roughly 17 less minutes doing some other type of leisure like watching TV, going out for entertainment and socializing in more traditional ways.

### Every Hour of Online Leisure Crowds Out (Replaces) This Many Minutes of Other Activities

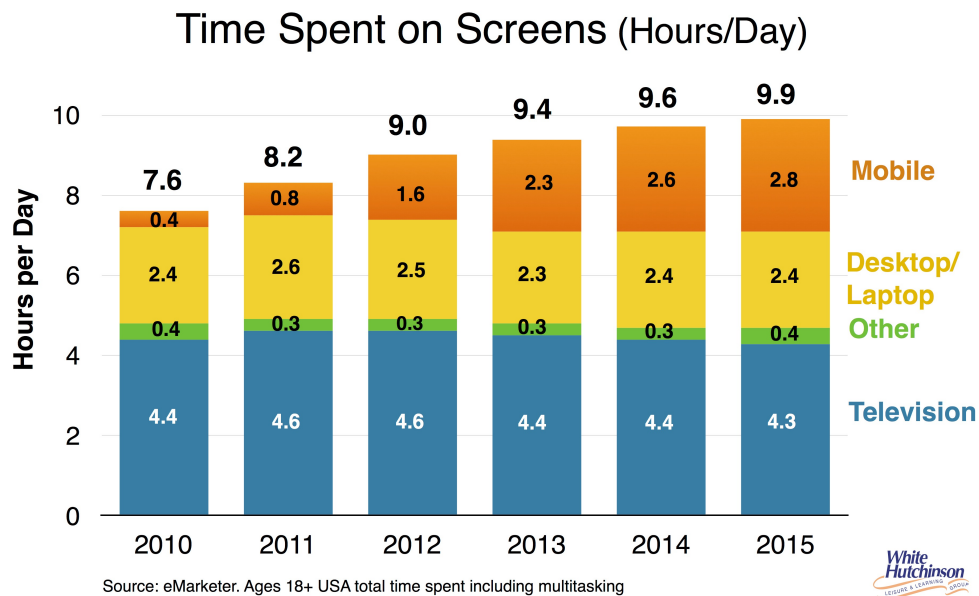


Wallsten looked at those people who spent time engaged in online leisure in 2011, and they averaged 100 minutes per day, one-third of their total leisure time. What that means is those 100 minutes of online leisure crowded out, displaced, one-half hour (29 minutes) of time that would have otherwise been spent on real world leisure activities.

Wallsten also said, “My results also suggest that other offline leisure activities that involve interacting with other people are crowded out by online leisure: attending parties and attending cultural events and going to museums [and entertainment venues] are all negatively correlated with online leisure.”

Wallsten’s research was limited to time using the internet or time spent with online leisure doing things like spending time on social networks, browsing for non-work purposes and instant messaging, etc. It did not examine the crowd out impact of playing video games and watching video online or from email, even though they too can take up a lot of leisure time.

Michael R. Ward of the *University of Texas in Arlington* recently researched the impact of time spent playing video games and found it likewise diverts a significant amount of time away from other activities including entertainment, leisure and social.

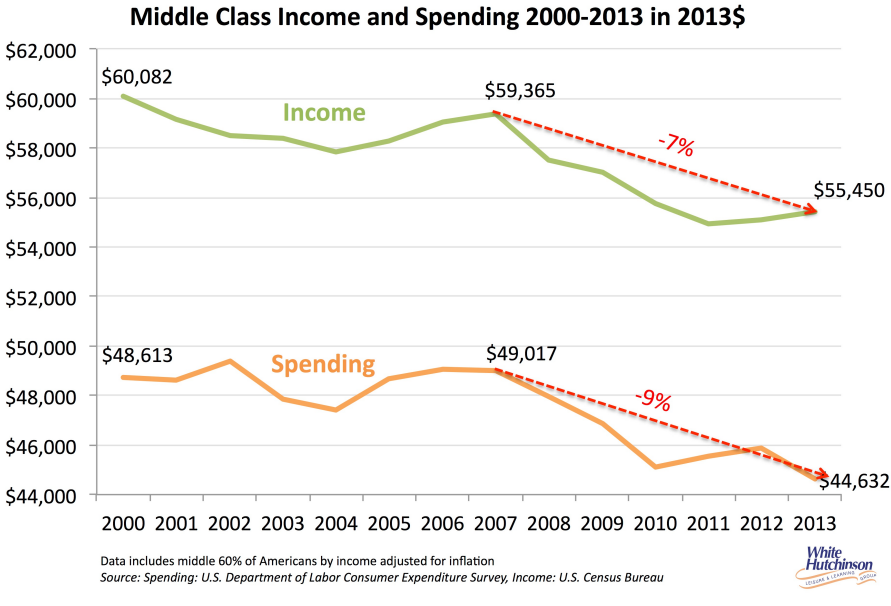


The bottom line is that time spent on digital screens is taking time away from real world, face-to-face socialization and out-of-home entertainment.

We are in the mist of a profound transformative and disruptive shift from physical to digital socialization and entertainment and it's happening far faster than most people in the location-based leisure industry realize.

**Loss of the middle class**

Back several decades ago, CBEs targeted the middle class – their design, their finishes, everything about them was designed to middle class standards. Since then the middle class has shrunk as a share of the population due to increasing income inequality. And of the remaining middle class, we've lost a large share of their spending at CBEs due to decreases in their incomes and cost increases to non-discretionary items such as medical, education and housing costs. The middle class' available discretionary dollars have significantly decreased.

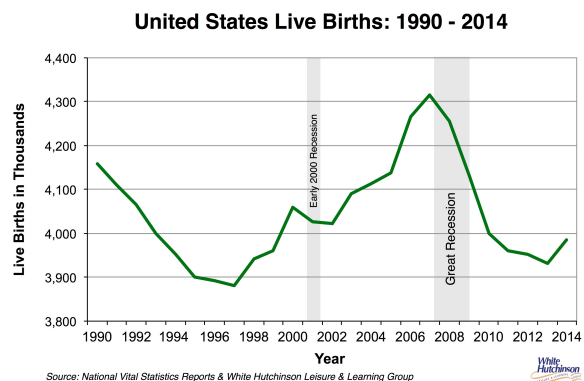
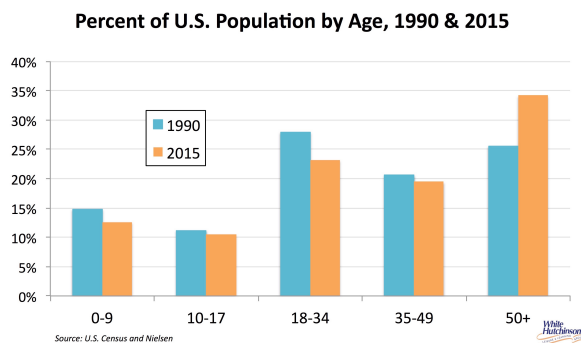


Consequently, the middle class has shifted much of their entertainment to inexpensive digital technology options. CBE market share has now shifted to the upper-middle class and more affluent households. Back in 1990, the top 20% of income households accounted for a little over half (54%) of all community-based entertainment spending. In 2013 their share had grown

to almost two-thirds (65%). Yes, one-fifth of households, the highest income ones, now control two-thirds of CBE spending. They account for almost twice the total spending as the entire other 80% of the lower income households.

## Changing demographics

Demographic population changes are also impacting CBEs. Over the past 2.5 decades, the age composition of the population has changed. The birth rate is lower as are the number of births. Today, both children and young adults are a smaller share of the population than one-quarter of a century ago.



The share of adults who are single and never married has increased. Married couples with children have declined from over one-quarter (26%) of households to only one-fifth (20%) today.

## Future proofing – digital to the rescue

So there we have the bad news trends that are disrupting the entertainment landscape, including CBEs. And the trends are sure to accelerate into the future – overall participation, time spent and spending on real world out-of-home entertainment is declining along with a decline in face-to-face socialization. The most leisure time-starved segment, high-education, high-income individuals are seeking high quality leisure experiences and have grown to represent the lion’s share of CBE spending. They also have a strong preference for social



entertainment. We are seeing the exodus of people from the real world into the virtual as people spend more time and money there.

While the digital world has been marginalizing out-of-home entertainment and face-to-face socialization, it has been increasing our desire for another type of out-of-home experience – dining as a result of food blogs, the plethora of food TV and streaming video shows and sharing food experiences on social media with food porn (foodfies). Sharing food experiences on social media has become a form of social currency for a large segment of the population. Food trucks; food, wine and beer festivals; culinary agritourism; food tourism and other food events are fueling the desire for food adventurism within the local community.

Eve Turow, a food, travel and culture writer, says the reason why we as a culture are so obsessed with food “is that in the digital-first era, many people latch onto food as something that engages all the senses and brings them together in a real world physical space.” She sees technology causing sensory deprivation, so “people want what’s tangible, that they can see and feel and smell and taste. . .” At the same time she says, “We’re craving community. And food is also allowing us to access the globe . . .” Today, we have a new foodie expectation norm of great tasting adventurous food as well as an Instagram-worthy experiences for out-of-home dining and drinking.

Food and beverage is the one type of experience you can’t have in the digital world. The virtual world can’t compete; it will only continue to fuel the desire for experiencing it in the real world.

The other advantage of the culture of food and drinking is that it is all about socialization. We evolved to become modern humans gathered first around the fire, and then the table, sharing our food and drink while we socialized. We are hard wired to socialize around food and beverage.

Food is such an important factor in getting people out of their homes, that even retailers are adding food destinations to their stores. Here are just a few of the retailers that are now staging food experiences:

*Burberry – Thomas’s on Regent Street all-day café*  
*Ralph Lauren – Ralph’s Coffee*

*Club Monaco – Toby’s Estate Coffee*  
*Gucci – Gucci Café*  
*Dover Street Market – Rose Bakery café*  
*Bass Pro – Islamorada Fish Company and Uncle Buck’s Grill*  
*Cabela’s – Deli Grill*  
*Scheels - Gramma Ginnas*  
*Tommy Bahama - Tommy Bahama Restaurant and Bar*  
*Nordstrom – Sixth & Pine and 6 other in-store restaurant concepts*  
*Saks Fifth Avenue– Sophie’s*

The *Tommy Bahama* locations with a restaurant do 2.5 times the sales per square foot as the non-restaurant stores.

Heck, at the other extreme, even laundromats and bicycle sales and rental shops are adding cafes, bars, juicerries and yogurt counters to build traffic.

It’s the exact same reason so many cinema chains have added dining. It increases the appeal of the destination and its social component, gives people another reason to visit, increases the length-of-stay and as a result increases per capita expenditures as well as market reach.

### **Conspicuous leisure**

Experiences, not limited just to food, are what people increasingly use to define themselves across social channels. People are reprioritizing what’s important in their lives. They want to live a fulfilled life. Today they are a lot more willing to shell out money on experiences that enhance their lives rather than on material things. They’re putting their discretionary income toward experiences and things that create memories. Conspicuous leisure has now taken center stage over conspicuous consumption.

Research by *JWT Intelligence* has found that people today are seeking real-world spaces where they can not only eat, but also meet people and enjoy unique experiences.

Digital social media benefits CBEs in a second way. Just check out *Instagram*, *Facebook* and other social media and what you’re more likely to find is a friends trip somewhere, pictures of their baby at the seashore, the latest meal they had out or some social experience they had with their friends rather than their latest purchase of some designer purse or



premium car. It's the new version of "keeping up with the Joneses," but now it's all about the experiences you have rather than the stuff you own. So if the CBE offers a High Fidelity, premium experience worth bragging about to gain social capital and status, the guests do your marketing.

### **The flight to High Fidelity**

To succeed today and continue to win in the future, the out-of-home CBE experience has to be much more than only entertainment. It has to be an overall High Fidelity multi-dimensional premium experience that is worthy of sharing on social media, meaning it has to be far more than just the entertainment. Today the design and atmosphere of the facility, the level of hospitality, the food and beverage and the social environment is as important, if not more so than the entertainment. What we are seeing with the higher socioeconomic consumer is a desire for high quality, High Fidelity experiences. They are not interested in wasting their time, even more so than their dollars, on mediocre out-of-home experiences.

Today it's an increasingly bifurcated leisure market, especially when it comes to out-of-home entertainment such as at CBEs. People with the most leisure time, the middle and lower socioeconomic, can least afford to visit CBEs, while those with the highest incomes can afford CBE experiences. Since the high-income have the least leisure time, they are seeking the highest quality CBE experiences and are more than able and willing to pay a premium price for them. They are also looking for experiences with a high social content. For CBEs that means they need to include social-entertainment.

To win today and in the future, everything about the CBE experience has to be upscale to appeal to the majority of the market, generally multi-member households with incomes over \$100,000 and singles with incomes over \$75,000.

### **The rise of adult social gathering venues**

We're seeing the nascent and growing expansion of a completely new CBE business model as a result of these societal, value and personal economic changes. The new model is adult social gathering venues that combine great food and beverage with social gaming.

The great food and beverage makes them a dining and drinking destination rather than the old business model where the food was only considered to be an impulse purchase. For most of the new school CBEs, half or more of their revenues come from food and beverage. And the entertainment is all focused on facilitating socialization. It's all about tactile, real world social gaming that requires two or more people to play together so there is a strong social component to the play. And almost all the games are old school low-tech such as bowling, ping pong, shuffleboard and bocce ball. The exceptions to low-tech are laser tag, as it basically emulates a first-person shooter video game, and games in game rooms designed for social group play. And the facilities are upscale with finishes and ambiance to appeal to the tastes of the upscale adult market.

These venues are focused on being great social gathering places. There's nothing more social than gathering around food and beverage and engaging in good-natured interactive games with friends and family.

Yes, targeting adults is counter to the old paradigm business model that the way to succeed is to cast the widest net to capture all age groups. Here's the problem with that model. When you design for families, you're basically designing for children, and that means you design the facility and the attractions for them. But as a result, you capture very little if any of the adult market, as adults don't want to hang out in a kid venue. Yes, you might get some corporate team building groups, but it sure won't be a place where adults want to come.

Now this may seem totally counterintuitive, but when you design for adults, you still get the family market during the day and early evening. There's not a kid in the world age six or older who won't rather go to an adult venue with his family rather than a kid one. And of course, her/his parents prefer the adult-oriented one. This has been proven by many adult venues including *Dave & Buster's*, a venue designed completely for adults, yet over a third of their customers are families.

Developing a CBE is a major multi-million dollar investment. If you target the family market, you operate the investment far less hours each week than if you target the adult market. During the school year, FEC attendance during weekdays is limited. Many FECs don't even open until around 3pm when school lets out and they close early in the evening as it's a school night. Adult-oriented CBEs open for lunch and operate later into the night. And on Fridays, Saturdays, FECs close a lot earlier than an adult CBE. So that means less attendance and less revenue, resulting in a lower return on the investment. Adult CBEs generate two to three times the revenues per square foot of typical FECs.

Some examples of venues in this new school CBE genre include *Southside Social, Pinstripes, Level 257, Plank, The Painted Pin, The Alley, Bowl & Barrel, Royal Palms Shuffleboard Club, LaserTron (Henrietta), Punch Bowl Social, TopGolf* and *Kings*.

We need to move away from the old school names the industry gives these venues, such as location-based entertainment (LBE) or family-entertainment center (FEC). By incorporating 'entertainment' as the only experience description in the names we continue to perpetuate the old school paradigm of what they should be. We can't call them social-entertainment as that leaves out the food and beverage. Restaurant-entertainment also doesn't work as it leaves out the social experience, which is so critical to their success. We might call them social-restaurant-entertainment (SRE) or perhaps community-based leisure (CBL) would be more appropriate.

Success is no longer about just serving great food and beverages or offering entertainment. The model for the new school destination venues that will draw people away from the siren call of their digital technology options is offering a great synergistic, upscale, adult, social venue where family and friends can gather in the real world around food, drinks and social games.



The White Hutchinson Leisure & Learning Group is a multi-disciplinary feasibility, design, consulting and production firm that creates compelling and financially successful leisure, entertainment, eatertainment, edutainment and informal learning projects for our clients. Since 1989, we have worked for over 500 clients in 32 countries in the Americas, MENA region, Africa, Europe and Asia. Our work and expertise has been recognized by *Time* magazine, the *New York Times*, the *Wall Street Journal*, *USA Today*, the *Food Network*, the book *The Experience Economy* and by many other books and publications. Our projects have won 16 different 1st place design awards.

Our services cover every aspect of planning, designing, opening and managing projects, including:

- Site selection
- Concept development
- Market feasibility
- Financial feasibility
- Brand & theme development
- Master plans
- Full design
- Food & Beverage
- Equipment & procurement
- Management start-up & consulting

When it comes to designing a project—both its physical facility and its operations—our comprehensive development process results in a uniquely branded business with exceptional attention to the hundreds of important details required to produce a project:

- That is the most competitive,
- At the most economical cost,
- That operates efficiently,
- That is culturally appropriate,
- That produces a quality guest experience,
- Is highly profitable, and
- Has long-term staying power.

Our experience and expertise covers many different types of location-based leisure venues including;

- Restaurant-Entertainment Venues
- Family Entertainment Centers of all types
- Children’s Edutainment & Enrichment Centers
- Agritainment & Agri-Tourism
- Bowling Entertainment Centers
- Shopping Centers, Malls & Mixed-Use Projects
- Resorts & Tourist Attractions

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