Developing FECs in emerging markets

Randy White, CEO and co-founder, White Hutchinson, runs through the golden rules

OVER the past 26 years I have had the opportunity to work on the feasibility, design and development of family entertainment centres in 32 countries throughout the world.

Many of these projects were located in emerging markets that had recently transitioned to free market economies with a growing middle class. As a result, many of these countries were seeing the development of their first FECs. Often my clients were not the first to develop an FEC in their country, so we were able to observe the mistakes of earlier projects that soon closed their doors due to poor revenues when our client's and other FECs were developed.

Often these earliest projects fail because designing, building and running a profitable FEC is more difficult than it looks. There are many things about FEC development that are counterintuitive, just the opposite of what someone without experience in the industry thinks will work.

Also, once someone develops the first FEC in a new market, although it may be a flawed concept, other entrepreneurs observe it on a busy weekend or holiday and conclude that there is large potential for more of the same type of FEC in that market. So they develop their own FEC, copying the first. The problem with this approach is that the original centre may not have been a formula for long-term success. Everyone will show up the first six months or so to check out a new FEC, especially if it is one of the very first and regardless of any flaws. This "honeymoon phase" makes an FEC appear phenomenally successful when in reality the concept may not have the correct formula to sustain that business. Additionally, the market might not be large enough to support two FECs.

Here's a summary of some of the other classic mistakes we constantly see made throughout the world and what we will call the golden rules for the correct way to do things:

Build it and they will come

FEC developers in emerging markets often don't examine feasibility. They just figure that since they will have the first project and there is little or no competition, success is guaranteed. In fact, in many of the emerging markets there is no tradition or business culture for feasibility. Feasibility is a totally foreign concept to them, so that is why "build it and they will come" seems so logical to those developers.

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Yes, some people might come, but is there a large enough trade area to make the centre and its concept a long-term financial success? Are there enough households with the needed demographics in the centre's trade area to generate the necessary attendance and per capita expenditures (spending per person per visit) on a repeat basis?

Many factors need to be considered and evaluated in a market and economic feasibility study to determine this including:

- *How large will the geographic trade area be based on the concept and location? Typically, for FECs, the trade area won't be the entire city.*

- *What is the demographic composition of the trade area and is there a sufficient population of the target demographic to support the centre?*

- *What size and mix of attractions does the project need to create the necessary length-of-stay, per capita spending and repeat appeal to make it a long-term success?*

- *Does the concept have long-term repeat appeal?*

- *What will the attendance and per capita spending be that in turn determines total revenues?*

- *What will the project's cost be to develop, including all hard and soft costs?*

- *Is there sufficient parking?*

- *What will the operating expenses be? This includes labour costs and cost of goods sold.*

- *What will the profit and return on investment be?*

Development and operating costs can vary greatly from one country to another. Things such as labour cost, import duties, rent, land costs and construction costs also have a wide variance from one country to another. Although rent and/or land and construction costs might be higher in one country, lower labour costs there might offset it compared to another country. And obviously, what people will be willing to pay for entertainment in a particular country has a large bearing on financial feasibility. All these factors have to be carefully evaluated during the feasibility phase.

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Since we are first to market, quality isn't important

The assumption here is that since there is little or no competition, the project will work regardless of how low the quality or how cheaply it is built.

Yes, the FEC may be the first to be developed, but it won't be the last. Competition will soon come and those centres will improve on quality and take away business.

Cheap land outside the main city will work

Again, the assumption here is that since there is little or no competition, people will come regardless of the location.

FECs need to have a length-of-stay of around two hours. This means that the vast majority of customers will not be willing to travel more than 15 to 20 minutes to visit. An FEC's drivetimes determine how large its trade area will be and who is in that trade area. Cheap land or rent often equates to a small trade area and low revenue. Often the more expensive land or rent will produce the highest revenues and be the most profitable project, as it will have a larger trade area population and significantly higher revenues.

We'll make prices low and go for quantity to appeal to the broadest population

The thinking here is that the developers want to attract the C and even the D socioeconomic classes who have limited disposable incomes, so prices have to be low.

For an FEC this economic strategy just won't work no matter what country it is in. When you operate an entertainment centre, you are selling time-capacity units. For example, if you have a ride, the ride will only accommodate so many people per hour. Let's say we have a ride that accommodates 20 customers at once and gives a five-minute experience. It will take a certain amount of time for customers to get off the ride and new customers to get on. So in our example, if the ride is operated as efficiently as possible, it might take three minutes to change the riders. Ultimately you are really selling an eight-minute seat capacity experience. That means the ride at 100 per cent capacity will only accommodate 150 customers or seat-capacity-units per hour.

All FECs have busy times on weekends and holidays, when the vast majority of business will occur, and during other times business will be slow or even do no business at all. Lowering the price doesn't change those time periods; it only increases the number of possible customers during those times. So if you have a low price, the ride we used as an example still won't handle more than 150 customers during the busy times. You can't increase the number of customers that the ride will handle per hour

by lowering the price.

So what happens when you have a low price to attract more people is that your profit decreases since you get less revenue per hour, yet the FEC's capacity, development and operating costs remain the same. Attracting the lower socioeconomic classes also drives away the customers the centre really should attract, the C+, B and even A classes who have the most disposable incomes and will pay higher prices. Another possible issue is that the centre can become too crowded, discouraging repeat business that is needed for long-term success.

Have a little bit of something for everyone - children, families and adults

Actually this thinking isn't limited to emerging markets, as we find many start-up entrepreneurs in the West also planning their centres to attract everyone by having a little bit of something for everyone.

This approach continues to be one of the great myths in the family entertainment centre industry. People think they will have the best chance of success by trying to attract everyone. The problem with this strategy is that when you try to attract everyone, you need to have a little bit of something for each group, so you don't end up having a wide enough variety, what is known as the needed critical mass to attract any one group. You just end up not being special to anyone. Theme parks are large enough to offer adequate variety to different groups, but family entertainment centres are not. Another issue is that many groups are not compatible, especially in an indoor environment. Crowds of teenagers will drive away both the family and adult markets. Older children don't want to be mixed in with younger children. Adults groups aren't attracted to children's or family projects.

Although it is counterintuitive to most first time LBE developers, time has shown that successful centres focus on one niche market. That is why Chuck E. Cheese's that targets the young children market and Dave and Buster's that targets the adult market have been around for over 30 years in America and continue to expand. You won't find an alcohol bar or billiards in Chuck E. Cheese's nor find children's games such as Whack-a-Mole in Dave and Buster's, and that is exactly why they are so successful. They are highly focused to please one market segment.

Start small

We'll make the project as small and inexpensive as possible and expand later using the profits.

All entrepreneurs and investors want to minimise their risks, so a small FEC with less development cost naturally seems to make sense. The problem here gets back to critical mass. Unless the centre is large enough to generate a sufficient length of stay (the shorter the length of stay, the smaller the trade area will be) and have enough variety to be attractive, it won't have a large enough trade area nor attract enough customers to generate the profits needed to expand. And the investment risk is greater with smaller centres than larger ones. As soon as someone develops a larger FEC with the needed critical mass, the small centre will be perceived as the inferior centre and lose whatever business it might have.

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Copy an American model

Everyone loves American culture, right? Levi's, rock 'n' roll, McDonald's - sometimes it seems like they're trying to take over the entire world. Although many cultures embrace American concepts, those concepts still must be adapted to the unique character of that culture.

Our company knows from experience that successful international FECs are not 100 per cent copycat versions of western FECs, but are tailored to the country and local area's unique culture, including its traditions, customs, values and patterns and settings of leisure, family life, entertainment, dining, socialisation and play. A culturally correct design translates into profits because it provides an experience that is meaningful to its guests.

Doing this isn't easy. It means rethinking the fundamental elements of the FEC and customising the physical facility, its mix of attractions and its operations to the unique considerations of the local culture. Even such basic design elements as colours, finishes, shapes and scale of space vary from culture to culture. Americans, for example, require a lot of territorial space and are comfortable with large-scale environments. Other cultures prefer a smaller scale and less territorial space. Different cultures also interpret design shapes and patterns differently. What might seem like a disorganised and confusing mosaic of tiles in one culture will seem comfortable and familiar in another. What may be a preferred fun colour in one culture might be associated with death in another culture. Even the speed of escalators differs. The fast-paced US escalator will scare the heck out of someone from a more languid culture.

Other important considerations are how the genders relate, how parents and children relate, and the culture's values, traditions, customs and religious beliefs. These elements affect weekday business, because, for example, you may be designing the FEC for child minders coming with children rather than for mothers. Another example of how traditions affect FEC planning involves birthday parties, a major source of revenue for FECs. In the US, a party room designed for 12 children and six adults will do just fine. But in countries with large extended families, they'll be spilling into the hallway. And in other countries, celebrating birthdays at all runs counter to religious customs.

The development of a family entertainment centre is full of hazards and myths. This is especially true in emerging markets when local entrepreneurs develop the early centres. The lessons for success have already been learned over more than three decades of trial and error in the West. Being first to market or one of the earliest centres doesn't assure long-term success. There are no shortcuts to developing a profitable FEC. Feasibility, due diligence and understanding what makes for a successful FEC is the only route to long-term profitability regardless of its location and when it is developed.

Randy White is the CEO of the White Hutchinson Leisure and Learning Group, a multi-disciplinary firm that specialises in feasibility, concept and brand development, design and consulting for entertainment facilities. Over the past 26 years the company has worked for over 500 clients in 32 countries and won 16 first-place design awards. The company publishes an occasional Leisure eNewsletter, Tweets (@whitehutchinson) and blogs. He is also a founder, co-Regent and presenter at Foundations Entertainment University, now in its 13th year.