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Revenue Theory: Why Is Revenue Operations Important?
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Revenue Operations in Practice
Skills Exercise – Case Study

Objectives

Upon completion of this course, attendees will be able to:

- Describe the ways in which attraction revenue operations differ from high street retail
- Discuss the importance of revenue operations to an attraction’s total revenue
- Definition of terms: per capita, penetration, cost of goods, etc.
- Review the three major types of revenue operations
- Identify the key operational challenges for each area
- Describe pricing, layout and merchandising strategies to improve revenue operations results
Industry Overview

What do we mean by revenue operations?
• All the non-gate revenue sources in a typical attraction
• Revenue types:
  • Food & Beverage-In-park options, catering opportunities
  • Retail-Merchandise
  • Games of skill, videos, redemption
  • Other (lockers, parking, rental [strollers, wheelchairs, etc.])
  • Revenue partners (leased or concession operations) – Opportunity to diversify offerings and increase bottom line by leasing to established brand outlet for food or retail services

Industry Overview (cont’d)

What are the operating characteristics of these revenue areas in the attractions industry?
• Limited park season – Approx. Memorial Day to Labor Day
• Impulse purchases – One chance to capitalize; need to have right product available at the right time in the right location...
  • Limited repeat business – Many guests come only once a season
• Season pass holders often do not spend much per visit (no need to “bring home a memory”)
  • Effects on buying/pricing
Industry Overview (cont’d)

What makes park retail different from traditional retail?

- Seasonality (limited opportunity for business) □ Attractions have one opportunity to make sale
- Majority of sales are at day’s end □ This is a difficult shift to staff and competes with guests’ desire to get home or to reserve last of disposable income
- Inventory commitments made months in advance of opening (difficult to change and limited time to update)
  - Merchandise Planning - Categories/Pricing/Quantities/Imports v Domestic
- Need to turn inventory quickly - 2X Goal (traditional retail 3+) □ Difficult to hold from one season to the next
  - POS - Item (SKU) sales/Projections...

Industry Overview (cont’d)

Characteristics of midway games or games of skill

- Important to entice guests’ interest through employee salesmanship, flash (merchandise display), and excitement of the area
- Play encourages play □ When one guest plays, more are drawn in
- Prize drives play, guest will play based on prize assortment, size and price
- Cash handling procedures & systems are different than traditional retail and must be managed carefully
- Midway games add incremental per cap to attractions which can be approximately 10%
- Redemption games are becoming increasingly more popular
- Videos are becoming more difficult
Revenue Theory

**Why is revenue operations important?**

- All three types (F&B, retail, and games) are very profitable operations in and of themselves – They contribute significantly to the facility’s bottom line
  - F&B/retail/games sales are critical to success – The industry’s business formula is based on volume Funworld=36+% VS USA Parks=23%
  - Revenue outlets are needed at the facility to meet guest demand – For food/drink, gifts/souvenirs, entertainment, variety
  - A part of the park experience

Revenue Theory (cont’d)

**Operations revenue and expense figures**

- Potential revenue opportunities from the key revenue areas – Proportion of total income (All reporting amusement parks)
  - 32.6% – Total % of income from all three revenue types, made up of:
    - Food & beverage: 19.2%
    - Retail: 7.1%
    - Games: 6.3% (2007 survey 9.8%)**
- Typical revenue and expense ratios:
  - Globally, all in-park revenue* of amusement parks averages from 43% to 49% of the park’s total income
  - Globally, amusement park operations expenses average between 50% and 70% of the park’s total income

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* Includes F&B, retail, and games revenue plus tenant/concessions, sponsorships, and other revenue. (no parking)
**Key terms in revenue operations**

- **Per capita (per caps)** – Revenue divided by the number of visitors; Calculated for an individual location/facility, or sold item, and for the park as a whole, for a period (day, week, etc.)
  - *Importance:* “Levels the playing field”; enables comparison of the sales on any item, or sales outlet, with any other
  - Effective management tool
    - Sales per square foot....sales per operating hour

- **Cost of goods** – Wholesale price retailer pays to obtain an item
  - *Importance:* Directly impacts margin – Expense is taken directly from the bottom line

- **Labor costs** – Cost of the labor that was required to sell item
  - *Importance:* Impacts margin, is important indicator of both insufficient labor (understaffed) and surplus labor (overstaffed)

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**How operations (in-park) revenue is analyzed**

- To determine operations revenue, subtract the cost of goods and labor cost from sales revenue:
  - Revenue derived from sales (minus sales tax)
  - Cost of goods
    - =Gross margin
    - Labor cost
      - Supplies, equipment repairs etc.
    - =Net/Operating profit
- The result is the net profit from revenue operations
Revenue Theory (cont’d)

Average (Mean) cost of goods sold for each revenue operations area –
Cost-of-sales ratios (Includes product, packaging, freight, tax)

- As percentage of revenue produced in that area

<table>
<thead>
<tr>
<th>Category</th>
<th>Park Location</th>
<th>Number of Guests</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>U.S. &amp; Canada</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Open ≤ 200 Days</td>
<td>Open &gt; 200 Days</td>
</tr>
<tr>
<td>Redemption Arcade Games</td>
<td>16%</td>
<td>20%</td>
</tr>
<tr>
<td>Plush/Operator Games (2004)</td>
<td>25%</td>
<td>27%</td>
</tr>
<tr>
<td>Food and Beverage</td>
<td>33%</td>
<td>30%</td>
</tr>
<tr>
<td>Merchandise (note variance)</td>
<td>32%</td>
<td>37%</td>
</tr>
</tbody>
</table>

Key metrics for all revenue operations

- Per caps – Amount spent per visitor
- Penetration – Sales/Checks-measured against total number of visitors in any given period
- Factors that influence the above two metrics
  - Visitor mix
    - Tourists – More likely to buy souvenirs
    - Local repeat visitors – Less spending per trip
    - Group outings – School classes, seniors, etc.; patterns vary
  - Weather
  - Facility’s mix of offerings
FunWorld Park’s Revenue Operation

Revenue operations outlets at FunWorld

- 7 F&B outlets - 3 Stands, 2 Sit Down Fast Food, 2 Full Service
- 12 carts
- Small catering operation - Picnic Grove - 700 capacity
- 5 retail outlets - 2 gift Shops, 2 Tee-Shirt Stores, General Store
- 2 games venues - 22 Total Games

Food & Beverage outlets*

* Note: FunWorld Park does not have branded food outlets.

- Types of F&B □ Relative advantages and disadvantages (from operations viewpoint)
  - Food stands/carts (no seating) (12)
    - Pros/Cons
  - Walk-up food & beverage outlets (3) □
    - pizza, snacks, etc.
    - Pros/Cons
  - Sit-down fast food restaurants (2)
    - Pros/Cons
  - Sit-down table service restaurants (2)
    - Pros/Cons
**FunWorld Park’s Revenue Operation (cont’d)**

**Food & Beverage outlets (cont’d)**

- Key metrics and measures of success for F&B
  - Per Capita/Average check
  - Number of table turns per day (times a table is used by different party)
- Cost of Sales
- Labor cost

- Challenges for FunWorld’s F&B operations manager
  - Analyze sales information to determine food items that are selling and those that are not and modify orders accordingly
  - Improve per caps/Margins

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**FunWorld Park’s Revenue Operation (cont’d)**

**Retail outlets**

- Types of retail
  - **Carts** Pros/Cons: Capture midway traffic, quick transaction time, ease of setup & tear down / high exposure to theft/inventory/cash control, weather, challenge to re-stock during business hours-Impulse items
  - **General gift store** Pros/Cons: Specific, unique product mix, higher average transaction, upsell opportunities / drawing guests into the store, slower turn & higher risk on inventory/high number of SKUs (3)
  - **Souvenir/gift stores at exits of rides** Pros/Cons: Forced traffic flow, relevant product mix, memory of the day impulse / lower spend per cap, limited opportunity to capture attention & sale (2)
  - **Photo booth** Pros/Cons: Incremental spend, low inventory investment, opportunity for multiple location / equipment maintenance, new technologies/concession?
FunWorld Park’s Revenue Operation

Retail outlets (cont’d)

• Key metrics and measures of success for retail
  • Per Capita/Gross Margins/Markdowns/Cost of goods
  • Inventory control – POS
  • Turns
    – “Open to buy” – Retail management tool
• Challenges for FunWorld’s retail operations manager
  • Merchandise Plan-need to make buying decisions months in advance – Anticipate styles and fads-Import/Domestic
  • If items are not selling they must be unloaded quickly or they’ll need to be written off – A reality....

FunWorld Park’s Revenue Operation

Games/arcade

• Types of games □ Relative advantages and disadvantages
  • Single-player games (midway-type)
    – Pros/Cons
  • Multi-player games (midway-type)
    – Pros/Cons
  • Redemption centers (arcade game venue; points won earn tickets, which the player can accumulate to redeem for prizes at different value levels)
    – Relates especially to video games/arcades
    – Pros/Cons
FunWorld Park’s Revenue Operation

Games/arcade (cont’d)

- Key metrics and measures of success for games
  - Virtually the same...New terms Gaffe (set-up), Give (cost of goods), Flash (merchandising) for the game; how many winners-How to control

- Challenges for FunWorld’s games operations manager
  - Purchasing challenges are similar to retail: Need to make decisions six months in advance as to what will be “hot” prizes-
  - Popularity of prizes can be major driver of whether visitors play games or not-Outgoing staff helps (Hiring practices)
  - Redemption centers – The redemption tickets equal cash; there must be an effective system to control them-Think Skeeball
  - Videos-How many?/Mix?/Redemption Component?/Who owns?/Split?

Revenue Operations in Practice

Practical factors affecting revenue operations

- Layout/placement of F&B, retail, and game areas **
  - Location of all types of outlets must preserve traffic flow
    - Must be integrated with the attraction design and layout
    - Outlets easily accessible from, but not impeding, main flow of traffic
    - Ride exit flow (recent trend: exiting a ride through a gift shop)
  - Food – Offer convenient venues for all types of food needs
    - Quick drink stands, vending machines, snack shops
    - For popular restaurants, open location – Space for lines, in shade
    - Provide convenient cold drinks on hot days, and vice versa
  - Retail – Expert visual merchandising, reflect theme/brand
    - Make it as easy as possible for people to spend money, but not feel they’re being pressured
Practical factors affecting revenue operations (cont’d)

- Layout/placement of F&B, retail, and game areas (cont’d)
  - Games – Should be located in high traffic areas
    - Display the plush (prizes) outside – Appealing, draws interest

- Pricing strategies
  - Products should be at prices relative to competitors (both in the park and on the street) and customer profile
  - Product offerings should cover all price levels to meet the spending composition of all guests
  - “Trading guests up without trading them away” – Focus on average retail size of transaction ($5-7) and increase units per transaction, while balancing the layering of price points

- Inventory control
  - An attraction selling $5 million at retail is dealing with thousands of items, which need to be sold to be profitable
  - Need for strong policy and procedures, good systems, and good management to move the merchandise
  - Important to develop inventory and cash control procedures and physical inventory procedures
  - “Open to Buy” report
    - Definition: The dollar amount of merchandise budgeted for a particular period that a buyer has not yet ordered
    - A management tool – Tells buyer what is selling and not selling, to allow decisions early in season of what to discount-TRENDS/PROJECTIONS
Practical factors affecting revenue operations (cont’d)

- **Inventory control (cont’d)**
  - Shrinkage/loss prevention/Cash Control – Cannot afford to ignore
    - Goal is not to eradicate it (which is impossible), but to get it down to a number that is manageable
    - Need to have enough controls to “keep the honest people honest” but not make the park an unpleasant place to work

- **Employee training  □ Upselling**
  - Employees – Well-trained in cash register, suggestive selling
  - Guest contact – Individual sales to each customer; focus on individual sales, upselling, and transaction speed-Eye Contact/Smile
  - The right employees are crucial in games – Fun, energetic, engaging, outgoing; they will make or break success of games

Creating new operations revenue sources

- Non-traditional revenue sources/opportunities: VIP tours, front-of-line access, birthday parties, sleepovers
- Mitigating the unpredictability of retail – Increase operations revenue by:
  - Targeting outer-market visitors: Learn what demographics are being marketed and focus product mix to that market
  - Leveraging group sales: Find out (from Group Sales Dept.) about park’s group business and tailor food and retail products specifically to reach those groups
  - Wooing repeat customers: Local visitors may respond to effective couponing and promotion of non-logo items (fudge, candy, etc.)
FunWorld Park’s Revenue Operations have shown consistent results, but each department has areas in which it can improve...

- Identify each area’s:
  - Major strengths and weaknesses
  - New operating strategies you would employ to improve performance
  - Any capital investments you would propose to improve the bottom line
FUNWORLD RETAIL OPERATIONS

THE IMPORTANCE OF A RETAIL STORE

• PROFIT CENTER
  – The difference between your overhead costs & retail sales & is profit!

• PROMOTION
  – Your customers go home advertising your park with the custom souvenirs they buy.

• CUSTOMER SERVICE
  – You provide a convenience to your customers!
MERCHANDISE BUYING

• GENERAL
  – BROAD SELECTION
  – APPEAL TO DEMOGRAPHICS OF GUESTS
  – KEEP ASSORTMENT FRESH & UPDATED
  – MAINTAIN AMPLE INVENTORY LEVELS

• MERCHANDISE ASSORTMENT
  – CUSTOM SOUVENIR ITEMS
  – CONVENIENCE ITEMS (SUNSCREEN, WATER, ASPIRIN)

VISUAL MERCHANDISING
STORE LAYOUT

✓ DIRECT TRAFFIC
  ➢ Decompression Zone: The entry area where the customer makes an adjustment to being inside (removes their glasses, re-adjusts bags, etc), takes visual stock of the entire store. Few sales happen here.
  ➢ Strike Zone: Customer looks at the price of the first item, generally to their right, to gauge store prices. Place affordable & fun products here!
  ➢ Right Hand Read: 90% of Customers veer to right as they enter. Make this wall/section look great!!
VISUAL MERCHANDISING
STORE LAYOUT

- **Necessities:** High demand products are placed in the rear of the store to pull customers through the store, increasing the visibility of other products along the way.

- **Checkout/Registration:** This location offers the most captive audience and usually is the busiest. Place reasonably priced impulse items (Souvenirs, candy, toys)

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VISUAL MERCHANDISING
STORE LAYOUT

- **SHELF SPACE**
  - Reasonable heights
  - Shelves not to deep
  - Utilize high shelves for visual displays
  - Child Friendly & Safe

- **AISLES**
  - Must be wide and clearly defined for emergency exiting
  - Must keep with ADA (Americans with Disability Acts) directives

- **SEE PICTURE A**
VISUAL MERCHANDISING

STORE LAYOUT-MAIN GENERAL STORE

VISUAL MERCHANDISING

PRODUCT

- OPERATIONAL
  - LIGHTING
    - General lighting illuminates both the merchandise and the traffic path in a store. It is usually not flexible.
    - Accent lighting can accentuate merchandise and is usually designed for adjustability.
    - Task lighting is used in work areas, such as under the counter of the cash wrap or in a stock room.

- CLEANLINESS & ORGANIZATION
  - Dusting/cleaning
  - Folding and facing
VISUAL MERCHANDISING
PRODUCT

• MERCHANDISE
  – PRECISE BUYING
    • Visually appealing products
    • ABUNDANT Inventory
    • Plan where product will go
  – PRODUCT DISPLAY
    • Layering
    • Product Rotation
    • Create Product "Niches"
    • Use “props”
  – DISPLAYS-COMMERCIAL QUALITY
    • Use POS (Point of Sale) signs & displays to theme store
    • Separate Sale
    • Seasonal/Theme
  – COLORS-Light to Dark (See Picture B)

VISUAL MERCHANDISING
PRODUCT-Picture B

• COLORS SHOULD FLOW IN ORDER OF LIGHT TO DARK
• FRONT TO BACK, OR LEFT TO RIGHT
• COLORS CAN ALSO BE GROUPED BY COLOR FAMILIES (PASTELS, BRIGHTS, DARKS, BLUES, REDS)
• STILL FOLLOW THE LIGHT TO DARK RULE
SELLING
STORE PROMOTIONS

• Great customer service is the best way to promote your store!
  – Personnel: Hire the right people
    – Friendly & Polite
    – Salesmanship
    – Comprehend & follow all policies/procedures
    – Proactive in store maintenance
  – Product
    – Understand & train employees on product knowledge
      » Where/Why/How
    – Offer the right product selection at the right prices
    – Pricing should be easily located, clear, and professionally priced
  – Store
    • Create a clean, organized, and "shoppable" layout
      – Make it child & camper friendly
    • Set & maintain merchandising standards