

# Managing Cost of Goods in Games Operations

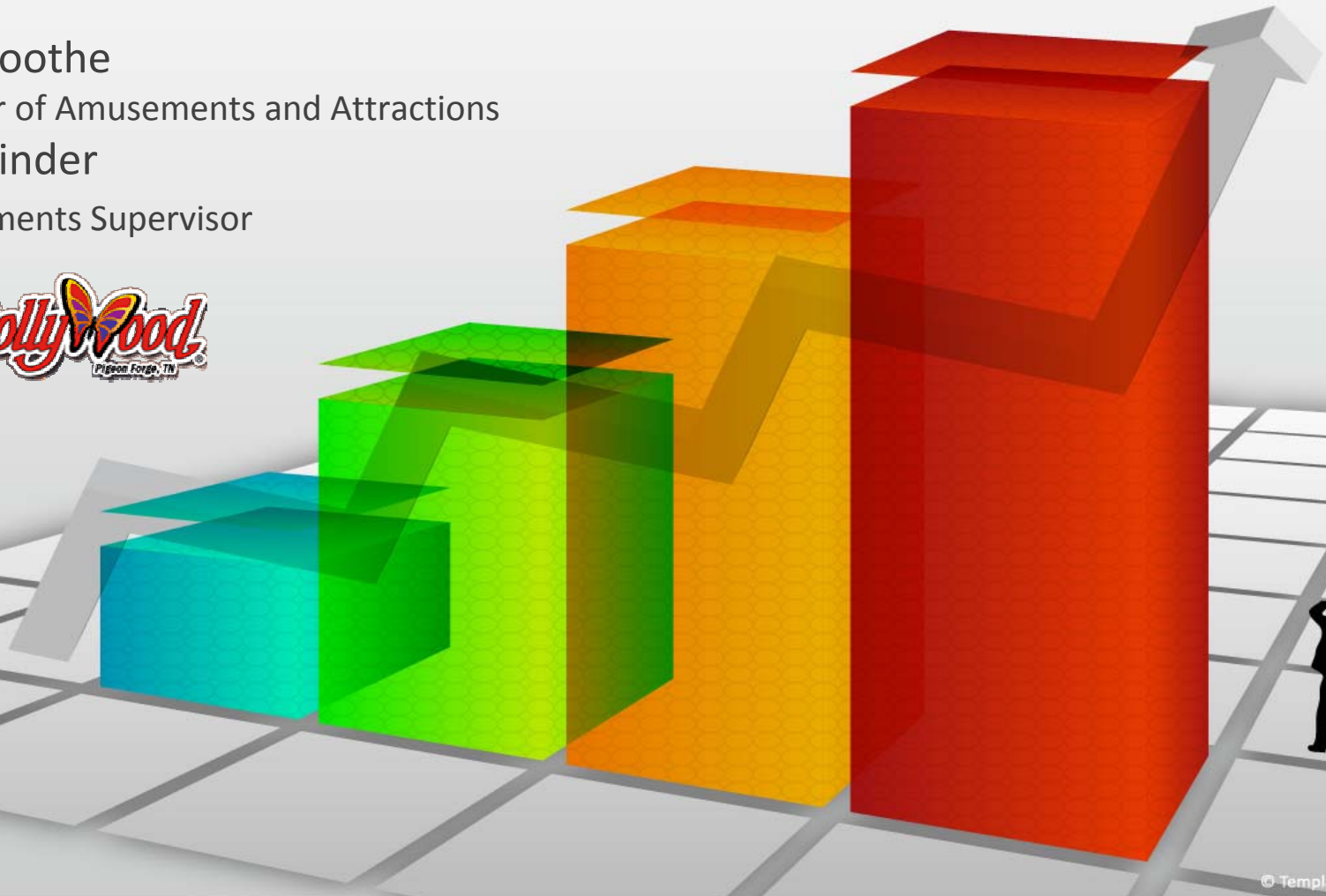


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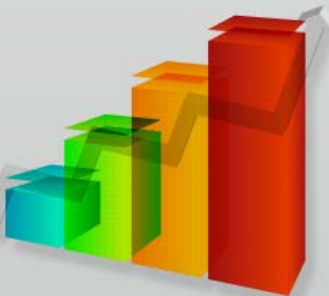
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- Amusements Supervisor



# Cost of Goods Management

- What is Cost of Goods?
  - AKA: COGS or Cost of Sales
  - Calculation
- How do we manipulate COGS? Why?
  - Prize Selection
  - Game Type/Rules
- The Bottom Line
  - What COGS tells us
  - Inventory
  - Contribution

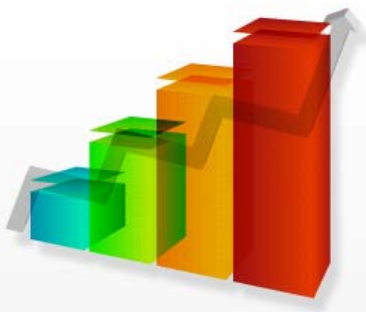


# COGS Defined:

- Is the **direct** cost of the product or services sold i.e.
  - Specifically: Wholesale price + Freight = Cost.
  - Does not include any other operating expenses i.e Labor Etc.
- Simple Calculation:

$$\text{COGS \%} = \frac{\text{Cost}}{\text{Sales}}$$

The COGS % determines your Gross Profit Margin: The ratio of total revenues to gross profit.



# Knowing your COGS

- Knowing your COGS is critical for maximizing your bottom line Profit. All things being equal, COGS can make or break your bottom line.

	Company A		Company B	
Sales	\$3,500,000		\$3,500,000	
COGS	\$1,050,000	<b>30%</b>	\$1,260,000	<b>36%</b>
Margin	\$2,450,000		\$2,240,000	
Expenses	\$750,000		\$750,000	
Bottom Line	<b>\$1,700,000</b>		<b>\$1,490,000</b>	

**What should your COGS % be?**

Depends on your specific Goals: General Industry is 25% to 35%

**Note:** COGS can be micro-managed to the nth degree depending on your style of operation, Game types, Plush selection, volume, guest demographic, etc etc etc.

## Main Factors

- Prize selection:
  - Plush vendors generally arrange there product by numbered sizes 1,2,3 etc. or categories like Maxi Pitch, Jumbo, Crazy Ball etc. each with a corresponding price range ( ex: #7 or Maxi-Pitch \$ 11.00 to \$14.50)
  - What size and price can you use for a particular game?
    1. Establish What COGS % is your Target for that particular game?
    2. What price point will the game be played at?
    3. What is the win to play ratio for the particular game?

Price Per Play

\$3.00

Avg. Plays per Win

6

Sales per Winner

\$18.00

COGS Target %

30%

Cost per piece

\$5.40



# Knowing the Variables

Price Per Play

\$3.00

Avg. Plays per Win

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Sales per Winner

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- Reaching your COGS target can be achieved using more variables than basic Cost per piece

- Price per play



1. Will the guest play the same game for \$1 more? \$2 more?
2. Is it the Game itself driving sales, or the Prize?
3. Experiment: determine what price point gets the most penetration and calculate cost/prize.

- Game rules



1. Increase or Decrease win/play ratio by tweaking rules:
  - adding/subtracting balls, throws, rings etc per play
2. Experiment: determine what rules set gets the most penetration and recalculate plays per winner.

# Knowing the Variables (cont)

- Coming full circle: Letting the prize itself determine the setup



- Perceived Value: Do your guests feel like they are getting a great item for their dollar
- Closeout: Larger Size for a Lower price.
  - Use discretion
- Hot Item: Is it a great new Idea, the latest movie, the hottest license
- Container Goods: Can you buy in volume to get lower cost per piece and freight?
- All factors to be used in Managing COGS



If it's a great piece, Make a home for it!!!

# The Bottom Line

- What COGS % Can tell us: If your % is significantly off target, you may have any number of issues
  - You may need to tweak the game rules
  - You may have to Raise/Lower price of prize
  - You may have wrong inventory counts
  - Employee issues
    - Awarding wrong prizes
    - Setting there own rules
    - Theft: Properly monitored COGS can red flag theft very quickly

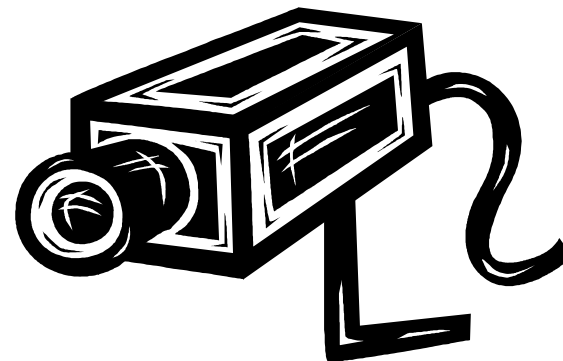
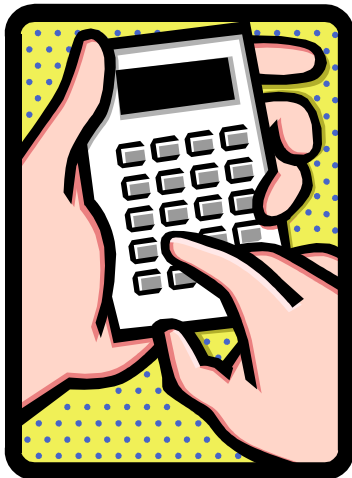




# The Bottom Line (cont)

- Cash Control

- Organizations will vary, but its critical that you have systems in place to accurately track and control revenue.
  - Loss in revenue (especially through theft) inflates your COGS % : in effect taking from your pocket twice.
  - Strict cash control policies/procedures, auditing staff, and a security presence are a must.



# The Bottom Line (cont)

- Inventory

- How often should you inventory?
  - Daily, Weekly, Monthly?
- Take your time and ensure accurate counts.
- Ensure all transfers and stock moves have been documented
- Invest in Software or create your own stock ledger
- Statements of Profit and Loss should not contain any surprises!!



Act Att		Sales					Cost Of Sales						Labor				Cont.		PPP					
Proj Att	20000	\$					Stock Cost			Meter			Expense			\$				%		\$		
CC	Name	Midday	Final	Total	Plan	Variance	S	M	L	S	M	L	Actual	Plan %	Act %	Hours	Rate	Expense	Plan %	Act %	Plan	Act.	Plan	Act.
4505-01	Bait & Tackle			\$0.00	\$200.00	\$200.00							\$0.00	35.0%	#DIV/0!			\$0.00	10.9%	#DIV/0!	52.3%	#DIV/0!	0.010	#DIV/0!
4506-01	DW Derby **			\$0.00	\$400.00	\$400.00							\$0.00	34.0%	#DIV/0!			\$0.00	7.9%	#DIV/0!	56.8%	#DIV/0!	0.020	#DIV/0!
4508-01	Ring A Bottle			\$0.00	\$600.00	\$600.00							\$0.00	22.0%	#DIV/0!			\$0.00	16.3%	#DIV/0!	56.7%	#DIV/0!	0.030	#DIV/0!
4509-01	Scale			\$0.00	\$800.00	\$800.00							\$0.00	45.0%	#DIV/0!			\$0.00	15.4%	#DIV/0!	37.1%	#DIV/0!	0.040	#DIV/0!
4510-01	Skeeball			\$0.00	\$1,000.00	\$1,000.00							\$0.00	30.0%	#DIV/0!			\$0.00	13.3%	#DIV/0!	54.6%	#DIV/0!	0.050	#DIV/0!
4511-01	Lucky F.			\$0.00	\$200.00	\$200.00							\$0.00	37.0%	#DIV/0!			\$0.00	16.9%	#DIV/0!	42.3%	#DIV/0!	0.010	#DIV/0!
4512-01	Swisher			\$0.00	\$400.00	\$400.00							\$0.00	33.0%	#DIV/0!			\$0.00	11.9%	#DIV/0!	53.2%	#DIV/0!	0.020	#DIV/0!
4513-01	Toss Across			\$0.00	\$600.00	\$600.00							\$0.00	32.0%	#DIV/0!			\$0.00	11.5%	#DIV/0!	54.7%	#DIV/0!	0.030	#DIV/0!
4514-01	Center Ring			\$0.00	\$200.00	\$200.00							\$0.00	32.0%	#DIV/0!			\$0.00	14.4%	#DIV/0!	51.3%	#DIV/0!	0.010	#DIV/0!
4535-01	3 Point			\$0.00	\$400.00	\$400.00							\$0.00	30.0%	#DIV/0!			\$0.00	15.0%	#DIV/0!	50.0%	#DIV/0!	0.020	#DIV/0!
4516-01	Duck Pond			\$0.00	\$600.00	\$600.00							\$0.00	36.0%	#DIV/0!			\$0.00	14.6%	#DIV/0!	47.0%	#DIV/0!	0.030	#DIV/0!
4517-01	Bushel Ball			\$0.00	\$200.00	\$200.00							\$0.00	30.0%	#DIV/0!			\$0.00	16.4%	#DIV/0!	51.0%	#DIV/0!	0.010	#DIV/0!
4518-01	Goblet Toss			\$0.00	\$400.00	\$400.00							\$0.00	35.0%	#DIV/0!			\$0.00	13.2%	#DIV/0!	49.7%	#DIV/0!	0.020	#DIV/0!
4519-01	Freethrow			\$0.00	\$600.00	\$600.00							\$0.00	39.0%	#DIV/0!			\$0.00	9.7%	#DIV/0!	49.7%	#DIV/0!	0.030	#DIV/0!
4520-03	Football			\$0.00	\$200.00	\$200.00							\$0.00	30.0%	#DIV/0!			\$0.00	10.8%	#DIV/0!	57.4%	#DIV/0!	0.010	#DIV/0!
4521-01	Football 2			\$0.00	\$400.00	\$400.00							\$0.00	35.0%	#DIV/0!			\$0.00	15.6%	#DIV/0!	46.8%	#DIV/0!	0.020	#DIV/0!
4522-01	Skeeball 2			\$0.00	\$600.00	\$600.00							\$0.00	29.0%	#DIV/0!			\$0.00	16.1%	#DIV/0!	49.9%	#DIV/0!	0.030	#DIV/0!
4523-01	Crane 3			\$0.00	\$200.00	\$200.00							\$0.00	30.0%	#DIV/0!			\$0.00	0.0%	#DIV/0!	69.0%	#DIV/0!	0.010	#DIV/0!
4525-01	Push Sales **			\$0.00	\$400.00	\$400.00							\$0.00	0.0%	#DIV/0!			\$0.00	0.0%	#DIV/0!	0.0%	#DIV/0!	0.020	#DIV/0!
4530-01	Tornado A. **			\$0.00	\$600.00	\$600.00							\$0.00	30.0%	#DIV/0!			\$0.00	16.2%	#DIV/0!	46.8%	#DIV/0!	0.030	#DIV/0!
4532-01	Kidfest			\$0.00	\$200.00	\$200.00							\$0.00	0.0%	#DIV/0!			\$0.00	0.0%	#DIV/0!	0.0%	#DIV/0!	0.010	#DIV/0!
4533-01	Crane 2			\$0.00	\$400.00	\$400.00							\$0.00	31.0%	#DIV/0!			\$0.00	0.0%	#DIV/0!	69.0%	#DIV/0!	0.020	#DIV/0!
4507-01	Vending			\$0.00	\$600.00	\$600.00							\$0.00	0.0%	#DIV/0!			\$0.00	0.0%	#DIV/0!	0.0%	#DIV/0!	0.030	#DIV/0!
4537-07	Top Glow 1			\$0.00	\$200.00	\$200.00							\$0.00	31.0%	#DIV/0!			\$0.00	8.3%	#DIV/0!	53.4%	#DIV/0!	0.010	#DIV/0!
4538-01	Crane 1			\$0.00	\$400.00	\$400.00							\$0.00	31.0%	#DIV/0!			\$0.00	0.0%	#DIV/0!	69.0%	#DIV/0!	0.020	#DIV/0!
4539-01	Dog Pounder			\$0.00	\$600.00	\$600.00							\$0.00	30.0%	#DIV/0!			\$0.00	10.6%	#DIV/0!	57.7%	#DIV/0!	0.030	#DIV/0!
4540-07	Top Glow 2			\$0.00	\$200.00	\$200.00							\$0.00	31.5%	#DIV/0!			\$0.00	11.3%	#DIV/0!	55.3%	#DIV/0!	0.010	#DIV/0!
4541-01	Gone Fish.			\$0.00	\$400.00	\$400.00							\$0.00	30.5%	#DIV/0!			\$0.00	16.0%	#DIV/0!	50.9%	#DIV/0!	0.020	#DIV/0!
4524-01	Support Staff																\$8.00	\$0.00						
Games		\$0.00	\$0.00	\$0.00	\$12,000.00	\$12,000.00	xx	xx	xx	0	0	0	\$0.00	28.9%	#DIV/0!	0	\$8.00	\$0.00	10.7%	#DIV/0!	47.6%	#DIV/0!	0.600	#DIV/0!

Accurate tracking will keep you in the Game!

Comments/Questions?

