

## Keeping Your Redemption Percentage in Line

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Many of our redemption game locations have been experiencing higher redemption percentages over this past year. Here 'redemption percentage' is the [value of tickets redeemed at the prize counter for a period (usually weekly) divided by the gross revenues of all of the redemption games for that same period] multiplied by 100 percent (to convert to a percentage). This is not to be confused with 'ticket payout percentage' that is the number of tickets awarded from a game in relation to that game's revenue.

Average location ticket payout percentage can also be calculated for all your redemption games and can be different from redemption percentage, as some tickets are saved and lost, while a portion of saved tickets from previous weeks could be redeemed during the period of your calculation.

In general, the ticket payout percentage is usually 15 to 25 percent greater than the redemption percentage, or the average location ticket payout percentage is three to five percentage points greater than the redemption percentage when you are in the 25 percent range of redemption percentage.

The major reason that we are seeing higher redemption percentages is that the mix of redemption games in most of our family entertainment centers and arcades has slowly been changing. There are now a larger percentage of fast token action games such as Cyclone, Wheel of Fortune II, Wheel Deal, Goldzone, Tower of Power, Wonder Wheel, Big Haul, Smokin' Token, Treasure Falls, Pirate's Revenge, Round & Round, Goin' Rollin, and token pushers. We have been doubling up on some of the top earners and sometimes even tripling up because the ROI is so good and the future expected real depreciation is so low. The result is that the individual ticket payout percentages on these games are on the high end, some awarding 40 to 50 percent or even higher. And a few of the manufacturers of these top grossing games have become very clever in increasing the odds that their game will be among the top earners.

This has been accomplished by manufacturing the games with a high factory ticket payout percentage setting and making it very difficult to decrease the ticket payout percentage below a threshold level without changing the way the game was designed to be played. In other words, if you really try to lower the ticket payout percentage on certain of these games, you must take away one or more of the key elements of the game that makes it so popular to begin with.

The manufacturer does this because he or she knows that when we hear that a redemption game is grossing big revenues, very few seem to ask the next obvious question: What was the ticket payout percentage in relation to the game's revenues? Without both numbers, the revenue figure is almost meaningless. So the game operator is faced with a dilemma. To keep the redemption percentage between 25 to 30 percent each week, an option would be to further lower some of the other game ticket payouts, but this will just cause customers to play those games even less, and the higher ticket payout games even more, further unbalancing the redemption games operation.

After careful thought, I came to the conclusion that the easiest way to solve this problem is to just change the ticket vs. point formula on all of the prizes and leave the game settings the way they were. It is a lot easier to do than to adjust and readjust all of the redemption games, which is a never-ending process. I have often stated that, for the past 20 years, we have used 1.15 as the point formula, which is the actual cost of an item (invoice cost plus 15 percent for average sales tax and average shipping). This is why we have always valued a ticket at one cent for our calculations.

We have tested several new formulas, and are now using a 1.5 markup formula. This now means that each ticket is worth  $\frac{3}{4}$  of a cent or \$0.0075 (rounded down from an exact \$0.0076). As an example, an item that is invoiced at \$1.00 and actually costs you \$1.15, will now be set at 150 points (100 cents x 1.5). It will take 150 tickets valued at .0075 of a penny each to provide you with \$1.125 or your approximate cost of \$1.15. It also means that our previous redemption percentage has just been reduced by 25 percent and our weekly cost for prizes redeemed has also been reduced by 25 percent. If the weekly redemption percentage was 40 percent, it is now reduced to 30 percent when you use the new 1.5-formula.

Our revenues have not suffered and we have kept the customers used to getting a large amount of tickets (same as before) on each game. Of course, you are correct in noticing that our cost of tickets remains exactly the same. The only negative effect is that the customers will notice that every item is now more points, but we will have to live with that and continue to give them the best value we can. It is much better than turning a top earning good game into a low earning bad game.

Every action we take always has other opposite reactions. In this case I believe we have minimized the downside and solved our problem. That is until new games are released that have even higher ticket payout percentages that cannot be easily reduced. I accept the challenge because I am very happy that redemption game manufacturers continue to come up with some great games.

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