Executive Insights

Site-Based Entertainment: How to Distinguish an Enduring Idea From a Fleeting Fad

Consumer spending in the U.S. is changing, shifting from acquiring products to having experiences. Gone are the days when keeping up with the Joneses meant buying a boat to go along with your fancy cars, big-screen TV and myriad other possessions. The U.S. consumer is increasingly opting to collect experiences instead of material things (a fact we detailed on the global level in our previous *Executive Insights* Experiences With Character: The New Leisure Economy).

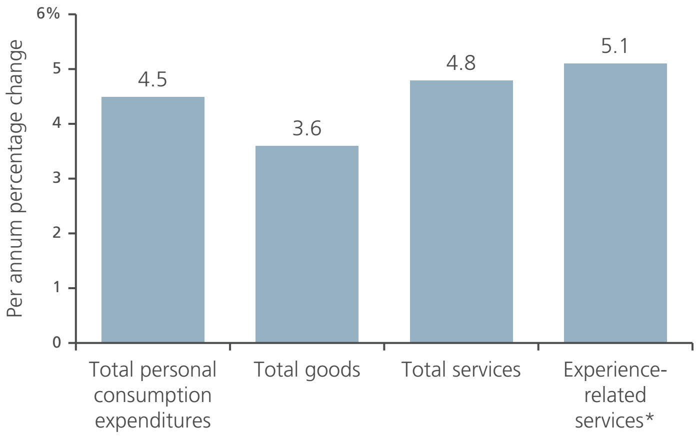
Figure 1 shows that spending on experiences is growing faster than spending on goods. This is even more true among millennials, who are 14% more likely than the general population to have attended an event in the past 12 months and to be actively saving for travel, according to recent reports by Eventbrite and Expedia.

This ongoing shift presents new opportunities for firms that operate site-based entertainment venues, such as theme parks, arcade bars, bowling alleys and trampoline parks. Indeed, numerous purveyors have popped up in recent years and successfully grown into cash cows.

For example, Topgolf is now a multinational operator and is redefining golf for the post-Tiger Woods generation by adding fun to what many still consider a game for their dad to fall asleep watching. Topgolf has grown remarkably fast, nearly doubling its locations from 28 to 52 in less than four years. Additionally, Sky Zone and CircusTrix have taken the backyard trampoline and turned it into a mecca for kids, growing to more than 180 U.S.

Figure 1

Annual growth in personal consumption expenditures (2015-18)



Note: *Includes recreation and food and accommodation services
Source: Bureau of Economic Analysis, L.E.K. research and analysis

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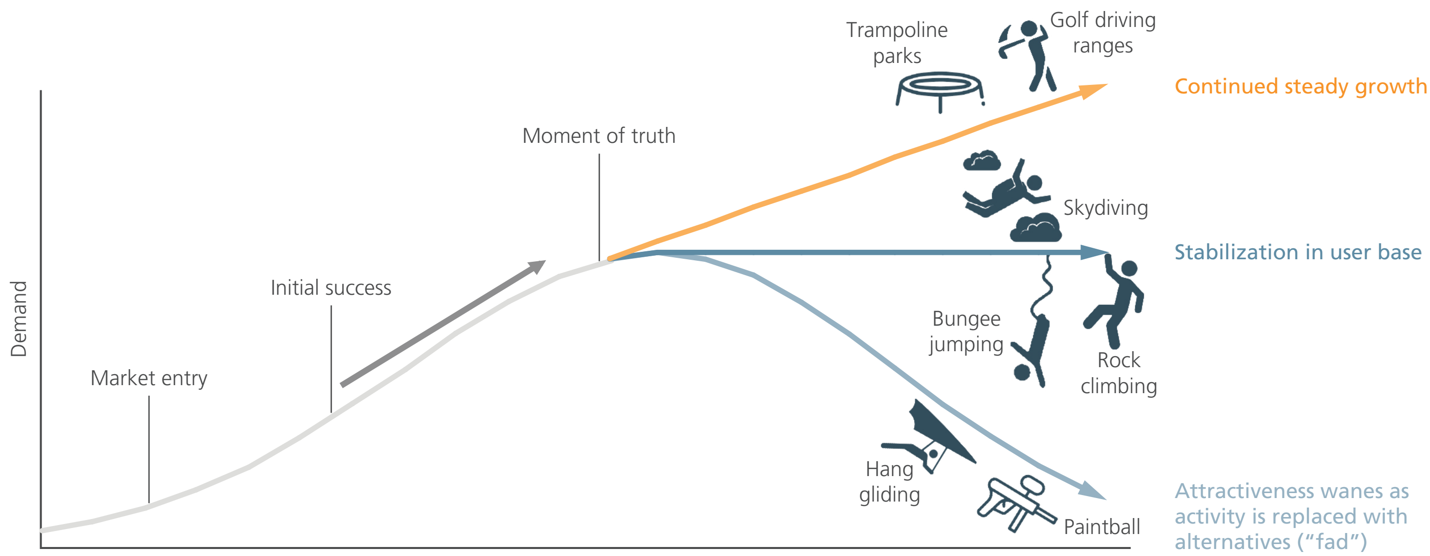
Figure 2
Life cycle demand for experiences



Source L.E.K. analysis

and 50 international locations. The trampoline park industry overall grew from just three locations in 2009 to more than 1,000 worldwide by 2017.

But what sets these successful concepts apart from the failures? How can you tell a long-term profit opportunity from a fad? For every Topgolf and Sky Zone/CircusTrix, there are examples like soft-contained play concept pioneer Discovery Zone, which rose to fame and market prominence in the 1990s almost as quickly as it fell and filed for bankruptcy. Similarly, there is ESPN Zone, the Disney-backed sports restaurant that closed its final holdout in Downtown Disney in 2018.

New concepts can often see initial growth driven by consumers' desire for novelty. However, the novelty of a concept can (though it doesn't always) wear off quickly as it expands — as seen with the "paths" in Figure 2 above.

As we detailed in our recent *Executive Insights* Experiences With Character: The New Leisure Economy, there are investment opportunities aplenty in the site-based entertainment arena. But how can operators and investors protect themselves and make sure they are backing a winning concept?

Of course, the first step is to understand the scale of the opportunity; investors and operators should not only consider unit economics but also so-called holding capacity (i.e., the number of units that could realistically be opened) and where the concept is along the saturation curve.

Once investors and operators have verified that the concept has sufficient "white space," they need to dive deeper and understand the four key elements (see Figure 3) that set successful concepts apart from those that never gain traction or that lack staying power. Each of these four elements helps predict not only which concepts will be successful but also how much of the total addressable market the concept can capture.

Site-based entertainment concepts that align well with these elements greatly enhance their chances of success. As new and different concepts arise to meet the growing demand for experiences and existing concepts look to grow, successful venues will need to carefully consider their approach to each of these elements. Ultimately, a deep understanding of your target consumer and what drives their visits is a must and the only way to guard against backing the wrong horse.

1. Repeatability

Definition: The ability to make consumers want to come back again and again. Concepts must avoid a "one and done" trap and find a way to differentiate the experience during each visit and/or create new experiences for consumers every time, and it's the first key element.

Concepts doing it well: Dave & Buster's, the leading U.S. family entertainment center, does well at creating new and differentiated gaming experiences by frequently refreshing its video and arcade game offerings. Such frequent refreshes ensure that consumers will have a different experience on each visit. For example, the launch of D&B's Jurassic World VR Expedition ride in 2018 was its largest-ever game launch. Additionally, D&B locations frequently host local events (e.g., Easter Bunny meet-and-greets, Super Smash Bros. tournaments) that help draw consumers back. D&B touted its strategic shift from being restaurant-focused to entertainment-focused as the driver of increased financial performance.

How can experience companies increase repeatability? Beyond just offering a good time, "eventize" your offering to drive repeat visits and keep things fresh. Turn *"I want to go again sometime"* into *"I HAVE GOT to go back this weekend."*

2. Shareability

Definition: The ability of consumers to physically or digitally share an experience with their network. The second key element, shareability, can also include elements of competition, or larger experiences that are appropriate for groups events such as corporate events, birthday parties and team events (e.g., for a Little League team or a Girl Scout troop).

Concepts doing it well: Topgolf excels at creating a social experience that consumers want to share with larger groups of friends. In addition, the style and glamour of Topgolf locations lend themselves well to social media sharing. The company took the simplistic driving range concept and turned it into a points-based competition where friends can compete for the top score. Throw in the ability to digitally share the glitz and fun of Topgolf's multilevel stadiums, and you have a winning recipe. If one of your friends beats your top score, you're going to want to go back and take them on.

How can companies make experiences shareable? Gamify your experience and make sure your location is "Instagram ready." Adding competitive elements drives excitement, investment in the experience, repeat visitation and desire, even among people who aren't there in the moment.

Figure 3
4 key elements of successful site-based entertainment concepts

3. Accessibility

Definition: Making an experience easy to get to and/or worth the trip. This is the third element to driving repeat business. Consumers are demanding more and more convenience (look no further than Amazon Prime's recent movement to one-day shipping), and successful site-based entertainment needs to meet this growing expectation.

Concepts doing it well: There are numerous ways to be accessible. Movie theater operators historically focused on expanding into shopping malls and strip malls to be close to where consumers already congregated. Newer concepts like escape rooms and virtual reality experiences have also leveraged this tactic, which increases the awareness of such experiences. Even Dave & Buster's is getting in on the action, with smaller-format locations that are in more convenient high-traffic locations, making them easier to locate.

On the flip side, space requirements may make accessibility harder for some concepts to achieve. For example, paintball venues are typically located on the outskirts of towns, creating long drives that can discourage casual or regular visits.

How can experience companies increase accessibility? Ensure your store rollout and real estate strategy make locations easily accessible to as much of your target audience as possible. Know who your core consumers are, where they live, where they work, where they spend their time when they're not with you, how they get around, etc. And make sure you're located where they want you to be.

4. Affordability

Definition: Generally affordable for a large portion of the target audience, and the entertainment value to that audience is provided at a good value. A key way to create at least the perception of this last key element is a great loyalty program and/or a promotion strategy to increase affordability during off-peak times.

Concepts doing it well: Again, Topgolf does this well, locating its facilities in higher-income neighborhoods and catering to a customer base that has the disposable income to spend at a premium driving range. Bowling alleys are historically the go-to for consumers on a budget, as they provide ample entertainment value at a minimal cost. Movie theater chains like AMC and Cinemark have expanded their loyalty programs into full subscription services, which can offer significant savings on ticket prices in order to get more butts in seats. Even Disney increases the affordability of Disneyland and Disney World by offering specialized pricing options for SoCal and Florida residents, who are more likely than out-of-area vacationers to visit multiple times.

How can companies make experiences affordable? Ensure that your pricing and promotion strategies are aligned with surrounding demographics. Design a loyalty program that works for your customers (giving the impression of affordability) as well as for you (by driving repeat visits).

While no single set of criteria can be the be-all and end-all of any concept evaluation, evaluating repeatability, shareability, accessibility and affordability can provide insight into the chances of future success. Ultimately, every site-based entertainment operator and investor needs to ask itself: How well does the concept do on each of these four criteria? And if the concept scores poorly on any of the criteria, what is the plan to improve?

About the Authors

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