Press Release

Business modeling for mixed-use retail entertainment and recreation venues

The retail and entertainment design/planning sector holds the dubious distinction of evaluating operational and financial performance only after the gates are opened to the public. Too many planners, architects and creatives continue to develop concepts and budgets without the sophisticated modeling techniques needed to substantiate their viability. Given the spectacular failures of the last few years, (insert your favorite disaster here), it's no wonder that venue operators, investors and corporate sponsors lately are less than enthusiastic when approached with new ventures.

There's a major disconnect between the initial 'big idea' and how it plays out when the doors open. Certainly, studies are conducted to determine a geographic market's ability to sustain a new venue, attract desirable demographics, or to develop a broadly scoped pro forma. These studies are usually very well conducted and quite useful. Sometimes, clinics are conducted to determine visitor acceptance of theme and design. But that's where it usually ends.

There is very little individual modeling of specific attractions, features or traffic flow. And, even less in the way of clinics or research focused on the details of the visitor experience itself. Yes, the planners and business consultants can and do provide valuable insight and recommendations based on prior experience. However, every venture is its own animal. Unanticipated factors can tank a project before it's had a chance to gain traction with the target market.

This lack of detailed modeling leaves gaps in the overall performance picture, with assumptions filling in for critical data. Most investors, venue operators and corporate sponsors are provided with only a 'big picture', and are left to their own devices in determining the viability of their investment. One can only imagine how many spectacular concepts have been shelved because there was no way to critically evaluate it from a financial or operational perspective.

The situation applies to urban redevelopment projects, corporate pavilions or visitor centers, individual museum exhibits, theme park attractions or totally new, ground-up venues – pretty much the entire gamut of the experience industry. It really doesn't matter if there's admission revenue, sponsorships or other forms of revenue. It doesn't matter if it's a fully-funded corporate marketing expenditure or a government works project. There are still price-performance targets to be achieved.

These detailed models must incorporate the creative and experiential elements as working components. The experience must pay for itself, or add value. If it doesn't, the creative approach is wrong, or no creative was needed in the first place. Let's face it – not everything needs to be themed or experiential.

As a 'big idea' developer, this writer originally bridled at the thought that creative and experiential design was merely a tool to tweak a financial model. But in fact, if a theme park, entertainment venue or touring exhibit fails financially, the 'great idea' goes down the toilet with it. Therefore, it makes sense to work the creative within a defined set of parameters as part of a modeling exercise. These same parameters should be applied to a detailed business case for the venue, and everything inside that venue, right down to the garbage cans and parking lot stripes.

Creative work should happen inside a 'box' of criteria and objectives bounded by real-world parameters such as cost, timing, operational complexity, maintenance, throughput, etc. Working 'outside the box' is easy. Any creative hack can come up with 15 concepts that won't work in the real world.

Working 'inside the box' is hard – you've got to be really creative to deliver a compelling experience at 32¢ per head in hard costs with 3% downtime, a 7 day schedule, operated by minimum wage staff and burdened with huge seasonal swings in attendance. It can be done.

The model should be designed to achieve a desired price-performance goal. That goal could be direct dollars-in, or in the case of a corporate marketer, a validated amount of headcount directly attributable to their involvement.
Modeling can and should be applied to every aspect of designing, building and operating a location-based project. However, because creative and experiential design is usually the leading edge of any such project, this discussion centers on the creative aspects.

Most projects start with a rather innocuous premise such as, 'Gee, wouldn't it be great to build a dinosaur theme park and shopping mall...', or some such directive. An artist is brought in to do some renderings; someone calls a business consultant to justify the concept, and it's off to the races. Everything that follows is merely backfill for the initial direction, rightly or wrongly. The fate of the concept is at the mercy of guesswork -- intelligent guesswork on the part of an experienced development team, but guesswork nonetheless. And, once the gates open, everyone stands around with their fingers crossed, hoping for the best.

The fact is no one has to come at all. No one is compelled to experience anything. Location-based entertainment venues are not 'must-do' life experiences. It doesn't matter that the project's sponsor is the best-known brand in the world, or that your cartoon character is the hottest thing since SpongeBob. If the project is not properly configured and optimized, if it's not sized appropriately or operating efficiently, it can fail.

The project could become unsustainable because the revenue can't recoup startup costs, or because the visitor base is too small or demographically undesirable to the sponsor. The experience itself may not provide a perceived value that correlates with the price of admission. These are not the kinds of things to uncover once the point of no return is clearly visible in the rearview mirror.

So, how to quantify and qualify something as nebulous as an experiential concept? How does one reduce risk? By first developing preliminary performance models to test the concept, and then adding more and more concrete details. The good concepts hold up under increasingly detailed and inflexible parameters. The weak ones go away. Optimally, this critically important work should be undertaken before the master groundplan, before the renderings and certainly before any experiential design begins.

In fact, there's no reason not to develop the preliminary model before there's a single concept on the table. That model contains everything that's known about the project, ranging from the physical to the fanciful. Let's assume for a moment that the proposed project site is 10 acres. That parameter is put into play with other known parameters, and it becomes obvious that the project really needs one more acre to be profitable. What is that acre worth to the project? How much effort should be dedicated to acquiring that acre? At what point is the project scrubbed if that acre is unavailable? Or, how can the project parameters be reconstituted to obviate the need for that additional acre?

In fact, how did anyone figure out that a one-acre patch of dirt could so severely threaten the whole project? It's in the modeling. That preliminary model should be populated with enough financial and operational parameters to quickly home in on the choke points.

An example testing a creative idea may be equally revealing. A really cool, must-have interactive concept costs $500,000 to build and requires two staffers to operate. The throughput is only 20 persons per hour. At a $5 dollar upcharge, the attraction breaks even. But, an informal survey reveals that visitors may only part with $3. Solutions abound: Build more and bring the unit cost down. Devise a means to eliminate one staff person. Merge it with another attraction, and so on. At the very least, the modeling has revealed this potential concern, and a creative solution can be investigated.

The entire argument for sophisticated modeling leads to several conclusions. Firstly, that the initial project development team is necessarily broader and more interdisciplinary in its makeup, so that sophisticated models can be created. Secondly, that the development team is given the latitude and flexibility to explore a wide range of possibilities. Thirdly, that all limiting factors are quickly identified and dealt with, and not swept under the table only to resurface at an inopportune moment. And finally, that a process is put in place to ensure the best possible outcome.

This last statement bears further examination. Process control for a creative project seems like a contradiction in terms. After all, creative is viewed as some kind of organic, intuitive process not subject to logic and sound business practices. Hardly. Good creative solves problems. Bad creative makes problems. Ineffective management of bad creative turns problems into disasters.

As the retail experience industry matures, clients will come to expect the kind of discipline and sophistication found in allied professions. The days of the splashy rendering and unsubstantiated claims are on their way out, and the industry will be better off as a result. Coupled with sophisticated validation and measurement, experience projects can, with good process control, realize their fullest potential.

The results will be obvious – better product, better performance, and visitors who consider their time and money well spent.

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