The Bingo Renaissance: Getting to the Bottom Line

by Eric Casey

In 1995, I met with the manager of a large bingo room in a prominent Las Vegas casino who proudly pointed out that he was having one of his best years ever... his bingo room was going to lose less than $1 million dollars by fiscal year-end!

I asked him if this status was truly appreciated by upper management, and he assured me it was. In fact, bingo was not even perceived as a potential profit center to the casino, but as a planned loss-leader... a convenience to bring people into the facility and keep them in there longer. And he was having a great year!

Everyone involved in bingo knows that the industry has gone through major contractions over the last 10 years. During the 90s, bingo grew to an $8 billion dollar handle in the U.S. and Canada, of which roughly half was wagered in tribal bingo halls.

But as the demographics of our player base changed and other forms of competition for gaming and entertainment dollars proliferated, particularly with the casino and riverboat expansion which peaked in the late 90s, many bingo halls were suddenly struggling to keep players, find new ones and stay profitable. This is a challenge that is still continuing today.

Fortunately, even while the bingo marketplace has been changing and contracting, our industry is also undergoing a massive reinvention from the inside-out, which has made the difference between a 'contracting market' and a 'declining market.'

The 'loss-leader' hall in Vegas that in 1995 was cheerfully losing a million dollars a year is now, in 2005, well in the black. One of the reasons is electronic bingo, and this was generally true throughout the industry; the negative effect on gross bingo revenue from a contracting player base was offset, often spectacularly, by increased spend through electronic bingo.

In fact, using electronic bingo technology to remove the inherent physical limitation on the bingo player’s spend was one of the fundamental bingo-paradigm shifts of the 90s. And now, in the early 2000s, technology has thoroughly integrated into and transformed the ‘industrial age’ paper/dabber toolsets. Especially in Indian Country, the roots of electronic bingo technology are now running deep enough in the industry for innovation to truly flower, limited mainly by regulatory constraints such as those that may ultimately be imposed by the Class II Classification process.

The next phase of industry evolution is shaping up to address the ‘bingo experience’ itself, by changing the hall environment and the presentation of the game. This phase aims at accomplishing what technology alone could not: a more complete repositioning of bingo in society as an exciting, affordable, and desirable entertainment venue for a broad spectrum of players of all ages. From reinvention comes renaissance.

This bingo metamorphosis is unfolding throughout Indian Country on many levels but it will take time and investment to fully actualize bingo’s potential; and success will come in different ways and different times to the many tribes running bingo businesses. In the meantime, managers face the daily challenges of keeping players and finding new ones, and keeping their bingo operations profitable while steering the enterprise into the future.

As a tribal government business operation, bingo comes in all shapes and sizes: some tribes offer three or four sessions of bingo per week, while others may offer three or four sessions daily, seven days per week! Bingo can be run in a hall located within a casino or in a stand-alone facility completely separate from any other gaming.

A stand-alone bingo enterprise delivers a clear profit/loss statement (P&L) every month, and it’s easy to see a bottom line that’s in the black or in the red. Where the bingo hall is located within a casino facility, bingo is often a division much like table games, keno, or slots. We would hope that these bingo halls are profitable, but it’s here where we are most likely to encounter vestiges of that ‘loss-leader’ perception where bingo is thought of or accepted as little more than a means of attracting players to the property’s casino floor. In this type of business model, bingo basically becomes an expense against the overall casino P&L. Sometimes that’s okay, like it was in Vegas way back when. But today we have the tools and the market position to make money with bingo and run it in the black.

Assuming that profitability is the objective, there are some key accounting strategies in both budgeting and in analyzing the hall performance that help shape that bottom line. Bingo forecasting and budgeting, as well as monthly statements of profit/loss can all shake out of the same accounting calculations.

Bingo operations can sometimes seem a bit outside-the-box of standard accounting practice, but only because of the unique language that governs bingo. Bingo prizeboards, progressives and reserves, cost of goods to support sales of paper and electronic bingo, which may come in the form of per card pricing, revenue share, per unit per play fees, or combinations of these. All of these factors and more need to be fit into a bingo P&L format that can be used by management to navigate to profit.

Checking on gross margin is the first and most important exercise. If you take the example in the table below and re-create it on a spreadsheet, plugging in your actual revenue and expenses you’ll quickly see where your gross margin lies. Is it in the neighborhood of the 27% industry standard?

The following example shows gross revenue minus cost of goods sold (COGS) and depreciation. The COGS line items were expenses directly related to creation of bingo revenue. There are many different ways to account for line item expenses both before and after the gross margin line, but the table shows the most common and critical elements. Generally, the section on the income statement after the gross margin line contains
programs and prices have to be player-attractive relative to competitive bingo halls in the area, but also designed (multiplied by estimated attendance) to generate sales adequate to support the planned prizeboard and operational expenses and turn a profit.

**Prizeboard:** The single largest liability to the bingo hall and the area that causes the most problems is the bingo prizeboard liability. The table shows the industry standard of 70% of gross revenue going back to the players in the form of prize payouts. If that payout was actually running 80% of revenue, the gross margin would drop to 18%, which may put the hall into the red. This often happens in a competitive marketplace where bingo halls try to lure players with higher and higher prize payouts... if those incremental revenues don’t appear or aren’t sustainable, and the prizeboard doesn’t change, these halls can quickly find themselves losing money.

Even more common, if an annual budget reflects a prize liability that was budgeted at 70% of a gross revenue number calculated from November, but then in June, July and August the attendance drops dramatically due to summer weather and everyone being outdoors... well, the hall can go upside-down pretty quickly. Some operations work around this by changing their bingo programs, including pricing to the players and monthly prize payouts, tailoring them to the known monthly or seasonal variances in attendance. Other halls design a prizeboard that always keeps them in the black, even on the lowest-attended months, and they make even more money when attendance is strong.

**Depreciation Expense:** A line item that might cover, for example, blowers and flashboards purchased for the halls and even concessions. All bingo income will be captured on the P&L.

Taking all of this into consideration, the key is to estimate sales (attendance multiplied by spend); calculate cost of goods for paper and electronics; figure a depreciation expense if any, and then back into the prize liability per session. Pay as much you can or as much as you need to compete successfully, but that gross margin needs to stay up in the 27% range if possible. Generally, anything less can make it increasingly difficult to manage the SG&A expenses and maintain a positive net profit.

Nowadays, with the tools at hand, each game in a bingo session can be analyzed for profitability... buy-ins vs. payouts. Bingo programs can be fed into forecasts and budgets that can be laid out in intricate detail and then compared as the year progresses to actual monthly income statements from the accounting department. Ongoing analysis of this information will quickly identify areas where change might help or be necessary.

Reinvention to renaissance can be a bumpy road, but bingo as a business enterprise should be seen as an exciting profit center... and that’s the bottom line. ♠

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