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Making Nightclubs Work

For years casino operators from around the world have looked to Las Vegas in order to spot emerging trends that could be adapted to their markets. The opening of Caesars Forum Shoppes in 1993 inspired other gaming operators to add shopping malls in order to broaden their reach into new markets. For example, the Viejas Casino in Alpine, California and the Horseshoe Casino in Bossier City, Louisiana developed stunning factory outlet malls to broaden their appeal and casinos in Atlantic City developed first-class shopping malls appurtenant to their casinos.

The more recent phenomenon of so-called “celebrity chef” and “eatertainment” restaurants in Las Vegas inspired casinos in regional markets to also add locally and nationally recognized restaurateurs to their food product offerings. Mohegan Sun features a restaurant by Boston-based Todd English, who opened Olives at Bellagio in 1998 and dozens of casinos now feature nationally recognized brands such as Ben and Jerry’s, Hooters and Wolfgang Puck Café.

The most recent phenomenon to emerge in Las Vegas is the nightclub. Unlike more traditional entertainment venues like casino lounges, showrooms and dance halls, the nightclubs of Las Vegas are comprised of ultra lounges and large-venue nightclubs. Ultra lounges are smaller rooms with no dancing, bottle service, tables that can be rented for the evening, drop-dead gorgeous cocktail servers and a very sexy atmosphere. Large-venue nightclubs are characterized by large dance floors, drop-dead gorgeous hostesses, bartenders, cocktail servers and go-go dancers. They also feature bottle service. The music is loud, the drinks are expensive, the lighting is dim and the atmosphere is cool. The action starts around 11 p.m. and lasts until dawn.

Both of these kinds of venues are characterized by long lines of people, eagerly waiting to spend \$20 to gain admission for the privilege of paying \$15 for a cocktail and up to \$1,000 for a bottle of liquor. At the most popular nightclubs, standing on line is not even a viable option to get in and admission is determined solely by doormen looking for friends, the most attractive people or a generous toke.

Today in Las Vegas there are no fewer than two dozen ultra lounges and nightclubs that cater to thousands of visitors eager to spend their money in order to be part of this exciting scene. And the returns to these nightclub operators can be phenomenal. Tryst at Wynn Resort is one of the most successful nightclubs in Las Vegas, generating approximately \$36 million in revenue annually.

What casino operator would not want to have a venue that draws a new market of attractive young adults, flush with cash and eager to spend hundreds of dollars in order to drink, dance and be seen? The allure of this phenomenon is tempting and today, Indian casinos in several markets have developed or are currently developing nightclubs of their own. And some have already closed.

Why Nightclubs Fail

To understand what makes a nightclub work, it is best to first understand why nightclubs fail. First, Las Vegas is a unique entertainment venue. It attracts 40 million visitors a year and for many, their behavior and spending patterns alter the minute they step off the plane. Money seems to lose its value and many will pay whatever it takes to enjoy a once-in-a-lifetime experience. Second, Las Vegas is a late-night town and nightclubs both feed and fuel off of the late-night party scene. A late-night venue may simply be impractical in those markets where people have to show up for work in the morning or where laws prohibit the sale of alcohol after a certain time.

The lion’s share of revenue generated at a nightclub is in liquor sales. Thus, in order to be successful in the operation of a nightclub, a casino should first and foremost permit the sale of alcoholic beverages at its property. Many tribes prohibit this and those that do will doom a nightclub to failure. In addition, since alcohol consumption is an important component of the nightclub scene, alcohol abuse is often a bi-product. This is usually not a critical issue in a market like Las Vegas since virtually all nightclub attendees plan to spend the night in Las Vegas. However, for casinos in virtually every other market, the vast majority of nightclub attendees will have to somehow get home. That causes a number of other problems, particularly for those casinos that are not located in or near metropolitan areas or do not have a large base of hotel rooms.

Perhaps the biggest obstacle to operating a successful nightclub operation is the inherent conflict that is bound to arise between a casino’s core gaming customers and those customers whose primary reason for visiting is to go to the nightclub. While most gaming customers have no problem with Country & Western, R&B or Top 40s music emanating from the casino lounge or the people who visit those lounges, they tend to get upset when a venue opens that attracts a group of people that are decidedly different from themselves. Nightclubs do in fact attract customers that are far younger than a typical casino’s core customers, that dress differently and most importantly, act differently. Moreover, they can become very perturbed by the loud music and noise of the crowd interrupting their gaming experience. The end result may be that the casino drives off some of its most profitable gaming customers in the hopes of appealing to a more fickle, less loyal and ultimately less profitable market segment.

Making a Nightclub Work

Understanding what makes a nightclub work is harder than understanding why they fail. However, if a tribe is committed to adding this form of entertainment venue to its mix of non-gaming amenities, they should keep in mind the following points.

Try Other Forms of Entertainment First. Before developing a nightclub, the casino operator should first offer more traditional forms of entertainment that appeal to their core customers. These include offering a “quiet lounge” where gaming customers can get away from the casino to enjoy a drink, a showroom and a live-entertainment venue where local and regional bands can perform in a more intimate setting for those gaming customers that enjoy both gaming and non-gaming entertainment.

Know Your Markets. Casinos often embark on developing a nightclub without fully understanding the demographic complexion of their community. For many casino operators, a sufficient population of young adults may not exist that can support a nightclub. Casino nightclubs that stand the best chance of success are located within metropolitan areas or near large college campuses with a vibrant nightlife.

Don't Under-Spend. Nightclubs and ultra lounges are places to escape. As such, these environments must be attractive and appealing. Taking a multi-purpose room or cocktail lounge and trying to create a nightclub on weekends simply by installing klieg lights, strobe lights and a sound system is not enough. A well-executed nightclub must be professionally designed in a dedicated space. It will require a copious amount of capital investment. While over-spending is no guarantee of success, under-spending will probably lead to failure.

Alcohol Should Be Served. No tribe should attempt to develop a nightclub unless it will permit the sale of alcoholic beverages. If a tribe is opposed to the sale and consumption of alcohol then it is better off investing its capital dollars elsewhere. The consumption of alcohol is a critical component of the entertainment mix at any nightclub. Regrettably, so is the consumption of illegal and prescription drugs in conjunction with alcohol. As such, the casino's security department must be well trained to deal with such situations and be willing to cooperate with casino management to see that the nightclub venue is successful and does not impact the entertainment experiences of those people gambling in the casino.

Don't Overcharge. While a \$300 bottle of liquor or a \$15 drink may be acceptable in Las Vegas, the majority of casinos in the United States do not have the markets that can support this kind of pricing strategy. Conversely, people who attend nightclubs expect that drink prices in a nightclub will be higher than in the casino. The casino operator must think long and hard on their pricing strategy.

Ultimately, the lesson to be learned about nightclubs is that what works in Las Vegas often does not work outside of Las Vegas. ♣

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