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Integrating a Nightclub at Your Gaming Property

Casinos throughout the world have long looked to Las Vegas for product innovation and ideas to enhance their customers' entertainment experiences. With the explosive growth of nightclubs at casinos along the Las Vegas Strip, operators in other jurisdictions have begun to add new forms of nightlife to their casinos, including big-box nightclubs and ultra-lounges that target new demographic segments. Successful night club operators, like Light Group, Pure Management Group and N9ne Group, have opened some of the most successful operations and companies like Titan Nightlife Group are exporting the Las Vegas nightclub concepts to Indian casinos.

Unfortunately, the world of nightclubs is a decidedly different place than the world of casinos, comprised of different customers that are motivated by different wants and needs. While both groups of customers have high levels of disposable income and are willing to spend copious amounts of money for that entertainment, they come from different demographic groups and the activities that they enjoy can conflict with one another. Failing to manage how these two worlds interact can lead to conflict and prevent the casino from maximizing its overall profit potential. Often strategic decisions are made without thorough analyses, preventing casinos from fulfilling their revenue potential. It is useful to examine two instances in which the behaviors of nightlife customers and casino customers conflicted and how management made decisions without complete information.

Recently, a casino in Northern Nevada opened multiple nightlife venues. The nightclub and ultra lounge successfully brought in a new and younger demographic and allowed the property to shed its image as a property that catered to 50+ gamers. Several weeks ago a local businessman who had been patronizing this casino for several years stopped by after a week of hard work. He sat down at a blackjack table, and bought in for $500. He was betting green chips and after fifteen minutes was up about $300. A cocktail server approached and he ordered a Dewar's and water. She in turn asked the player for his rewards card. When he pulled out his gold card (the base tier), she informed him that there was a new policy and that only premium tier players could order “call” drinks. He was only entitled to a “well” drink. Rather than accept the offer, he picked up his money and walked away from the table, opting to visit the bar, play some $1 video poker and order from a bartender that he knew.

When he mentioned the incident at the blackjack table, the bartender explained that the nightclub's operation had generated an inordinate amount of abuse at the table games. Several nightclub patrons were observed ordering Patron Anejo Tequila (an expensive top-shelf brand) at the blackjack tables and then taking their drinks into the nightclub. The food and beverage director was concerned about his rising beverage costs from table game comps and the loss of beverage revenue in the nightclub and, with the general manager's approval, instituted the new policy. In fact, under the new rules, the bartender was not allowed to serve call drinks to $1 video poker players and was essentially breaking the rules to accommodate his better customers. Perplexed and dumbfounded, the customer thanked his bartender for the consideration, left a generous gratuity and informed the bartender that he would be moving his gaming activity to the casino across the street since he was not about to switch to drinking “well” liquor. This one customer's experience was similar to many others, and over the following weeks, table games' drop and win began to consistently miss forecast.

In a second instance, a casino in Southern Nevada that primarily catered to the local population opened its own nightclub. Once again, the goal was to attract new and younger demographic segments, ostensibly like those casinos on the Las Vegas Strip. The general manager had visited various Strip nightclubs and was enamored by the young, wealthy and attractive crowd that was drawn to these venues. He saw his property competing for these same customers.

The casino's market research clearly indicated that the surrounding neighborhood had a substantial and growing Hispanic population and the decision was made by corporate leadership to target this demographic group by offering a Wednesday Latino Night in the nightclub in addition to targeting tourists and other locals on the weekends. The new venue was promoted in the Hispanic media and the Latino Night opened to a packed crowd. In fact, the Latino Night had the highest head counts of the week.

After two months, the table games manager approached the general manager and told him that the Latino Nights were attracting a “bad element.” Table game customers were complaining about the music and all he saw were “people coming in and drinking beer.” Trusting the advice of his table games manager and ignoring any financial analysis, the general manager cancelled the Latino Nights program. In fact, when the financial analysis was completed, slot handle and win per unit were up about 7% consistently over the original Wednesday forecast and beverage sales in the nightclub were up 15% with no other explanation for the increased revenue other than Latino Night.

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There are parallels in both of the aforementioned examples. In both situations, the general manager was presented with anecdotal evidence from his trusted managers and in both cases the general manager accepted his trusted associates' advice. Also, in both cases, the general manager did not take into account the unintended consequences of his decision. In the first example, the decision to ban "call drink comps" had the unintended consequence of upsetting a core group of gamers who had come to expect a certain level of service. In the latter example, the general manager overreacted and the property was never able to fully recognize the value of targeting a new demographic segment. In both cases the property suffered.

The value of nightclub customers to a casino must be underscored. They are an emerging segment whose overall value is only now beginning to be understood. One casino in Las Vegas did an in-depth analysis of its nightclub operation and determined that for every dollar spent in the nightclub, an additional 60¢ was earned at table games from nightclub customers. In fact, the analysis revealed that overall the nightclub's customers contributed almost 10% of the Table Games department revenue. In addition, nightclubs enjoy fairly high operating margins, ranging from 20%-40%. They thus contribute more to the bottom line than just about any other non-gaming department.

Marketing to Generation X by offering amenities such as nightclubs and ultra lounges is a sound strategy for many casinos making the transition from simple casino operations to regional entertainment destinations. However, the culture, behaviors and norms of nightclub customers are different from those of traditional casino customers. The culture of nightclub customers from different ethnic groups is event more dramatic. Failing to properly manage how these different worlds interact can have unintended consequences and not relying on sound empirical data when making strategic decisions prevents the casino property from fulfilling its full potential. When these worlds collide, it is incumbent on casino leadership to make sound decisions so that these worlds can interact and the property can profitably serve multiple demographic segments.

Had the general manager of the Southern Nevada casino had the profitability analysis of Latino Night completed before he made the decision to cancel it, the casino may still be benefiting from the Hispanic customers who were drawn to the property While it is important to trust other members of casino leadership, it is equally important to verify the financial impact and not simply respond with a knee-jerk reaction.

Scott Frost, president of Titan Nightlife Group, offers this advice, "If a resort is looking to court a new demographic by adding a high-energy nightlife amenity, it has to be dedicated property-wide to the concept. This means they must support it by training staff and making them knowledgeable about the nightlife consumer and supporting the venue with the appropriate marketing and analysis." ♣

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