A Training Manual: To Increase Performance in Cost Management of a Las Vegas Nightclub for Operations Managers

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A Training Manual: To Increase Performance in Cost Management of a Las Vegas Nightclub for Operations Managers

by

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PART ONE

Introduction

According to the Las Vegas City Search website, Las Vegas now has 251 nightclubs with almost half of them located on the Strip (Natiuk, 2011). The city has arguably the most competitive nightclub industry in the world. In 2011, nine of the top 10 clubs in the United States, based on total revenue, were venues on the Las Vegas Strip (Crecca, 2011). Even with the industry saturated, there are multiple venues opening every year. This causes the window of opportunity for a nightclub to be one of the new, trendy, popular places to be short in comparison to clubs in other cities. Nightlife and hospitality professional David Henkes states that “it’s difficult to keep a hot club hot” and explains the importance for club owners and managers to continuously reinvent the concept of their venue if they desire to stay fresh for today’s customer (Crecca, 2009).

Many of the Las Vegas clubs that have opened in the past decade have experienced high top-line sales the first two to three years of operations followed by a relatively large decrease because of lost business to newer clubs. When top-line sales are high, poor cost management can easily be overseen by investors, owners, and managing partners. This can cause operating managers to deprioritize their cost management responsibilities, resulting in an inadequate development of the relevant skill set. After the initial honeymoon phase, however, a nightclub in Las Vegas will not be able to stay competitive or profitable without controlling its costs.

There are many examples of Las Vegas clubs going from being extremely profitable to having to close their doors because they did not plan for what would happen when top-line sales decreased, an inevitable phenomenon in an industry where the target demographic is always looking for the newest, next trendy place (Harrelson, 2010). There are also examples of Las
Vegas clubs losing money while top-line sales were very high relative to the industry average. A venue that offers a great product, provides impeccable service, has a competitive marketing campaign, and brings in impressive top-line sales still runs the risk of not being profitable if managers do not properly manage and control costs.

Owners of Las Vegas nightclubs invest a lot of money and resources into marketing campaigns and implementing systems that uphold service standards and maximize their club’s check average. Cost management is an area that is commonly overlooked and undervalued in Las Vegas clubs. Many operating managers are never formally trained in the topic, making it unrealistic to expect the employees they manage to receive proper training. These managers and employees have a very large impact on the controllable cost of the venue. This is why a training manual on cost management is an essential tool for operating managers of Las Vegas nightclubs.

**Purpose**

The purpose of this paper is to write a training manual on cost management for operating managers in the Las Vegas nightclub industry. The manual will be designed to be used as a tool to control and manage costs for managers responsible for making decisions that directly affect controllable costs. These decisions include but are not limited to staffing and par levels, price points, purchasing, and staff training and monitoring.

**Statement of the Problem**

A major problem in the Las Vegas nightclub industry is that there exist a limited number of tools for operating managers who are responsible for managing cost. A majority of these managers, unfortunately, learn by experience and trial and error; they rely mostly on common sense and intuition to make very important decisions, decisions that could mean the difference between the venue being profitable or going bankrupt.
Justification

A nightclub’s success is measured by its profitability, which is equal to top-line revenue minus total costs. Total cost is made up of fixed costs such as rent, utilities, and managers’ salaries, and controllable costs. It is imperative that managers are educated and trained on how to reduce and minimize these controllable costs without sacrificing customer service. Not surprisingly, while cost management is a very important part of running a profitable nightclub in Las Vegas, it is also a very difficult part. It is a constant balancing act for managers when deciding staffing and par levels, when to purchase more and when to cut back, to increase or decrease price points, and how much effort to dedicate to educating and monitoring employees who directly affect the venues’ controllable costs.

Expense preference theory states that managers tend to spend more on items and services that will maximize their own personal welfare, even if it is not consistent with what will maximize profits for the company. The cost that a business accumulates due to this conflict of interest between managers and shareholders is called the company’s agency cost (Kim, Dalbor, & Feinstein, 2006). In order to minimize the agency cost of a Las Vegas nightclub, it is imperative to make decisions related to cost management harshly inflexible. These decisions should not be impacted by a manager’s temper, opinion, judgment, or level of knowledge, education, and experience. This is another reason why the development of a training manual is important. A manual will bring a level of sophistication to cost management by formalizing methods and systems used to control costs.

Many lower-level operating managers of Las Vegas clubs are bartenders and bussers who have been promoted for demonstrating some of the necessary management qualities and skills. Unfortunately, a large number of these managers lack the education, knowledge, and experience
necessary to consistently make correct cost related decisions. A training manual on cost management is an essential tool for these nightclub managers to have and should eliminate the informal methods that are currently being practiced in clubs throughout the city.

**Constraints**

Managers new to the industry or who have little experience working with spreadsheets may have a difficult time with this manual. A minimal amount of knowledge in business, food and beverage, management, and computers is imperative. Managers who will be using this manual need to have access to, and be able to interpret, the business’s budget, end of night sales and labor reports, invoices (or purchase journal), and inventory system. Even with a well-thought out, organized manual there is a lot of room for human error. Managers who do not commit to full participation in the manual and/or managers who are unable to properly manage their employees will not be able to see the benefits that can be expected.
PART TWO

Introduction

This section of the paper is a literature review that will cover the development of a training manual on cost management for operating managers in the Las Vegas nightclub industry and provide an in-depth explanation of the concept. Literature from hospitality and nightclub professionals along with experts in cost management will be summarized, analyzed, and synthesized to address the problems that were identified in the first section. The practical significance of the training manual will be clearly articulated, along with justified criteria for the exclusion from the review and/or manual of related sub-concepts. The review will begin with a summary of the nightclub industry in Las Vegas, specifically a brief history of the industry and where it is today. Next, the unique characteristics of the industry that have an impact on cost management are covered followed by a brief dissection of all the monthly expenses incurred by an average Las Vegas nightclub. After this, a majority of the different cost management methods that are currently being practiced in hospitality, with nightclub-specific examples, are included in the review. An analysis of the individuals who have a direct and indirect impact on these costs is then discussed including an explanation on the importance of understanding the customers and how they can affect decisions related to controlling costs. Lastly, the review ends with a look at what characteristics the manual will possess to maximize its efficiency and effectiveness.

Las Vegas Nightclub Industry

The Las Vegas nightclub industry has changed and grown a great deal over the last 15 years. Prior to the mid-90s there did not exist large nightclubs inside Las Vegas’s hotels. Some suggest that owners and managers of these hotels wanted to limit the number of distractions to
the guests who were gambling, especially the high rollers. The hotels recognized they needed to offer amenities and other forms of entertainment besides gambling; most of them had small lounges, center bars, restaurants and showrooms, but it was not until 1995 that the first large nightclub, Club Rio, opened in a Las Vegas hotel (Stein, 2011). The opening of Club Rio did not immediately convince other casino owners that nightclubs were a smart addition to their property. Owners were afraid that, besides being a distraction to gamblers, a nightclub would bring to their hotel a large increase in the number of fights, drugs, underage patrons, prostitution (and other sex-related crimes), and over-intoxicated, aggressive guests. The cost of additional security, insurance and legal fees, negative press and potential lost business from upset guests made this a very difficult decision for these executives. The next three clubs that opened in the city—The Beach, Club Utopia, and the CandeFactore rave club—were all opened near the Strip and not in casinos. The success seen by these venues helped a handful of casino owners decide to take the risk and from 1997 to 1999, Las Vegas saw six mega-clubs open in casino properties, five of which were on the Strip. Drai’s at the Barbary Coast and RA in the Luxor opened in 1997, Baby’s in the Hard Rock and MGM’s Studio 54 in 1998, and Rumjungle at Mandalay Bay and the Venetian’s C2K in 1998. Three years later New York-New York opened Coyote Ugly, the Palms introduced Rain and Ghostbar, and Bellagio opened Light.

The success that these 10 venues experienced exceeded most expectations, and it was not long before casino owners and nightclub professionals realized that not only is a large club a necessary feature if a property was to remain competitive in the city and attract or retain big spending gamblers, but they can also be very profitable revenue streams for the hotel. From that point on Las Vegas saw three to five new clubs open every year. As a result of the success and large demand of these nightclubs, most properties soon opened a smaller sister club or ultra-
lounge in their hotels. These lounges were usually built with a dance floor, VIP area(s), an extravagant bar, and something unique that provided the wow factor (Hilton, 2005).

Las Vegas had over 30 multi-million dollar clubs in 2005 and showed no sign of slowing down. A nightlife professional, Spud Hilton, identified five characteristics of Las Vegas that helped provide the right environment for the industry to rapidly grow: the nightclub scene in Las Vegas is very concentrated geographically, unlike most cities where it tends to be spread out; smoking is allowed indoors; approximately 40 million visitors come to Las Vegas annually; management groups and casinos have very large funds to produce and develop the most trendy and expensive concepts; and there is no state-mandated last call (Hilton, 2005).

In 2008, Las Vegas’s economy started to take a downturn as it began feeling the effects of the financial crisis. Shows had a difficult time filling their seats, restaurants struggled to stay open, and the decline hotels experienced in occupancy and revenue per available room was the worst tallied by Smith Travel Research in the 22 years the data has been tracked (Hudson & Berzon, 2009). The nightlife industry still experienced growth, however, and was one of the only economic bright spots in the city. According to the Gaming Control Board’s annual report in 2010, spending on rooms, gambling, and food continued to decrease while statewide beverage sales in casinos saw a 3% increase, bringing in $1.4 billion, a little short of the industry’s 2007 peak (Benston, 2011). Beverage revenue from the Strip increased 7% and accounted for two-thirds of the state’s casino beverage revenue. Many Strip casino owners are identifying their nightclubs as the largest contributing factor to the positive overall beverage numbers. Steve Wynn told investors that the performance of his property’s nightclubs stands in sharp contrast to the softness in the market (Benston, 2011). Mr. Wynn’s nightclub in Encore, XS, is one of the largest (40,000 square feet) and most profitable venues in the world. The club has over 95 tables
and 30 cabanas that each require guests to commit to spend a minimum of anywhere from $500 to $10,000 to reserve. Since the club opened in 2008, these tables and cabanas have been sold out on average a month in advance. In an interview with the Los Angeles Times in June of 2011 Sean Christie, an industry leader since the conception of mega-clubs in Las Vegas, stated that the nightclub business has floated Las Vegas during the recession and has grown by as much as 20% annually from 2007 to 2011 (Gelt, 2011).

Besides helping Las Vegas’s casinos through the recession, the nightclub industry has had other very large impacts on the city. Prior to the early-90s, Las Vegas was more of a guy’s town; it was not a destination for groups of women who wanted to celebrate a bachelorette party or blow off some steam. After the clubs began to open, the number and variety of celebrities who came to the city quickly increased. Gossip websites, magazines, and television programs started regularly covering the Las Vegas scene, helping it become the place to be (Morrison, 2011). More and more women started visiting the city, and since men predictably are going to chase women, the amount of men also increased. These venues helped change the way people looked at Las Vegas. People starting seeing Las Vegas as a place they could go to escape reality, to leave their problems for a brief period of time and enter a fantasy land, a place they could go to act completely different, and it would not only be accepted, but expected. People started referring to the city as America’s Playground and The Entertainment Capital of the World. “Sin City” became the second most popular nickname of a U.S. city behind New York’s “The Big Apple.” “What happens in Vegas, Stays in Vegas” was ranked the top slogan of U.S. cities based on a survey given in 2005 to professionals in fields of branding, marketing, and advertising (“List of city,” 2012). It can be argued that the nightclubs in Las Vegas embody this image more than any other feature the city has to offer. The clubs have become one of the main
attractions of the city and are the sole reason many tourists visit the city.

Las Vegas nightclubs are also having a very large impact on the balance of revenue brought in by the different departments of the casinos, which has a large impact on operational and marketing decisions. The Cosmopolitan’s club Marquee is one of top revenue-producing venues in the world, and its impact on the overall revenue of the hotel is apparent. According to David G. Schwartz, director of the Center for Gaming Research at UNLV, the average Strip hotel generates 38.7% of its revenue from gaming and 22% from food and beverage. The Cosmopolitan reported 23.3% of its revenue was from gaming, while food and beverage brought in 50.8% (Sieroty, 2011). The impressive revenue from Marquee, a club that broke the record of total revenue brought in by a nightclub in a single night (over $2 million on New Year’s Eve 2011), is a big factor for the skew in department revenue percentage.

Looking at the numbers over the past few years, the nightlife industry in Las Vegas has dominated all other cities. Every year, Night Club and Bar Magazine teams up with Technomic Inc., a hospitality research market firm based out of Chicago, to generate a national top 100 list that is based on total revenue. In 2010, nine of the top 10 clubs were located in Las Vegas, with the bottom two of these venues bringing in approximately $30 million and the top two $70 million (Crecca, 2011). The scene is continuously redefining itself to meet the needs of its target market, which is always looking for the next trendy spot. In the first three months of 2012, new clubs opened in the Mirage, Bellagio, and Tropicana, and plans are being finalized for two new clubs in the MGM, one in the Venetian, and one in Mandalay Bay (Curtis, 2012). With new venues still popping up every year and existing venues willing to pay top dollar on an architectural facelift and a new name, the club industry in Las Vegas looks like it will stay dominant in the foreseeable future (Pond, 2008).
Las Vegas Characteristics Impact on Cost Management Decisions

Cost management of a nightclub in Las Vegas can be much more challenging than it is in other markets. There are many characteristics of the industry and city that have a large impact on a club’s costs and the decisions that need to be made while managing them. It is very important for operating managers to be aware of these characteristics. In some cases, it is easy to see how a specific feature of Las Vegas impacts a variable cost of the venue; for example the lack of a state mandated last call results in Las Vegas nightclubs staying open two to three hours later than the clubs in most other markets, resulting in a large nightly increase in hourly labor cost. In other cases the connection is not so intuitive. This section covers seven specific features of Las Vegas and its nightclub industry that have a large impact on cost-related decisions. These features include the large physical size of the average Las Vegas nightclub, the intense level of competition every club in Las Vegas is up against, the consequences of being the world leader, the large number of powerful management groups in the industry, the impact of being in a large casino, the powerful regulatory agencies that are present in the city, and the management structure of the average club.

Characteristic 1: Average Physical Size

The initial construction costs and physical size of most Las Vegas clubs are a great deal higher than any other food and beverage outlet. The multilevel, 60,000-square-foot club in the Cosmopolitan cost $50 million to build. The most expensive nightclub in the world, XS in the Encore, cost $100 million, according to its PR release, and is over 40,000 square feet (Vegas Made Easy). The possibility of not making back the initial high construction cost along with high rent, utilities, and property tax puts more pressure on controlling the variable costs. Also, the size of these clubs has an impact on the property operations and maintenance budget, along
with the labor costs and cost of goods sold (COGS). As the club size increases, the number of employees required to staff the venue increases, the amount of bar and cleaning supplies, glassware, equipment that may need repair, and product needed to stock the bar(s) and have in back-up inventory will also increase.

**Characteristic 2: High level of competition**

Another important characteristic of the typical Las Vegas nightclub that impacts cost management is the intense level of competition every club faces. Common methods used to combat the competition are a high marketing and entertainment budget, an aggressive drink special promotion, and strategically choosing and/or changing dark nights (nights the venue is not open, usually one or multiple weeknights). After covering these three methods, the competition nightclubs see from other industries in Las Vegas will be discussed briefly.

As mentioned, many Las Vegas clubs fight the competition with extremely high marketing and entertainment budgets. Eighty-three percent of the venues on Nightclub and Bar’s 2011 top 100 list employ DJs and 78% use live entertainment (Crecca, 2011). Las Vegas clubs will spend upwards of $200,000 on the world’s best DJs for a four hour set and over $100,000 on appearance fees to celebrities like Paris Hilton, Britney Spears, and Kim Kardashian to significantly increase the demand for a night and help brand the image of their venue (Morrison, 2011). Because this is categorized as a marketing expense and not labor, the large increase in revenue received the night of the booking will cause a decline in the labor and liquor cost percentage (labor and liquor cost increase as revenue goes up but it is not a perfect linear relationship). Managers need to be aware of this and not have a false sense of success if they are comparing these percentages to industry averages.

Since the industry is very saturated and condensed, there is a tendency for the clubs to
match one another’s marketing budgets; clubs will also copy or closely imitate one another’s drink promotions. Aggressive drink specials, especially if they are nightly or weekly, can have a large impact on a club’s liquor cost.

The competitiveness of the market also affects the number of days a Las Vegas club is open. Most of the bigger clubs have large overhead and therefore choose to limit the amount of days they go head to head with the other bigger venues. It is common for these clubs to only open their doors three nights a week; Friday, Saturday, and one weeknight which they label their industry night. This decision obviously impacts the labor cost.

The competition clubs see from other industries in Las Vegas is another characteristic that makes the city unique and affects cost management of the venues. Las Vegas has some of the best casinos, restaurants, shows, strip clubs, and pool parties in the world. If it was not a big enough challenge contending with each other, Las Vegas clubs often have to compete with these other strong Las Vegas attractions. Many of the guests staying in Las Vegas hotels are tourists who have a limited amount of money and time to spend in the city. A club’s marketing campaign may have successfully attracted a particular guest to their product; however, the guest may not be able to fit a visit to the club into their budget and/or itinerary. Even if a guest plans on going to a specific nightclub, these other activities can easily prevent this from happening. Gambling guests could lose all their money or be on a streak and not want to stop, while guests who are dining or visiting a strip club can easily spend more money than they have budgeted or stay longer than they planned. The pool parties’ hours of operations do not overlap those of a nightclub but still have had a large impact on the industry. These pool parties have the same target market as the nightclubs and have caused many guests who have historically stayed in a club drinking and spending money until closing time to leave hours earlier and drink less to get
some rest before going to the pools. This large amount of competition has forced nightclubs to concentrate on giving guests the best possible experience by focusing on attention to detail and improving the quality of products (resulting in an increase in cost of goods sold), entertainment programming, and service standards of the venue (resulting in an increase in variable labor cost). These improvements and attention to detail are some of the factors that have made Las Vegas clubs the best in the world.

**Characteristic 3: Being the best**

Being a world leader in the industry also has an impact on the cost of operating a Las Vegas club. First, being the best attracts the best. A handful of the best service staff, security, nightlife marketing professionals, operating consultants, and managers have migrated to Las Vegas or have been developed in the city. Having strong bartenders and servers is probably the most important tool operating managers can ask for to help them control liquor and labor costs. Accurate pours from the staff and the ability to upsell will reduce the liquor cost percentage while being efficient and hardworking gives a manager the ability to lower labor costs by decreasing staffing levels without sacrificing service. Another useful tool for mangers is a competent and reliable security staff and security systems. Employees and most customers are aware that cameras cover every square foot of a venue outside of the restrooms and most security officers, besides having an intimidating physical appearance, are well trained. This helps minimize costly theft and unruly behavior.

Las Vegas clubs also attract the world’s biggest spenders, high-rollers, and celebrities. This type of cliental can spend hundreds of thousands of dollars on any given night, and club managers and staff needs to be prepared for when they do. This has a large impact on purchasing decisions and inventory levels of high-end champagne and cognac.
Another way being the best impacts cost is that liquor companies see marketing opportunities in Las Vegas clubs. A lot of representatives will offer free or discounted product, free bar supplies, staff incentives, and/or sponsorship money in exchange for inclusion on the club’s bottle service and specialty drink menu, product placement behind the bar, support from the managers and staff, and/or making the product’s logo visible on promotional fliers and the donated bar supplies. Some liquor companies also ask Las Vegas clubs to use their product for drink specials and promotions. These drink specials do not need to be very aggressive, however, because a majority of guests coming to Las Vegas understand the nightclubs are the most expensive and best in the world and they are willing or expect to pay more per drink than they do in their hometown, another example of cost management being impacted.

**Characteristic 4: Management Groups**

In most other major cities, the nightclub scene has one or two management groups that dominate the market. For example, SBE owns and operates a handful of the restaurants and nightclubs in Los Angeles, while Opium Group has dominated the Miami market for over a decade. Besides Opium group and SBE, Las Vegas is also home to multiple venues owned and/or operated by Nine Group, Tao Group, Light Group, and Angel Music Group (which operates over 20 venues in Las Vegas, making it the largest management group in the city [Rideout, 2011]). The top five highest earning nightclub owners in 2010 earned a majority of their money from their Las Vegas projects (Phillips, 2010).

Las Vegas clubs that belong to one of these management groups can realize a number of different cost benefits. The larger the management group, the more leverage and power it has in the industry and the more valuable contacts it has in the city’s casinos, liquor companies, advertising and PR firms, and entertainment industry. The benefits of being well connected with
the casino in which the club is located in will be discussed in the next subsection. The clubs in management groups can experience economies of scale when ordering liquor and supplies, using professional services (legal, accounting, human resources, and insurance), and booking entertainment. It is common for a management group to book expensive world-class DJs to spin multiple nights at separate clubs (and sometimes during the day at one of its pool day clubs) for a large discount from the DJ’s single night rate. Being able to use managers at multiple properties and easily transfer service and marketing employees is another benefit management groups have that reduces employee turnover and increase labor efficiency, both positive impacts on the overall labor cost. Not being able to realize some of these benefits puts a Las Vegas club owner at a large disadvantage. Celebrity Eva Longoria’s club in the CityCenter, Eve, closed after being open for only 18 months. The venue was $5.7 million in debt when it filled bankruptcy and was consistently losing over $76,000 per month, a number that would have been decreased dramatically if the club had some of the benefits that come with being part of a powerful management group (Associated Press, 2011).

**Characteristic 5: Impact from Casinos**

Being located in a large hotel and casino on the Las Vegas Strip has many cost implications. A club’s rent and CAM (common area maintenance), property tax, and utilities are much greater than hotel clubs located in other cities. In 2009, Las Vegas had over 150,000 hotel rooms and was home to 17 of the 20 biggest hotels in the world (Vegas Baby!, 2012). Most hotels that opened on the Strip after 1989 have a minimum of 3,000 rooms, which makes the square footage on the casino floor very valuable. According to the 2010 MGM Resorts International Media Kit, the average occupancy rate in 2010 of MGM-owned Las Vegas properties was 90%, with the average number of guests per room equal to 2.4 (“MGM resorts
international,” 2010). This means, on average, the two nightclubs inside the Luxor (4,400 rooms) have 9,504 in-house guests. If they can get 2% of these guests to visit their venue on any given night they will easily sell out. This easy access to the guest justifies the large rent and CAM charged by the casino.

While they charge a relatively high rent, Strip hotels have a lot of resources that could help decrease costs. Even if the nightclub is owned and operated separately, if an operating manager of the club is able to build the right relationships with hotel managers and employees, he (or she) should be able to take advantage of some of these resources. For example, many nightclubs are not big enough to justify having engineers or a full-time handyman on staff. If a bar cooler breaks down or a toilet is backed up, a club could save a lot of money if managers are able to use employees from the casino’s large property operations and engineering department instead of calling in an outside repair service or plumber. Another example is seen when nightclubs host banquets and private events during times that do not conflict with their normal hours of operations. These events are a great additional revenue stream for a club and if the venue is unable to offer food they will lose out on a great deal of this business. The ability to use one of the casino’s kitchens will most likely be less expensive, more efficient, and produce better quality than any outside catering company.

Las Vegas nightclub owners and management groups have contracts with the casinos their venues are located in, which has a large impact on their club’s fixed and variable costs. Many of the casinos, for example, are contractually obligated to promote the clubs via their marketing tools (website, social media, printed advertising campaign, and so on) which usually has a very extensive reach. In some cases the casinos even share the cost of booking entertainment (Gelt, 2011). Cross-promoting between clubs operated by the same management
group that are in separate casinos owned by the same company is another large benefit that will
decrease marketing cost. These contracts also usually require the tenant to uphold a certain
standard in service and quality of product so the branding and image of the overall casino will
not to be tarnished. This will impact the tenant’s labor cost and cost of goods sold. If the
nightclub does not have a separate liquor license it can realize large savings in cost of goods sold
from the economies of scale it will receive by being able to order from the casino’s liquor room.

**Characteristic 6: Regulatory Agencies Specific to Las Vegas**

Las Vegas is home to two of the largest and most remarkable unions in the United States,
Culinary Workers Local 226 and Bartenders and Beverage Union 165 (Meyerson, 2003). While
these unions could help reduce employee turnover, for the most part nightclub owners can expect
to pay a higher labor cost if their venues are inherently union from being located in a Strip hotel.
The collective bargaining agreement (CBA) that most Las Vegas hotel clubs are required to
follow has a very large impact on the club’s labor costs. Besides stating the employee’s specific
job descriptions, minimum hourly wage and benefits, the CBA requires managers to follow
procedures on hiring, terminating, feeding, classifying, disciplining, and scheduling the club’s
employees (“Collective bargaining agreement,” 2009). If operating managers fail to understand
and follow these procedures they expose the club to potential grievances that will most likely be
more costly to the business than if the procedures were initially followed. For this reason the
CBA’s effect on how club managers manage labor cost will be covered in detail in the manual.

Besides the unions, there are other agencies that influence a nightclub’s cost management
by affecting a clubs policies and procedures. The IRS and the health and fire departments are
examples of such agencies that are present in most cities. Agencies that are present only in
Nevada are the Nevada Gaming Commission and the State Gaming Control Board. While very
few clubs actually have gaming inside the venue, a casino’s gaming license can be affected by behavior that goes on inside any venue that is located on their property, even if the venue is separately owned by a tenant renting space. Since a gaming license is one of the most valuable assets to any casino on the Las Vegas Strip and gaming authorities have been increasingly putting pressure on resorts to take a more active role in monitoring their nightclubs, it should be no surprise that these casinos force their clubs to follow policies and procedures to insure their license is not in jeopardy at any time (Abowitz, 2010). In 2009, Planet Hollywood was fined $750,000 by the Nevada Gaming Commission for not properly regulating and policing illegal activities occurring inside the separately owned and operated nightclub, Prive’ (Stutz, 2009).

The hotel was informed by the Gaming Control Board that properties need to control clubs that lease space in casinos even if they are operated separately. The nine count complaint included customers consistently being hospitalized for being over-served, topless and lewd activity, minors allowed entrance and being served and over-served, employees charged with sexually and physical assaulting customers, and aggressive and intoxicated customers in various states of consciousness being removed from the club and left on the casino floor unattended (Masto, 2009). All of these issues could have been prevented with increased training for service and security staff, increased management and staffing levels, and the implementation of more thorough policies and procedures. While this would undoubtedly increase the club’s labor cost, it is a much better option than operating an unsafe venue, being vulnerable to astronomical fines, and putting the casino’s gaming license and the nightclub’s liquor license at risk (Prive’ eventually lost theirs from the infractions).

**Characteristic 7: Management Structure**

The physical size of these clubs and the amount of revenue they generate causes the
management structure to have more levels and departments than most clubs in other cities. The
general manager usually has an assistant general manager, a director of operations, a director of
VIP services, a director of security, and a marketing and promotions director underneath him.
These directors normally will have a team of managers they are in charge of and possibly
additional managers underneath this team. It is common to see strong members of the service
staff be promoted from within and become lower level managers. A college degree is not a pre-
requisite for these positions and many of individuals at this level have not graduated from a four-
year college. As a result, while many lower level managers may have an understanding of the
responsibilities of the employees and the procedures that need to be followed, they have a below
average understanding of the theory behind the procedures and policies and may struggle with a
lot of the administrative work such as using spreadsheets and other relevant software. Also, the
more levels of management that exists within an organization the more chances disconnect can
arise between these levels, increasing the risk of a high agency cost. These are both important
reasons why a training manual for operating managers on cost management is important.

**Costs in a Las Vegas Club**

Las Vegas clubs lead all other cities in popularity and total revenue; they also lead in total
cost. Figure 1 is a list of all expenses incurred in a specific month of 2011 by a mid-sized Las
Vegas nightclub in its third year of operations. This section will cover the difference between
fixed and variable costs and how this difference impacts cost management and justifies the
inclusion and exclusion of expenses in the manual. The next section will discuss the different
methods and techniques that are currently being used to control costs in the hospitality industry.

As in most other businesses, the total cost of a club is the sum of its fixed costs and
variable (or controllable) costs and a critical initial step in cost management is properly
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<td>Administration Fees -%</td>
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*Figure 1:* List of all expenses incurred in a specific month of 2011 by a mid-sized Las Vegas nightclub in its third year of operations.
categorizing all expenses as one or the other. The process of presenting cost data with the fixed and variable costs listed separately for managerial decision-making is referred to as marginal costing (Brown, 2003). This process helps managers at all levels control costs of the business.

According to the International Encyclopedia of Hospitality Management, a cost is considered fixed if it remains constant within a range of activity and specific period of time (usually one year), while a variable cost varies in direct proportion to the level of business activity (“Variable costs,” 2005). It is common to use sales as the reference point when deciding if an expense is fixed or variable (Hallinan, 2004). If a cost fluctuates with sales it is a variable cost; if it remains constant it is fixed. In many cases it is obvious what category an expense belongs to; for example, rent and loan interest are clearly fixed since they are the same regardless of the amount of sales the business experiences that month, and the cost of goods sold is clearly a variable cost as the amount a business spends on products depends on how much they are selling.

In other cases, however, it is not so black and white. Some costs are a combination of the two, with a minimum level incurred regardless of the amount of sales and a component that increases as sales rise (“Fixed and variable, 2012”). These costs are often referred to as combination costs or mixed costs. A good illustration of a mixed cost is the cost of labor which commonly consists of a component that is fixed and one that is variable. Looking at Figure 1, the fixed component of the nightclub’s labor costs are the sum of all salaried employee’s salaries and benefits and union pension while the variable component is the sum of all hourly employee’s wages and all sales commission and bonuses.

Another reason that some uncertainty arises when categorizing expenses is there is no agreed upon range or time period to analyze and every fixed cost can become semi-variable when the range of activity is increased. For example, a company might have a marketing budget
for a given year but after the first three months of operations managers might realize the business’s demand is exceeding their forecasts and possibly the capabilities or capacity of the business, so they might want to decrease the amount of marketing they are doing. The cost changed based on the level of business making it a variable cost. Similarly, many operating managers in the hospitality industry are responsible for ordering cleaning supplies to help maintain their venues appearance and sanitation. The amount of supplies needed will most likely increase as business goes up; however, most companies give their operators a monthly or weekly budget and consider the cost fixed. Bar supplies, glassware, repairs and maintenance, and office supplies are other examples of expenses that could easily fluctuate based on business activity but are likely to be considered fixed costs because of a set budget.

In the hospitality industry, most operating managers do not manage or control many of the fixed costs. Owners agree to a rental agreement, decide on how much to spend on design and construction, and decide what type of loan to take out. They hire consultants and an upper-management team to choose the specific professional services the venue will employ along with administrative, marketing, and operating budgets. That is why a manual designed to train operating managers cost control should only briefly cover these expenses if not exclude them completely. The costs that the manual will focus on are the variable costs of labor and costs of goods sold (COGS), combined they are defined as a venue’s prime costs (Brown, 2003). These costs have an extremely large impact on the business’s profitability and are mostly the responsibility of operating managers and the staff members they train. Managing labor in a Las Vegas club entails training and educating employees, scheduling, staffing levels, payroll, understanding and following a collective bargaining agreement, minimizing turnover, demand forecasting, and adjusting to unexpected changes in demand. Properly controlling cost of goods
sold will require knowledge and understanding of liquor cost, product selection, price points, and the club’s supply chain, including the inventory system, products being purchased and sold along with possible substitutes, vendors, and par levels. The manual will cover all of these concepts in great detail.

**Cost Management Methods**

It is difficult to argue the importance of cost management in the hospitality industry. Labor cost, beverage cost, and food cost are the three main expenses needed to support profitability in the bar, pub, or restaurant business and are the largest, most controllable costs of the business (Sheehan, 2007). Especially when the economy is in a recession it is extremely unlikely a business will be able to stay open in a competitive market if operators are unable to control their costs.

Not surprisingly, cost management is also very difficult to achieve. In an industry where good service is one of the most important factors for success and cost of labor is the largest operating expense, it is a struggle for managers to lower cost by decreasing labor without sacrificing service (Gilligan, 2005). It is difficult to uphold quality service standards when employees feel they are underpaid and not appreciated, which is an expected result if their number of scheduled shifts and hours is decreased or their compensation rate is lowered. A 2005 study found that capacity and demand of a venue in a saturated market are often managed using price promotions (Skinner, Moss, & Parfitt, 2005). Comping and discounting drinks are a necessity for most venues to attract and retain customers, a factor that makes it difficult to keep the business’s liquor cost under control. If a venue in the hospitality industry finds a way to achieve proper cost management it will most likely realize a competitive advantage in its market.

This section will cover a majority of the different cost management methods used by
operating managers in the hospitality industry. With the help of the last section, this section will be used to decide what methods to include in the manual and what adjustments may need to be made to account for the specific characteristics of the Las Vegas nightclub industry. The section begins with a detailed discussion on the methods operating managers can use to control the prime costs of a nightclub and ends with a brief look at how these managers can impact some of the fixed costs of their venue. The methods that will be covered include demand forecasting, cost-benefit analysis, cost-effectiveness analysis, activity based costing, use of a declining budget, increases in technology, and labor management. Cost-volume-profit (CVP) analysis and crossover analysis are two sub methods of cost-benefit analysis that will also be covered. CVP includes the break-even analysis and marginal costing methods while crossover analysis encompasses process and job costing, waste and portion control, program evaluation and review technique (PERT), and critical path method (CPM).

Method 1: Demand Forecasting

If a manager knows weeks in advance how busy the venue is going to be on specific nights it would make scheduling and purchasing decisions a lot easier. This is a big reason why demand forecasting is a valuable cost management method. While there are a great deal of factors that go into the nightly demand for a hospitality venue, managers do not need a mathematics degree or have to perform a complex regression analysis to get a good idea of what level of business activity they can expect the upcoming week. Most managers find they can successfully approximate the demand by developing yearly or monthly event calendars using information from the local market and estimating the impact each event will have on their venue (Rozell, 2007). Looking at historical data can also be very helpful when forecasting demand, especially if the venue is past its first year of operations. When using historical data, a manager
needs to look at more than just the number of covers and total revenue the venue did in years past. A venue in a city with a major sports team will most likely see a large increase when the team plays at home instead of on the road. Since the team’s schedule changes every year it would be foolish to increase staffing levels for a day just because the team played at home a year ago on that date. Most hotels, restaurants, and nightclubs require their managers to write nightly notes in a log that, among other things, explain reasons for any large increase or decrease in business. These notes contain very valuable information and should be looked at when attempting to accurately forecast upcoming demand. Hospitality venues located in Las Vegas should look at the conventions that will be in town, holidays that are coming up, and significant independent events such as NASCAR, a big boxing or UFC fight, a large concert, and local festivals. Venues located in a hotel can cheat by making the hotel do most of the forecasting work, since the occupancy rate of the hotel is a very big indicator of the level of business its clubs and restaurants will see. If a majority of the hotel guests are in town for the same reason, it is important to take that into account. A hotel could be at 100% occupancy, but if the rooms are filled with elderly people in town for a retirement convention an upbeat nightclub will most likely have a difficult time seeing business from these in-house guests. Lastly, when forecasting demand, a manager should take seasonal trends into account as they prove to be relatively consistent over time.

**Method 2: Cost-Benefit Analysis**

Cost-benefit analysis can be defined as choosing the course of action that maximizes the benefits net of total costs (Cutler & Ericson, 2010). The two most popular sub-methods under cost-benefit analysis that are used in the hospitality industry are cost-volume-profit analysis and crossover analysis.
According to the Encyclopedia of Management, cost-volume-profit analysis (CVP) is a powerful tool used for looking at potential profit based on pricing decisions and cost strategies (“Cost-volume,” 2006). It turns an operating statement into a decision-making tool by quantifying the effect on revenues of alterations in costs and sales volume (Greenberg, 1986). This method can be used when a company is attempting to find the amount of sales required for the business to realize a certain amount of income which is defined as the target income or target profit. A more specific application of CVP is break-even analysis. While break-even analysis is often used as a macro decision-making tool, it can also be used on the micro level in hospitality. Break-even analysis tells a business owner at what point the business will start making a profit (Masterclass Management, 2011). If a bar or nightclub decides to start opening on an additional night and operators are trying to decide if they should charge admission they can use break-even analysis to determine how many guests they will have to collect an admission charge from in order to cover the cost of the cashier. If a venue’s managers are trying to decide if they should send the opening bartender home early they can use this method by counting the number of drinks the employee is selling in a –two- to five-minute period, multiplying that number by the appropriate number (30 – 12) to estimate how many drinks they will make the upcoming hour, than multiplying this number by the average cost of a drink to see if the bartender is bringing in more revenue than his or her hourly rate. If there are multiple bartenders at the same bar the manager should track the total drinks all the bartenders are sending over the bar, multiply by the appropriate number and compare it to the sum of all the bartenders’ hourly rates. Some managers have memorized the number of drinks needed to justify this operational decision and use it nightly to help control their labor costs. When deciding if a new food or specialty drink should be added to the menu the manager can use this tool to find how many orders they need to
sell to cover the costs of the product and labor that go into making each unit as well as the cost of researching and developing the item, the cost of reprinting menus, training the staff, and any other costs that would go into the new menu item. Break-even analysis is a powerful tool that can be used to help control both labor costs and costs of goods sold.

Marginal costing is another popular application of CVP. Marginal costing, also referred to as variable costing or direct costing, is not a costing method, it is defined as a managerial decision making technique of presenting sales and cost data where fixed and variable costs are shown separately (Brown, 2003). It is based on the theory that the cost per unit normally decreases if the output volume increases and increases when the output volume decreases. The marginal cost is the cost of one more or one less unit produced besides existing levels of production. It makes cost control easier to measure by avoiding fixed costs and focusing efforts on the marginal cost; it is a method helpful when comparing performance and profitability between two or more services or products. While marginal costing is used for managerial decision making, a similar method, absorption costing, is mostly used purely for controlling costs. Fixed costs are not considered when using marginal costing, making the method useful during CVP and break-even analysis. Absorption costing considers all costs, variable and fixed, associated with producing a particular product.

The second popular sub-method of cost-benefit analysis is crossover analysis, a method that shows managers the point where they should switch from one service or product to another service or product that has different variable and fixed costs but comparable benefits. Nightclubs usually have two types of customers on any given night, classified as general admission or table guests. Those who are considered to be general admission buy their drinks at the bar and spend their time in the club at the bar or walking around. Table guests are those who have a reservation
for a table that usually includes bottle service. A particular club can staff at most six bartenders and eight VIP servers, but even when the venue is at its full capacity it only needs 11 employees between the two positions. If the VIP tables are sold out that means a majority of the guests in the club will be sitting at a table and served by a VIP server. If there are only a handful of table reservations a majority of the guests will be general admission and will be served at the bar by a bartender. Any given night starts with zero table reservations and is staffed with six bartenders and five VIP servers. Crossover analysis will give the manager three separate benchmarks of the number of table reservations the club will need to justify calling off a bartender and replacing him (or her) with a VIP server.

Process costing and job costing are two more cost-benefit methods that are important in the hospitality industry. According to Wikipedia, process costing adds all of the costs associated with developing and manufacturing, and/or processing a large batch of an end product (“Job costing,” 2012). Once this cost is assigned to the batch, an individual cost is assigned to each unit of the product. This method is very useful to operating managers managing costs by assisting them in pricing menu items, product selection, and break-even analysis. Job costing calculates and uses the cost of specific production jobs that are significantly different (“Job costing,” 2012). VIP table service is usually reserved for bottle service only in Las Vegas clubs; however some clubs, especially on slower nights, allow guests to purchase a minimum dollar amount of cocktails instead. Even if the assigned minimum is equal to the price of a bottle, because of job costing, managers much rather prefer selling the guests a bottle. The amount of labor and time that goes into a bartender making $400 worth of cocktails and a server serving them is much greater than if a single bottle at that price is served at the table. Job costing is therefore useful method for managers when developing, implementing, and deciding on
procedures and policies.

The last two cost-benefit methods that will be discussed are critical path method (CPM) and program evaluation and review technique (PERT), both decision making tools for managers traditionally used in project management. CPM assists a manager in planning, coordinating, and prioritizing the various tasks that need to be completed in a project, while PERT allows a manager to make pessimistic, optimistic, and best guess estimates of the time each task will take to get completed (Masterclass Management, 2011). When the project that needs to be completed has costs associated with it, proper execution of these methods can have a very positive impact on cost control. A good example of this in the hospitality industry can be seen in supply chain management when managers are putting together and placing their weekly order, which consists of a number of separate tasks such as doing inventory of product, checking par sheets, studying the forecasted demand and event calendar, looking for possible product substitutes, noting any special order requests, checking with vendor representatives for possible deals and discounts, and putting the order in. If these tasks are not done in the correct order costly mistakes could be made.

A quick side note to elaborate on the importance on how proper supply chain management helps controlling the costs of goods sold is appropriate at this time. Supply chain management includes successfully managing the business’s invoice log and controlling the inventory levels as well as purchasing and receiving of product. If the business has perishable items in its inventory the amount of time between when the item is received to when it is used becomes significant. The potential and likelihood of the product wasting results in managers assigning a cost to this time period referred to as the item’s holding cost (Urban, 2008). Minimizing waste is an obvious large aspect of cost management. Choosing the right vendors
and building a mutually beneficial relationship with the vendor representatives is also important in supply chain management, as is product selection and knowledge of product substitutes.

**Method 3: Cost-Effectiveness Analysis**

Cost-effectiveness analysis is similar to cost-benefit analysis. The difference between the two is that the inputs and outputs in cost-benefit analysis are usually measured in monetary terms while the cost-effectiveness method measures the input in monetary terms and the output in quantitative, non-monetary terms (Cutler & Ericson, 2010). There has been a recent increase in the use of cost-effectiveness analysis due to the large number of hospitality companies that are looking to find ways to go green and become more sustainable. Cost-effectiveness is also used often when companies want to reduce labor costs through minimizing employee turnover by investigating and improving employee job satisfaction. Finally, the tool is used when hospitality venues invest in something to improve the guests experience and satisfaction and not just to get more money out of them.

**Method 4: Activity Based Costing**

More and more experts are arguing that most of the methods currently being used in the hospitality industry are too simplistic and, while they are relatively cheap to implement, they produce costly errors and produce results that are not accurate. These experts are usually advocates of the more expensive activity based costing (ABC) systems which is described as a more sophisticated and accurate system (Pavlatos & Paggios, 2007). ABC uses activities to accumulate costs instead of cost centers. While traditional costing systems assume that costs occur due to the production of goods and services, ABC assumes that the products, services, and customers are the reason activities must be formed and these activities are what cause cost (Ismaila, 2008). ABC is most valuable to companies in a competitive market that have many
different departments and a diverse product mix. While it may be wise for a large hotel and casino to adopt this costing system because of the large number of departments it has and the variety of different services it offers, most hospitality professionals agree specific tenants or entities within the hotel should be able to obtain accurate results from traditional methods. ABC is being used in some restaurants as a handful of managers think it is a superior method for establishing menu prices and customer profitability.

**Method 5: Declining Budget**

A declining budget is an important cost management tool that can prevent a manager from running the business blind. It is a tool that provides a manager with real-time information, allowing that manager to make adjustments if needed based on sales. If the business’s sales are trending down from the forecasted amount the manager can use a declining budget to adjust the amount that should be spent on the upcoming order. When sales are down the amount of product used and sold should be down implying the order should be decreased. If unexpected costs come up in a particular category a manager can adjust the controllable costs in other categories to ensure the business overall is staying within budget. A manager’s ability to successfully obtain the projected profit for a given period while the top-line sales for that period were less than the projected amount is an impressive cost management achievement. A declining budget is a very useful tool for a manager to use while attempting to accomplish this.

**Method 6: Technology**

Technology is being used more and more in the hospitality industry to improve efficiency and performance and subsequently reducing costs (Gilligan, 2005). In night clubs, managers, VIP hosts, and security officers use radios and headsets to improve communication in a loud environment, increase customers service and safety, and reduce staffing levels in these positions.
Some casino bars use a liquor gun that automatically dispenses the perfect amount of the product ordered, reducing staffing levels, theft, and waste. Lastly, software packages are becoming increasingly advanced to help managers have important real-time information, which helps them make decisions.

**Method 7: Labor Management**

Labor costs are usually the first thing managers look at when their expenses are out of line since this is almost always the company’s largest expense (Pavesic, 2012). There exist many additional methods used to manage a business’s labor costs and they all consist of either adjusting the employees’ wages, compensation structure, and/or benefits or increasing the efficiency and productivity of the staff (Pavesic, 2012). Lowering wages may not be an option if the company is already paying minimum wage or has to follow a collective bargaining agreement for its union employees. Even when possible it is a risky option as most employees do not handle pay decreases well and if the company pays less than the industry minimum it is likely to experience a large, costly increase in turnover. There are many feasible methods a manager can use to increase employee productively and efficiency. Strategic scheduling is significant as staggering shifts, decreasing staffing levels, and using on-call employees can greatly reduce labor costs. Instead of over-staffing and greatly increasing the possibility of idle time for employees, a manager should adjust staffing levels to the point where all employees have multiple tasks they could be working on at all times. Side-work is important in hospitality since a manager cannot expect all employees will be required to assist with customers’ needs at all times. Decreasing staffing levels without sacrificing service is possible by having a more thorough hiring process, which increases the chance of obtaining hard-working and self-motivated individuals. Cross-training employees in different positions and encouraging multi-
tasking also will give managers the freedom to staff less. Another method is utilizing a company’s fixed labor better during operations by increasing the responsibilities of salaried employees. Managers can improve the business’s procedures, menu, physical layout, systems, and equipment to help minimize the amount of hourly staff needed to obtain service standards throughout a given shift. Lastly, the most important method to decreasing staffing levels by increasing productivity and efficiency is properly and consistently training, encouraging, disciplining, and monitoring the staff.

**Fixed Costs**

As mentioned earlier, most fixed costs are managed and controlled by owners and upper management. A lot of the methods mentioned in this section can be used by operating managers to help reduce some of the company’s fixed costs as long as they are aware of how the costs fluctuate. For example, a lot of waste control methods can also be used to reduce the amount of glassware and cleaning and bar supplies a business uses. This will lead to the amount needed to purchase these items to be consistently less than the amount budgeted for them, allowing excess funds to be used on other categories of the business or additional money going toward the bottom line. Also, if an operating manager successfully trains the staff, resulting in an increase in customer service and satisfaction, the venue will realize more repeat business and possibly bring in a lot more sales than was projected. When this happens the fixed advertising and marketing costs may be able to decrease from the amount budgeted.

**Key Players**

The individuals that play a significant role in managing costs of a Las Vegas nightclub can be classified as primary and secondary. The primary individuals are the club’s customers, operating managers who are in charge of hiring, training, monitoring, and scheduling the service
employees and ordering product, and the service employees themselves. It is important to
classify the service employees as union or non-union and revenue producing or non-revenue
producing. The categories a specific staff member belongs to will have a large impact on how a
manager should schedule, train, and manage him (or her).

Middle or upper-level managers can also be considered as primary if they are the
individuals responsible for making decisions on budgeting and cost-related procedures such as
product selection and pricing. Secondary individuals that impact the cost of a nightclub include
vendor representatives, hotel managers and executives, union representatives, and
investors/owners. While some of these individuals may not directly impact how cost is managed
and controlled in a nightclub, they certainly have a big influence on the success of the managers
assigned with the responsibility.

**Understanding the Customer**

Understanding the preferences and expectations of the customer is another important
factor that needs to be considered when making management decisions that affect costs. The
level of service and quality of product expected from a particular customer for the price paid can
be located somewhere on a continuous spectrum with end points that could be labeled
“completely indifferent” to “perfection or bust”. While no two customers may have the exact
same expectations and individual customers may change their expectations based on their mood,
how a venue is advertised, and even the weather outside, a business and competent manager
should be able to get a general idea what kind of product and service standard their average
customer expects. This knowledge will help management make cost-effective decisions.

A concrete example of this can be seen when looking at the recent history of the Luxor
hotel and casino located on the south end of the Las Vegas Strip. In 2007, the hotel was
realizing strong numbers after recently giving the property a costly facelift, which included the addition of two nightclubs, three full-service high-end restaurants, and a Cirque Du Soleil show featuring magician Criss Angel. Room rates were typically $150-$200 during the week and over $300 on most weekends. After the financial crisis in 2008, Luxor was forced to aggressively lower its room rates to keep occupancy rates high. Consequently, the demographic and average income level of the in-house guests drastically changed, having a devastating effect on the new venues that were designed with the preferences of a completely different target market in mind. It was not long before the restaurants realized it was not realistic to expect guests who were spending $50 on their room to pay the same amount for an entrée. Two of the Three restaurants closed within 18 months and the other made huge adjustments to its menu and service standards. The lesson learned by operators of these venues is to know their customer. If customers are not expecting flawless service and high-end products, most of the time they are not likely willing or able to pay for it. If the average guest of a venue is not willing to pay the industry average for high-end service and products, the business will have a better chance succeeding if they do not pay the cost of delivering high-end service and products.

As earlier mentioned, the two types of customers in a Las Vegas nightclub are those who are receiving bottle service at a VIP table or those that make up the club’s general admission. A large majority of the guests who have reservations for VIP table service have a relationship with one of the club’s marketing personnel, while most of the general admission customers are guests of the hotel or locals. A good measurement a manager of a Las Vegas nightclub should look at when deciding the level of service and product quality to pay for and implement/sell is the average room rate of the hotel their venue is located in compared to the average rates of other properties on the Strip.
Characteristics of the Manual

The format and progression of the manual were chosen with the goal to maximize the buy-in and chances of success for those whom it is intended for, operating managers of nightclubs in Las Vegas. One will notice there is a flow to the manual if they choose to read it cover to cover. For efficiency and convenience purposes, however, the manual’s sections can be read in any order and independently of one another so it can be used as a quick reference to aid specific problems and cost related inquiries as they come up.

Since the employees play a significant role in a manager’s ability to successfully control and manage costs, there will be methods, policies, and procedures given throughout the manual covering how to properly educate, train and monitor employees as well as increasing their willingness to buy-in to the cost saving effort. When done correctly these methods and procedures will become habit to the staff and, in time, part of the venue’s culture. When this is achieved, a venue will be in an excellent position to maximize profits and the efforts of those involved in the process will be noticed and most likely rewarded for their efforts.

Being able to measure the effectiveness of new efforts, methods, procedures, and systems is extremely important for managers to know if they are helping or hurting the business. The last section of the manual will be dedicated to measuring the effectiveness of the manual as a whole as well as individual methods and tools included in the manual. The section will also include instructions on how to measure individual employee’s success along with entire departments. Lastly, methods to measure the level of success (or failure) realized by the managers using the manual will be contained in this section for the benefit of the managers themselves and/or their immediate supervisor.
Conclusion

This concludes the literature review section of this paper. The review is relevant to making a manual on cost management for operating managers of nightclubs in Las Vegas. The review started with a look at the history of nightclubs in Las Vegas, including how the industry grew and developed, the characteristics of Las Vegas that made this growth possible, and how the industry has impacted the city. This was followed by a detailed discussion on how specific characteristics of nightclubs in Las Vegas impact important decisions regarding managing costs. Next, after looking at the fixed and variable costs of a venue in the hospitality industry, their definitions, their differences, and the role they play in managing costs, a list of the common cost management methods currently used in hospitality with nightclub specific examples was included. The individuals who have an impact on a venue’s costs were then given followed by an explanation on how an understanding of the customer can impact cost related decisions. Lastly, the important characteristics of the manual were included in the review. All of the above topics played an important role in constructing and developing an efficient manual that gives the intended reader the best possible chance for success.
PART THREE

Introduction

This section includes the training manual that was designed to solve the problem stated in Part One using the information from literature discussed in Part Two. The purpose that was introduced, discussed, and justified in Part One was to help operating managers of Las Vegas nightclubs who have a limited number of cost management tools by giving them a powerful manual they can use while making important cost-related decisions. The manual is intended to help reduce how much these managers rely on common sense and intuition while controlling their venue’s costs and to eliminate the necessity for them to learn proper cost management from experience and trial and error. Literature from cost management experts along with hospitality and nightlife professionals was studied and analyzed in part two to help decide the concepts and methods that were included in the manual, along with those that were excluded and the justified criteria used to make these decisions.

The manual is designed and formatted to maximize the efficiency, buy-in, and chances of success for those it is attended for, operating managers of a Las Vegas club. The manual is divided into three parts that include eight chapters. The first three chapters make up the first part which sets up the manual and discusses its characteristics. This part includes chapters on the manual’s layout, the basics of cost management, and how the customer impacts cost-related decisions. The second part (Chapters 4, 5, 6, and 7) covers the specific topics, methods, and techniques necessary for proper cost management. The last part, Chapter 8, covers methods for monitoring and measuring the effectiveness of the individual topics, methods and techniques given in Chapters 4-7, as well as the effectiveness of the manual as a whole.
One will notice there is a flow to the manual if they choose to read it cover to cover. For efficiency and convenience purposes, however, the manual’s chapters and sections can be read in any order and independently of one another so it can be used as a quick reference to aid specific problems and cost related inquiries as they come up.

After the manual this section will end with a brief conclusion that summarizes the importance of the manual along with how the manual can be applied in other hospitality industries and venues other than Las Vegas nightclubs. Lastly, the paper will conclude with a section that covers specific recommendations on the implementation and application of the manual.
A Training Manual:

Managing and Controlling your Nightclub’s Costs
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Getting Started

Purpose

This manual was designed to educate and train operating managers of Vegas nightclubs on how to properly manage and control the costs of their venue.

Layout of the Manual

The format and progression of the manual was chosen with the goal in mind to maximize the buy-in and chances of success for those who it is intended for: operating managers of nightclubs in Las Vegas. One will notice there is a flow to the manual if they choose to read it cover to cover. For efficiency and convenience purposes, however, the manual’s sections can be read in any order and independently of one another. This gives the reader the ability to use the manual as a quick reference to aid specific problems and cost related inquiries as they come up. The manual has a total of 8 chapters that can be placed in 3 parts.
Part 1: Manual Characteristics and Set-up

Chapters 1 and 2 describe the characteristics of the manual along with what is included and excluded and the justification of the criteria used to make such decisions. Chapter 3 discusses how the customer impacts a manager’s decisions related to cost management.

Part 2: Managing and Controlling Cost

Chapters 4, 5, 6, and 7 cover the methods and techniques used to manage and control the costs of a Las Vegas nightclub. Chapters 4 – 6 define the main topics managers will encounter while managing their club’s costs along with the qualitative methods they need to employ to successfully keep these costs under control. Throughout these chapters the reader is referred to chapter 7 for examples using quantitative methods which coincide with the topics covered in chapters 4 – 6.

Part 3: Monitoring and Measuring

Chapter 8 covers methods for monitoring and measuring the effectiveness of the individual methods and techniques given in chapters 4 – 7, as well as the effectiveness of the manual as a whole. This chapter will also include instructions on how to measure individual employee’s success along with entire departments.

The Employees

While this manual is written specifically for operating managers of a Vegas nightclub, the venue’s employees play a significant role in a manager’s ability to successfully control and manage costs. Because of this, there will be methods, policies, and procedures given throughout the manual covering how to properly educate, train and monitor employees as well as increasing their willingness to buy-in to the cost saving effort. When done correctly these methods and procedures will become habit to the staff and, in time, part of the venue’s culture. When this is achieved a venue will be in an excellent position to maximize profits and the efforts of those involved in the process will be noticed and most likely rewarded for their efforts.
Constraints

Managers new to the industry or who have little experience working with spreadsheets may have a difficult time with this manual. A minimal amount of knowledge in business, food and beverage, management, and computers is imperative. Managers who will be using this manual need to have access to, and be able to interpret, the business’s budget, end of night sales and labor reports, invoices (or purchase journal), and inventory system. As in any operations manual, there is a lot of room for human error. Managers who do not commit to full participation in the manual and/or managers who are unable to properly manage their employees will not be able to see the benefits that can be expected.
The Basics

Introduction

Prior to learning the different methods and techniques that can be used to manage and control your nightclub’s costs, it is important to know all the different expenses your club regularly incurs and how to classify these expenses.

Vegas nightclubs are the most expensive clubs in the world to design, construct, and operate. Figure 1 on the following page is a list of all expenses incurred in a specific month of 2011 by a mid-sized Las Vegas nightclub in its third year of operations. This section will cover the difference between fixed and variable costs and how this difference impacts cost management and justifies the inclusion and exclusion of specific expenses in the manual.

_____________________________________

45
### Rent and Occupancy

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
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</tr>
<tr>
<td>Property tax</td>
<td>$350.00</td>
</tr>
<tr>
<td>Utilities</td>
<td>$4,000.00</td>
</tr>
<tr>
<td>Metro Sweep</td>
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<td>Administration Fees -2%</td>
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### Cost of Goods Sold

<table>
<thead>
<tr>
<th>Item</th>
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<tbody>
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### General and Administrative

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<td>Telephone</td>
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<td>Internet Services</td>
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<tr>
<td>Guest Tracking/Reservation System (URVenue)</td>
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</tr>
<tr>
<td>Product Mix and Sales Software (Avero)</td>
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<td>Professional Services</td>
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<td>Legal Fees</td>
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<td>Bank Charges/ Fees</td>
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<td>Armored Pick-up (Brinks)</td>
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<tr>
<td>Office Supplies</td>
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<td>Busser</td>
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<td>Jr. VIP Host</td>
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<td>Promoters</td>
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<td>Independent Promoters</td>
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<td>Table</td>
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<td>Commission</td>
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<td>Employer</td>
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<tr>
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</tr>
<tr>
<td>Janitorial</td>
<td>$4,800.00</td>
</tr>
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<td>Cleaning</td>
<td>$6,650.00</td>
</tr>
<tr>
<td>Bar Supplies</td>
<td>$3,713.00</td>
</tr>
<tr>
<td>Flowers and Decorations</td>
<td>$260.00</td>
</tr>
<tr>
<td>Glassware</td>
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</tr>
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<td>Hookah Commission</td>
<td>$2,267.00</td>
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<td>Repairs and Maintenance</td>
<td>$3,161.00</td>
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<td>Equipment Rental/Lease</td>
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</tr>
<tr>
<td>License and Permits</td>
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</tr>
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<td>Cleaning</td>
<td>$6,650.00</td>
</tr>
<tr>
<td>Cleaning Supplies</td>
<td>$200.00</td>
</tr>
<tr>
<td>Laundry</td>
<td>$1,500.00</td>
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<tr>
<td>Exterminator.</td>
<td>$150.00</td>
</tr>
<tr>
<td>Janitorial</td>
<td>$4,800.00</td>
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</table>

### Sales and Marketing

<table>
<thead>
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<th>Item</th>
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</tr>
</thead>
<tbody>
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</tr>
<tr>
<td>Advertising</td>
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<tr>
<td>Photography &amp; Video</td>
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<td>Productions</td>
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<td>Graphic Design</td>
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<tr>
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<tr>
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<tr>
<td>Public Relations</td>
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<td>Music Rights</td>
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<td>Celebrity/Entertainers</td>
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<td>Booking Fees</td>
<td>$400.00</td>
</tr>
<tr>
<td>DJ's</td>
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<tr>
<td>Airfare, Car Service, Meals, and Accommodations</td>
<td>$940.00</td>
</tr>
</tbody>
</table>

### Property Operations and Maintenance

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bar Supplies</td>
<td>$3,713.00</td>
</tr>
<tr>
<td>Flowers and Decorations</td>
<td>$260.00</td>
</tr>
<tr>
<td>Glassware</td>
<td>$410.00</td>
</tr>
<tr>
<td>Hookah Commission</td>
<td>$2,267.00</td>
</tr>
<tr>
<td>Repairs and Maintenance</td>
<td>$3,161.00</td>
</tr>
<tr>
<td>Equipment Rental/Lease</td>
<td>$1,100.00</td>
</tr>
<tr>
<td>License and Permits</td>
<td>$0.00</td>
</tr>
<tr>
<td>Cleaning</td>
<td>$6,650.00</td>
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<tr>
<td>Laundry</td>
<td>$1,500.00</td>
</tr>
<tr>
<td>Exterminator.</td>
<td>$150.00</td>
</tr>
<tr>
<td>Janitorial</td>
<td>$4,800.00</td>
</tr>
</tbody>
</table>

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Figure 1: Monthly expenses of a Las Vegas nightclub
Fixed vs. Variable Costs

As in most other businesses, the total cost of a club is the sum of its fixed costs and variable (or controllable) costs, and a critical initial step in cost management is properly categorizing all expenses as one or the other.

Fixed Cost

A cost is considered fixed if it remains constant within a range of activity and specific period of time.

Variable Cost

A variable cost varies in direct proportion to the level of business activity.

It is common to use sales as the reference point when deciding if an expense is fixed or variable. If a cost fluctuates with sales it is a variable cost, if it remains constant it is fixed. In many cases it is obvious what category an expense belongs to; for example, rent and liability insurance are clearly fixed since they are the same regardless of the amount of sales the club experiences in a particular month, and cost of goods sold is clearly a variable cost since the amount a business spends on products depends on how much they are selling.

In other cases, however, it is not so black and white. Some costs are a combination of the two, with a minimum level incurred regardless of the amount of sales and a component that increases as sales rise. These costs are often referred to as combination or mixed costs. A good illustration of a mixed cost is the cost of labor which commonly consists of a component that is fixed and one that is variable. Looking at figure 1 the fixed component of the nightclub’s labor costs are the sum of all salaried employee’s salaries and benefits and union pension, while the variable component is the sum of all hourly employees’ wages, sales commissions, and bonuses.

Another reason that some uncertainty arises when categorizing expenses is there is no agreed upon range or time period to analyze and every fixed cost can become semi-variable when the range of activity is increased. For example, a company might have a marketing budget for a given year but after the first 3 months of operations they might realize the business’s demand is exceeding their forecasts and possibly the capabilities or capacity of the business, so they might want to decrease the amount of marketing they are doing. The cost changed based on the level of business making it a variable cost. Similarly, many operating managers in the hospitality industry are responsible for ordering cleaning supplies to help maintain their venues appearance and sanitation. The amount of supplies needed will most likely increase as business goes up; however, most companies give their operators a monthly or weekly budget and consider the cost
fixed. Bar supplies, glassware, repairs and maintenance, and office supplies are other examples of expenses that could easily fluctuate based on business activity but are likely to be considered fixed costs because of a set budget.

Most operating managers of Vegas clubs do not manage or control many of the fixed costs. Owners agree to a rental agreement, decide on how much to spend on design and construction and what type of loan to take out. Consultants and an upper-management team choose the specific professional services the venue will employ along with administrative, marketing, and operating budgets. Operating managers have little, if any, control over these costs.

Prime Costs

The manual will exclude expenses in the rent and occupancy, sales and marketing, depreciation and amortization, and general and administrative categories of figure 1 and only briefly cover most of the expenses in the property operations and maintenance category. The manual will focus almost entirely on what is referred to in the industry as the club’s prime costs.

The prime costs of a business are the direct material and direct labor it uses in production. For a Vegas club this includes the expenses in the cost of goods sold (COGS) and labor categories of figure 1. The COGS and labor costs are the largest and most controllable expenses of every nightclub. A venue will not be able to remain profitable or competitive if its operating managers do not have the ability to control these costs. Also, an operating manager will not obtain job security or have longevity in the industry if they do not possess the relevant skillset needed to manage these costs. These expenses and the skillset needed to manage them are covered in the expense’s self-titled chapters.
The Customer

Introduction

Understanding the preferences and expectations of your customer is another important factor that needs to be considered when making management decisions that affect costs. The level of service and quality of product expected from a particular customer for the price they’re paying can be located somewhere on a continuous spectrum with end points that could be labeled “completely indifferent” and “perfection or bust”. While no two customers may have the exact same expectations and individual customers may change their expectations based on their mood, how a venue is advertised, and even the weather outside, a business and competent manager should be able to get a general idea of consistent characteristics that exist among individuals in their dominate customer base including the product quality and service standards they expect in your venue. This knowledge will help management make cost effective decisions.
Types of Club Customers

There are two categories a nightclub customer fits in; VIP table guests and general admission.

VIP Table Guests

VIP table guests are those who have a reservation for one of the club’s VIP tables. Obtaining a reservation for one of these tables usually requires a commitment of a minimum spend by the customer. This minimum spend is often used towards bottle service and typically ranges from $300 - $5,000, depending on the particular club, day of the week, location of the table in the club, and the level of business activity. A majority of the clients have an established relationship with one of the club’s marketing personnel or have been referred by a similar employee of another venue. Once inside the venue the club’s VIP servers and server assistants are responsible for serving the guests and have to follow a step by step sequence of service procedure for each sat table in their section. The sequence of service of a club and how consistently and correctly the VIP servers and server assistants follow it is a large measurement of the club’s service standards.

General Admission

Customers in this category are those who are not receiving bottle service at one of the club’s VIP tables. These guests usually have to pay a cover charge of $10-$50 to enter the venue. While inside they get drinks from the club’s bartenders and spend their time at the bar or walking around. Many of these customers are part of what is called the club’s dominate customer base (some refer to them as the target market). These are the individuals the club’s marketing campaign(s) is directed towards.

__________________________________________

Dominate Customer Base

While clubs in other markets can usually significantly influence their dominate customer base through their marketing efforts, Vegas clubs have a very important factor they need to consider: the dominate customer base of their housing hotel.
The hotels and casinos in Vegas that have nightclubs in them are typically very large with many rooms and an extensive marketing budget. If a Vegas club attempts to obtain a dominate customer base that is not consistent with that of its housing property they will most likely run into considerable problems. Because of this, many Vegas clubs do not have as much flexibility in regards to the dominate customer base they will be catering to. This suggests it is imperative for these clubs to know and understand the characteristics of the average guest their housing property attracts, most significantly the average age and annual income.

Understanding the characteristics of your nightclub’s (and housing property’s) dominate customer base will help you make better cost-related decisions. These decisions include pricing, product selection, drink specials and promotions, service standards, staffing levels, and any policy or procedure that impacts your guest’s experience while inside your venue.

Quality and Price

Knowing and understanding the characteristics of your club’s dominate customer base will help you find the level of product and service quality they expect and how much they expect to pay for it.

If a customer isn’t expecting flawless service and high-end products, most of the time they are not willing or able to pay for it. When the average guest of your venue is not willing or able to pay the industry average for high-end service and products, your club will have a better chance of realizing success and profitability if it does not pay the cost of delivering high-end service and products.

As earlier mentioned, the dominate customer base of your club will most likely be consistent with that of your housing property. The best measurement you can use when studying the level of quality most of your customers expect and how much they expect to pay for it is the average room rate of your housing property relative to the average rates of other properties on the Strip. If the room rates of your housing property are typically below the Strip average you do not have to implement and deliver service standards as high-end as the clubs in Vegas’s elite hotels. You should be able to decrease staffing levels and save on other procedural costs, enabling you to offer your products at a cheaper price than those clubs, a price your dominate customer base will be receptive to. If your club is in one of these elite hotels with the highest room rates you want
to spend the money needed to deliver the best service and products. While your costs will be higher than most other clubs you will be able to charge the industry maximum for your products without sacrificing demand.
Cost of Goods Sold

Introduction

Cost of Goods Sold in a Las Vegas nightclub is what an operator paid for the following items: liquor, wine, beer, and NA products. Cost of Goods Sold (COGS) and Labor are the two largest expenses for every nightclub and are also the most controllable. Properly managing the COGS in a nightclub is one of the most important responsibilities for most operating managers. Having the necessary skillset to accomplish this is imperative if you want to get the attention of your superiors and move up in the industry. If you do not have the knowledge or ability to control the COGS of your club you will have a difficult time retaining job security and realizing longevity in the industry. If you choose to work in a different industry one day and have learned and developed the methods in this chapter you will realize many of them are transferrable.

At the end of this chapter you should have a thorough understanding of the following topics: Liquor cost, product selection, supply chain management, waste control, and pricing.
Liquor cost

Definition

Liquor cost, also commonly referred to as pour cost, can be defined by the following simple formula:

\[
\text{Liquor cost} = \frac{\text{Cost of liquor product used}}{\text{Liquor sales}} \quad (1)
\]

The cost of liquor product used can be calculated using formula (2):

\[
\text{Cost of liquor product used} = \text{Cost of beginning liquor inventory} + \text{Cost of liquor purchases} - \text{Cost of ending liquor inventory} \quad (2)
\]

Substituting formula (2) into formula (1) produces the formula most commonly used in the industry:

\[
\text{Liquor cost} = \frac{(\text{Cost of beginning liquor inventory} + \text{Cost of liquor purchases} - \text{Cost of ending liquor inventory})}{\text{Liquor sales}} \quad (3)
\]

Significance of Liquor Cost

As mentioned in the introduction of this chapter, the Cost of Goods Sold for most nightclubs is the cost an operator spends on liquor, beer, wine, and non-alcoholic products. While it may seem confusing at first, in most cases liquor cost in the nightclub industry refers to the sum of the cost of hard liquor, beer, wine, and NA products used divided by the sum of the sales from hard liquor, beer, wine, and NA products. Therefore, unless your nightclub sells food and/or retail items, your nightclub’s liquor cost and Cost of Goods Sold is the same thing. If your club does have a food and/or retail element, the costs associated with these elements is small in comparison to the cost spent on hard liquor, beer, wine, and NA products. As a result, in the nightclub industry managing the liquor cost of a venue is the same (or extremely close to being the same) as managing the COGS of the venue.

All subsequent sections of this chapter cover topics and methods that will help you understand how to manage and control your liquor cost. Besides being essential to keeping you nightclub profitable and competitive, the liquor cost is an extremely important job performance measurement for any operating manager.
Subsets of Liquor Cost

It is important to be able to calculate not only the total liquor cost but the cost of the 4 subsets as well. This can be done by substituting the desired subset into formula (3):

- **Hard liquor cost** = \( \frac{(\text{Cost of beginning hard liquor inventory} + \text{Cost of hard liquor purchases} - \text{Cost of ending hard liquor inventory})}{\text{Hard liquor sales}} \) (4)

- **Beer cost** = \( \frac{(\text{Cost of beginning beer inventory} + \text{Cost of beer purchases} - \text{Cost of ending beer inventory})}{\text{Beer sales}} \) (5)

- **Wine cost** = \( \frac{(\text{Cost of beginning wine inventory} + \text{Cost of wine purchases} - \text{Cost of ending wine inventory})}{\text{Wine sales}} \) (6)

- **NA cost** = \( \frac{(\text{Cost of beginning NA inventory} + \text{Cost of NA purchases} - \text{Cost of ending NA inventory})}{\text{NA sales}} \) (7)

If the nightclub you are employed at serves food you can calculate your venue’s food cost also by replacing liquor with food in formula (3):

- **Food cost** = \( \frac{(\text{Cost of beginning food inventory} + \text{Cost of food purchases} - \text{Cost of ending food inventory})}{\text{Food sales}} \) (8)

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Target Liquor Cost

So how do you know if you are doing a good job managing your club’s liquor cost? Since liquor cost is a ratio of cost to sales, there is some value to comparing your liquor cost to other venues or the industry average. There are a very large number of factors that go into a venue’s liquor cost and since no two venues are exactly the same, what is considered to be a “good” or “acceptable” liquor cost will vary. You may think that since this manual is made for a specific type of hospitality venue, nightclubs in Las Vegas, there should be an accepted industry benchmark. Nightclubs in Vegas, however, come in many different shapes and sizes with different influential factors such as marketing budgets, price points, menus, and target markets. How these factors and others affect a club’s liquor cost will be discussed in detail later in this chapter.

Table 1 on the next page includes the weekly sales, weekly liquor cost, and year-to-date liquor cost of a large Vegas mega club in a Strip casino for the first week of November 2011. Table 2 is the same report for the same week of the smaller secondary nightclub located in the same casino.
From the above information one might think the mega club is doing a much better job managing their COGS. This could be true but is a dangerous assumption based on the information given. The target liquor cost for the mega club for 2011 was 9% while the smaller, more intimate nightclub had a target liquor cost of 18%. Most bars and nightclubs in other cities consider an acceptable liquor cost to be in the 23% - 28% range. While the reasons such a large discrepancy exists will be discussed in detail throughout this section, the point that needs to be understood at this time is that there is no agreed upon liquor cost percentage that is considered “acceptable” or “good” in the Vegas nightclub industry. You should ask your immediate supervisor or the General Manager what the target pour cost is for your specific venue.
Product Selection

Significance

Before you are able to manage your cost of goods sold you need to have goods to sell. The process of deciding what goods your venue is going to sell is referred to as product selection. This process is an initial and critical step towards correctly controlling your venue’s liquor cost. Failing to have a specific product in your inventory or the right mix of products can handicap your immediate and long-term cost management success. Product selection seems like it should be relatively intuitive; however, there are some valuable techniques operating managers should be aware of that will have a positive impact on the club’s liquor cost when executed correctly.

While the nightclub you manage might have an established menu and product mix and selecting new products may not be one of your direct responsibilities, it is imperative for all successful operations managers of a Vegas club to have an understanding of the factors that impact proper product selection.

Products in a nightclub that are categorized under COGS

Hard Liquor

Hard liquor is the largest selling category for every nightclub. The subcategories of hard liquor include vodka, rum, gin, tequila, bourbon, whiskey, blended and single-malt scotch, cognac and brandy, cordials and liqueurs, and aperitifs.

A large majority of the bottles sold for bottle service are hard liquor and many of the items sold over the bar consist of a mixture of hard liquor(s) and NA products.

For price point purposes most nightclubs and bars have various brands of vodka, gin, rum, tequila, and whiskey that they classify into one of 4 categories: well, call, premium, and super (or ultra) premium.
Wine

Wine is usually the second largest selling category for a club. The subcategories of wine include white wine, red wine, and champagne.

A majority of the highest priced items on a nightclub's bottle menu are high-end brands and vintages of champagne.

Since wine and champagne begin to spoil after the bottle is opened, most nightclubs have a specific inexpensive brand of each subcategory they will sell by the glass. These brands are referred to as house brands (“house red”, “house white”, and “house champagne”). All other brands are usually only sold for bottle service.

Beer

The subcategories of beer are import and domestic.

While most of the beer is sold over the bar, clubs will offer buckets or a case of beer on the bottle menu for customers to order at the VIP tables.

Non-Alcoholic (NA) Products

The subcategories of NA products include bottle water, energy drinks (Red Bull), fruit juices, soda, and any other non-alcoholic product that is used as a mixer (milk or cream, olive juice, etc.).

Most of the NA products are used specifically as mixers for cocktails made at the bar or VIP tables. While customers can pay for an over-priced soda or glass of juice at the bar, bottle water and red bull are the only two NA products that are sold for direct consumption and have significant sales.

While some nightclubs classify the fruit that is used to garnish drinks in this category, most categorize fruit under bar supplies.
Factors that Impact Product Selection

Brand Loyalty

Some consumers of your nightclub will not have a heavy preference towards a specific brand of liquor, wine, or beer while many others will have a short list of brands that they are very loyal to. By not carrying specific products that have been able to establish high levels of brand loyalty, your club runs a high risk of losing an immediate sale and return business. Brand loyalty suggests that it is in your best interest to carry the most popular, highest selling brand names of each subcategory in the Vegas market.

Consult with your vendor and liquor representatives to get a list of the most popular; highest selling brands are for each subcategory.

Identity of the Nightclub

The architectural design and layout of a nightclub along with how it is marketed is impacted by the concept and identity. In most cases there are products available that coincide and enhance the identity of a club and if the club is marketed properly customers will expect the venue to carry these products. If a club has an Asian theme, for example, customers may expect the venue to have a selection of sake’. If a club has an outdoor pool attached to it, an increasing trend with some of the newer, larger clubs, customers may expect the club to have a selection of Caribbean rum based specialty drinks.

If you are not sure what the specific identity of your club is you should ask your immediate supervisor as soon as possible.

If you are not sure what specific brands coincide and enhance your club’s identity consult with your vendor representatives for suggestions.

Target Market Preference

There are general characteristics of your target market that can impact product selection. If the target market of your club is from a below-average income demographic chances are they are not willing or able to pay for high-end items and it is in your best interest to choose products that are less costly. If you work for a club that
on any given night attracts high-end clientele, big spenders, high-rollers, and celebrities your club needs to have a big champagne and cognac inventory with a wide selection.

For more on this topic, look at chapter 4 of this manual titled Customer Perspective.

**Liquor (or Product) Sponsors**

The Las Vegas nightclub industry is one of the most influential markets for most liquor brands. Liquor companies are aware of this and many of them choose to use some of their marketing budget to increase exposure in Vegas clubs. These companies have employees called Liquor (or Brand) Representatives who have the authority to offer a club free or discounted product, free bar supplies, staff incentives, and/or sponsorship money in exchange for inclusion on the club’s bottle service and specialty drink menu, product placement behind the bar, support from the managers and staff, and/or making the product’s logo visible on promotional fliers and the donated bar supplies. Some liquor companies also ask Vegas clubs to use their product for drink specials and promotions.

Consistently seeking, obtaining, and retaining liquor sponsors will result in a very positive impact on your club’s liquor cost.

To get a list of companies that are currently looking to take advantage of the marketing opportunities Vegas nightclubs offer along with contact information of their liquor representatives, ask your vendor representatives or reach out to the liquor companies directly.

To obtain a specific liquor sponsor, meet with one of the company’s liquor representatives and negotiate terms that will benefit your venue. In many cases the terms will include increased benefits once your club hits certain benchmarks in the amount of their product you annually or quarterly purchase. This incentivizes you to help sell that particular brand by enforcing staff incentives, using it in specialty drinks, including it on all menus, and limiting or excluding the availability of brands that are considered direct competition. For example many clubs will only carry 1 of the 3 most popular domestic beer brands; Miller, Budweiser, and Coors. This is because the benefits the club experiences from selling much more of one particular product outweigh the risk of not carrying a popular brand suggested by the concept of brand loyalty. In order to make this decision a manager must have an understanding of
product substitutes and the methods that are relevant to the concept such as crossover analysis. Product substitutes will be discussed later in this chapter. Crossover analysis is covered in chapter 7.

Some companies might ask for terms of exclusivity to be included in the contract. If you agree to exclusivity terms with a specific brand this usually means you are not allowed to sign a contract with a different company that offers a brand that is considered to be a comparable product. A lot of vodka companies will sign a deal with a Vegas club to be the only brand the club will use for comp bottles and/or drink specials and promotions. Red Bull has consistently been one of the strongest product sponsors for many Vegas nightclubs the past 3-5 years. The company has exclusive contracts signed with almost every club in Vegas allowing them to be the only energy drink available in venues. This results in a very high barrier of entry for other brands such as Monster and Sobe. Make sure you shop around before limiting your liquor sponsor options. In order to decide if specific exclusivity terms with a specific brand are beneficial to your nightclub you can use break-even analysis. Examples of how to use break-even analysis can be found in chapter 7.

Retaining a specific liquor sponsor often times goes beyond following the minimum contractually agreed upon terms. Developing and building a relationship with the liquor representative is the most important step towards renewing another, more beneficial contract. Consistent communication with the representative gives you the ability to find out what is important to them and their company. Accomplishing this while actively looking for ways to go above and beyond their expectations will give you a much better chance to get them happy and keep them that way.

Specialty Drink and Bottle Menus

A large number of customers in your club are tourists who will most likely not be familiar with your venue. Many of these tourists will look at your specialty drink and bottle menu to get more information. The construction of these menus will have a large impact on your ability to properly manage your club’s COGS. The prices and the products selected to be included on the menus are the most important factors to building menus that will help instead of hurt your liquor cost. Pricing is covered later in this section.
The above 4 factors should help you put together your bottle menu. The only decision that should not be relatively obvious is the quantity of different brands for each liquor subcategory offered. Most clubs offer 8 different vodkas, 3 tequilas, 3 gins, 4 rums, 4 bourbon/whiskey, 4 scotches, 5 brandy/cognacs, 2 cordials, 10 champagnes, and 2 brands of beer (sold by the case).

The minimum most clubs charge for a bottle is $400. These bottles usually cost the club anywhere from $9 - $25, which means the liquor cost associated with this bottle sale is anywhere from 2.25% - 6.25%. Bottles that cost the club more than $25 have higher price points directly related to the cost increase. As a result, the more bottle sales a club has the better their liquor cost will most likely be. If a guest would like to buy a bottle that is not on the menu your VIP servers should be trained to never tell a guest no. If your club has the bottle behind the bar, in inventory, or it can be obtained from the casino it would benefit your liquor cost if you sell the bottle to the guest for the appropriate price.

The biggest cost-related difference between the bottle and specialty drink menu is the cost of each item on the specialty drink menu is not clear in comparison to the bottle menu. It is important to know the cost of all the products that go into each item along with the amount of labor required to make each item. The specialty drink menu is talked about more in the waste and portion control section of this chapter, while examples of how to calculate the cost of all products and the labor that goes into making a specialty drink can be found in the job and process costing section of the methods chapter.

The cost of the products used in a specialty drink is normally around $2 taking into account the chance of waste. Specialty drinks cost $14 - $20 in nightclubs, which means the liquor cost associated with the sale of a specialty drink is between 10% - 14.3%. Looking back at tables 2 and 3, the big discrepancy in cost percentages between the mega club and smaller ultra-lounge should now be more obvious. The mega club consistently sold out their tables with bottles while the ultra-lounge sold a lot of specialty drinks and only sold 40% of their tables with bottle service.
Vendor Deals and Discounts

Vendors will often have deals and discounts they can offer which could impact your decision on product selection and help you lower your club’s liquor cost. Every bottle of liquor, wine, and champagne costs more money if you order them individually instead of ordering them by the case. This is commonly referred to as a “case-break” in the industry since you get a break in cost if you order by the case. Some brands will give you larger discounts as you purchase more cases. For example, in 2011 a Vegas club could purchase a specific vodka brand for $9.60 per bottle if they purchased 10 or more cases at 12 bottles per case. If they only purchased 5 cases the cost was $12.80 per bottle, 3 cases cost $15.10 per bottle, 1 case cost $18.86 per bottle, and if less than 1 case was purchased the cost per bottle was $19.93. Although this is an extreme case, many brands have similar deals.

If there is a deal on a brand that you do not currently carry you need to decide if your liquor cost will benefit from you taking advantage of the deal and purchasing the new product. Also if there is a deal that requires you to purchase more than you need in order to realize the discount you need to decide if it is beneficial to purchase the additional product.

All operating managers should be communicating with their vendor representatives at a minimum once a week. Ask your vendor reps for a list of all discounts and deals prior to putting in your weekly order.

Employee Feedback

Your frontline employees are your biggest resource for information on customer preference and satisfaction. It is extremely important for you to consistently get feedback from these employees, especially those who are directly interacting with the customers the most, your bartenders and VIP servers. You’ll be surprised how willing your staff will be to cooperate and help you. They realize that it is important for them to have the right products available to sell to make the most money for themselves and the club. They know what items are easy to sell and what ones are difficult, they know which specialty drinks receive positive feedback and what ones don’t, and they know what items customers commonly request that you may not currently carry. Acquiring answers to these questions on a regular basis could have a significant impact on your
ability to consistently select the right products for your venue. Besides gathering valuable information, making your staff feel their opinion is valuable to you and the company increases job satisfaction and loyalty which in turn decreases employee turnover. More on decreasing employee turnover can be found in the minimizing turnover section of the labor chapter.

Product Substitutes

A product substitute is a product that can satisfy most of the same customer needs as another. As mentioned earlier, when you are dealing with brands of your liquor sponsors it can benefit your club if you limit the amount of product substitutes you carry. The theory is that while a customer might prefer Bud Light, there is a good chance that if the club only carries Miller Light the guest will not have a problem ordering it because it satisfies most of the same needs that Bud Light does. Therefore, in theory all of the Bud Light sales now become Miller Light sales and your club sells more products from a sponsor who is rewarding you for doing so. Because of brand loyalty however, not every Bud Light sale will translate into a Miller Light sale. The benefits that your club receives from having Miller as a sponsor needs to outweigh these lost sales.

In other cases it is smart to carry product substitutes. If for some reason you experience a stock-out of a particular product it is cost beneficial to be able to offer the customer a similar product, especially when dealing with bottle service. If Grey Goose is the only vodka your venue carries and you run out of it you will see a drastic decrease in bottle sales until you are able to get more products in.

It is imperative to be aware of the product substitutes that exist for every product item that your club sells. While it may not currently be cost beneficial to carry a particular product, if the product goes on discount or if the cost of a substitute product your club currently carries increases it may make sense to replace the latter with the former on your upcoming order.
Adding and Subtracting Products

Deciding when it is cost beneficial to add a product to your club’s inventory or stop carrying it depends on if the demand for the particular product will be high enough at a price point that allows you to achieve your club’s target pour cost. Demand forecasting is discussed in chapter 7.

Any product should be picked up if it is discounted to the right price. Wirtz had a sale on Trump vodka a couple years ago discounting the product from $32 to $3 per bottle. This was due to the opening of the Trump hotel on the Strip causing MGM – Mirage properties to refuse or stop carrying the product. Even if your club doesn’t need another vodka brand, picking up the product at that price will undoubtedly have a positive impact on your pour cost. One operator I know of allowed his marketing employees to sell the bottle off the menu for $350 on slower nights. This was cheaper than any bottle on his bottle menu but had a much higher mark-up than all other bottles (The club sold 180 bottles at that price over a 4 month period; pour cost associated with each bottle sale = $3/$350 = 0.8%).
Supply Chain Management

Definition

The Supply Chain Council defines supply chain management as managing supply and demand, sourcing raw materials and parts, manufacturing and assembly, warehousing and inventory tracking, order entry and order management, distribution across all channels, and delivery to the customer. The supply chain for a Vegas nightclub consists of the flow of products from the original companies of the club’s COGS products to the distributors (or vendors) to the club to the customer.

The 4 key elements of supply chain management are purchasing, operations, distribution, and integration. Purchasing and operations is covered in this chapter since those are the elements you have the ability to impact.

Significance

Proper supply chain management will lower purchasing and inventory costs and increase quality and customer service and repeat sales. Without it a company will not be able to maximize the coordination of their resources, a necessary step towards properly managing the overall COGS. You will be able to reduce purchasing costs, waste, safety stocks, excess inventory, and all non-value adding activities if you actively manage your clubs supply chain.

Purchasing

When done correctly, purchasing for your club will ensure an uninterrupted flow of products at the lowest total cost, improve quality of the finished product, and optimize customer satisfaction. In order to accomplish this you need to actively seek better products and reliable suppliers and manage your suppliers by consistently communicating and working closely with them.
Sourcing Decisions

There are some products that you have the ability to make in-house instead of purchase from a supplier. The products include all fruit juices, premade mixers such as margarita and long island mix and simple syrup, and some of flavored infused liquors such as cucumber gin and citrus vodka. There are many factors that need to be considered when making a decision to make or buy. Suppliers may have better technology, process, skilled labor, and the advantage of economies of scale which would mostly likely result in better quality and/or lower cost making it more cost beneficial to buy instead of make. On the other hand if there isn’t a competent supplier carrying the necessary product, if you want to have better quality control and control of logistics such as lead-time, transportation, and warehousing cost, and if you have the ability to make the product at a lower cost you may want to make it in-house. An example of when to make or buy a particular product can be found in the break-even analysis section of the methods chapter.

Supply Base

The COGS supply base is the suppliers your club uses to acquire its products and supplies. Selecting suppliers and properly managing your relationship with them is a critical step towards correctly managing your club’s costs. Ideally your suppliers will have information on the supply market and the latest trends in products, capacity for meeting unexpected demand, cost efficiency due to economies of scale, willingness to share information, high reliability, low order system and cycle time, consistent communication and availability, and a relatively near location.

List of Large Suppliers/Vendors for Vegas Clubs

A very big percentage of the cost of goods sold for every nightclub in Vegas is spent on products from 2 vendors, Southern Wine and Spirits and Wirtz Beverage (formerly named Deluca). This is because a majority of liquor, wine, and beer brands have an exclusive contract with 1 of the 2 companies. Southern Wine and Spirits has more contracts with big name liquor brands than Wirtz, making it the largest supplier for Vegas clubs. 60% - 75% of the products most Vegas clubs carry are from Southern while only 20% - 30% are from Wirtz. It is common for Southern representatives to take care
of the printing cost of a clubs menu as long as at least 70% of the products on the menu are from their company.

Johnson Brothers is another liquor, wine, and beer vendor that distributes some of the new, smaller brands in the city. They have increased in popularity the past few years because many small or new brands understand in order to break into the Vegas market and get nightclubs to carry their product they need to give free or offer discounted product.

Nevada Beverage is the vendor that carries Budweiser products along with a few other brands, and Bonanza carries Miller products.

From the time Red Bull came out to today, the company has completely dominated the energy drink market in Vegas clubs.

Soda is purchased from Pepsi or Coke.

Almost all fruit juices and other mixers are purchased from US Foods or Cisco. These 2 vendors are also used by most clubs to get their bar and cleaning supplies.

Creating and Managing Supplier Relationships

According to The Institute for Supply Chain Management supplier partnerships involve “a mutual commitment over an extended time to work together to the mutual benefit of both parties, sharing relevant information and the risks and rewards of the relationship.”

In order to build strong supplier partnerships you need to build trust, share your vision and objectives, develop personal relationships with representatives, learn the needs and objectives of your supplier to establish mutual benefits and needs, share information, have an open line of communication, and continuously measure and improve performance.

You need to continuously measure your suppliers cost/price, quality of products (consistency and number of defects), delivery time, reliability, responsiveness, and flexibility. When one of your suppliers is falling short in one of the specific areas communicate this with the supplier representative and together think of ways to fix the problem.
Common reasons that prevent a partnership from being or staying successful include a lack of communication, shared benefits, financial commitment, and/or experience.

Accurately evaluating your suppliers and rewarding the top performers with increased business will result in a stronger relationship with them which will lead to an increase in the benefits you receive including lower costs.

If you do not have the ability to drop a poor performing supplier or decrease the level of business you are giving them due to lack of other options and the necessity of their product, request a different vendor representative to handle your club’s account. Your suppliers are a business, just like your club. Since you started in the hospitality industry you have been trained to treat the customer with respect and go above and beyond their expressed needs. You are a customer to these suppliers and they do not want to lose your business. Remembering this and using it to your advantage can save you a lot of money and time. If you can’t find a representative in the company you can reach out directly to the liquor companies and express you frustrations. Southern and Wirtz are both very established, large, and well respected companies, chances are it won’t be difficult for you to find a representative that will help you achieve your desired goals while building and managing a successful partnership.

**Placing an order**

Putting an order in to your supplier can be done by communicating with your representative via a phone, in person, email, or text or using an electronic procurement system if the supplier has one. Talking to your vendor over the phone or in person gives you the ability to ask questions, get feedback, and make special requests or alterations to otherwise standard products. While some representatives still enjoy receiving orders this way most managers and representatives prefer using email, text, or an electronic procurement system. Using one of these methods saves time and money and increases accuracy, mobility, and tractability. If an order is not correct, using one of the above 3 methods eliminates the possibility of pointing fingers and placing blame between the manager and representative, possibly damaging the relationship. Checking to see the variety and quantity of products the manager ordered from the supplier is quick and easy.
**Operations**

The operations element in supply chain management includes managing your club’s demand and inventory system along with performing (or closely supervising) the necessary steps of building, placing, and receiving an order for your venue.

**Forecasting Demand**

Forecasting provides an estimate of future demand. While no forecast is usually 100% accurate the goal is to minimize forecast error. An acceptable forecast will enable you to receive the right amount of product at the right time for the right cost. Improving your ability to forecast is a valuable skillset necessary for you to accomplish good cost management. Better forecasts result in lower inventories, reduced stock-outs, reduced costs, smoother production plans, and improved customer service. This skill set is also extremely valuable to use while managing your clubs labor cost, this is covered in the scheduling section of the labor chapter.

While experienced operators may be able to realize consistent accuracy by employing qualitative methods based on opinion and intuition, quantitative methods such as time series forecasting and associative forecasting leave much less room for human error and are valuable tools to have. Examples of forecasting methods can be found in the demand forecasting section of the methods chapter.

**Inventory system**

Your club’s inventory is the total amount of product it has in its possession at any particular time. Properly managing your club’s inventory is another important aspect of proper supply chain management.

The first step to managing your club’s inventory is knowing where the all the product is kept. The product should be well organized, easy to access, and secure and safe when it is not being used. Most clubs keep some product locked behind the bar when the venue isn’t open and the rest in one or multiple liquor rooms with limited access for employees.
If you properly followed the product selection section earlier in this chapter the next step is to calculate how much of each product you should have to last you an order cycle without running out. This amount is called the par of a product. Examples of how to calculate the par of a particular product is found in the methods chapter. Since forecasting isn’t 100% accurate it is important to have a safety stock for each item to prevent stock-outs. The amount of safety stock needed is proportional to the amount of product normally used in an average order cycle. Vegas clubs use a “Just - in - Time” inventory which emphasizes continuous improvement, reduction of waste and cost, and quicker response time when problems arise. The kind of waste that is reduces is in the form of wait times, spoiled products, product and people movement, processing steps, and any other non-value-adding activity. The next section describes how to use this method to manage your inventory and build, place, and receive an order for your club.

**Building, Placing, and Receiving an Order**

Once you know the products you need to order and the par levels of each product you are ready to correctly order product for your club by executing below following steps:

1. Count the actual inventory of your club at every location product is stored. If a bottle of liquor, wine, or champagne is opened estimate how much product is in the bottle to the nearest tenth.
2. Add the total amount of each product item.
3. Compare that number with the established par for each product item. The difference between the par and the total amount of inventory your club has is a starting point for the amount of product you need to order. If the amount of inventory your club has is greater than the par you may not need to order that particular product for the upcoming week.
4. Study the forecasted demand and event calendar for the upcoming week.
5. Make necessary adjustments to the order.
6. Note any special order requests from another manager or marketing personnel.
7. Check with your vendor representatives for deals, discounts, and possible product substitutes that may be cost beneficial for you to order.
8. Make necessary adjustments to the order.
9. Calculate the total amount your end order will cost.
10. Compare your order cost total with your weekly budget.

11. Make necessary adjustments or request approval from your supervisor for any overages.

12. Submit your order to your vendor representatives via email and request a confirmation. Highlight or point out any unusual purchases.

13. Request a confirmation of the delivery time and location of your order.

14. Be at the correct location at the correct time of the delivery.

15. When receiving the order crosscheck the products with the order you put in to verify you are receiving what you ordered. If there is more of a certain product than you ordered send back the undesired amount and instruct the driver to manually remove the product from the invoice. If there is product missing from the order you submitted ask the driver to check his truck again. If it is still missing check the invoice to see if the product is on backorder. If it is on backorder there is nothing your vendor representative can do. If it is completely missing from the invoice call your vendor representative immediately and tell him about the discrepancy.

16. Check in every item prior to signing the invoice. If there is damaged or ruined product point it out to the driver and do not accept it. Tell the driver to take the product off the invoice and subtracts the total from the amount due.

17. When all the items on the invoice are accounted for and in good condition sign the invoice and give it back to the driver.

18. Communicate with your vendor representative if there were any issues with the order.

19. Use the “first-in, first-out” (FIFO) method when storing any perishable products to reduce waste by ensuring the oldest product is used prior to the newest.

It should be noted that planning, coordinating, and prioritizing the above steps is significant when executing this process. This method is known as critical path method or CPM.

An example of building an order can be found in the declining budget section of the methods chapter.
Waste Control

What is Considered Waste?

When managing your club’s COGS waste control is more than just limiting the amount of product your club has that goes unused or does not generate a profit. It also refers to unnecessary processes or steps in a process, unproductive time, and any non-value-adding activity.

Significance

Controlling waste is another critical factor of properly managing and controlling your clubs COGS. Without being able to identify where waste occurs and how to prevent, reduce, or control it, you are completely handicapping your ability to have a consistent acceptable pour cost.

Product Waste

The most common thought about aspect of waste is product waste. This is product that your club has paid for but has not been used or sold and is not still sitting in inventory. Product waste occurs in many different areas of a nightclub and it is imperative you become familiar with these areas.

Your bartenders and VIP servers will have the biggest impact on the amount of product that gets wasted. Product waste is inevitable in a club, especially behind the bar. Even the best bartender in the world can’t work an entire shift in a Vegas nightclub without wasting some product. Bartenders and servers can waste product by:

1. Using too much of a certain product while making a cocktail, specialty drink, martini, or shot (Bartenders only).
2. Making an incorrect drink for the customer or VIP server resulting in it being thrown out and remade.
3. Accidentally spilling or dropping a drink or beer.
4. Making a poor drink resulting in a guest being dissatisfied with their drink and sending it back.
5. Not properly following drink specials or comp procedures.
6. Stealing. This includes giving away free drinks to friends or VIP servers, intentionally over-pouring for a guest to receive a bigger tip, intentionally incorrectly ringing the order in to get a bigger tip, or drinking on the job.

The way you reduce product waste in these six areas is by consistently:

1. Implementing proper pour control. This can be done by making your bartenders take pour tests prior to their shift. Pour testing your bartenders consists of instructing them to pour a certain amount (Usually any amount between 0.5 to 3 ounces in 0.25 ounce increments) of product into a measuring container, showing and telling them how far off they were from the target amount, and giving them pointers on how to improve. Keeping a record of your bartenders pour tests results is a good idea. Constant monitoring during operations is also a crucial step in pour control. A bartender may pass a pour test with ease but get affected by all the distracting factors common in a Vegas nightclub. As a manager you need to be able to visually detect if a bartender is over-pouring just by watching him (or her) make drinks during operations. If they are, address the issue with them and suggest ways to help them improve. Just knowing that you might be watching them will cause them to be more careful resulting in less product wasted in your club. Requiring your bartenders to use measuring jiggers while making drinks is a powerful way to decrease product waste behind the bar. Most Vegas clubs choose not to use these jiggers, however, because they feel it takes away from the atmosphere of the club and makes their bartenders look less professional compared to those at clubs that don’t use them. Taking it a step further, there are bar guns that pour the exact amount of liquor the drink or order calls for and automatically rings the drink in at the appropriate price. While this would almost completely eliminate this type of product waste no nightclubs in Vegas have implemented this technology in their club for the same reasons given above for not using measuring jiggers. There exists a large handful of casino center bars, small lounges, and pool bars throughout the city that are taking advantage of this technology.

2. Training the staff to repeat the guests order back to them along with regular monitoring and tracking the employees responsible for the mistake. Most Vegas clubs have state of the art sound systems making it very challenging to correctly hear every order. It is completely understandable if a bartender or server misunderstands the desired order from the guest or the guest misunderstands what is repeated back to them. If there are a small handful of employees who make this mistake much more often than the rest
additional training is required with these employees. It may be a lack of product knowledge, lack of focus, or lack of communication capability – English might be the employee’s second language. Whatever the reason, it is important you identify and correct it.

3. Monitoring and tracking the employees responsible for the mistake. Similar to number two, this is common in a fast paced, high volume atmosphere. Track what employees are having a bigger problem with it than the others, identify the reason they might be struggling with it, and suggest ways for them to improve.

4. Improving your products and training your employees. While your guests’ preferences and tastes will vary you should be able to minimize this by improving the quality and/or selection of your products and training your staff to properly understand and be able to communicate characteristics on the products they are selling.

5. Training, monitoring, rewarding, and disciplining your staff members.

6. Monitoring, disciplining, and terminating employees who are caught stealing. As a manager, besides observing and monitoring a suspected employee yourself, you have a few important resources you can use to help you with this problem. Vegas clubs have the best nightclub security systems and security staff in the world. Use the technology and experienced officers to help catch a suspected employee in the act. Other service employees can also help you minimize theft in your club. Find out which of your employees can be trusted, have good morals, and are loyal to you and/or the company. These employees can be another set of eyes and ears for you as long as you never put them in a position that causes his or her coworkers to look at them as a nark or tattle-tale. Lastly, using the services of a secret shopper is another resource you can use to identify and reduce theft. A secret shopper is an individual who is unknown by staff members and is instructed to order and interact in specific ways with specific employees, observe and record the employee’s behavior and actions, and give you a detailed report afterwards. Secret shoppers are also commonly used to improve customer service in hospitality venues. Stealing is a terminable offense in every club; however, since it is difficult in some cases to determine if an employee intentionally stole product by one of the above methods, progressive discipline in accordance with your club’s collective bargaining agreement may need to be executed.

Following the methods given above will have a dramatic effect on your nightclub’s product waste. You can also reduce product waste by making sure your specialty drinks do not have more than 3 or 4 different liquors in them. The less complicated a drink is to make, the smaller
chance that product will be wasted while making it. Making sure your staff has all the necessary tools to do their jobs can also reduce waste. If your bartenders don’t have strainers behind the bar for their shakers and have to try and use something else while pouring drinks, chances are more waste will occur. Lastly, simplifying processes of the employee jobs and organizing the coolers, speed wells, and the backbar in a way that maximizes efficiency will cut down the amount of product wasted.

The other kinds of waste that occur in a Vegas nightclub will be covered in detail in the scheduling section of the labor chapter.


**Price Points**

**Significance**

Assigning the right price to products is an important concept for any profit-seeking business in every industry. Basic economics concepts tell us when you increase the price of an item, you proportionately decrease the demand. If your club charges too much for its products you will have a very difficult time consistently finding business and filling the venue. If the club isn’t charging enough, demand will surpass supply/capacity of the club. Your clientele will decrease and it will be difficult getting higher-end customers to come to your club.

Understanding how to assign the correct price to your club’s specific products and learning about methods on temporarily adjusting prices of specific items without hurting your club’s liquor cost is important.

**Ideal Cost Pricing Method**

Many factors need to be considered before deciding on the prices for your menu items. A good starting point is the ideal cost pricing method. In its simplest form you calculate the total raw cost of a menu item and divide that cost by your club’s ideal liquor cost. For example, the cost of a Grey Goose cranberry cocktail is the cost of 1.5 ounce of Grey Goose (approximately $1.50) plus the cost of 3.5 ounce of cranberry (approximately $0.25) totaling approximately $1.75. If the ideal liquor cost of a particular club is 12% you will need to charge customers a minimum of $1.75 / 12% = $14.58 for the drink.

**Other Factors that Impact Pricing**

**Waste**

Since no club realizes perfect waste and portion control this needs to be taken into account when pricing.

**Labor**

There is a considerable amount of labor that goes into making certain menu items compared to others. For example it takes a bartender a couple seconds to get a guest a beer and sometimes a few minutes to make a 5-part complex martini off the specialty drink menu. In a high-volume club time is money for bartenders, for this reason items on the specialty drink menu are marked up a couple dollars. An example of pricing a
specialty drink can be found in the process and job costing section of the methods chapter.

Another example of pricing being impacted for efficiency sake is including tax in the price, with every menu item price being a multiple of a whole dollar. This eliminates the necessity for guests and bartenders to have to exchange coins resulting in quicker (and cleaner) transactions.

**Pricing levels**

Since a typical nightclub carries hundreds of different product brands that can make thousands of different kinds of drinks it is more efficient to categorize many of the products/menu items into pricing levels based on the cost that is incurred by the club. From cheapest to most expensive these pricing levels are referred to as drink special, well, call, premium, and super-premium. Brands considered well products usually cost the club anywhere from $3-$14 per bottle and well drinks in Vegas clubs range from $8 - $14. For every level above, the range of cost per bottle to the club is usually $5-$15, with the price per drink to the customer increases $1-$4 for each level increase. Drink specials range from a dollar off to free product. There do exist brands that are above the super-premium cut off price; these are the most high-end brands in the venue and there prices vary depending on cost. Typically the more a product costs the club the less they will charge the guest in relation to the ideal cost pricing method. In other words, the low-end items have the highest mark-up and the high-end items have the smallest mark-up. A bottle of Absolute vodka costs a Vegas club approximately $21 and a typical price to the guest for a bottle is $400 resulting in a 5.25% liquor cost. A bottle of Dom Perginon champagne costs the club approximately $146 and a typical price to the guest is $550 resulting in a 26.5% liquor cost. This trend is also true for individual drinks at the bar.

Understanding this concept gives you the ability to know how drink and bottle service specials impact your liquor cost. Some night clubs offer buy one bottle of liquor, get the second one free, but limit this to only certain products. If a customer takes advantage of this deal by receiving 2 bottles of Absolute vodka for the price of 1, $400, the liquor cost of the transaction is ($21 + $21)/400 = 10.5%, still a very good percentage. If a club lets the guest do the same deal with Dom Perginon the liquor cost percentage of the deal is ($146 + $146)/550 = 53.1%, an unacceptable percentage for any hospitality
venue. This is true for drinks behind the bar, if you want to protect your club’s liquor
cost always discount the products on your menu that have the highest mark-up, the
products that cost the least to your club.

**Competition**

The Las Vegas nightclub market is the most saturated and competitive nightclub market
in the world. You need to be aware of what your competition is charging when pricing
your menu items. Besides looking at what other nightclubs are charging, if your club is
located in a casino you should examine the prices of similar menu items in the casino’s
restaurants, center bars, lounges, pool bars, and room service, keeping in mind most
guests expect to pay the most for a drink in a nightclub because of the atmosphere they
provide.

**Dominate Customer Base**

Knowing the characteristics of your club’s dominate customer base will have a huge
impact on the prices you can charge. Some clubs can dictate their dominate customer
base by certain factors of their club, prices being one of them. Most clubs in Vegas
casinos have a very hard time accomplishing this, however, as the much larger casino is
the entity dictating the club’s dominate customer base. More on this topic is covered in
the customer preference chapter.
Introduction

Labor is the largest expense for almost every Vegas nightclub. Many of the concepts covered in this chapter are not complex to understand or implement; however, due to complex factors such as lengthy and powerful collective bargaining agreements, gaming agency regulations, impact from casinos and the necessity for extensive marketing teams, the concepts are not very intuitive. While reducing staffing levels seems like an easy task to perform when managing your club’s labor cost, in a competitive service industry sacrificing the quality of service in your venue can be a drastic mistake. As a result of the above reasons it is important to know how to control labor.

At the end of this chapter you should have a thorough understanding on the following topics; Fixed vs. variable labor costs, rules of collective bargaining agreement and their impact on how you manage your club’s labor cost, different classifications of employees, scheduling, marketing personnel, and minimizing turnover.
Fixed vs. Variable Labor Costs

**Fixed Cost**

A cost is considered fixed if it remains the same within a range of activity and specific period of time.

**Variable Cost**

A cost is considered variable if it varies in direct proportion to the level of business activity.

Variable labor costs in your venue are the labor costs that you as an operations manager have the greatest control over. These include the wages of hourly employees, sales commissions, and most bonuses. Fixed costs in your club include the salaries and benefits of salaried employees.

This chapter focuses mostly on how to manage and control the cost your club spends on hourly wages and briefly on sales commissions and bonuses of marketing personnel.
Collective Bargaining Agreements

Significance

A collective bargaining agreement (CBA) in the Vegas hospitality industry is a binding contract between a workers union and one of the hotel properties.

Most nightclubs located within a casino inherently have to abide by the housing casino’s CBA. Vegas is home to two of the most powerful hospitality unions in the United States, Culinary Workers Local 226 and Bartenders and Beverage Union 165. While these unions will help reduce employee turnover, if your nightclub is considered a union space you can expect to pay much more towards labor cost than if it is not. Besides stating the employee’s specific job descriptions, minimum hourly wage, and benefits, the CBA requires managers to follow procedures on hiring, terminating, feeding, classifying, disciplining, and scheduling your club’s employees. If you fail to understand and follow these procedures you will expose your club to potential grievances that will most likely be more costly to the business than if the procedures were initially followed.

If your nightclub is a union space understanding and following the relevant CBA is an imperative part to keeping your employees happy and managing the clubs labor cost.

Labor Cost Factors that are Influenced by a CBA

Hourly Wage and Benefits

Many service staff employees get into the industry for the money that can be made from customer tips. In most hospitality venues the amount of money an employee can make from tips is enough to allow the venue to pay their employees minimum wage without experiences large turnover or experience a low supply of applicants. Employees of Las Vegas nightclubs lead the hospitality industry in the amount of money they make from tips. If it was legal, a Vegas club would be able to not pay their service staff an hourly wage and still have a large enough continuous supply of qualified applicants to properly staff and run their club. The CBA requires the club to pay an hourly wage to the employees that is not only larger than minimum wage, but usually 2-3 times that rate. In addition, clubs are required to provide benefits to the employees including daily
meals, health and dental insurance, paid breaks and vacations, and extra pay on holidays and birthdays. This obviously has a very big impact on the labor cost of your club.

**Hiring, Disciplining, and Terminating**

Most CBAs require the clubs to only hire bartenders who have passed the 4 month bartending class offered by the Union. This means good, hardworking, experienced bartenders may get overlooked for less qualified applicants if they are new to the city or haven’t taken the class. This causes you to hire a worker you have to pay more towards to do the same amount of work than the overlooked applicant would accomplish.

If you have a poor, underperforming employee who deserves to be terminated the CBA protects the employee, requiring managers to perform rigorous progressive discipline on the employee prior to them being eligible for termination. This usually includes having to issue an employee a verbal warning, 3 writing warnings, and a suspension pending investigation in one of a few different discipline tracks. These tracks are usually job performance, policies and procedures, attendance, and money handling.

This additional work results in more administrative work which takes away time and decreases efficiency. More importantly, you have an underperforming employee who is hurting your business in a multiple of different ways including your labor cost.

**Scheduling**

The CBA has strict rules on how operating managers have to schedule union employees. All available shifts have to be bid for based on the seniority of the employees, not allowing a manager to reward or discipline staff members by giving or taking away shifts. Employees cannot trade, give away, or cover shifts with their coworkers; instead, a manager needs to get involved and make sure the most senior employee has the first option to work the available shift (provided it doesn’t result in that employee receiving overtime pay) and go down the seniority list until an employee is found. This system sometimes results in the staff members who are most complacent and lazy to get a majority of the shifts and newer, energetic employees limited to only a couple shifts a week or month. In nightclubs of over 200 employees the system proves to be very inefficient and time-consuming, costing the company additional money.
Employees are entitled to get paid a guaranteed minimum amount for every shift they are scheduled (usually 4-6 hours) regardless of whether or not the employee is needed on that specific night for the duration of their shift. This prevents managers from being able to cut labor costs by calling off or sending home early certain employees based on the club’s lack of business activity.

Choosing not to follow these scheduling guidelines exposes the club to possible grievances that could result in tens of thousands of dollars in back pay.


Classification of Employees

Significance

There are 7 employee categories you need to be aware of to properly schedule and manage your labor; salary, hourly, union, non-union, marketing, revenue producing, and non-revenue producing. You will not be able to manage your club’s labor cost if you don’t understand what categories your employees belong to and how that affects the decisions you make while managing the club’s labor.

Hourly vs. Salary

Salary

Employees in this category are those who are paid an annual salary for their work. They include managers, supervisors, and upper-level marketing personnel.

Hourly

Employees in this category are those who are paid an hourly wage for their work. They include bartenders, apprentice bartenders (barbacks), VIP servers, VIP server assistants, security officers, cashiers, middle and lower-level marketing personnel, and administrative assistants.

You can require your salaried employees to work longer hours without having to pay them additional compensation. Your hourly employees’ wages are by far the largest and most controllable factor of your club’s variable labor costs. Learning how to minimize the total amount of hours you have to pay for without sacrificing service or causing your club to become an unsafe environment is the biggest challenge you will face while controlling labor cost.

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Union vs. Non-Union

Union

Employees in this category are those who belong to 1 of the 2 relevant unions in the Vegas nightclub industry. These employees include the bartenders and apprentice bartenders who are in the Bartender and Beverage Union 165 and the VIP servers, VIP server assistants, and cashiers who belong to the Culinary Workers Local 226.

Non-Union

Employees in this category are those who do not belong to a union. They include managers, supervisors, all marketing personnel, security officers, and administrative assistants.

The significance of these 2 categories was discussed in the previous section.

Marketing, Revenue Producing, and Non-Revenue Producing

Marketing

Employees in this category are those who have been hired to specifically market and promote the venue. They are not considered service employees. While customer service is a part of their job, their main responsibility is to drive business to the venue. These employees produce revenue indirectly by generating sales to customers before they enter the nightclub. They include marketing managers, senior VIP hosts, junior senior VIP hosts, and promoters.

Revenue Producing

Employees in this category are individuals who are responsible for directly producing revenue inside the nightclub. These employees include bartenders, VIP servers, and cashiers.
Non-Revenue Producing

Employees in this category are service employees who work inside the nightclub and are not responsible for directly producing revenue. These employees include apprentice bartenders, VIP server assistants, and security officers.

The biggest significance of understanding the difference between these categories is when you need to adjust for unexpected decrease in demand on a specific night and send some staff members home early (referred to as “cutting the staff” in the industry), it is cost beneficial to first send home as many employees who are not responsible for generating revenue as possible, than send those who are hourly employees that indirectly generate revenue, and lastly those who directly generate revenue.
Scheduling

Significance

Aside from your employees and other managers, scheduling is the most important tool you have to properly control labor costs. As mentioned in the previous section, the largest and most controllable factor of your club’s labor cost is the wages of your hourly employees. Proper demand forecasting to achieve the correct staffing levels to deliver service standards, learning methods to lower staffing levels without sacrificing service, and adjusting to unexpected changes in demand are all covered in this section.

Maximum and Minimum Staffing Levels

Staffing levels refer to the number of employees for each job classification needed to safely operate the nightclub while delivering the desired service standards and following all policies and procedures decided on by management. In a perfect world the demand for your club would be constant and only one set of staffing levels necessary. Unfortunately, the demand for your club will vary greatly and even when reliable demand forecasting methods are implemented, the forecasted demand can be considerably different than the actual.

The first, and easiest, step to determine proper staffing levels for your venue is deciding what the levels should be when the club is at maximum capacity. To find the maximum number of bartenders you might have to staff, add the number of ice wells behind all the bars in the club. This is the maximum amount of bartenders the bars were built for. If you think adding bartenders to this number is justified by the amount of money they can generate than bartenders will have to start sharing wells (and possibly bank drawers), which could decrease efficiency and service. Most clubs either staff one barback per operating bar or one barback for every 3 bartenders. The most number of VIP servers, VIP server assistants, and security officers you will need is based on the number of sections on the floorplan you use when business is at capacity. Based on the size of the tables and standards of service these sections usually include 2-5 VIP tables.
Next, you want to decide what the minimum amount of employees is that you need at each position to get through a night when business is at its lowest level of activity. This is referred to as a club’s skeleton staffing level and is often only 1 or 2 employees at each position.

Now that you have the skeleton and maximum staffing levels of your club you need to determine what the levels should be when demand is somewhere in the middle of the two extremes. After that you will need to have a method to forecast the demand of your club and know what to do when your forecasted demand is wrong.

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**Intermediate Staffing Levels**

Prior to determine how you can adjust your staffing levels based on demand you need to understand the factors that can impact these levels. This includes the preference of the club’s dominate customer base, a labor budget given to you by your superiors, service standards, procedures and policies.

**Dominate Customer Base**

The preference and characteristics of your club’s dominate customer base will impact the level of service they are willing and able to pay for and if they have a heavy preference towards spending money at the club’s bar(s) or VIP tables. More on how the dominate customer base impacts labor costs can be found in the customer perspective chapter.

**Labor Budget**

Some clubs will give their operating managers a set monthly or weekly labor budget which accounts for expected demand. If your budget decreases or increases for a specific week you will have to schedule the different mix of employees that gives your club the best chance of success while staying under budget. This new mix will give you your staffing levels for that week.
Service Standards, Policies, & Procedures

As mentioned earlier in this chapter, the most difficult and important challenge you will face while managing the labor cost of your club is controlling or reducing the amount of hourly wages your club has to pay without sacrificing service or causing the club to be unsafe for the staff and customers. The policies, procedures and level of service you require your staff to consistently deliver to the customers has a very large impact on staffing levels, scheduling, and your club’s overall labor cost.

The factors that influence a nightclub’s policies and procedures include regulations from the IRS, health and fire department, insurance company, the housing casino, the Nevada Gaming Commission, and the State Gaming Control Board. It is imperative to keep your nightclub within regulations at all times, failing to do so could result in the club receiving a fine, getting shut down, or worse, a customer or employee getting hurt. Staying within these regulations will require thorough policies and procedures and more staff members resulting in more labor.

The factors that influence a club’s service standards include expectations from the customers, owners, investors, and casino executives. Service standards of some clubs are low compared to others, as a result they can afford to staff a lot less employees. Keep in mind that clubs with below average service standards will not be able to attract or retain big spenders and bottle service customers handicapping them from bringing in top line sales comparable to the venues with high service standards.

Determining the staffing levels needed to ensure the club’s policies and procedures are followed and service standards met for different levels of demand requires some trial and error, constant monitoring and acquiring feedback. If you are receiving customer complaints or you see employees looking frantic and stressed, making mistakes, and cutting corners your staffing levels are too low for the amount of business the club is experiencing. If your employees are standing around with little or no work to do your staffing levels are too high.
**Forecasting Demand**

Demand forecasting provides an estimate of the level of business your club will experience. When done correctly you will be able to consistently schedule your club with the right number of employees at each position, drastically reducing wasteful labor and the risk of losing sales or not meeting service standards from being understaffed. Factors that have a large impact on demand of a Vegas club include the room occupancy percentage of the housing casino, conventions that are in town, holidays, and special events. Forecasting demand is also covered in the supply chain management section of the cost of goods sold chapter. An example of using a demand forecasting method to determine staffing levels can be found in the demand forecasting section of the methods chapter.

**Adjusting for Unexpected Changes in Demand**

While demand forecasting is a valuable tool to help give you an estimate of the level of business your venue will experience, it is just an estimate and estimates are often not 100% accurate. For this reason it is imperative to understand what needs to be done when your club experiences an unexpected change in demand. The goal should be to handle these unexpected changes in demand with the least amount of employees without sacrificing service standards or guest and employee safety. You can do this by cross-training employees, scheduling employees as on-call, staggering shifts, increased training and utilization of salaried employees, calling off employees or sending them home early, and increasing productivity and efficiency.

**Cross-Training Employees**

Cross-training an employee refers to training the employee how to perform the responsibilities of additional job classifications other than the position they were originally hired for. This method gives you flexibility and allows you to reduce staffing levels by allowing you to utilize employees in multiple roles if needed. A barback who is able to bartend is a good example of this. If demand unexpectedly is larger than forecasted instead of calling in an additional bartender, if that option is even available to you, it is cost beneficial to have your barback pick up the slack behind the bar.
Scheduling Employees On-Call

An on-call employee is an employee who is on the schedule for a specific shift and is instructed to call the employer a few hours before the scheduled shift and inquire if they are needed to work the shift. This method also gives you flexibility and allows you to possibly decrease staffing levels by giving you more time to determine a more accurate forecasted demand.

Staggering Shifts

Staggering shifts is done by assigning different nightly starting and ending times to employees scheduled shifts for each job classification. Doing this allows managers to schedule fewer employees when nightly demand is consistently lower than average and have the most employees working at the busiest time of the night. This cuts down a significant amount of wasteful scheduled labor.

Increased Training and Utilization of Salaried Employees

Giving salaried employees the training they need to take on additional responsibilities during operations will not increase cost of labor while increasing the amount of work being accomplished. This should result in less work for hourly employees to perform giving you the ability to decrease staffing levels.

Calling Off or Sending Employees Home Early

If demand is lower than forecasted you can tell an employee not to come into their scheduled shift or send them home earlier than the scheduled in-time. As mentioned earlier in the chapter, make sure you are not violating the terms in your collective bargaining agreement if your nightclub is union. This could result in you paying for labor regardless of whether or not the employee was actually clocked-in and working. Examples of when to send an employee home early can be found in the break-even analysis sections of the methods chapter.

Increasing Productivity and Efficiency

Increasing productivity and efficiency in your nightclub will result in you being able to handle more demand with less labor. This can be accomplished in many ways. Increasing the amount of training, monitoring, disciplining, and rewarding your
employees receive is the most important method you can implement to accomplish this. Assigning side-work such a cleaning and organizing during slow times is another way to reduce wasteful labor and increase efficiency. Adjusting or eliminating unnecessary processes or steps in a process and strategically reorganizing the storage areas, side stations, back-bar, and coolers will also help you handle more demand with less scheduled labor.

Being able to run your club with the fewest amount of employees not only reduces your club’s labor costs but the employees who have shifts will make more money resulting in increased job satisfaction and decreased employee turnover. When the above methods are utilized your employees will be handle adjustments in demand at the lowest cost without sacrificing service.

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Marketing Personnel

Significance

Marketing personnel of a Vegas club refers to non-union individuals whose primary responsibilities are to employ marketing, promotional, and sales techniques to consistently increase business activity for the club by securing bottle sales and VIP table reservations, increasing the number of nightly covers, conceptualizing, planning, promoting, and executing special events, forming and developing personal relationships with potential clients and individuals who they can obtain consistent referred business from, hosting clients and executing customer service standards during nightly operations, educating casino employees and the club’s database about upcoming events and promotions of the venue, communicate and work with managers and service staff employees to maximize clients experience while inside the venue, and actively seek opportunities to build the club’s brand, database, social media presence, and visibility.

Vegas nightclubs are not only competing with each other but with other nightlife industries that are also the top in their field. These industries include live shows and performances, restaurants, gaming, pool parties (or beach clubs), and strip clubs. To be competitive and survive in the Vegas nightlife industry an extensive, dedicated, well-trained marketing team is one of the most important factors for a club. Every profitable Vegas club understands this and a handful of venues who have attempted to cut corners in this area either were forced to close their doors or quickly make the necessary adjustments.

The different non-management marketing positions most clubs utilize will be discussed in this section along with how to schedule, compensate, manage and monitor these positions in a manner that will maximize your ability to control the labor costs of your club without compromising demand.
Marketing Teams

In-House (on property) Promoters

All promoters are hourly employees who are responsible for increasing the nightclub’s nightly number of covers. The in-house team gets a majority of their clients by interacting with guests who are in the club’s housing casino. They work scheduled shifts (throughout the day and during club hours) and are assigned specific positions that are strategically located throughout the casino. Many casinos will include specifications and guidelines in the club’s lease related to the in-house promotional team. These specifications include the number of promoters allowed on the casino floor at any given time along with the specific locations they are allowed to promote. Besides the nightclub(s), many properties also have individuals employed by their restaurants, shows, time-share companies, and the pool that are daily and nightly promoting on the casino floor. The specifications are necessary to prevent casino guests from getting agitated and annoyed from being overwhelmed with individuals attempting to sell them something while they navigate the casino floor. Guidelines the casino forces the in-house team to follow include not interacting with guests who are partaking in any form of gambling and conducting themselves at all times in a way that is consistent with the casino’s customer service standards.

In addition to receiving an hourly wage the in-house promoters also receive a commission based on the number of individuals they specifically get to enter the nightclub.

Street (off property) Promoters

The street team is also responsible for increasing the nightly number of covers for the club. The difference between the street promoters and the in-house team is that the street team is not scheduled hourly shifts and they are not allowed to solicit guests who are on the property of the casino. They interact with guests wherever they want as long as it is not on casino property. If a guest is interested in coming to the club the promoter will write down the name and contact information of the interested guest and submit their list to a marketing supervisor prior to that night’s operation. Promoters on the street team receive a higher commission rate per guest than the in-house team because of the increased level of difficulty.
Junior VIP Hosts

Junior VIP hosts are hourly employees who are responsible for increasing the number of nightly covers in the club along with bringing in revenue from VIP table reservations. Junior hosts are usually promoters who consistently brought in above average numbers while demonstrating the ability to book reservations and secure bottle sales. They lack the client database of a senior host and would be unable to make enough money from table sales commission alone. While they build this database they can still make money by doing what they did as a promoter.

Some promoters do not have a desire to become a junior host because they enjoy promoting. Almost all junior hosts desire to become senior hosts.

Senior VIP Hosts

Senior VIP hosts are salaried employees who are responsible for bringing in consistent weekly revenue from VIP table reservations. They have a client database along with strategic relationships with individuals who consistently send them business and leads. They are good salesman and understand how to obtain, retain, and develop customers.

Scheduling, Compensating, Managing and Monitoring Marketing Teams

Knowing how to properly schedule, compensate, manage and monitor each of the above job classifications is an important step towards keeping your club’s labor cost in control. There are significant challenges you will face while attempting to do this. These employees are the face of your club; they are the individuals who are representing and communicating your venue with thousands of tourists, locals, and other industry employees. You want them to have a high level of job satisfaction to prevent negative representation from occurring. The easiest way to do this is by paying them large wages, salaries, and/or commissions but this could easily result in an out of control labor cost. The following methods are essential while trying to keep the demand for your club high and the cost of labor in control.
Scheduling

1. As mentioned, scheduling the in-house team could depend on the number of promoters your housing casino allows you to have on the property at any given time. Once you have the number of promoters and their locations you can put together a schedule. There are two types of shifts for this position, shifts during the day and shifts during club hours.

2. The street team is not paid an hourly wage. Legally you are not allowed to give them a schedule or assign them shifts without paying them an hourly wage. They are considered independent contractors of the venue.

3. You should keep the weekly number of junior host shifts to a minimum. These are employees who have most likely demonstrated a good work ethic as a promoter and a majority of their compensation should be from commission. You should use junior hosts to fill in for promoters and senior hosts if you do not have enough promoters on the floor or senior hosts to run the front door of your club during operations.

4. Senior hosts are salaried employees who should be doing most of the work required to run the front door of the club during operations, escort all the guests who have VIP table reservations to their assigned table, and make sure these guests are having a good experience in the venue.

An example of when it is cost beneficial to employ a senior host, a junior host, or a promoter can be found in the crossover analysis section of the methods chapter.

Compensating

1. You want to pay your in-house team an hourly wage that is slightly over minimum wage and place emphasis on the commission aspect of their pay. Giving them a slight increase in their hourly wage after 90 days is often a good idea. Their commission should be based on the number of individuals they are able to get into the nightclub. The individuals who are scheduled to work the day shift should get paid more per guest than those working the shifts during club hours due to the increase in difficulty. The hourly wage should remain constant for both shifts however. The commission amount you should pay per guest will depend on the overall check average of your club.
2. As mentioned earlier, the street team should receive a higher commission per guest return due to the increased difficulty and lack of an hourly wage. This amount is also dependent on your club’s check average.

3. Junior hosts should receive an hourly wage slightly above that of your highest pay level for promoters. Most of their compensation should be from table sales commission and commission from guest returns. This will incentivize them to work off the clock and save your club labor. The table sales commission is also based on your club’s check average and usually ranges from 6% to 12% of the sales with a minimum weekly amount of sales that needs to be achieved.

4. Senior hosts are salaried employees who receive benefits and a commission for bottle sales. The commission percentage should be 2%-6% larger than what you pay the junior hosts and the minimum amount of weekly sales should be higher.

Managing

Most of the management responsibilities of these teams will be on your club’s marketing director, managers, and/or supervisors. As an operations manager your management responsibilities with them include making sure they arrive and leave at their scheduled times, follow the guidelines and procedures of the casino and your club, and assist marketing managers by providing direction and the tools they need to succeed at their job.

Monitoring

1. Monitoring the in-house team is very important. You should know the minimal amount of guest returns a promoter should achieve for every shift in every position based on the level of business activity in the casino (you can use the hotels occupancy rate). This is not a union position therefor reward strong performers with better shifts and locations.

2. Since the street team is paid entirely in commission, monitoring them is not very important. Your club takes on very little risk when employing them. If they do not produce they do not make any money. You do need to make sure they are following the rules and not sneaking on property to promote however.

3. You need to make sure junior hosts are achieving their minimum sales requirements and only reward the top performers with the limited amount of scheduled shifts you have available for them.
4. The sales of the senior hosts needs to be monitored to make sure they are achieving their weekly minimum amount and justifying their salary and benefits.

If you are able to follow the above guidelines you will be able to keep the demand of your club high while controlling its labor cost, both extremely significant factors for any successful Vegas nightclub.
Minimizing Turnover

Introduction

Turnover is expensive for most businesses in any industry. The amount of time, effort, and money that goes into recruiting, interviewing, hiring, processing, and training an employee is substantial. It will be extremely difficult to control and manage your club’s labor cost if you are unable to keep turnover at a minimum.

Individuals leave their place of employment for many reasons, with a majority of them having something to do with job dissatisfaction. Limiting or eliminating the factors that contribute to job dissatisfaction is the most important step towards minimizing employee turnover. These factors include employees feeling unappreciated, being unhappy with their compensation, feeling like they are treated unfairly, feeling like too much is expected from them, and conflict existing with one another and/or management.

Feeling Unappreciated

This can be reduced or eliminated by utilizing certain management techniques such as additional positive interaction with the employee, additional praise and recognition of good work, and consistently asking for their opinion on job-related policies and procedures.

Being Unhappy with Compensation

This can be minimalized by stating to the employee what needs to be accomplished in order for them to receive an increase in compensation. Take the decision out of your hands and place it in theirs. Make them feel it is up to them if they want to make more money but they have to deserve it and work for it. Since many of your employees receive tips or work on commission this is a very valuable tactic to improve attitude and moral without placing the labor cost of the club in high risk.

Feeling Unfair Treatment

Keep this at a minimum by ensuring employees of each job classification have the same employee manuals with identical policies and procedures. If you have the ability to reward employees with additional or better shifts make sure everyone is aware of the criteria and measurements of job performance used to receive such a reward.
Specifically ask why an employee feels this way and attempt to explain any discrepancies of treatment they may bring up.

Feeling too Much is Expected

Reduce this from happening by being very clear in the interviewing, hiring, and training process what will be expected of each employee and provide them with a detailed description of their duties and responsibilities. If you ever inquire an employee to do more than what their job description entails make sure you ask the employee nicely, make sure they understand the additional job you are asking them to perform, and thank them upon completion. Do not make an employee do something they were not hired to do unless they clearly communicate their consent to you.

Confliction

Keep this at a minimum by encouraging employees to approach you with issues of any kind as soon as they come up. Being in close contact with your staff by consistently interacting with them will allow you to gather vital information and notice problems in their early stages of development. Having the ability to diffuse a problem and eliminating its ability to escalate will result in a lot of time savings, happier staff members, and a reduced number of conflicts.
As mentioned in the basics chapter, most fixed costs are managed and controlled by owners and upper management. An operating manager can help reduce some of the company’s fixed costs, however, as long as they are aware of what the costs are and how they fluctuate.

The methods given in the waste control section of the COGS chapter can also be used to reduce the amount of cleaning supplies, glassware, and bar supplies a business uses. This will lead to the amount needed to purchase these items to consistently be less than the budgeted amount allowing access funds to be used on other categories of the business or additional money going towards the bottom line.

If an operating manager successfully trains and monitors the staff, the club’s policies and procedures will be consistently executed. This will decrease the amount of legal, accounting, and administrative work that needs to be done thus reducing the cost necessary to employ these services.
Proper training will also result in an increase in consistent customer service. The venue will build a stronger reputation and realize more repeat business. This will lead to more demand and sales than that which was projected. When this happens the fixed advertising and marketing costs may be able to be decreased from the amount budgeted.
Methods & Examples

Introduction

The previous few chapters of the manual discussed the important topics of cost management in a Vegas club along with many qualitative techniques and methods used to control and manage these costs. Throughout these chapters the reader was referred to this chapter for quantitative methods and specific industry examples.

The methods in this chapter include demand forecasting, the use of a declining budget, process and job costing, crossover analysis, break-even analysis, and cost-volume-profit analysis.

These methods are used to execute the examples included in this chapter. The examples are on cost-related topics including product selection, determining product par levels and
employee staffing levels, building an order, pricing, adjusting to unexpected changes in demand and more.

This chapter requires basic knowledge and skills in mathematics and spreadsheets to understand the examples and to be able to properly execute and implement the methods and techniques discussed. This is a very important step towards realizing the full benefits of this manual.
Demand Forecasting

If you know weeks in advance the level of business activity your venue is going to experience on specific nights it will make your scheduling and purchasing decisions a lot easier. This is a big reason why demand forecasting is a valuable cost management method. While there are a great deal of factors that go into the nightly demand of a hospitality venue, you don’t need a mathematics degree or have to perform a complex regression analysis to get a good idea of how busy your club will be the upcoming week.

Factors that impact the demand of your club include historical data, seasonal trends, conventions that will be in town, holidays that are coming up, specific events your club is hosting, local festivals, and significant independent events such as NASCAR, a big boxing match or UFC fight, or a large concert.

If your club is located in a hotel you can cheat by making the hotel do most of the forecasting work since the occupancy rate of the hotel is a very big indicator of the level of business their clubs and restaurants will see. If a majority of the hotel guests are in town for the same reason it is important to take that into account however. A hotel could be at 100% occupancy but if the rooms are filled with elderly people in town for a retirement related convention an upbeat nightclub will most likely have a difficult time seeing business from these in-house guests.

The most accurate forecasting model is the associated forecasting method called multiple regression. This method forecasts demand based on the impact of the multiple factors listed above. These factors are referred to as independent variables. While it is the most accurate method it is also the most advanced and time-consuming. The 2 methods that will be covered in this section are both time series forecasting methods; the weighted moving average forecasting model and the exponential smoothing forecasting model. These methods can be used to determine the amount of product to order, staffing levels, when to add a specific product to your inventory, and when to stop carrying a specific product.

Weighted Moving Average Forecasting Model

The model gives you the demand of a period based on the actual demand of previous periods with more weight being placed on specific periods (usually the most recent).

\[ F = \sum A_i w_i \quad (9) \]

\[ F = \text{the forecasted demand} \]
\[ A_i = \text{the actual demand for period } i \]

\[ W_i = \text{the weight assigned to period } i \text{ (with } \sum w_i = 1) \]

I suggest using the demand of the 4 most recent weeks with the following weights assigned to the weeks from most recent to oldest; \( w_1 = 0.4, w_2 = 0.3, w_3 = 0.2, \) and \( w_4 = 0.1 \). Formula 9 becomes:

\[ F = 0.4A_1 + 0.3A_2 + 0.2A_3 + 0.1A_4 \quad (10) \]

**Exponential Smoothing Forecasting Model**

This is also a weighted moving average. This model states that the forecast for the next period’s demand is the current period’s forecast adjusted by a fraction of the difference between the current period’s actual demand and its forecast.

\[ F_{t+1} = F_t + \alpha (A_t - F_t) \quad (11) \]

\( F_{t+1} = \text{the forecasted demand for period } t+1 \)

\( F_t = \text{the forecasting demand for period } t \)

\( A_t = \text{the actual demand for period } t \)

\( \alpha = \text{a smoothing constant between 0 and 1} \)

Commonly used values for \( \alpha \) range from 0.05 to 0.5. Low values are used when the underlying average tends to be stable and higher values when the average is susceptible to change. I suggest using an \( \alpha = 0.3 \).

**Example 1: Using Demand Forecasting to Determine Staffing Levels.**

<table>
<thead>
<tr>
<th></th>
<th>Week 1</th>
<th>Week 2</th>
<th>Week 3</th>
<th>Week 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Thursday</strong></td>
<td>845</td>
<td>910</td>
<td>815</td>
<td>790</td>
</tr>
<tr>
<td><strong>Friday</strong></td>
<td>1650</td>
<td>1785</td>
<td>1590</td>
<td>1605</td>
</tr>
<tr>
<td><strong>Saturday</strong></td>
<td>1845</td>
<td>1910</td>
<td>1880</td>
<td>1795</td>
</tr>
</tbody>
</table>
Use the information from the table above and the weighted moving average forecasting model to forecast the amount of covers the club will experience for each of the 3 nights they are open the upcoming week.

Using equation 10:

Thursday: \[ F = (845 \times 0.4) + (910 \times 0.3) + (815 \times 0.2) + (790 \times 0.1) = 853 \]

Friday: \[ F = (1650 \times 0.4) + (1785 \times 0.3) + (1590 \times 0.2) + (1605 \times 0.1) = 1,674 \]

Saturday: \[ F = (1845 \times 0.4) + (1910 \times 0.3) + (1880 \times 0.2) + (1795 \times 0.1) = 1,867 \]

If the forecasted demand for week 1 was \( F = 882 \) on Thursday, \( 1,728 \) on Friday, and \( 1,902 \) on Saturday, use the exponential smoothing forecasting model to forecast the demand for the upcoming week.

Using equation 11 with \( \alpha = 0.3 \):

Thursday: \[ F = 882 + 0.3 \times (845 − 882) = 871 \]

Friday: \[ F = 1728 + 0.3 \times (1650 − 1728) = 1,705 \]

Saturday: \[ F = 1902 + 0.3 \times (1845 − 1902) = 1,885 \]

<table>
<thead>
<tr>
<th></th>
<th>Max Staffing Levels</th>
<th>Min Staffing Levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bartenders</td>
<td>12</td>
<td>2</td>
</tr>
<tr>
<td>Servers</td>
<td>18</td>
<td>4</td>
</tr>
<tr>
<td>Barbacks</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Server Assistants</td>
<td>18</td>
<td>4</td>
</tr>
<tr>
<td>Security</td>
<td>22</td>
<td>6</td>
</tr>
</tbody>
</table>

If a club needs maximum staffing levels when they experience 1,900 or more covers, use the above maximum and minimum staffing levels of a club and the forecasted numbers from the exponential smoothing forecasting model above to determine staffing levels for the upcoming week.

The forecasted numbers for Thursday – Saturday are 871, 1,705, and 1,885. These numbers are 45.8%, 89.7%, and 99% of the amount of covers needed for maximum staffing levels.
To find the staffing levels for Thursday take 45.8% of the difference between the max and min staffing levels and add this number to the minimum staffing level:

Bartenders needed for Thursday = $45.8\% \times (12 - 2) + 2 = 6.58$. Therefore 7 bartenders should be staffed for Thursday.

For Friday and Saturday use the same formula with the appropriate percentage substituted in.

Bartenders needed for Friday = $89.7\% \times (12 - 2) + 2 = 10.97$, 11 bartenders should be scheduled.

Saturday is close enough to 100% to use the maximum staffing levels of the club.

Using the same method on every position you get:

<table>
<thead>
<tr>
<th></th>
<th>Max Staffing Levels</th>
<th>Min Staffing Levels</th>
<th>Thursday</th>
<th>Friday</th>
<th>Saturday</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bartenders</td>
<td>12</td>
<td>2</td>
<td>7</td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>Servers</td>
<td>18</td>
<td>4</td>
<td>11</td>
<td>17</td>
<td>18</td>
</tr>
<tr>
<td>Barbacks</td>
<td>4</td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Server Assistants</td>
<td>18</td>
<td>4</td>
<td>11</td>
<td>17</td>
<td>18</td>
</tr>
<tr>
<td>Security</td>
<td>22</td>
<td>6</td>
<td>14</td>
<td>21</td>
<td>22</td>
</tr>
</tbody>
</table>

**Example 2: Using Demand Forecasting to determine the amount of product needed to order.**

<table>
<thead>
<tr>
<th>Bottles of Grey Goose</th>
<th>Week 1</th>
<th>Week 2</th>
<th>Week 3</th>
<th>Week 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>66</td>
<td>82</td>
<td>78</td>
<td>74</td>
</tr>
</tbody>
</table>

Use the information from the table above and the weighted moving average forecasting model to forecast how many bottles of Grey Goose vodka the club will use the upcoming week.

$F = (66 \times 0.4) + (82 \times 0.3) + (78 \times 0.2) + (74 \times 0.1) = 74$

If the forecasted demand for week 1 was $F = 71$, use the exponential smoothing forecasting model to forecast the demand for the upcoming week.

$F = 71 + 0.3 \times (66 - 71) = 69.5$
If the average number of bottles the club uses in an order cycle is 75, what should the par be for Grey Goose?

The par should be the average number of product used in an order cycle + the safety stock.

The safety stock should be high enough to prevent stock-outs but not too high to keep inventory carrying costs low.

**Inventory Carrying Rate**

Prior to going into examples there is one more figure you will need to be able to use and that is your holding cost rate, also known as your inventory carrying rate. The first step is to add your annual inventory costs, which include storage fees, handling fees, administrative fees, and the cost of damaged and lost product. Divide this number by your average inventory cost. Lastly, add this percentage to your opportunity cost of capital (the return you could reasonable expect if your money was elsewhere) along with the insurance and taxes associated with it.

Most experts agree that carrying costs are between 18% - 35% of an item’s value for the year. This translates to 0.05% - 0.1% per day.

The cost of a stock out = (the number of days the item is out of stock) x (average units sold per day) x (price per unit) – the amount guest spent on substitute products due to the stock out.

Brand loyalty is a big factor in the amount guests spend on substitute products due to a stock out of the product they are loyal to.

Using a safety stock that is 140% of the average keeps the chances of a stock out very low without costing the club a lot in holding costs:

1.4 x 75 = 105 bottles

On average you will have 30 bottles left at the end of your order cycle.

Holding cost (on the high end) per day of 30 bottles of grey goose = (30 x $37.50) x 0.1% = $1.13

This number should be acceptable for your club.
If you have 22 bottles of Goose left after performing inventory, how much should you order for the upcoming week based on the par level decided above?

Amount needed = par – inventory left over = 105 – 22 = 83 bottles.

Using the above methods combined with the qualitative methods given in the cost of goods sold and labor chapters will give you good estimates of the level of business activity your venue will experience. This valuable skillset will help you consistently make correct cost-related decisions.
Declining Budget

A declining budget is an important cost management tool that can prevent a manager from running the business blind. It is a tool that provides you with real-time information allowing you to make adjustments if needed based on your sales. If the business's sales are trending down from the forecasted amount you can use a declining budget to adjust the amount you should spend on the upcoming order. When sales are down the amount of product used and sold should be down, implying the order should be decreased. If unexpected costs come up in a particular category a manager can adjust the controllable costs in other categories to ensure the business overall is staying within budget. A manager's ability to successfully obtain the projected profit for a given period while the top-line sales for that period were less than the projected amount is an impressive cost management achievement. A declining budget is a very useful tool for a manager to use while attempting to accomplish this.

Example 3: Use a declining budget to help you place your beer and NA products order for the upcoming week.

<table>
<thead>
<tr>
<th>Item</th>
<th>Vendor</th>
<th>Unit Price</th>
<th>Week Par</th>
<th>Week 1</th>
<th>Week 2</th>
<th>Beginning</th>
<th>Ending</th>
<th>Purchase</th>
<th>Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amstel Light</td>
<td>Wirtz</td>
<td>$25.50</td>
<td>6</td>
<td>1</td>
<td></td>
<td>$102.00</td>
<td>$15.50</td>
<td>0.00</td>
<td>$76.50</td>
</tr>
<tr>
<td>Blue Moon</td>
<td>Wirtz</td>
<td>$24.50</td>
<td>6</td>
<td>10</td>
<td></td>
<td>$245.00</td>
<td>$245.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Bud Light</td>
<td>Nevada</td>
<td>$19.65</td>
<td>45</td>
<td>6</td>
<td></td>
<td>0.00</td>
<td>$117.90</td>
<td>0.00</td>
<td>-117.90</td>
</tr>
<tr>
<td>Coors Light</td>
<td>Wirtz</td>
<td>$19.65</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>0.00</td>
<td>$0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Corona</td>
<td>Southern</td>
<td>$23.95</td>
<td>20</td>
<td>1</td>
<td></td>
<td>$239.50</td>
<td>$23.95</td>
<td>0.00</td>
<td>$215.55</td>
</tr>
<tr>
<td>Fat Tire</td>
<td>Southern</td>
<td>$21.40</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>0.00</td>
<td>$64.20</td>
<td>0.00</td>
<td>$64.20</td>
</tr>
<tr>
<td>Guinness</td>
<td>Wirtz</td>
<td>$36.00</td>
<td>6</td>
<td>4</td>
<td></td>
<td>$183.00</td>
<td>$146.40</td>
<td>0.00</td>
<td>$36.60</td>
</tr>
<tr>
<td>Pilsner</td>
<td>Wirtz</td>
<td>$25.50</td>
<td>15</td>
<td>5</td>
<td></td>
<td>$76.50</td>
<td>$127.50</td>
<td>0.00</td>
<td>-51.00</td>
</tr>
<tr>
<td>New Castle</td>
<td>Southern</td>
<td>$24.00</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>$192.00</td>
<td>0.00</td>
<td>0.00</td>
<td>$192.00</td>
</tr>
<tr>
<td>Mt. Pauley Girl NA</td>
<td>Southern</td>
<td>$18.75</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>$18.75</td>
<td>$37.50</td>
<td>0.00</td>
<td>-18.75</td>
</tr>
<tr>
<td>Sierra Nevada (Keg)</td>
<td>Southern</td>
<td>$125.00</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>$125.00</td>
<td>$125.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Empty Keg</td>
<td>Southern</td>
<td>$30.00</td>
<td>0</td>
<td>5</td>
<td></td>
<td>$300.00</td>
<td>$150.00</td>
<td>0.00</td>
<td>$150.00</td>
</tr>
<tr>
<td>Stella Artois</td>
<td>Wirtz</td>
<td>$24.90</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>
It is important to take note of a few things from the information above. The revenue brought in the previous week was 123.17% of the amount budgeted. Therefore the amount of product you can order for the upcoming week is 123.17% of the forecasted weekly budget:

**Beer budget:** 123.17% x (6720.14/4) = $2,069.30

**NA budget:** 123.17% x (4311.97/4) = $1,327.76

The next step is to order the amount needed to get your inventory levels back to the proper par levels:

<table>
<thead>
<tr>
<th>Item</th>
<th>Vendor</th>
<th>Unit Price</th>
<th>Par</th>
<th>Consumption</th>
<th>Week 2</th>
<th>Beginning</th>
<th>Ending</th>
<th>Purchase</th>
<th>Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Red Bull</strong></td>
<td>Red Bull</td>
<td>$14.00</td>
<td>20</td>
<td>$0.00</td>
<td>18</td>
<td>0</td>
<td>$612.00</td>
<td>$0.00</td>
<td>-$612.00</td>
</tr>
<tr>
<td><strong>Sugar Free</strong></td>
<td>Red Bull</td>
<td>$14.00</td>
<td>10</td>
<td>-$218.00</td>
<td>20</td>
<td>238</td>
<td>$680.00</td>
<td>$0.00</td>
<td>-$442.00</td>
</tr>
<tr>
<td><strong>Employer Water</strong></td>
<td>US Food</td>
<td>$8.39</td>
<td>20</td>
<td>$0.00</td>
<td>7</td>
<td>0</td>
<td>$58.73</td>
<td>$109.07</td>
<td>$50.34</td>
</tr>
<tr>
<td><strong>Evian</strong></td>
<td>Southern</td>
<td>$16.95</td>
<td>15</td>
<td>-$84.75</td>
<td>2</td>
<td>84.75</td>
<td>$33.90</td>
<td>$220.15</td>
<td>$271.20</td>
</tr>
</tbody>
</table>

Pineapple Juice (12-46oz) | US Food | $23.61     | 4   | $0.00       | 0      | 0         | $0.00  | $70.83   | $70.83      |

Lime Juice               | US Food | $39.41     | 1   | $0.00       | 0      | 0         | $0.00  | $0.00    | $0.00       |

Orange Juice             | US Food | $26.87     | 6   | -$33.74     | 3      | 33.74     | $80.61 | $80.61   | $33.74      |

Cranberry Juice 12/32    | US Food | $24.73     | 8   | $0.00       | 0      | 0         | $0.00  | $197.84  | $197.84     |

Grapefruit Juice         | US Food | $24.08     | 1   | -$24.08     | 1.5    | 24.08     | $36.12 | $0.00    | -$12.04     |

Cranberry Juice          | Pepsi   | $24.79     | 4   | $0.00       | 0      | 0         | $0.00  | $0.00    | $0.00       |

Orange Juice             | Pepsi   | $37.73     | 3   | -$37.73     | 1      | 37.73     | $17.73 | $0.00    | $0.00       |

Pepsi                    | Pepsi   | $31.48     | 3   | $0.00       | 0      | 0         | $0.00  | $0.00    | $0.00       |

Diet Pepsi               | Pepsi   | $57.40     | 2   | -$57.40     | 3      | 57.4      | $172.20 | $0.00    | -$114.80    |

Sierra Mist              | Pepsi   | $11.48     | 2   | $0.00       | 1      | 0         | $11.48 | $0.00    | -$11.48     |

Tonic                    | Pepsi   | $49.55     | 2   | $0.00       | 2      | 0         | $99.10 | $0.00    | -$99.10     |

Sour (5 gal)             | US Food | $43.32     | 2   | $0.00       | 0      | 0         | $43.32 | $43.32   | $0.00       |
Ordering the necessary amount puts us over our beer budget by $111.80.
NA Month Budget: $4,311.97

<table>
<thead>
<tr>
<th>Week 1 Revenue: $84,503.47</th>
<th>% of Budget: 123.17%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Week 2 Budget: $1,327.76</td>
<td>Week 2 Order: $1,426.78</td>
</tr>
</tbody>
</table>

Variance: $99.02

### Item List

<table>
<thead>
<tr>
<th>Item</th>
<th>Vendor</th>
<th>Unit Price</th>
<th>Par</th>
<th>Consumption</th>
<th>Week 2</th>
<th>Beginning</th>
<th>Ending</th>
<th>Purchase</th>
<th>Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Order</td>
<td>Received</td>
<td>Inventory ($)</td>
<td>Inventory ($)</td>
<td>Cost</td>
</tr>
<tr>
<td>Red Bull</td>
<td>Red Bull</td>
<td>$34.00</td>
<td>20</td>
<td>$0.00</td>
<td>8</td>
<td>12</td>
<td>12</td>
<td>0</td>
<td>$72.00</td>
</tr>
<tr>
<td>Sugar Free</td>
<td>Red Bull</td>
<td>$34.00</td>
<td>10</td>
<td>-$238.00</td>
<td>8</td>
<td>2</td>
<td>238</td>
<td>0</td>
<td>$72.00</td>
</tr>
<tr>
<td>Employee Water</td>
<td>US Food</td>
<td>$8.39</td>
<td>20</td>
<td>$0.00</td>
<td>7</td>
<td>13</td>
<td>0</td>
<td>58.73</td>
<td>$58.73</td>
</tr>
<tr>
<td>Evian</td>
<td>Southern</td>
<td>$16.00</td>
<td>15</td>
<td>-$44.75</td>
<td>2</td>
<td>13</td>
<td>44.75</td>
<td>0</td>
<td>$44.75</td>
</tr>
<tr>
<td>Pineapple Juice (12-46oz)</td>
<td>US Food</td>
<td>$23.61</td>
<td>4</td>
<td>$0.00</td>
<td>0</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>$0.00</td>
</tr>
<tr>
<td>Lime Juice</td>
<td>US Food</td>
<td>$39.41</td>
<td>1</td>
<td>$0.00</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>$0.00</td>
</tr>
<tr>
<td>Orange Juice</td>
<td>US Food</td>
<td>$26.87</td>
<td>6</td>
<td>-$55.74</td>
<td>3</td>
<td>3</td>
<td>55.74</td>
<td>0</td>
<td>$80.61</td>
</tr>
<tr>
<td>Cranberry Juice 12/32</td>
<td>US Food</td>
<td>$24.73</td>
<td>8</td>
<td>$0.00</td>
<td>0</td>
<td>8</td>
<td>0</td>
<td>0</td>
<td>$0.00</td>
</tr>
<tr>
<td>Grapefruit Juice</td>
<td>US Food</td>
<td>$24.08</td>
<td>1</td>
<td>-$24.08</td>
<td>1.5</td>
<td>24.08</td>
<td>36.12</td>
<td>0</td>
<td>$36.12</td>
</tr>
<tr>
<td>Cranberry Juice</td>
<td>Pepsi</td>
<td>$7.79</td>
<td>4</td>
<td>$0.00</td>
<td>0</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>$0.00</td>
</tr>
<tr>
<td>Orange Juice</td>
<td>Pepsi</td>
<td>$37.73</td>
<td>3</td>
<td>-$37.73</td>
<td>1</td>
<td>2</td>
<td>37.73</td>
<td>0</td>
<td>$37.73</td>
</tr>
<tr>
<td>Pepsi</td>
<td>Pepsi</td>
<td>$11.48</td>
<td>3</td>
<td>$0.00</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>$0.00</td>
</tr>
<tr>
<td>Diet Pepsi</td>
<td>Pepsi</td>
<td>$57.40</td>
<td>2</td>
<td>-$57.40</td>
<td>3</td>
<td>57.4</td>
<td>0</td>
<td>0</td>
<td>$57.4</td>
</tr>
<tr>
<td>Sierra Mist</td>
<td>Pepsi</td>
<td>$11.48</td>
<td>2</td>
<td>$0.00</td>
<td>1</td>
<td>0</td>
<td>11.48</td>
<td>0</td>
<td>$11.48</td>
</tr>
<tr>
<td>Tonic</td>
<td>Pepsi</td>
<td>$49.55</td>
<td>2</td>
<td>$0.00</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>$99.10</td>
<td>$99.10</td>
</tr>
<tr>
<td>Sour (5 gal)</td>
<td>US Food</td>
<td>$45.32</td>
<td>2</td>
<td>$0.00</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

Ordering the necessary amount puts us over our NA product budget by $99.02.

Combined we are over budget by $210.82.

You can do 1 of 3 options:

- Reduce the quantity ordered for products that would cost the club the least amount if a stock-out happened. Do this until you are under budget.
- Attempt to be under budget in another category by at least $210.82.
- Request your supervisor’s approval on the overage.
**Process and Job Costing**

Process costing and job costing are 2 cost-benefit methods that are important in the hospitality industry.

Process costing adds all of the costs associated with developing and manufacturing, and/or processing a large batch of an end product, than an individual cost is assigned to each unit of the product. This method is very useful to operating managers managing costs by assisting them in pricing menu items, product selection, and break-even analysis.

Job costing calculates and uses the cost of specific production jobs that are significantly different.

**Example 4:** Use process costing and the ideal costing method to determine how much to charge a specific drink on your specialty drink menu with a target liquor cost of 18%. The drink is 1 ounce of orange flavored Grey Goose vodka, 1 ounce of citron flavored Grey Goose vodka, 1 ounce of triple sec, 0.5 ounces of Chambord, 1.5 ounces of Sprite, and 1.5 ounces of soda water garnished with an orange peel served shaken and strained in a martini glass.

The cost of the product including shipping and handling is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Cost per unit</th>
<th>Units in drink</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grey Goose Orange</td>
<td>$1.11</td>
<td>1</td>
<td>$1.11</td>
</tr>
<tr>
<td>Grey Goose Citron</td>
<td>$1.11</td>
<td>1</td>
<td>$1.11</td>
</tr>
<tr>
<td>Triple Sec</td>
<td>$0.28</td>
<td>0.5</td>
<td>$0.14</td>
</tr>
<tr>
<td>Chambord</td>
<td>$0.73</td>
<td>0.5</td>
<td>$0.36</td>
</tr>
<tr>
<td>Sprite</td>
<td>$0.03</td>
<td>1.5</td>
<td>$0.05</td>
</tr>
<tr>
<td>Soda Water</td>
<td>$0.00</td>
<td>1.5</td>
<td>$0.00</td>
</tr>
<tr>
<td>Orange Peel</td>
<td>$0.95</td>
<td>0.1</td>
<td>$0.10</td>
</tr>
<tr>
<td><strong>Hard Cost:</strong></td>
<td></td>
<td></td>
<td><strong>$2.87</strong></td>
</tr>
</tbody>
</table>

The ideal costing method suggests that you need to charge a minimum of $15.94 if you want to realize an 18% liquor cost on this item.

For every additional item required for a drink the amount of product wasted increases by 1.5% and the time it takes to make the drink increases by 4 seconds. On average a drink that requires being shaken and strained takes 10 seconds longer than one that does not.
There are 7 items in this drink, therefore the average amount of product wasted per drink is $(7 \times 1.5\%) \times \$2.87 = 10.5\% \times \$2.87 = \$0.30$ = cost of waste.

The costs of goods sold that go into making this drink total $3.17.

To obtain an 18% liquor cost on the item you will need to charge at least $17.62 for the drink.

**Example 5: Use job costing to calculate the cost of direct labor required for a union bartender to make this drink in comparison to a jack and coke.**

The time it takes to make the drink is $7 \times 4 + 10 = 38$ seconds. The labor that is required for a union bartender to make this drink totals $17.29 \times (38/3600) = $0.18$ in direct labor.

A jack and coke is a 2 part drink and it is not shaken and strained. This drink takes 8 seconds to make and the cost of this labor totals $17.29 \times (8/3600) = $0.04$ in direct labor, a little over 22% of the cost it takes to make the specialty drink.

**Example 6: Use job costing to calculate how much additional labor is required to serve 4 guests who want to order $400 in individual cocktails at their VIP table instead of purchasing a $400 bottle for bottle service.**

Every drink a VIP server makes at the table during bottle service takes on average 12 seconds to make. Most servers are instructed to pour more liquor per drink because the entire bottle is already paid for, eliminating the need for portion control. The heavier they pour, the faster the bottle will be consumed, increasing the chances of an upsell. A server averages a 2 ounce pour per drink; therefore, she needs to make 17 drinks per bottle. The initial set-up for bottle service takes a server assistant on average 50 seconds and the amount of time committed to up keeping the table is on average 90 seconds per guest.

While serving a cocktail minimum the amount of time it takes for a VIP server to receive an order, enter it into the point of sale (POS) terminal, and deliver the cocktails is on average 1 minute and 7 seconds per person per round and the amount of time it takes for the bartender to make the cocktails is 12 seconds per guest on average. If the average round is $50, the server will have to make 8 rounds to reach the minimum $400.

The amount of direct labor that goes into making drinks during bottle service is $12 \times 17 = 204$ seconds for the server and $(90 \times 4) + 50 = 410$ seconds for the server assistant. This costs the club $(12.87 \times (204/3600)) + (13.00 \times (410/3600)) = 0.73 + 1.48 = 2.21$
The amount of direct labor that goes into delivering a minimum amount of individual cocktails is \((67 \times 4 \times 8) = 2,144\) seconds for the server, \((90 \times 4) = 360\) seconds for the server assistant, and \((12 \times 4 \times 8) = 384\) seconds for the bartender. This costs the club \((\$12.87 \times \frac{2144}{3600}) + (\$13.00 \times \frac{360}{3600}) + (\$17.29 \times \frac{384}{3600}) = \$7.66 + \$1.30 + \$1.84 = \$10.80\).

It takes 5 times the amount of work required to serve guests a cocktail minimum instead of bottle service at a VIP table.
Cost-Volume-Profit Analysis

Cost-volume-profit analysis (CVP) is a powerful tool used for looking at potential profit based on pricing decisions and cost strategies. This method can be used when a company is attempting to find the amount of sales required for the business to realize a certain amount of income which is defined as the target income or target profit.

Example 7: A nightclub only opens their outdoor bar if they think they are going to make a minimum profit of $9,500 from the bar. Two additional 4 hour bartender shifts and an additional 6 hour barback shift is required to open the bar. The club averages a 17% cost of goods and the cost of additional utilities the bar requires totals $50. If the average drink the bartenders make is $10, how many drinks per minute does each bartender need to average to justify opening the bar?

Total revenue - cost of goods sold - cost of labor – additional costs = $9,500

(T x $10) – (T x $10) x 17% - (8 x $17.29) – (6 x $14.65) - $50 = $9,500.

T = total amount of drinks made

10T – 1.7T - $138.32 - $87.90 - $50 = $9,500

8.3T = $9,776.22

T = 1,178 drinks

The bar needs to average: 1,178/(60 x 4) = 4.9 drinks per minute

Therefore, each bartender needs to average 2.5 drinks per minute to justify opening the outdoor bar.
Break-even Analysis

A more specific application of CVP is break-even analysis. While break-even analysis is often used as a macro decision making tool it can also be used on the micro level in hospitality. Break-even analysis tells you at what point you will start making a profit. It is a powerful tool that can be used to help control both labor costs and costs of goods sold. Job and process costing are commonly used during break-even analysis.

Example 8: 5 liters of lime juice costs $39.41 from the vendor and only $21.45 when made in house. The store bought lime juice does not spoil while the in-house product only lasts a week. If the average drink with lime juice requires 1.5 ounce of it, how many drinks per week with lime juice will your club have to sell to justify making the product in-house?

Cost of 1.5 ounces of in-house product = $0.19
Cost of 1.5 ounces of vendor product = $0.23

Cost of in-house – cost of vendor > 0
0.19D + wasted product - 0.23D > 0

wasted product = 0.19 x (total drinks that can be made – D), D = the number of drinks made

0.19D + (0.19 x (112.7-D)) – 0.23D > 0

D > 93

If you will make at least 93 drinks a week that require lime juice it is cost-beneficial to make it in-house instead of ordering from a vendor.

Example 9: Use break-even analysis to determine when it is cost beneficial to send a bartender home early.

The cost of a union bartender’s hourly wage is $17.29. If the average drink brings in $8 of revenue and the club’s liquor cost is 18% the bartender will have to make:

Total revenue – total costs > 0
Total revenue – hourly wage – cost of goods sold > 0
This tells us that a bartender needs to contribute an additional 3 drinks per hour to justify keeping them on the clock. These have to be 3 drinks that the other bartenders didn’t have time to get to because they are busy making other drinks.

**Example 10:** What is the maximum amount of commission your club can pay its promoters for each guest they bring in if the club has a target labor cost of 32%, target liquor cost of 16%, an average drink cost of $10, and a check average of $24.50? Every drink takes a bartender on average 8 seconds and a security officer performs 90 seconds of work for each additional guest that enters the club. The promoter averages 30 returns per 6 hour shift.

Labor cost = 32% of total revenue
Total revenue = Total number of guests x check average
Labor cost = cost of promoter + cost of service staff
Cost of goods sold = 16% x total revenue

Cost of promoter = hourly wage x 6 hours + number of guests brought in x commission per guest
Cost of promoter = $49.50 + 60C
Cost of service staff = cost of bartender + cost of security
= (hourly wage x additional time) + (hourly wage x additional time)
= ($17.29 x (2.45 x 30 x 8)/3600) + ($12 x (90 x 30)/3600) = $23.64
Labor cost = $49.50 + 30C + $23.64 = 32% x ($24.50 x 30) = $235.20
30C = $162.06
C = $5.40

**Example 11:** Using the information from example 10, what is the minimum amount of revenue a senior host needs to bring in weekly by selling bottles to cover their cost? They are paid 10% of sales. The average labor cost of the service staff for bottle service is 14%.

Labor cost = 32% of total revenue
Total revenue – labor cost – cost of goods sold > 0
Labor cost = cost of senior host + cost of service staff
Cost of goods sold = 16% x total revenue
Cost of senior host = weekly salary + benefits + weekly commission
Cost of senior host = \( (34,500/52) + 10\% \times R \)

Total revenue – labor cost – cost of goods sold > 0
\( R - 663.46 - 0.1R - 0.14R - 0.16R > 0 \)
\( 0.6R > 663.46 \)
\( R > 2,211.50 \)

A senior host must sell more than $2,211.50 per week to justify their cost.
Crossover Analysis

Crossover analysis is a method that shows the point where you should switch from one service or product to another one that has different variable and fixed costs but comparable benefits. Process and job costing are also employed while using this method.

Example 12: A promoter who is scheduled 40 hours a week consistently brings in 110 guests a week. A junior host who is scheduled for 30 hours a week consistently brings in 10 guests and $600 in sales per week. A senior host consistently brings in $2800 in sales per week. You can only afford to keep 2 of the 3 employees, which 2 employee are the most profitable for your club? Your clubs check average is $15.00, you pay your promoters $8.25/hr, your junior hosts $10/hr, and your senior hosts $34,500/year including benefits. You pay commission of $2.00 per guest to promoters and junior hosts, 8% of sales to junior hosts, and 10% to senior hosts.

Promoter:

Total revenue – total cost = (guests x check average) – (wage rate x hours) – commission

= (110 x $15) – ($8.25 x 40) – ($2 x 110)

= $1650 - $330 - $220

= $1100

Junior Host:

Total revenue – total cost = sales + (guests x check average) – (wage rate x hours) – commission

= $600 + (10 x $15) – ($10 x 30) – ($2 x 10) – (8% x $600)

= $600 + $150 - $300 - $20 - $48

= $382

Senior Host:

Total revenue – total cost = sales – salary and benefits – commission

= $2,800 - ($34,500/52) – (10% x $2,800)
= $2,800 - $663.46 - $280

= $1,856.54

Based on the above information it would be cost beneficial to keep the promoter and senior host on staff and let go of the junior host.
Monitoring and Measuring Performance

Introduction

Being able to measure the effectiveness of new efforts, methods, procedures, and systems is extremely important for you to know if they are helping or hurting the business. The last section of the manual will be dedicated to measuring the effectiveness of the manual as a whole as well as individual methods and tools included in the manual. The section will also include instructions on how to measure an individual employee’s success along with entire departments. Lastly, methods to measure the level of success (or failure) realized by the managers using the manual will be contained in this section for the benefit of the managers themselves and/or their immediate supervisor.
Effectiveness of individual methods

To determine the effectiveness of a specific method it is important to calculate the liquor and/or labor cost prior to implementation of the method. At the minimum, perform this calculation weekly once implementing the method to monitor the effect of the method on the overall costs. If possible, also calculate the costs associated with specific areas that are impacted by the method. For example, if you change the brand of well vodka your club carries, you will get more useful measurements if you specifically monitor the cost of liquor associated with just the sales and costs of you vodkas. If you change the staffing levels of bartenders, it is more beneficial to study the labor cost associated with the bar staff as a percentage of the bar sales.

Remember, just lowering the overall costs of your club isn’t beneficial if it is at the greater expense of revenue, customer service, or demand.

If you decrease the staffing levels at the bar you need to also monitor and track the number of bar related complaints you are receiving along with the average time a guest is waiting for a drink.

After 5-6 weeks you should be able to start looking for trends in the measurement(s) you’ve been recording. If labor cost has decreased a decent amount, revenue is the same, and you have only received a couple additional service complaints you should feel good about the method. Additional training should reduce and eventually minimalize the number of complaints.

Effectiveness of the manual as a whole and the manager(s) implementing it

To determine the effectiveness of the manual as a whole it is important to calculate the liquor and labor costs prior to implementing any of the included strategies, methods or techniques. Similar to monitoring for individual methods, consistently measure and track your clubs liquor and labor costs on the macro level along with overall revenue, customer and staff complaints, and demand. If you are implementing multiple methods simultaneously you should be able to obtain measurements specific to the costs that are most affected by each method giving you the ability more affectively troubleshoot if you are not seeing the desired overall results. This allows you to adjust or stop an underperforming or ineffective method without abandoning the entire manual.
The success of the managers using the manual is directly proportional to the overall effectiveness of the manual.

Success of individual employees and overall departments

Managing the success of individual employees entails monitoring the sales, amount of product used, overall efficiency, portion and waste control, attitude, and number of complaints the employee is involved in.

Using a secret shopper, looking at security tapes, and obtaining information from other staff members are all valuable ways to monitor an employee without them being aware of it. Individual labor costs can be calculated for all revenue generating employees (bartenders and servers) and pour costs can be measured for each bartender.

Assist underperforming staff members with increased attention and training.

Studying the overall performance of each department is another important step towards getting the most out of the manual. It is important to first analyze the measurements of the entire club, then the performance of each department, and lastly, if possible, individual employees. This will save you time and effort when troubleshooting and give you the ability to make the correct adjustments where they are needed while not altering what is effectively working.
Conclusion

This manual was designed and created to be used in Las Vegas nightclubs by operating managers. The manual will specifically be used in three venues starting June 1, 2012. While the manual was made specifically for nightclubs located in Las Vegas, many of the included methods and techniques can be used in nightclubs located in other cities as well as restaurants and bars. Studying and implementing the methods covered in this manual will result in more cost efficient policies, procedures, and overall operations.

Recommendations

The manual and the methods within should be studied and implemented by nightclub operating managers. Consistent performance monitoring of employees, departments, and the individual methods is a necessary step towards realizing the intended benefits. The manual is not only a training tool for managers, but can be used as a tool to train employees as well. It was not created to be stored on the shelf; rather it is intended to be used as an active guide for managers to refer to while managing their venue’s costs.
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