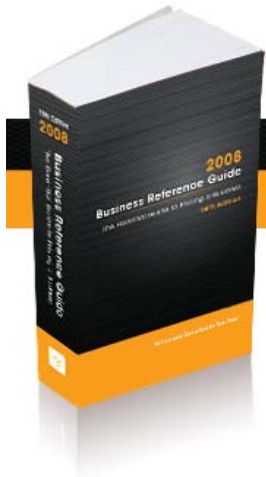


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## Business Reference Guide Online

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### Bars -- Adult Only (Adult Clubs/Nightclubs)

SIC: 5813

NAICS: 722410

Number of Businesses / Units:

Unavailable

#### See Also

- ▶ [Bars](#)
- ▶ [Bars with Slot Machines](#)
- ▶ [Bars--Nightclubs](#)
- ▶ [Beer Taverns -- Beer & Wine](#)
- ▶ [Brew Pubs](#)

This industry comprises establishments known as bars, taverns, nightclubs, or drinking places primarily engaged in preparing and serving alcoholic beverages for immediate consumption. These establishments may also provide limited food services.

#### Rules of Thumb

75 percent of annual sales plus inventory

1 to 2.5 times SDE plus inventory

#### General Information

"Avoid primary markets for first-time buyers: the big boys just have too much invested to let an upstart newcomer cut into their market; go for secondary markets. Buy existing, don't try to build....Avoid Las Vegas: it is overbuilt right now and for the foreseeable 2-4 years. A buyer will need an experienced industry attorney in FALA (First Amendment Lawyers Association) to protect legal and operating rights."

#### Expert Ratings

▶ Competition	1	(1=Lot of : 4= Not Much)
▶ Amount of Risk	3.6	(1=Very : 4= Not Much)
▶ Historical Profit Trend	1.2	(1=Down : 4= Up)
▶ Location & Facilities	2.8	(1=Poor : 4= Excellent)
▶ Marketability	1	(1=Low : 4= High)
▶ Industry Trend	1.2	(1=Declining : 4= Growing)
▶ Ease of Replication	3.8	(1=Easy : 4= Difficult)

#### Expert Comments

"Adult Clubs are a distinctive subset of alcoholic establishments."

"Conservative nibblings at the edges of law have served to limit growth of the industry. There has been a generalized effort on the part of the larger chains and owners to absorb reasonably priced clubs in targeted areas. Past the big and midsized players, the single and small operators struggle to maintain a

#### Pricing Tips

"The best thumbnail is SDE. It stands up well to real world numbers on the sales prices. Real Estate, Inventory, FFE all should be considered separately as add backs to total sale price. Some states allow the sale of inventory alcohol to the buyer, some do not. MAI appraisals do well for real estate. FFE is a 'swag' and over 3 years old stuff ought to write down to 10-20% of initial cost."

"Adult Clubs: .75- 2.5 x SDE, exclusive of Inventory, Real Estate considerations. FF&E needs to be factored at some point; however, FF&E is discounted heavily after 1st year of service ...Savvy investors look at a 2-3 year ROI...MAX!"

#### Benchmarks

"Rick's and its competitors benefit as well from what may well be a unique aspect of their business model. The entertainment that brings folks in the door is actually a moneymaker: Dancers pay to work there as independent contractors (how much depends on location and shifts, with some shifts costing several hundred dollars) and get paid from tips. That keeps overhead and salary and benefit expenses low.

"There are basically three revenue streams, in addition to the fees from dancers: cover charges, which can top \$20; food and drinks; and services, which include the renting of private rooms. A customer may pay the club \$400 to \$500 for a spell in one of those rooms."

"Rent: <10%; liquor cost: 15%"

"No more than 8 percent of gross income for rent"

stable cash flow with controlled labor costs, dancers, and stable legal environments."

### Questions

"What violations have been charged? Is the owner aware of ANY pending litigation or legislation (either local or state) which will have a negative impact? There are others but the rest are more site specific."

"Why is he/she selling? What is wrong with this picture? I have yet to have an owner list a club with me because he woke up one morning, said, 'Gee, I think I'll let someone else make a bunch of a money off my club, and I'll finance it to him on easy terms, too!' Inevitably, if someone wants to sell, there is usually a serious reason that is MATERIAL! Caveat Emptor, and make sure that both buyer and seller BOTH have their own individual attorneys."

"Every club is different in its immediate area, and its state by state environment."

### Expenses as a Percentage of Sales

▶ Cost Of Goods	17% to 23%
▶ Payroll/Labor Costs	n/a
▶ Occupancy Costs	<10%
▶ Profit (pretax)	20% to 35%

### Industry Trend

"An informal—but fairly large—survey I did at the last Exotic Dancer show in Las Vegas in late August '07 shows 2 trends: flat to a slight decrease (1-3%) in gross sales, but steady customer counts: customers are not spending as much....Only one chain owner reported increased traffic and gross sales in ONE of his clubs. Profit margins are stable, but for the most part flat: Increased cost control methodologies account for just about every small uptick in profit margin."

"Like so many other 'sin' categories, the business seems to be resistant to economic downturns, especially as the customer base keeps expanding."

"This industry is facing a slight decrease in profit margins: a constriction of the industry growth rate due to local government interference."

### Advantages

- ▶ "Strong return on investment if buyer has the proper skill set: experience, willing to put in 60-80 hour weeks, people skills, able to manage a fairly large number of workers per week."
- ▶ "In the right area, an adult/strip club is the most stable cashflow model for a drinking place: It is not dependent on a particular type of music, age group, or a particular demographic. As long as the majority of the population likes the idea of an American Geisha, strips clubs will draw males or even females (up to 40% of a Friday night traffic may be female if properly marketed)"
- ▶ "Cash flow can be quite high. Profitably can be much better than 25% if properly managed."

### Disadvantages

- ▶ "Increased activity by political busybodies to limit operations at local and state levels in certain states. Long hours, occupational hazards for an owner: drugs, alcohol, sexual harassment suits are the major three problem areas for owners."
- ▶ "Heightened legal scrutiny and liability: A mainstream businessman may find himself subject to personal, familial, and social discrimination. It is a competitive market regardless of where the operation is: if the buyer is not experienced in restaurant and/or beverage operations, he should reconsider. If he thinks he will be able to play in his own personal sandbox, he is setting himself up for a massive sexual discrimination suit, he will surely lose."

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