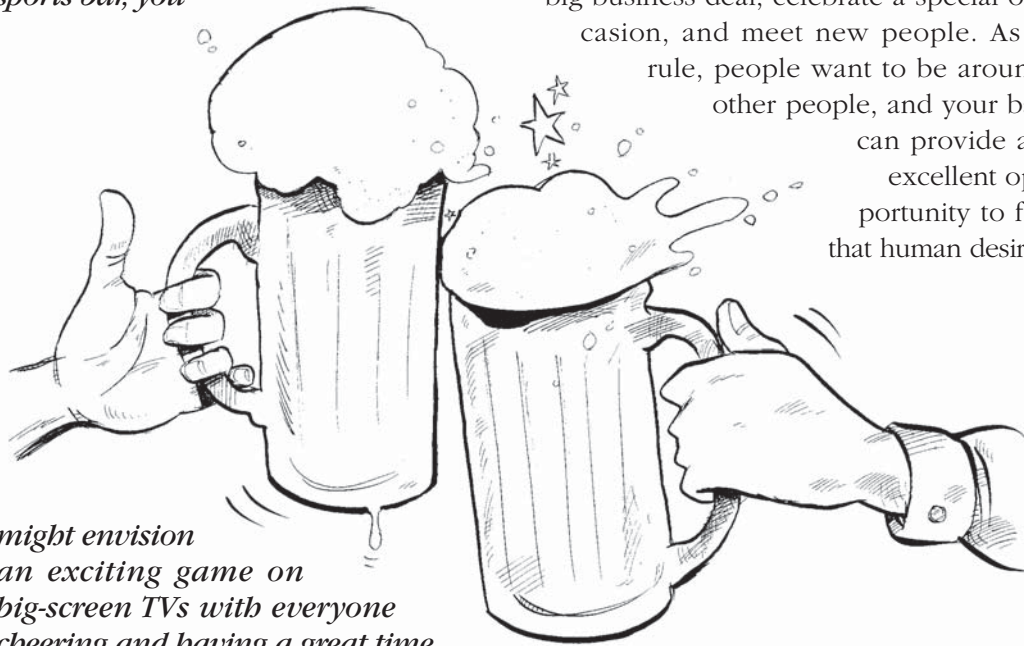


Chapter 1

Cheers! *L'Chaim!* *Salud!*

Industry Overview

Friends, laughter, celebrations, entertainment—fun! These are the things that might come to your mind when you think about owning your own bar as you imagine rooms filled with friendly conversation, music and people enjoying themselves. If you're thinking of opening a sports bar, you



might envision an exciting game on big-screen TVs with everyone cheering and having a great time.

Owning a bar sounds like the perfect life to many potential entrepreneurs, but it's not always fun and games behind the scenes.

Owning a bar/club can mean long hours, meticulous attention to detail, giving up vacations and weekends, and sometimes dealing with unruly customers. But if you have a clear vision, do your homework and learn the ins and outs of the business, it can

also translate into a rewarding and financially successful enterprise.

Bars aren't like retail establishments. People don't go there just to buy a drink or two and then leave. Depending on the type of bar you want to own, it will be a place where people can hang out with their friends and co-workers, negotiate a big business deal, celebrate a special occasion, and meet new people. As a

rule, people want to be around other people, and your bar

can provide an excellent opportunity to fill that human desire.

A LOOK BACK AT HISTORY

According to the history books, people have enjoyed consuming alcohol for thousands of years. Ancient writings on clay tablets describe the use of wine and beer for religious ceremonies and rituals. That's a lot of alcohol consumed over 4,000 years! Back then, people fermented fruit juices

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into wine, honey into mead and grain into beer. In some parts of the world, alcoholic beverages were considered safer to drink than water. Plus, they could store alcohol in barrels, and it would still be safe to drink over long journeys.



Fun Fact

Way back when Rome controlled what is now England, alehouses were signified by a broom sticking out above the door. They were run by women known as alewives.

In the Golden Age of Greece, establishments known as *phatnai* served traders, envoys and government officials from a variety of regions. In fact, tavern growth generally followed the development of trade, travel and industry all over the world.

The early American settlers brought the tradition of the English pub over the Atlantic Ocean and invented the American tavern. In 1634, the first tavern opened in Boston and was called Cole's. In New Amsterdam (later New York), Gov. Kieft grew tired of entertaining Dutch Colonial guests in his own home, so he opened a tavern and lodge to accommodate them. That same building became New Amsterdam's first city hall and remained so until the current one was built in the 1880s.

Back in those days, the government required every community to have some kind of public meeting place, and they usually ended up being the taverns. The government set regulations for their operation and controlled the prices.

From the 1950s to the 1980s, people's interest in bars centered a great deal around television. First, it was to see the new in-

vention. Then, they wanted to watch big-screen TVs, and later, they wanted to check out satellite-broadcast programs from all around the world. Even today, you'll often see television reporters interviewing people at bars about the latest hot political topic or sporting event.

Although people still gather to socialize in bars, just as they have for hundreds of years, other factors have come into play for the industry as well. Problems with driving while intoxicated have changed the drinking patterns of people in the United States. The growing concern with health and fitness toward the end of the 20th century took its toll on the bar industry. Keeping tabs on this industry requires a look at the alcoholic beverage industry as a whole—what people buy in the store doesn't differ much from what they buy in a bar. So what's the status of the modern alcoholic beverage industry?

According to the Distilled Spirits Council of the United States (DISCUS), "U.S. spirits sales for 2004 grew 3.1 percent in volume and 5.8 percent in dollars. That translated into 164.2 million 9-liter cases and \$14.7 billion in revenue." David Ozgo, chief economist of DISCUS, reports that 2004 was the second year in a row of a 3 percent-

Fun Fact

Many celebrated Americans throughout history owned taverns, including William Penn, Ethan Allen, John Adams and Andrew Jackson. George Washington distilled whiskey, and Sam Adams brewed beer after the Revolutionary War. Abraham Lincoln also held a tavern license in Springfield, Illinois.



Bar/Club

plus increase for the first time in many years. Although it was a steady rise across the board, super-premium products had the biggest jump. Ozgo predicts continued growth, citing the ever-expanding variety of brands that fit all tastes and occasions as a major factor.

The total number of operating liquor licenses in restaurants and bars exceeds 225,000, and beer and wine licenses double that amount. This means you have some pretty tough competition out there. But you're not just competing with the other bars in your area these days. You're competing with every entertainment option from which your customers can choose.

THE COMPETITION: OTHER ENTERTAINMENT OPTIONS

In the 21st century, the bar/club industry is more challenging than ever. The climate of entertainment began to change in the late 20th century. People have more and more entertainment options inside the home, such as cable television, movie rentals and surfing the internet. According to Michael O'Harro, board member of the Oxford, Mississippi-based National Bar & Restaurant Management Association, as a bar owner, you should look beyond other bars for your competition.

"People never have to leave their houses," O'Harro explains. "You have MTV, cable, satellites and computers. Plus, you have got carryout and food delivery. You are not just competing with the bar down the street or the movie theaters. You are competing with people who are staying at home and entertaining themselves there. So you have to give them a reason to leave the house."

Not only are you competing with your potential customers' urge to stay home and take the easiest path to entertainment, but you are constantly trying to balance what your customers want with what you are able

to give them. People's drinking habits change based on their needs and resources. But there will always be a need for a well-run, comfortable place to patronize.

Stat Fact

Which do you think generates the most tax revenue for the United States—alcohol or petroleum products? Alcohol washes out petroleum by almost \$1 billion. Taxes on alcohol are the third greatest source of federal revenue, behind personal and business income taxes. In addition, it is estimated that the distilled spirits industry annually contributes \$95 billion to the U.S. economy.



If your goals include a wide variety of customers and you are able to meet and exceed their expectations, then there's plenty of opportunity for you to fill up your establishment. According to The Gallup Poll, more than 60 percent of Americans consume alcoholic beverages. Good news is also on the horizon. Younger (but legal, of course) consumers have demonstrated an appreciation for drinking. They don't seem to drink as much as the generations before them, but those who do are more discriminating.

The popularity of higher-priced microbrews and top-shelf liquors continues to increase, which is great for you as a prospective bar owner!

WHAT YOU CAN EXPECT

Successful new bars can be in the black within the first six months, and they can go on to recover their initial investment within three to five years. However, like

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many new businesses, the statistics for bars aren't in favor of the startup. Why do they fail? The first reason is they didn't have enough capital to keep the business going. The second reason is a lack of knowledge about the business.

Are we trying to scare you out of owning a bar? Maybe. If you're not interested in a high-risk business, this isn't the one for you. But if you look at risk as a challenge waiting to be conquered, then this may be the industry for you. If you're still not sure, check out "To Bar Or Not To Bar?" below to see if you're really ready to give this business a shot.

From a personal perspective, you need to ask yourself if you're really the type of person who wants to own and run a bar. Of course, you don't have to run it if you own it, but you'd better make sure you have a team of good, trustworthy managers working for you if you plan to be "hands off." In the beginning, you will probably have to be greatly involved whether you plan to be an active owner or not. If you're the kind of person who would rather deal with paperwork or sit in an office where you don't have to talk to people, this business is not for you. You will need to be out there talking to people and shaking

To Bar Or Not To Bar?

Just because you like to drink doesn't mean you're cut out to own a bar. It can be a lot of fun, but it's also a lot of work and involves many more hours than other types of businesses. We put together a few questions you can ask yourself to see if you've got what it takes to own a bar or club. Take your time, and be sure to answer honestly!

1. Are you prepared to give up lazy weekends hanging around the house and vacations for at least the next year—possibly three years?
2. Can you handle going to work every day without the security of knowing what to expect when you get there?
3. Are you willing to risk your savings for your business?
4. Are you willing and able to work seven days a week and 12 or more hours a day if necessary?
5. Are you willing to sacrifice your social life for the success of your bar?
6. Can you take on the responsibility of leading a staff and conquering obstacles when everyone else has given up?
7. Are you a late-night person?
8. Do you feel comfortable being the host of the party and striking up conversations with total strangers?
9. Are you comfortable dealing with large amounts of cash on a daily basis?
10. Can you say "no" to free drinks for your friends, relatives, business associates and employees?

If you answered "no" to any of the above questions, you might want to think about it a little more before you open a bar. It's a rewarding business, but it's not for everyone. Some people just make better bar customers than bar owners, and it's important to find out early which category you fit into.



Stat Fact

According to the Washington, D.C.-based Beer Institute, the brewing industry provides more than 1.6 million jobs in America and generates \$144 billion in U.S. economic activity.

hands. Getting to know your patrons, even if it's just to say "Hi," can go a long way for your customer service.

Another thing you should consider is the time commitment and hours of operation. If you're an early riser, you might not enjoy having to work until 3 or 4 a.m. at your bar. If you have a family, you need to discuss how owning a bar will affect them. Many days you will have to be at your bar from the time you wake up—say, around 10 or 11 a.m.—to the time you go to sleep—say, around 4 or 5 a.m. As you can see, this could take a toll on your family life. Eventually, you'll probably be able to have a saner schedule, once your managers and staff are well-trained, but it may take six months to a year to reach that point. If this could cause problems for you or your family, you may want to reconsider the idea of owning a bar.

If we haven't scared you away yet and you're ready to go for the bottle-in-the-sky dream, read on. We've designed this book to give you the tools needed to succeed.

WHAT'S YOUR BAR TYPE?

Before you get started on the actual nuts and bolts of creating your dream bar, you have to decide what kind of establishment you'd like to own. Let's take a trip through the various kinds of bars—from neighborhood bar to large-scale club—and see which one is right for you. We'll also in-

troduce you to a few of the owners and experts we interviewed for this book and the types of bars they own (or would own if they could start over).

Neighborhood Bar

Conceptually, the neighborhood bar is still an American version of the English pub. You will find them everywhere in the United States. You might have one around the corner from where you live or across the street from where you work. They're excellent meeting places for friends and business associates. Depending on where you live, there may just be one, or there may be lots of neighborhood bars.

If you own this kind of place, you can expect to know many of your regular customers. As on the TV show "Cheers," you may find yourself taking phone messages for customers or cashing their paychecks. It's because of the friendly "home away from home" atmosphere that neighborhood bars are successful. Some of these pubs open as early as 6 a.m., and they sometimes close earlier than other bars—depending on the clientele. This type of bar is perfect for small-scale entertainment options, such as darts, pool tables, video games and jukeboxes.

If you're thinking of owning a neighborhood bar, you might consider starting out with a beer and wine license first and then moving on to a liquor license later if the business warrants it. You may or may not want to have a kitchen or extensive food menu, again depending on your concept and your customers. Some neighborhood bars offer sandwiches for the lunch crowd and appetizers in the evening, but no dinners. This avoids the need for a restaurant license and cuts down on costs.

Across the country, this is probably the most common type of bar you'll find. There are many neighborhood bars out there, but you might find there is room for one more in your area. According to

the experts we interviewed, the startup cost for this kind of bar ranges widely, depending on the size and concept, but mostly on location. You can buy an existing neighborhood bar in a small town for \$20,000, or you can spend a million dollars building a brand-new one in a big city. Not coincidentally, the amount of revenue these businesses produce varies greatly, depending on your bar's location and capacity.

A benefit of owning a neighborhood bar is that you can duplicate it in multiple locations, which multiplies your income as well. "The bars that make a lot of money are those that can replicate the project many times," says Bob Brenlin, owner of several neighborhood pubs in Seattle.

Sports Bar

Depending on the establishment's capacity, sports bars can be a specific version of the neighborhood bar, or they can take on a life as big as a club. You may have the latter in mind, but your market research may point to the former. It's important to do your homework!

Generally, sports bars offer some kind of menu options, such as burgers, pizza, sandwiches and appetizers. Since the main attraction is sporting events, sports bars have televisions in view of every seat, sometimes all tuned to different channels. Audio and video technology comes into play, with some owners spending a large percentage of their revenue on keeping up with the latest in technology—from satellites to big-screen TVs. As with neighborhood bars, startup costs and revenue potential vary widely, depending on the size, concept and location.

If Bob Johnson, CEO of the Beverage Management Institute in Clearwater, South Carolina, decided to open a new bar today, he says he would start a sports bar for both business and personal reasons. "I love any-

Fun Fact

Only sparkling wines from the 85,000-acre region of La Champagne, France, 90 miles northeast of Paris, can use the name "champagne." The French region's special soil and climate give champagne its specific taste and quality. Its natives, the Champenois, have produced wine since Roman times.



thing to do with sports," says Johnson. "I love to see people in a bar cheering for a team in front of big-screen TVs."

He also says it is a good business because you have built-in events to use in your marketing throughout the year. "There is always something to promote, there is always something to do, and there is always an aura of excitement in the room," he explains. "To complement the TVs, you can have video games and sports-oriented games so people can entertain themselves and have fun with each other. They can do more than just sit there and drink. You have to offer your consumer more than just the drink. They're not going to sit there and drink if there's not something going on to captivate them."

Brewpub Or Beer Bar

Studies have shown that although consumers are drinking less alcohol, their tastes are becoming more discriminating. As a result, microbrews are more and more popular. In a brewpub, you can brew your own beer right on the premises. In a beer bar, you can offer a large selection of different types of beer, including microbrews produced elsewhere. It's often easier to get a liquor license for a brewpub or beer bar than a full-scale liquor license, since you don't need a fully stocked liquor bar.

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Another benefit to owning a beer bar or brewpub is that men drink beer more often than any other alcoholic beverage, which can translate into a profitable business for you.

Most brewpubs only sell their own beer options on tap (draft beer), with a few selections of bottled beer options, too. Since you are creating your own product in a brewpub, you also have the ability to control what you make and sell—from quality to quantity. The startup costs of a brewpub can be quite high—from \$100,000 to \$1 million—because of the brewing equipment you need to have. If you produce a popular beer, you have the opportunity to grow into a very successful operation.

Beer bars tend to have lower startup costs, which can often mean obtaining a less expensive, fixed-price license from your state government. Keep in mind that most states don't put any limits on the number of beer and wine licenses they issue. However, most restrict liquor licenses based on the population of your particular county. (See Chapter 5 for more information on licensing.) Beer bar startup costs range from about \$20,000 to \$100,000, depending on size and location. The revenue potential depends on the geographic location and drinking trends in the community. For example, a beer bar in Ohio

may make much more money than if the same bar was located in certain neighborhoods in New York City, simply because of what the clientele likes to drink.

Specialty Bar

Specialty bars, which concentrate on one type of libation, from wine to martinis, or theme, like cigar bars, are gaining popularity. Although some specialty bars focus on only one drink category, there must be a wide variety available within the genre. Take martinis: They have become very popular largely due to the variety they offer. The traditional martini still has a solid appeal if made with quality vodkas and gins, but other mixes, like sour apple martinis and Cosmopolitans, have expanded the martini-drinking base, especially among women. But even with their increased popularity, martinis are still looking up at wine.

Beyond the traditional glass or bottle with a nice dinner, for many, wine is the drink of choice. In fact, women order wine more often than any other alcoholic beverage. Wine bars offer guests the opportunity to taste a variety of different kinds of wine and the ability to learn more about their qualities.

Specialty bars tend to stay small and intimate in size and are located in more sophisticated neighborhoods. The costs and revenues you can expect to find when opening a specialty bar depend mostly on the type of product you serve and your location.

Club

Like the neighborhood bar, clubs can take on a number of different personalities. You can open a small cocktail lounge with a jukebox or a tinkling piano in the corner. A medium-sized club might look like a neighborhood bar during the lunchtime hours, then spring to life with a popular band at night. Or if you have a big enough budget, your club might be a large dance club where the most fashion-



Bright Idea

During the earliest stages of deciding to go into the bar business, visit several different bars within your local area and in other cities, too. Carry a pocket notebook and write down at least three of your favorite things about each bar as well as three things you'd improve.

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able people and hippest celebrities hang out every weekend.

Whichever path you take, you must be prepared to spend a great deal of time and money on promotion to create your “buzz.” Clubs can make plenty of money if they’re managed properly.

Most successful clubs draw on a city population of 500,000 or more. If you’re in a small town or suburb, you may not have the customer base to open a large dance club. Market research is the key. (Read Chapter 3 in this book and the “Conducting Market Research” chapter in *Startup Basics* for the scoop on market research.) Depending on the entertainment you offer, you can develop a group of regulars that keep coming back or a transient clientele that visits your club for a specific show but doesn’t return for several months. Smaller clubs may charge

a low cover charge or none at all, while larger venues can charge as much as \$20 at the door.

CREATING YOUR CONCEPT

Once you’ve defined the type of bar you want to open, the next thing you want to figure out is your concept. Your concept will drive nearly every decision you make from here on—including your location, size, menu, décor and startup costs. The most important thing to keep in mind is that you are not just in the bar business, you are in the entertainment business. Like any other type of entertainment business, you need to create an image.

A successful concept doesn’t just focus on the type of entertainment you want to provide. It can be detected all the way down to the finest details. You can use your concept to stay focused on what your bar

Research Can Be Fun!

One thing you probably already know about the bar industry is that you’re in the business of fun! So you can have a blast while you’re making decisions such as the type of bar you want to own and what kind of concept you want it to have. Here are some research tips to help you make your decisions:

- **Visit as many of the bars in your community as you can.** (We don’t suggest a bar crawl; you have to remember what you saw!) Write down what you like and what you don’t like about each of them. Can you see yourself in this type of bar?
- **Break the bars up into categories.** Don’t hop from a club to a neighborhood bar to a champagne bar. Make a list of the successful neighborhood bars in your area. Then, check out each of them before you move on to the next category.
- **Don’t waste your time and energy.** If you have spent time in a couple clubs and the loud music gives you a headache, don’t bother checking out the rest on your list. If you know a particular type of bar isn’t for you, move on to the next category.
- **Visualize.** Use your research to start developing your own ideas. Imagine what your bar would look like and feel like in contrast to those you explore.
- **Keep an open mind.** Unless you already know exactly what kind of bar you want and what kind of concept it will have, don’t prejudge anything. You may discover that you would like to own a brewpub instead of a club, or you might incorporate other categories into your initial ideas. This is the time to really have fun with your brainstorming!



Smart Tip

When you're deciding on your concept, don't limit yourself.

Brainstorm the wildest ideas. You may even find that your concept crosses over to different categories of bars. You don't have to spend a ton of money to create a cool concept. Sometimes the simplest ideas are the best!

is all about. Plus, it will help your guests describe it to others and spread the word.

If you already have a general location in mind, you may need to work in reverse. This will require some research. You want to develop a concept that fits in with your location's market. Ron Newman, a bar owner in Manhattan Beach, California, worked with his partner to develop a concept that would fit into a beach locale. They found

their location first and then developed a fun, shark-themed sports bar. They wanted to create a casual social environment with good food and drinks at reasonable prices. Their original simple concept resulted in three additional locations over a period of just seven years!

In developing his concept, Newman kept the big picture in mind right from the start. He visualized the marketing, T-shirts, décor and big-bucket drinks with sharks in them. "You could take our concept and put it two miles up the street, and [you would do less] business," says Newman.

Once you've decided what kind of bar you want to open and you've developed some ideas on what kind of concept you want to have, you can get started on the actual structure of the business. Do you want to form a corporation or a limited partnership? Should you take over an existing operation or start from scratch? What do you need to get started? We'll address these questions and many more in the next chapter. So let's get going!