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Marquee: The Business of Nightlife

"The night Stevie Wonder gave an impromptu performance of 'Isn't She Lovely' at Marquee, I said, 'We just hit the pinnacle. But a moment later I thought, 'No way. It is going to get better.'"

— Noah Tepperberg, founder of Marquee

"It's Paris. Look, over there!" One young clubgoer directed his friend's attention to a woman, dressed in a designer outfit, who stepped out of her chauffeured car at a busy intersection on 10th Avenue in Chelsea, Manhattan. The celebrity in question, Paris Hilton, warmly greeted the doorman, took a few steps on a red-carpeted sidewalk, and quickly entered through a heavy black door, not noticing the two clubgoers who watched her every move. After a long wait, they had edged their way to the front of a line that stretched around the block and counted hundreds of people, each hoping for their chance to follow Hilton inside.

Although the long lines and star-studded atmosphere were business as usual, December 18, 2008 was by no means a typical Thursday night (or rather, early Friday morning) at Marquee, one of New York City's hottest clubs. Marquee was celebrating its fifth anniversary. Inside, nightlife impresario Noah Tepperberg, who founded the club with Jason Strauss, made his way around a crowded dance floor, and settled at his regular table in the midst of the club's main room – a place where he could be found most nights ever since the club first opened. Stars like Jay-Z and Carson Daly had come out to celebrate with Tepperberg, described as a "celebrity to celebrities."¹

Five years was an eternity in the nightlife industry – most clubs were over within their first 18 months – but Tepperberg had succeeded in maintaining Marquee's status as an of-the-moment club. Meanwhile, his team now also co-managed the Las-Vegas-based nightclubs TAO, TAO Beach and LAVO, and he had expanded the scope of his Strategic Group, a hospitality, event management and marketing firm with sales of well over \$20 million in 2007.

Despite the club's electrifying atmosphere on its anniversary night, concerns remained about Marquee's staying power. "The end is always on my mind," Tepperberg said, and pointed out that operating costs had risen significantly since the club's early days, as had the competition for fickle clubgoers. Would Tepperberg soon have to pull the plug on Marquee? Was it time for a change in strategy? Or could Marquee defy the unwritten rules of the nightlife business and become a mainstay of New York City's nightclub scene?

Professor Anita Elberse and Ryan Barlow and Sheldon Wong (MBAs 2008) prepared this case. Some economic data have been disguised. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

New York City Nightlife

By some estimates, there were more than 1,000 nightlife establishments in the five boroughs of New York City, of which 80% were located in Manhattan.² The New York City nightlife industry generated an estimated \$1.3 billion in direct revenues, \$9.7 billion in economic activity, \$2.6 billion in earnings (primarily wages), and 95,500 jobs.³ Each year, nightlife venues generated an estimated total of 65,445,000 admissions—more than three times the attendance of all New York City's sports teams combined.⁴ An average bar or lounge could expect around 60,000 admissions annually, while the figure stood at 180,300 for clubs and music venues.

A survey among New York City nightlife attendees in 2004 revealed that around 40% of them lived in Manhattan, another 25% in the other boroughs, and 5% were international visitors. About half of the attendees were female, their average age was close to 30 years, three quarters were single, close to 80% had college or higher degrees, and their annual incomes averaged \$70,000.⁵

While the industry as a whole was booming, most nightclubs struggled to recoup their initial investment in equipment, furniture, fixtures, and licenses, as well as to reach sales levels that covered ongoing rent, personnel, marketing, alcohol, and other expenses. In fact, although no hard numbers existed, the typical lifespan of the 129 legally operating nightclubs in Manhattan was thought to be about 18 months.⁶ And of the ten American nightclubs in the "Hot Clubs Around The World" list published in a *Forbes* report on the "Business of Nightlife" in August 2006, three (Amika in Miami, Crobar in New York City, and Ice in Las Vegas) had closed their doors by 2008.

"If you get the right lease and you're not putting in a tremendous amount of money to build the club, it can be a profitable and fun business," said a former nightclub owner. "But so many of them are predicated on outrageous leases, [renovations] and promoter fees that it's very difficult." Insurance premiums alone could be up to \$300,000 annually, depending on the size and scope of the club.⁷ And while licenses might be a fraction of those costs, nightclubs (which needed both liquor and cabaret licenses) might spend up to 18 months applying for them, often leading to costly delays in other areas.⁸

Tepperberg and Strauss' First Steps in the Nightlife Industry

Noah Tepperberg, 33, and Jason Strauss, 34, started their fascination with the nightlife business while both were in high school in New York City (Tepperberg at Stuyvesant, and Strauss at Riverdale High School). "I feel like we had a head start on other people in the industry. Jason and I started as promoters when we were 15 years old," said Tepperberg. The native New Yorkers went to different colleges – Strauss went to Boston University and Tepperberg to the University of Miami – but formed a partnership upon their return to New York City in 1997 to pursue their business full-time. "That summer after we graduated, before we knew it, we were working four nights a week in New York City, organizing interesting events, filling up clubs, and building our database. We were establishing a brand that represented a certain crowd, a certain experience."

The duo opened their first club, Conscience Point, in the summer of 1999. Located in the Hamptons, it only operated during the summer season. They sold it shortly after the summer of 2001. At that time, Tepperberg and Strauss had already opened a new venture, Luahn, a restaurant and lounge, with the actor Stephen Baldwin. Roughly a year later, when Luahn had closed its doors, they spotted a new opportunity: a chance to operate, promote and market a new club, Suite 16, located at 16th Street and 8th Avenue. It would become one of New York City's hottest clubs in the years 2001 to 2004. "We had a beautiful crowd, with tons of celebrities and good-looking girls. The energy was

fantastic,” said Tepperberg. “It’s part of popular culture now. It’s the club where Britney Spears and Justin Timberlake first ran into each other after they had broken up! Everyone knew about Suite 16.”

Marquee

Marquee became the impresarios’ next project, even before Suite 16 closed when its landlord would not renew the lease. Tepperberg and Strauss set out to convert an old, 5,000-square-foot garage building, located on 10th Avenue between 26th and 27th Streets, into a new nightclub with a total capacity of 600 people.

Developing Marquee

“When we started, it wasn’t much of a neighborhood – just a lot of warehouses, and housing projects across the street. But we thought that we would be strong enough to create a destination, and we saw the vision of the room, so we took out a lease on an old, broken down garbage truck garage that had no plumbing, no electricity, and a roof that was partially open with pigeons and leaks going through it like you wouldn’t believe,” said Jason Strauss.

“New entries into the nightlife market are usually re-vamped spaces with new finishings and new names,” added Tepperberg. “The building on 289 Tenth Avenue was a ‘raw’ space that we could transform however we wanted. This meant we could develop a space that was functional and efficiently laid out, and suited the main purposes of the business: drinking, dancing, entertainment, and special events.”

Aided by designer Steve Lewis and Philip Johnson’s design firm PJAR, Tepperberg and Strauss established the overall look of the club and undertook an extensive construction and remodeling effort. In an aim to simultaneously cater to different types of people that make up the New York nightlife market, they developed three separate spaces inside the property (see **Exhibit 1** for selected impressions):

- A 2,500-square-foot “cabaret” space that featured 15-foot ceilings, a central and elevated DJ/light platform, a dance floor, and banquet and high-top seating, with a total capacity of 300-350 people.
- A 1,500-square-foot “mezzanine” space that featured a room lofted on top of the “cabaret” space with a birds-eye view of the sprawling facility, along with a 25-foot bar, couch, ottoman and banquet seating, two private bathrooms, a separate entrance, and a separate DJ/sound system, with a capacity of 100 to 150 people.
- A 800-square-foot “lounge” space (“Room 3,” as Tepperberg called it) that featured banquet seating for large groups, a separate bar, ambient lights, and limited access for private parties, with a capacity of 50 to 100 people.

“We built it in a strategic way. We felt we knew what a clubgoer wants, because we had so much experience going to clubs ourselves. We knew how much bar space we wanted, how big the dance floor needed to be, where we had to have a coat check, where the bathroom needed to be – all the details that matter,” said Tepperberg. One such detail was the design of the banquettes: the tops were wide enough to sit and dance on, but curved so customers could not perch a drink on them, and the seats contained hidden drawers for storing purses and other accessories.⁹

Exhibit 2 displays the estimated construction and opening budget for Marquee, lists the rent schedule, and provides overviews of the projected income. To fund their activities, Tepperberg and Strauss contributed a total of \$200,000 to their new business, and they found investors who provided services and paid around \$2 million in return for a 20% stake in the venture. Tepperberg (30%), Strauss (30%), their legal advisor Ronald Fishman (3%), and a group of advisors and partners together owned the remaining 80% of the business, which was organized as a limited liability company. As managers, Tepperberg and Strauss both would receive an annual salary of \$150,000, while those with an ownership stake would receive a share of the net cash flow in proportion to their percentage interests.

Launching Marquee

Unlike most other major club owners who often promoted new projects heavily in the year leading up to an opening, Tepperberg and Strauss let buzz build by giving industry trendsetters and tastemakers glimpses of the soon-to-launch Marquee. After nights hanging out at the perennial hot-spot Bungalow 8, located just around the corner and owned by fellow nightlife entrepreneur Amy Sacco, the duo would take friends over for late-night tours of the under-construction Marquee. According to Tepperberg:

Every night, we took groups of friends, sometimes at 4:00 AM, into Marquee to show it to them. At the time, there was still no roof on the place. There were pigeons flying around! And I would say things like ‘the cement is still drying, don’t stand there.’ We wanted people, when opening night would come around, to think to themselves ‘I was here when it was not even here – this is amazing.’ They needed to feel like they had an inside look.

Only once the grand opening date could be safely predicted, Tepperberg and Strauss switched to a more comprehensive public relations campaign, mostly focused on getting feature stories on the concept, design, and launch.

Marquee opened its doors on December 10, 2003, a few months later than initially planned. “We knew that a week later most of the top-tier crowd would leave town for the holidays, so we didn’t have a big window to establish the club. And the early part of January is always very slow. We were really sweating it out over the first couple of weeks,” remarked Tepperberg. “We literally lined up one private party after the next the first ten nights that we were open. We selected events that we knew would bring the right crowd. Everyone who was involved in those events was also promoting Marquee – they were getting the word out.”

A spectacular New Year’s Eve party was the highlight in those early days. “We were two weeks old, and we had Donatella Versace in our club, an 18-year old Lindsay Lohan, and everyone who mattered in New York City. The club was amazing that night.” It contributed to Marquee quickly becoming a magnet for clubgoers – and notoriously difficult to get in: “only the fashionable, famous or financially secure need apply,” according to one insider.¹⁰ Tepperberg, who along with Strauss was in the club every night in its first year, commented: “We left a lot of money on the table to make sure we had the right people in there.”

“Our revenues were higher than projected from the very start,” said Tepperberg. “We generated \$9.5 million in revenues in year one and \$10.8 million in year two. However, we had hoped to reach margins of 60 to 70%, but that proved much too optimistic. **Exhibit 3** provides Marquee’s income statement for 2006 and 2007.

Over the years, the area in which Bungalow 8 and Marquee were located would see an influx of new and revamped clubs. In fact, so much so that 27th Street became known as “club row” (see **Exhibit 4** for an illustration). In 2007, *New York Magazine* described the atmosphere as follows:

So many people packed Marquee in its first year, 2004, that the crowd of cars and people often blocked several lanes of traffic on Tenth Avenue. Inside, a parade of celebrities canoodled, guest D.J.’d, or threw premiere parties—a vast boldface honor roll recently trumpeted on the occasion of Marquee’s third anniversary... [The] dance floor at Marquee sparked a phenomenon: the most concentrated and expensive burst of club development in the history of New York... [Club row became] a one-stop party shop... It was magical—like an amusement park for adults. Instead of taxiing from one neighborhood to the next, clubbers could flit across the street. Marquee was the “Page Six” spectacle. On quieter nights, when a vacation vibe seemed best, one would start on the opposite end of the street, under the game-lodge tent of Cain. Bungalow 8 was for late nights, and in the middle of the block, one could mix it up with the mainstream.¹¹

Running Marquee

By 2008, Tepperberg and Strauss had Marquee’s operations down to a science. On an average night, two managers, a doorman, six bartenders, six “cocktail” waitresses, seven “bussers” (who cleared empty glasses and bottles from table patrons), two barbacks (who re-stocked alcohol and other bar supplies), three bathroom attendants, one coat check attendant, and twelve security people served Marquee’s customers.

On a busy day, the club admitted up to 1,200 people. Of these, 400 so-called “bottle customers” would sit at any of the 36 tables; the remaining customers were referred to as the “filler crowd.” The building allowed for a great deal of flexibility, explained Tepperberg: “We redid the back room: it now has its own DJ booth, so we can shut the room upstairs, and just have the main room and the back room open. On a slow night, we can shut a room and still look crowded.”

Bottle Service Customers Bottle customers were seated at small, glass-and-wood tables (not bigger than about three square feet) throughout the club. Each group would typically be required to pay a \$150 service charge and purchase two to three bottles of top-shelf liquor. Among the cheapest options was a \$350 bottle of Absolut Vodka (which retailed for \$25 at a local liquor store), while a bottle of Cristal champagne that cost well over \$900 was among the most expensive choices. (Customers got to mix their own drinks, as juice, tonic, and an ice bucket were included.) Occasionally, customers paid \$10,000 for a special bottle of Dom Perignon Vintage Methusalem.¹² From each table of bottle customers alone, Marquee generated upwards of \$1,500 in revenue on a typical Saturday night. In fact, bottle customers usually accounted for approximately 40% of any given night’s customers yet represented 80% of the revenue.

One such bottle service customer was featured in a *New York Times* article on Marquee:

While waiting in line for the men's bathroom upstairs, Malik Shahbaziawaz... eyes a petite beauty whose gold necklaces are disappearing into her ample bosom. Dressed in slacks and a shirt that hugs his sizable tummy, he smells as if he has backstroked through a pool of cologne. “It’s Versace,” he says proudly. Tonight, Mr. Shahbaziawaz has already spent \$900 on alcohol, including a \$600 bottle of Johnny Walker Blue, his favorite. “It’s \$200 in the store, but it’s more fun here, and when you’re having fun, you don’t mind to pay.”¹³

However, bottle customers came in all kinds of sizes and shapes. Celebrities and models were one sub-category, although clubs often waived fees for A-list stars. Bono, George Clooney, Justin

Timberlake, and the Olsen twins were just a few of the hundreds of celebrities that had put in appearances over the years. Stars like Diddy, Jamie Foxx, Mario Lopez, and Paris Hilton counted Tepperberg as a friend and frequented the club. And several celebrities, including Christina Aguilera, Derek Jeter, and Heidi Klum, had thrown private parties at Marquee; these were usually birthday parties, holiday parties, or after parties for premieres or other events.

Another segment were professionals. Some were young men who came into money for the first time and started to “live large,” perhaps spending \$5,000 or more in one night. Others were the veterans, the more loyal customers who purchased two bottles on a weekly or monthly basis. The average “life” of a bottle customer was about six months. “If I had my way I would rather have a customer who spends \$1,000 a week over a longer period than one customer who for six months goes crazy and spends \$100,000,” said Andrew Goldberg, Marquee’s Manager of VIP Service. He added: “There might only be 150 or 200 consistently great customers out there.”

A third group were socialites with a taste for the fashionable and plenty of money to spend. Many of these lived on Manhattan’s Upper East Side, one of the wealthiest areas in the United States known for its elite schools, world-class museums, expensive restaurants and boutiques, and proximity to Central Park. The area and its residents were portrayed in movies such as *The Devil Wears Prada* and *Sex and The City* and television shows such as *Dirty Sexy Money* and *Gossip Girl*. In fact, in *Gossip Girl*’s first season, the show’s main characters could be seen partying at Marquee.

Upon entering Marquee, each table customer was required to present Marquee staff with a credit card and a form of identification, and was asked to sign a “commitment envelope” which acknowledged an agreement to purchase the bottle minimum. Only then would a staff member show that customer and his group members to their table.

Some bottle services customers preferred tables in the more private Room 3, but those in the main room near the entrance and the dance floor were most in demand. Assigning customers to tables was a delicate process. “You can lose a customer for life if you put them in the wrong section next to the wrong table. They take it personally,” said Goldberg. Each night, the club compiled a detailed seating chart for table customers. “You need to know what your customers are into, whether it’s models or celebrities. We think about the location of the table and the neighboring groups,” added Goldberg.

Each table was assigned to a staff member who serviced customers throughout the night. These cocktail waitresses were typically young, good-looking women – according to one visitor, their waitress made “the tennis babe Anna Kournikova look like a gnome.”¹⁴ Each time the waitresses brought a new bottle to a table – an event which typically drew loud cheers from the partying crowd at and around the table, particularly if it involved an expensive bottle of champagne – the customers were asked to sign a receipt for confirmation.

When patrons were ready to leave, a Marquee staff member presented the customers with a final bill that covered the cost of alcohol and a 20% gratuity fee. If they had unfinished or unopened bottles, the staff member also provided them with a receipt which they could use to redeem those bottles at a future visit to the club. **Exhibit 5** shows the different customer forms in use at Marquee.

Filler Crowd The “filler crowd” did not sit at any of the tables: they ordered their drinks from the bar, danced on the main floor, and generally moved around the establishment’s three rooms. “The fillers create the energy,” said Strauss. “If your bars are empty, it looks silly, even if your tables are busy.” Fillers paid Marquee’s \$20 cover charge to gain entrance, and anywhere from \$10 to \$14 for their drinks.

On a typical Saturday night, at least 1,500 to 1,700 people were trying to get into Marquee. Standing in line was no guarantee of gaining admittance, however, as the doorman ultimately decided the fate of the hopefuls. Most nights, scores of people were turned away. Marquee's main doorman, known only by his first name, Wass, had legendary status among clubgoers. One influential blog referred to him as "the most powerful doorman in the universe."¹⁵ When asked what he tried to accomplish at Marquee, he said:

The key to having a successful run of a nightclub is having a good mix of people and styles, people who have money, people who are from different parts of the world. The key... is to make it like a salad. A salad with too many mushrooms isn't very tasty, a salad with too much lettuce is just lettuce; it's a nice big mix of all the elements that make a delicious salad. So we're talking about some of the gay crowd, some of the Upper East Side crowd, some of the trendy crowd, a very heavy sprinkling of the model crowd, just so that there's not too much of one thing. That can be very boring. My goal is to make it a mixed salad every night of the week.¹⁶

He added: "Not every place is for everyone, you don't want to sacrifice the fun of the entire crowd for the fun of a few. It's my job to read people."¹⁷

Different nights at Marquee, open Tuesday through Saturday, usually had different themes, which translated into the kinds of people Marquee was looking to admit. Rich Thomas, who as the marketing/promotional director of Marquee was responsible for the execution of the club's format for any given night and assisted at the door twice a week, said:

Wednesday nights we go for the hipster crowd – the Lower East Side crowd. It is the only night on which we usually don't make a lot of money – hipsters don't spend a lot. Thursday night's the hot night to go out in New York. This is when Marquee will see its best and most high-end public. Friday night is our so-called 'Euro night' on which the DJ in the main floor spins house music geared toward the European audience. This attracts a very international crowd, such as Spanish and French graduate students at New York City universities.

Tepperberg was known to sometimes shell out \$15,000 or more for a celebrity DJ at the drop of a hat, without a big promotion. "It's a special surprise," he said. "It makes the crowd feel like you're doing something for them."¹⁸

Managing Customer Relationships

The roster of jet-set customers who patronized Marquee was not developed overnight. Tepperberg and Strauss had been cultivating and building relationships since their days as event promoters. "A lot of people that come to our clubs have known us for nearly 20 years. We've been the people they call any time they go out," said Tepperberg. He continued:

I spent my twenties going to every major hotel or restaurant or club opening in Vegas, to Miami every big weekend, for music conferences, art fairs, Christmas, and New Year's. If [rapper and music mogul] Diddy was having his birthday party in Miami, I'd make sure to be there that weekend. If there was a big award show in Vegas, I would make sure to be there that weekend. I always went to Los Angeles the week of the Oscars and if there was a big party for somebody we knew. And I went to major sports events such as the Super Bowl and the NBA All-Star Game.

Tepperberg was known for his hands-on approach at Marquee. He usually started his day at 10 AM and was at Marquee at some point in the evening almost every night of the week, staying in touch with his extensive network of customers throughout the day. Strauss played a similar role in Las Vegas overseeing TAO. If a long-time Marquee customer happened to be traveling in Las Vegas,

Marquee staff tried to ensure that they were treated in the “Marquee way” at Strategic Group’s sister property. If that same customer was traveling to a city where Strategic Group did not have a nightclub presence, Marquee staff would often try to place the customer under the care of a point-person who provided the same experience.

“We’re what I like to call a one-stop shop for hospitality, whether it’s restaurants, nightclubs, or other things. Marquee is our platform, but we handle all the needs of our customers, whatever it is. I’m handling e-mails all day: whether it is nightclub reservations in other cities or other details – all the things they need taken off their plate,” said Goldberg. He added: “If you are known as someone who takes care of people, it’s contagious. If you take care of your customers, they are going to tell their friends and they will tell their friends.”

In order to broaden Marquee’s reach beyond its New-York-based clientele, Goldberg established relationships with concierge desks at the top hotels in the city, such as the Four Seasons, Ritz Carlton and the Mandarin Oriental. He provided concierges with credit-card-size plastic cards, the “Marquee Red Card,” which gave hotel guests a tangible item to bring to Marquee. Its main goal was to ease the process of entry into the club for the out-of-town visitors, which helped to assure concierges that guest would be well taken care of once they left the hotel property. “They will send us much more business if we do it right,” said Goldberg. Red Card customers were generally required to sign up for table service.

Promoters

Marquee worked with so-called “promoters” to guarantee a steady flow of the right bottle service customers and filler crowd. “They hold the crowd, create the energy, and give the place a certain look. They are the hosts,” said Tepperberg. Promoters were tasked with attracting a crowd that fit the image of the night.

Each promoter had their own approach to finding desirable patrons for Marquee and cultivating relationships with them. Some drew heavily on their own network of friends or acquaintances. For instance, several promoters were former or current fashion models who knew many other models. Increasingly, promoters coordinated their activities using online social networks and event sites.

One of Marquee’s most successful promoters was Jonathan Schwartz, 25, who had started promoting after graduating college. Since then, he had built up experience with several clubs in New York City, and gradually came to work “in house” for Marquee. He helped Tepperberg promote Strategic Group’s 2008 New Year’s Eve party in Miami; Schwartz sold close to 500 of the 1,800 available tickets. He joined the company as a full-time promoter shortly afterwards, working exclusively for Marquee and Strategic Group’s other properties.

“Long-term friendships form the core of my network,” Schwartz said. “I know a lot of people from high school. And now that most of my friends have started to work full-time, I get more corporate clients as well. My referral rate is very high.” Schwartz was constantly on the lookout for new contacts: “When I am going out early in the week, on a Monday or a Tuesday, I know I am going to run into many people who are serious about going out. Those are the people I like to invite to Marquee.” He added: “I like to book events in advance, to get commitments on the calendar, and I use my network to let it snowball from there. On the day itself, people text me to ask what is happening, and I text them to come out.

Each night the promoters worked for Marquee, they informed the doorman which guests were expected; the doorman then made sure the promoters’ guests were given priority. Promoters like

Schwartz often spent the early part of his evening outside near the doorman, waiting for his guests to arrive and making sure they had an easy entrance into the club.

Of the available tables at Marquee, around 30% were usually reserved for promoters. Promoters also brought in approximately 10% to 20% of the filler crowd. “When we opened, we had ten promoters. And then every few months, as other clubs would open and as we got older, we would hire more promoters. We are now up to ten to twelve promoters a night, so maybe 50 in total,” Tepperberg remarked. “Some of our current promoters probably couldn’t get into the club four years ago. Many started as our customers – they used to have to pay for their drinks.”

In return for their efforts, most promoters received a flat rate. “Sometimes if they book a lot of tables and they bring in a lot of revenue, we set up a bonus structure for them, and give them a small commission from the bottle sales they are bringing in,” said Thomas. Schwartz estimated that the average promoter earned around \$400 per evening, and worked three nights in a given week. “And what is unusual at Marquee,” he added, “is that they always pay you and that they pay you on time.”

In 2006 and 2007, Marquee spent around 20% of its total expenses on promotional fees (also see **Exhibit 3**); around 85% of those fees were spent on promoters.

Special Events

Marquee further generated revenue through its special events group, which was headed by Judy Tepperberg, Noah’s sister. These events were usually held at Marquee before regular opening hours, from 6 PM to 10 PM. In an average week, Marquee hosted two to three corporate parties – and more so in the holiday season. In 2007, Judy Tepperberg’s activities generated almost \$1.5 million in revenues. And because people often stayed in the club after the scheduled special event had ended, corporate events also helped Marquee’s core business.

TAO Las Vegas, TAO Beach, LAVO, and Other Plans

In 2005, Tepperberg and Strauss signed on with Marc Packer and Richard Wolf as partners in the nightclub component of TAO Las Vegas, an ambitious 10,000-square-foot complex, located in the Venetian Resort Hotel Casino, that merged a restaurant and nightclub. “Jason and I don’t have an interest in TAO New York because it was already open when we got involved. But we are managing partners with a profit interest in the Las Vegas entity,” clarified Tepperberg.

TAO Las Vegas quickly grew into the highest-grossing independent restaurant in the United States, according to *Restaurants & Institutions* magazine. In 2006, its first full year, TAO generated over \$55 million in business – \$16 million more than its closest competitor, Tavern on the Green in New York. The chief operating officer of that establishment marveled at TAO Las Vegas’ statistics: noting that it served 600,000 meals, its average dinner check was \$70, and 50 percent of its revenues came from alcohol, he said: “It’s really a nightclub with the food to complement the club.”¹⁹

The TAO nightclub and restaurant catered to people craving a high-energy, DJ-driven atmosphere, and boasted a 40-foot-long outside terrace with views of the Las Vegas Strip, go-go dancers, state-of-the-art audio and lighting systems, and two main rooms each featuring varying music formats. The facility also offered eight private skyboxes with mini-bars, espresso machines, and “Marquee” banquettes featuring secured purse drawers. The club was decorated with lush velvets and silks, waterfalls, century-old woods, stones, and a hand-carved 20-foot tall signature Buddha that “floats” peacefully above an infinity pool complete with Japanese koi.²⁰

Resting atop the TAO Las Vegas nightclub and restaurant was TAO Beach, a beach club catering to the jet set that offered a pool light show, floating Chinese lanterns, four 14-foot-tall fire columns, day beds, and seven \$1,000-minimum poolside cabanas, each with its own HD plasma screen televisions, video game console, chilled luxury terry cloth towels, pre-programmed i-Pod rentals, and other amenities.

During the summer months, Tepperberg and Strauss continued to operate a high-end venue called Dune in the Hamptons, a getaway destination for New York City's elite.

In September 2008, Tepperberg and Strauss expanded their operations in Las Vegas by opening LAVO, in partnership with TAO creators Packer and Wolf. The 14,500-square-foot restaurant and nightclub, located inside the Palazzo Resort and Casino, featured 40 bottle service tables and a slightly more intimate setting than the larger TAO. The space was decorated in a Mediterranean style reminiscent of the baths of ancient Rome—with tile walls, plaster, water features, high wooden ceilings, and low hanging chandeliers.

The team was working on a new TAO club in Miami, scheduled to open in late 2009, in which they would have an ownership interest. Meanwhile, Tepperberg also kept an eye on the New York City market. In November 2008, he had presented a plan to a Community Board in West Chelsea for approval to take over the existing lease for a property 10 blocks south of Marquee, next to the current hotspot 1 Oak. He proposed a plan to run the space – half the size of Marquee – as a lounge and restaurant that would serve a full menu until its 4 AM closing time, without a cabaret license or promoters. "I'm getting a little older, and my friends and clientele have grown up," he said. In early December, the Board voted in favor of the proposal, allowing Tepperberg to continue to develop his plans.

Strategic Group

In the fall of 2001 Tepperberg and Strauss started an events and marketing agency they called Strategic Group. Its primary goal was to serve companies – in consumer packaged goods, fashion, media, entertainment, and a variety of other industries – that were seeking help in building their brands. Strategic Group's core strength was in nightlife marketing. It used its relationships in the nightlife industry and with consumers to create programs and events designed to stimulate consumers to convert to its clients' brands.

"Our first clients were Guinness beer, Smirnoff Ice, and Stuff magazine," said Tepperberg. "We organized events for them, and we tried to get noteworthy people at our establishments and other parties to try their products and to get sightings of those people and the brands mentioned in the newspapers. It was our job to make these brands cool.

For example, Strategic Group was asked to organize an event that would generate significant buzz for the launch of the Level Vodka brand, made by Absolut, in 2004. To achieve that objective, Strategic Group sponsored events in nightclubs in six target markets. A team of "sampling agents" dressed in trendy nightlife attire engaged consumers and invited them to sample Level Vodka at their reserved tables. In addition, Level Vodka was made a signature liquor at the clubs, and was served to all promoters, celebrities, and other VIPs. The approach drove sales of over 2,600 incremental cases during the promotional period, and helped Absolut secure over 120 million media impressions. One picture – singers John Mayer and Jessica Simpson, then a new couple, hanging out together in a club and drinking a bottle of Level Vodka – made all the major gossip magazines.

Demand for Strategic Group's marketing services was strong from its inception. As Tepperberg and Strauss developed their portfolio of businesses, Strategic Group came to encompass a wide variety of activities. As of May 2008, it consisted of two separate companies. One was Strategic Hospitality Group (SHG), which covered Tepperberg and Strauss' ownership and management of Marquee, their management of TAO Las Vegas, LAVO, and the planned TAO Miami, among other things. Marquee had 110 employees, TAO Las Vegas just over a 1,000, and LAVO around 400. The other company was Strategic Marketing Group (SMG), a full-service marketing, special-events, public-relations, and consumer-promotions company.

In January 2005, Strauss and Tepperberg brought on Seth Rodsky as a partner tasked with running the marketing and events portion of Strategic Group. A former Creative Artists Agency (CAA) agent, Rodsky had been responsible for marketing brands such as Coca Cola through movies, music and television. By May 2008, Strategic Marketing Group had 45 full-time employees, of which 25 were located at the main office in New York City and the others were distributed across other offices nationwide.

The company strived to have a presence at all major entertainment events in the country. It hosted annual parties for loyal Marquee customers and other VIPs at, among other events, the Super Bowl, the NBA all-star weekend, the film industry's Academy Awards, Sundance and Tribeca Film Festival, the music industry's Grammy and Billboard awards, the television upfront market, and New York City's fashion week (see **Exhibit 6**).

Strategic Group generated \$23 million in gross revenues in 2007, which came on top of the income generated through Marquee and TAO Las Vegas.

Last Call for Marquee?

By all measures, Tepperberg and Strauss' run with Marquee had been a tremendous success, for a much longer time than was to expected of a New York City nightclub. Strauss commented:

Five years is almost unheard of in New York City nightlife. We've had iconic events, top celebrities, and great press, and we think we've made a significant contribution to the nightlife culture. Marquee really was the staple. If we were open five nights a week, people were going out five nights a week. And based on our success with Marquee, a whole neighborhood has erupted, everything from restaurants to galleries to a dozen other nightclubs trying to feed off of the energy that we brought to the area.

"Customers know what they are going to get when they go out at Marquee. It has stayed socially acceptable," added promoter Jonathan Schwartz. "But it is getting a bit of a struggle to keep a constant flow of people. They have other options. Some just want to go to the hottest club around."

The nightlife impresarios were well aware that the sizzle could quickly subside, and that it was increasingly difficult to maintain profitability. "If you run a nightclub, you know that the longer you are open, the higher your costs will be," said Tepperberg. "The rent goes up every year, and payroll and professional fees are going up even faster" (also see **Exhibit 3**). Tepperberg wondered more and more what the best course of action was.

We can ride it out. We can continue as we are, operate the business every day, go to work every day, try to keep doing the nearly impossible by staying in business longer than most nightclubs, and fix any problems that come our way. We could also take our team and move on to

a new place, a new challenge – there are many pros and many cons to doing that. Or we could put the club up for sale, and take an offer with a good price.

What was the best way forward? And when was the right moment to take action?

Exhibit 1 Selected Impressions of Marquee



Source: 10th Avenue Hospitality Group, LLC.

Exhibit 1 (continued) Selected Impressions of Marquee



Source: 10th Avenue Hospitality Group, LLC.

Exhibit 2a Estimated Construction and Opening Budget for Marquee

Item	Total Costs
Legal/Licensing/Security	\$200,000
Design/Architecture	\$100,000
Audio/Visual	\$150,000
Construction	\$1,650,000
Operating Capital	\$100,000
Total	\$2,200,000

Source: 10th Avenue Hospitality Group, LLC.

Exhibit 2b Rent Costs for Marquee^a

Year	Effective Date	Monthly Rent	Annual Rent
1	January 1, 2003 – July 31, 2003	Free	Free
	August 1, 2003 – December 31, 2003	\$16,667	\$83,333
2	January 1, 2004 – December 31, 2004	\$16,667	\$200,000
3	January 1, 2005 – December 31, 2005	\$18,750	\$225,000
4	January 1, 2006 – December 31, 2006	\$19,313	\$231,750
5	January 1, 2007 – December 31, 2007	\$19,892	\$238,703
6	January 1, 2008 – December 31, 2008	\$20,489	\$245,864
7	January 1, 2009 – December 31, 2009	\$21,103	\$253,239
8	January 1, 2010 – December 31, 2010	\$21,736	\$260,837
9	January 1, 2011 – December 31, 2011	\$22,388	\$268,662
10	January 1, 2012 – December 31, 2012	\$23,060	\$276,722
11	January 1, 2013 – December 31, 2013	\$23,752	\$285,023
12	January 1, 2014 – December 31, 2014	\$24,465	\$293,574
13	January 1, 2015 – December 31, 2015	\$25,198	\$302,381
14	January 1, 2016 – December 31, 2016	\$25,954	\$311,453
15	January 1, 2017 – December 31, 2017	\$26,733	\$320,796

Source: 10th Avenue Hospitality Group, LLC.

^a Amounts are rounded to the nearest dollar.

Exhibit 2c Projected Income for Marquee^a

Item	Year 1	Year 2	Year 3
Revenues			
Door	\$364,000	\$364,000	\$780,000
Tables	\$1,243,000	\$1,885,000	\$2,080,000
Bar	\$3,955,000	\$5,421,000	\$5,951,000
Special Events/Miscellaneous Revenues	<u>\$927,000</u>	<u>\$1,187,000</u>	<u>\$1,187,000</u>
Total Revenues	\$6,488,000	\$8,857,000	\$9,998,000
Beverage Revenues	\$5,562,000	\$7,801,000	\$8,031,000
Costs of Goods Sold (18%)	\$1,001,000	\$1,404,000	\$1,446,000
Gross Profit	\$5,487,000	\$7,453,000	\$8,552,000
Other Expenses			
Bar Supplies	\$36,000	\$36,000	\$36,000
Credit Card Discounts	\$137,000	\$187,000	\$210,960
Decorations and Flowers	\$24,000	\$24,000	\$24,000
Insurance	\$102,000	\$102,000	\$102,000
Legal and Accounting Fees	\$21,000	\$21,000	\$21,000
Payroll Expenses	\$1,818,000	\$2,089,000	\$2,261,000
Promotional Expenses	\$156,000	\$156,000	\$156,000
Rent	\$200,000	\$225,000	\$225,000
Repairs & Maintenance	\$12,000	\$12,000	\$24,000
Utilities	\$67,000	\$67,000	\$67,000
Miscellaneous Expenses ^b	<u>\$92,000</u>	<u>\$92,000</u>	<u>\$92,000</u>
Total Other Expenses	\$2,664,000	\$3,005,000	\$3,213,000
Depreciation	\$300,000	\$500,000	\$300,000
Net Income	\$2,522,000	\$3,948,000	\$6,485,000

Source: 10th Avenue Hospitality Group, LLC.

^a Amounts are rounded to the nearest thousand dollars. Columns therefore may not add up.

^b Includes banking expenses (\$3,000), cleaning (\$3,000), data processing (\$12,000), equipment rental (\$9,000), exterminator (\$3,000), licensing and permits (\$9,000), linen (\$10,000), office supplies (\$3,000), payroll expenses (\$4,000), printing (\$12,000), rubbish removal (\$12,000), violations (\$6,000), and website (\$6,000). All these items are under \$20,000 each year.

Exhibit 2d Total Annual Revenues Projections for Marquee—Year 1

Day	Door Admits	Door Covers	Table Covers ^a	Average Table Spend/Person ^b	Beverage Sales Per Table ^c	Bar Sales	Total Revenues
Standard Projections							
Monday	125	0	0	-	-	\$2,500	\$2,500
Tuesday	350	0	35	\$20.00	\$700	\$7,875	\$8,575
Wednesday	350	0	35	\$20.00	\$700	\$7,875	\$8,575
Thursday	800	0	120	\$62.50	\$7,500	\$17,000	\$24,500
Friday	800	\$3,000	120	\$62.50	\$7,500	\$20,400	\$30,900
Saturday	800	\$4,000	120	\$62.50	\$7,500	\$20,400	\$31,900
Sunday	--	--	--	--	--	--	--
Weekly Total	3,225	\$7,000	--	--	\$23,900	\$76,050	\$106,950
Yearly Total (52 weeks)	172,900						\$5,561,400
Special Event Projections^d							
Holiday Sundays							\$80,000
Big Events							\$120,000
Holiday Season Private Parties							\$200,000
Other Private Parties							\$330,000
Yearly Total							\$730,000
Miscellaneous Revenues							
Sponsorship							\$100,000
Coat Check ^e							\$96,750
Total Projected Annual Revenues							\$6,488,150

Source: 10th Avenue Hospitality Group, LLC.

^a The venue shall seat a maximum of 120 people for bottle service.^b The expected average table spend per person on Tuesdays and Wednesdays (\$20) is based on the purchase of cheaper bottles and more people sharing a bottle (i.e. champagne and wine at \$1-200 per bottle). The projection for Thursday, Friday and Saturday (\$62.50) is based on a house policy of one bottle of alcohol or a \$250 minimum for every 4 people.^c Bar sales for Monday = (door admits) * (2.0 drinks per person) * (\$10 per drink); bar sales for Tuesday through Thursday = (door admits - table covers) * (2.5 drinks per person) * (\$10 per drink) + (table sales); bar sales for Friday and Saturday = (door admits - table covers) * (3 drinks per person) * (\$10 per drink) + (table sales). The venue will be closed on Sundays during the first year.^d Big events are New Year's, Thanksgiving, Christmas Eve, and Halloween. The projection for holiday season private parties is based on a 3-week holiday season. The other private parties are based on \$30,000 per month for 11 months, and includes all parties of 20 people or more and daytime events.^e The coat check estimate assumes 50% of all patrons will check 1 piece per night, seasonally.

Exhibit 3 Marquee's Income Statement for 2006 and 2007^a

Item	2006	2007
Revenues		
Door	\$1,120,000	\$997,000
Drinks ^b	\$12,388,000	\$12,782,000
Special Events/Miscellaneous Revenues	\$1,231,000	\$1,415,000
Total Revenues	\$14,740,000	\$15,195,000
Expenses		
Drinks	\$1,746,000	\$1,798,000
Juice, Water, Food, and Groceries	\$208,000	\$283,000
Total Cost of Goods Sold	\$1,954,000	\$2,080,000
Payroll Expenses	\$1,372,000	\$1,988,000
Promotional Expenses	\$2,667,000	\$3,200,000
Other Expenses ^c	\$4,940,000	\$5,100,000
Total Other Expenses	\$8,980,000	\$10,289,000
Total Expenses	\$10,933,000	\$12,369,000
Net Income^d	\$3,381,000	\$2,412,000

Source: 10th Avenue Hospitality Group, LLC.

^a Amounts are rounded to the nearest thousand dollars. Columns therefore may not add up.

^b Includes beer, beverages, liquor, and wine.

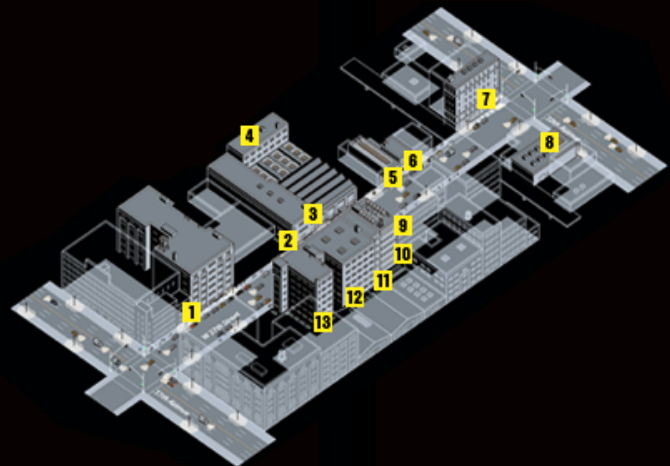
^c Items over \$50,000 include banquet exchange, comps, insurance, legal and accounting fees, merchant fees, music and entertainment, office expense, outside services rent, repairs and maintenance, restaurant supplies, security, and utilities.

^d After depreciation and amortization, interest income and expenses, and taxes.

Exhibit 4 Marquee and “Club Row”: Clubbing in Chelsea, Manhattan

CLUB ROW

Every bar, lounge, and club on West 27th Street between Tenth and Eleventh Avenues.



1 Pre:Post
Gary Malhotra,
Carlo Seneca
FEBRUARY 2006
The place for before and after the party, a restaurant-lounge that turned the street itself into a brand—by naming a cocktail for each of its neighbors on the block.

4 Crobar
(becoming Studio Mezzmor on February 17)
Bruce Dunston
DECEMBER 2003
The city's biggest club, Crobar, anchored the neighborhood, but it crested and fell with the big-name-D.J. era.

2 Scores West
Elliot Osher,
Richard Goldring
MARCH 2003
Two years after Bungalow 8, Scores invested in Chelsea, too—and didn't just rent: It bought the building.

5 Bungalow 8
Amy Sacco
APRIL 2001
A tiny club for an exclusive crowd, Bungalow 8 ushered in the street's velvet-rope era and reigned over the A-list for five years.

3 Pink Elephant
David Sarnier
MARCH 2006
Carved out of Crobar, this house club's lavish décor and bottle service endear it to the St.-Tropez set.

6 Naima
Roberto Vuotto,
Samir Jahdadic
JULY 2005
This restaurant for the gallery crowd stands apart. It focuses on wine and becomes a lounge Thursday through Saturday.

7 Brite Bar
John Libonati,
Chris Schutte
JUNE 2003
A gay-straight bar that serves caffeinated vodka “Fother Muckers” and offers a view through giant windows at the cops who barricade the street on the weekend.

8 Marquee
Noah Tepperberg,
Jason Strauss
DECEMBER 2003
Everyone from Jay-Z to Britney Spears swung by as Marquee became the ultimate club for the aughts.

9 B.E.D.
(sixth floor and roof)
Oliver Hoyos
JANUARY 2005
The Miami chain attracts an outer-borough clientele, but it was shuttered two weeks ago, when a Bronx man celebrating his 35th birthday died in a scuffle.

10 Spirit
(defunct)
Robbie Wootton
NOVEMBER 2003 TO AUGUST 2006
Spirit failed, rented its upper floor to two more clubs, and became the site of a Saturday-night hip-hop party that first brought a major police presence to the street.

11 Home (second floor)
Jon B
JULY 2005
Carved out of Spirit's cramped second floor, Home has no dance floor. It's all tables—which means more money for the owner.

12 Guest House
(second floor)
Jon B
AUGUST 2005
A festive home for big-name D.J.s, Home's companion club attracted the young crowd ultimately blamed for bringing down the block.

13 Cain
Jamie Mulholland,
Jayma Cardoso
OCTOBER 2004
As much a luxury brand as a club: a safari-themed “game lodge” where bankers hunt models and the owners push bottles.

Source: New York Magazine, “The Short, Drunken Life of Club Row,” February 11, 2007, By Isaiah Wilner.

Exhibit 5 Partying at Marquee: Forms to Complete

MARQUEE Bottle Minimum: _____

I, the customer, agree to meet the bottle minimum set forth by the host for this night.

This does not include tax or the 20% gratuity charge.

Host: _____ Time: _____

of People: _____ Table#: _____

Customer Name: _____ Customer Signature: _____

The envelope that customers sign when they sign up for a table. Their credit card is stored in this envelope.

MARQUEE

I _____

confirm that I am signing for an additional gratuity and agree to pay the amount of,

\$ _____

Signature: _____

CT Server: _____ DATE: ___/___/___

An additional form they complete when they order a bottle.

MARQUEE

Customer Name _____

Date: ___/___/___ Type of Liquor: _____

Amount in 10th's left in bottle: _____ / 10

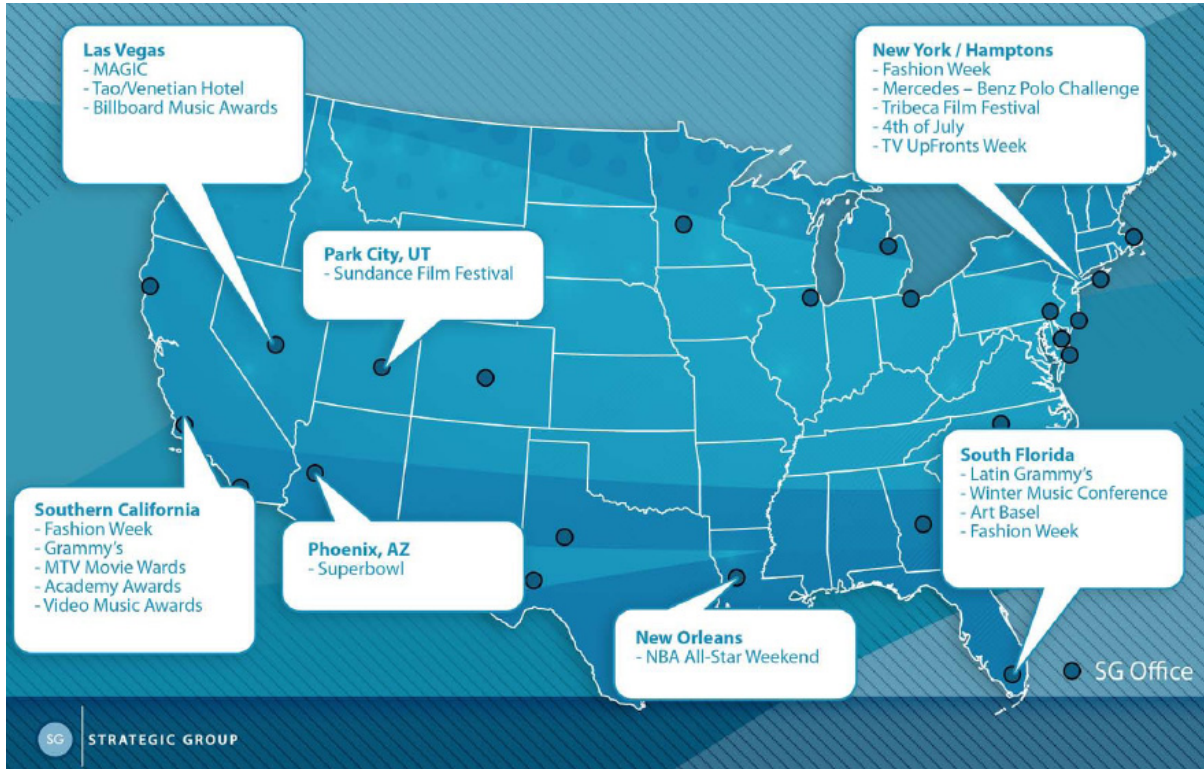
Please call 646-473-0202 to make your reservation.

Stored bottles are kept for 7 days from the above date and redeemable only with valid ID. Customer must meet bottle minimum set for that night.

A receipt they receive when they store an opened bottle.

Source: 10th Avenue Hospitality Group, LLC.

Exhibit 6 Strategic Group: Selected Activities Across the U.S. in 2008



Source: 10th Avenue Hospitality Group, LLC.

Endnotes

¹ Conde Nast Portfolio, "World According to ... Noah Tepperberg," April 17, 2008.

² Audience Research & Analysis, "The \$9 Billion Economic Impact of the Nightlife Industry on New York City: A Study of Spending by Bar/Lounges and Clubs/Music Venues and their Attendees," Prepared for the New York Nightlife Association, January 2004. This report is based on sources such as the Time Out New York Bars & Clubs guide and the New York City Nightlife Zagat Survey. Among the nightlife spots studied (the majority of which were bars and lounges) were about 60 dance clubs and another 60 music venues.

³ Audience Research & Analysis, "The \$9 Billion Economic Impact of the Nightlife Industry on New York City: A Study of Spending by Bar/Lounges and Clubs/Music Venues and their Attendees," Prepared for the New York Nightlife Association, January 2004.

⁴ Audience Research & Analysis, "The \$9 Billion Economic Impact of the Nightlife Industry on New York City: A Study of Spending by Bar/Lounges and Clubs/Music Venues and their Attendees," Prepared for the New York Nightlife Association, January 2004.

⁵ Audience Research & Analysis, "The \$9 Billion Economic Impact of the Nightlife Industry on New York City: A Study of Spending by Bar/Lounges and Clubs/Music Venues and their Attendees," Prepared for the New York Nightlife Association, January 2004.

⁶ Forbes, "Flaming Out Never Felt So Good," August 22, 2006.

⁷ Forbes, "Flaming Out Never Felt So Good," August 22, 2006.

⁸ Forbes, "Flaming Out Never Felt So Good," August 22, 2006.

⁹ Forbes, "The Science of a Sizzling Club," August 22, 2006.

¹⁰ The New York Times, "Club Stays Hot at Ripe Old Age of 2", November 3, 2005.

¹¹ New York Magazine, "The Short, Drunken Life of Club Row," February 11, 2007.

¹² Forbes, "The Science of a Sizzling Club," August 22, 2006.

¹³ The New York Times, "Club Stays Hot at Ripe Old Age of 2", November 3, 2005.

¹⁴ The New York Times, "Club Stays Hot at Ripe Old Age of 2", November 3, 2005.

¹⁵ Goodnight Mr. Lewis, "Marquee: Wass, The Most Powerful Doorman In The Universe," February 27, 2008. [www.goodnightmrlewis.com/2008/02/marquee-wass-th.html, accessed on December 10, 2008.]

¹⁶ Goodnight Mr. Lewis, "Marquee: Wass, The Most Powerful Doorman In The Universe," February 27, 2008. [www.goodnightmrlewis.com/2008/02/marquee-wass-th.html, accessed on December 10, 2008.]

¹⁷ Goodnight Mr. Lewis, "Marquee: Wass, The Most Powerful Doorman In The Universe," February 27, 2008. [www.goodnightmrlewis.com/2008/02/marquee-wass-th.html, accessed on December 10, 2008.]

¹⁸ Forbes, "The Science of a Sizzling Club," August 22, 2006.

¹⁹ The New York Times, "Setting Restaurant Records by Selling the Sizzle," July 22, 2007.

²⁰ TAO Night Club, Website. [www.taolasvegas.com, accessed on December 10, 2008.]