

HUMMUS BAR: DIPPING INTO INTERNATIONAL MARKETS

Ilan Alon, Yusuf Akbar and Jennifer Dugosh wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Hummus, meaning “chickpea” in Arabic, had unclear origins. Some historians suggested that ancient Egyptians were the first to mash chickpeas and mix them with vinegar. The earliest known recipe of a modern hummus-like food dated to the 13th century. Much debate surrounded the nationality of the dish, particularly between the Lebanese and the Israelis. This controversy was dubbed “The Hummus Wars” and had been ongoing for many years. Despite the debate, hummus was gaining popularity around the globe.¹ Uri Gotlibovich, founder and chief executive officer (CEO) of Hummus Bar, pondered the company’s position in the international marketplace and considered its growth opportunities. It was 2012. Gotlibovich understood that expanding internationally required prioritizing the markets but struggled to identify and select the most promising markets. Was international expansion the way to go, or should he consider pursuing his concept through domestic growth? Gotlibovich also wanted to ensure that the company executed the most appropriate entry strategy. He wanted to recruit and involve additional investors, both to spread risk and to enhance the brand through diversified skill sets. As he finished his lunch, Gotlibovich pulled out his cellphone and selected his business partner’s number.

GOTLIBOVICH’S STORY

Gotlibovich was born in 1973, in Hod Hashharon, a city in the Central District of Israel; however, he had spent most of his early life in Raanana, Israel. In 1994, at age 19, he started his first business venture in Raanana as the second franchisee for a store concept called Happening. Happening was an Israeli pop shop that sold balloons, greeting cards and games. A year later, Gotlibovich opened a second shop in Petach Tikva, Israel. The franchising model, which involved taking 3 per cent of turnover, meant that profitability margins were low. To combat these margins, Gotlibovich integrated backward with the purchase of one of the franchise’s key suppliers. This supplier provided Happening with beanbags, one of the store’s bestsellers. With this purchase, Gotlibovich became a supplier for the Happening outlets and for other shops in the beanbag market. In 2000, recognizing the potential of the beanbags, Gotlibovich sold his Happening shops.

Two years later, Gotlibovich realized another opportunity in the computer and software support industries. He and partners opened a business called PC Doctor, which offered support, sales and network

¹ Ari Ariel, “The Hummus Wars,” *Gastronomica: The Journal of Food and Culture*, Vol. 12, 2012, pp. 34–42.

development for companies and individuals. Part of the business model involved selling or leasing hardware. This venture also turned out to be profitable. By 2003, however, Gotlibovich had to sell all his businesses due to medical issues.

Unexpectedly, a friend of Gotlibovich's encouraged him to travel to Hungary for a visit. There, Gotlibovich was invited to join another business venture, a high-technology company selling entertainment systems to hospitals. Gotlibovich agreed, investing \$300,000,² all of which he eventually lost due to an unsuccessful business model. At the time, Gotlibovich was faced with a huge decision: should he return to Israel or start a new business venture in Hungary?

After deciding to stay in Hungary, Gotlibovich opened a hummus bar because Budapest had no such restaurant. He assumed that the many Israelis who lived in Budapest loved the cuisine, and he could count on them as a market for the hummus bar. He and a partner invested \$20,000 equally to kick-start the business. Gotlibovich knew nothing about the culinary industry or the hummus business, but had a good feeling about the venture. To start, Gotlibovich and only one other employee worked 14-hour days.

THE HUMMUS BAR CONCEPT

Gotlibovich's first Hummus Bar location was a small location, close to many bars and clubs frequented by young people in Budapest's up and coming seventh district. The original idea was for a small, cozy vegan restaurant that made good food and offered good service. Surprisingly, this commitment to service was unusual for a typical restaurant in Hungary. Service quality in restaurants in Hungary was a problem across numerous dimensions: efficiency, friendliness, consistency, to name a few. For example, one of McDonald's restaurants located in the downtown area of Budapest introduced a stopwatch policy — guaranteed service time of five minutes or less during the slowest time of the day. The location could not, however, meet the guarantee, and it quickly abandoned the policy.

Initially, Hummus Bar's food was not very appetizing due to Gotlibovich's lack of culinary experience. Luckily, a neighbouring entrepreneur knew how to prepare delicious dishes. Despite initial success, the new partnership soon became strained. Gotlibovich bought him out and brought in another partner, named Aviad.

It took about six months before the restaurant attracted enough customers to earn a profit. Clearly, the Hummus Bar concept had potential. In 2007, Gotlibovich opened a second restaurant, this time in the fifth district near the Hungarian Parliament. Gotlibovich asked his partner to co-invest; however, Aviad declined because of his recent engagement. Unlike the first location, this second restaurant was very successful from the start. Within two months, it generated positive cash flow.

Gotlibovich's focus soon turned to creating a chain of Hummus Bar restaurants. A direct implication of this focus was the establishment of a central kitchen to maximize consistency. Coincidentally, Gotlibovich lived in the fifth district. On the ground floor of his building was an Indian restaurant that was vacating. Gotlibovich rented the location for his central kitchen. The third Hummus Bar was opened in 2008 with an investment of roughly \$215,000.

Gotlibovich approached Aviad again, proposing that he invest in the chain. He offered 25 per cent of the business for €180,000, approximately \$257,000. This time, Aviad agreed and again became a partner. The year that followed was difficult, due to street renovations that significantly slowed foot traffic to the

² All currency amounts are shown in U.S. dollars unless otherwise noted.

restaurant; however, the business quickly picked up following the overhaul. Based on the growing success of the business, Gotlibovich and Aviad opened a fourth restaurant in 2010 near one of Budapest's biggest universities.

By the end of 2011, Gotlibovich had opened a fifth restaurant in the 13th district with a new partner and former customer, Pavel Mintz. Mintz invested approximately \$57,000 for 30 per cent of the fifth outlet. Mintz had moved to Hungary to study in 2006. He became friends with Gotlibovich through being a regular customer of Hummus Bar. After graduation, Mintz had married a Hungarian woman and decided to stay, making an investment in the business a reasonable decision. Following the rapid success of Hummus Bar in Budapest, Gotlibovich's concentration turned to international expansion, particularly in Europe (see Exhibit 1).

THE EMERGENCE OF A FRANCHISE MODEL

Hummus Bar's growth had been financed by direct ownership through partnerships. In 2010, Gotlibovich considered the idea of a franchise model. A franchise contract was first drafted in late 2010, before the sixth restaurant was opened, when Gotlibovich was approached by the general manager of a hotel in the 9th district that was part of the Leonardo Hotels chain. The hotelier wanted to use the copyrighted Hummus Bar name (see Exhibit 2). Gotlibovich agreed to let the hotel use the name and created the Hummus Bistro at the Leonardo Hotel — a restaurant that combined traditional hotel foods with Hummus Bar recipes. The "bistro" model required the hotel to buy food from Gotlibovich. Hummus Bar earned a percentage of restaurant turnover but charged no franchise fee. Additionally, employees of the Hummus Bistro at the Leonardo Hotel were required to wear the same clothes as the staff of the Hummus Bar restaurants.

In April 2012, the first "real" franchise contract was signed with Amir Degani, an Iranian entrepreneur who opened a Hummus Bar restaurant in Budapest's 11th district. The franchise fee for this contract was Ft3 million, equivalent to €10,000, or roughly \$14,000, with Degani being obliged to buy ingredients, and pay 2 per cent of revenues for marketing and a management fees. In August 2012, a seventh shop was scheduled to be opened. Mintz took 24 per cent ownership in this restaurant, for just over \$37,000. By August 2012, Hummus Bar had seven restaurants and a joint-venture bistro in Budapest.

COMPETITION

Hummus Bar was in an excellent competitive position in Budapest. The only direct competition was a small chain called Hummus Point, whose founders, Boaz and Merav Kening, were regulars at Hummus Bar. When the West End Shopping Mall in central Budapest approached Gotlibovich to open a Hummus Bar in its food court, the Kenings approached Gotlibovich for a partnership. In 2008, both parties made an agreement to open in the West End Shopping Mall. Omer Dar was appointed manager and registered owner; however, the partnership did not work out and was eventually dissolved.

Based on company research, Gotlibovich and Mintz identified the following 11 cities as having the highest potential for Hummus Bar:

- Bratislava, Slovakia
- Ljubljana, Slovenia
- Warsaw, Poland
- Prague, Czech Republic
- Zagreb, Croatia

- Belgrade, Serbia
- Debrecen, Hungary
- Athens, Greece
- Sofia, Bulgaria
- Istanbul, Turkey
- Berlin, Germany

THE FUTURE OF THE BAR

To successfully internationalize, Gotlibovich and Mintz knew it would be vital to evaluate certain factors in each potential market. They identified eleven factors to help them make the international selection decision (see Exhibit 3):

1. Gross domestic product (GDP) per capita (country level)
2. Median monthly disposable income of residents (city level)
3. Unemployment rate (country level)
4. Population (city level)
5. Urbanization rate (country level)
6. Prevalence of dining out (city level)
7. Percentage/number of vegetarians (city level)
8. Meat consumption per capita (country level)
9. Expenditure of vegetarian foods per person (city level)
10. Ease-of-doing-business rank (country level)
11. Corruption index score (country level)

International expansion led to some uncertainty, especially when researching at the city level. This uncertainty was due to the difficulty of finding information at the city level. Gotlibovich and Mintz had identified cities for entry, not countries. Ideally, they would want to collect city-level information, which would make the information set more accurate; however, city-level information was not possible for many of the factors selected.

Hummus Bar's great success led to numerous questions. On a strategic level, Gotlibovich and Mintz recognized that Budapest offered limited growth opportunities. Should they consider other cities in Hungary, or should they internationalize the Hummus Bar concept by expanding into select European cities? Maybe a combination of both would be the best option. What criteria should Hummus Bar use to select countries and locations for expansion? What kind of entry mode should they execute — master franchising, area franchising, direct franchising, licensing or something else? Evidence from the Budapest outlets suggested that meat dishes were more popular and profitable. Should Hummus Bar focus on a meat-based menu for its franchises or stay closer to one of the core values of Hummus Bar, which was healthy eating? Did the decision to include meat on the menu vary by market? As Hummus Bar expanded, Gotlibovich and Mintz saw a greater need for higher investments in branding. How should they develop the strategy and what channels should they consider?

Many more questions surfaced as Gotlibovich paced the restaurant. After the phone rang twice on Gotlibovich's end, Mintz answered.

Mintz: Hello?

Gotlibovich: Mintz . . . I'd like to get a move on the expansion plans we've been discussing. When can we talk?

Mintz: Glad to hear it. I will be in the office this afternoon. . . .

EXHIBIT 1: HUMMUS BAR'S MARKETING POLICIES

Product	The Hummus Bars were divided into four types of restaurants: two were vegetarian, one was full service (including lafa — a flat bread served with the entrees and meat options), three were limited service (without the lafa) and one was a bistro licence, offering a Hummus Bar's full menu combined with hotel foods and services. In addition to the variety of food, some products, such as T-shirts, were offered at all the restaurants
Price	The average customer spent €5.00.
Placement	Gotlibovich avoided opening restaurants near the many Turkish fast-food outlets in Budapest and on Budapest's main ring road, which circled the centre of the city.
Promotion	Hummus Bar relied heavily on social media for market research and promotional efforts. The company had 10,000 subscribers to Facebook. Of these, 27 per cent were male between the ages of 20 and 35. Most subscribers were Hungarians, but some were international. Tourists wrote many reviews on the Facebook page. To supplement social media and to help promote the brand, Gotlibovich sold T-shirts with the store's slogan, "Hummus is sexy."
Target Market	Gotlibovich sought out middle- and upper-income customers and consumers seeking alternatives to Italian, American and Hungarian cuisine.
Personnel	Hummus Bar's wait staff were paid a low fixed salary of €1.60 per hour and pooled their tips. Each staff member took home approximately €10 to 15 in tips per shift. All staff received a labour contract with a 30-day notice provision. Hummus bar provided uniforms. No formal training was offered for wait staff; they were expected to learn on the job. Training was, however, in the company's future plans.

Source: Company files.

EXHIBIT 2: BASIC ELEMENTS OF HUMMUS BAR'S FRANCHISE AGREEMENT

1. The restaurant must bear the name "Hummus Bar" and the company rents the location for the franchisee;
2. The franchisee must buy all the products from the company — nothing outside the standard menu could be sold without permission;
3. Due to the Hungarian legal system, a contract must be signed and notarized because immediate execution of all contract clauses is considered easier with a unilateral declaration;
4. The franchisee must pay two (2) per cent of total revenues for corporate marketing costs (websites, Facebook, etc.);
5. The franchise must bear all expenses of fitting out the restaurant (typical expenses amounting to €50,000);
6. The franchisee must provide a deposit of €5,000 and;
7. The franchisee must pay a franchise fee of €10,000. The franchise duration is equal to the length of the rental contract that is typically ten (10) years in duration. If Gotlibovich decides to sell the chain, the franchisor is required to pay the equivalent of two (2) years food cost from Hummus bar (this was also equal to the price of buying out the franchise rights).

Source: Company files.

EXHIBIT 3: HUMMUS BAR'S FACTORS IN ITS MARKETING SELECTION DECISION

Factor	Level	Unit of Measure (if applicable)	Bratislava, Slovakia	Ljubljana, Slovenia	Warsaw, Poland	Prague, Czech Republic	Zagreb, Croatia	Belgrade, Serbia	Debrecen, Hungary	Athens, Greece	Sofia, Bulgaria	Istanbul, Turkey	Berlin, Germany
GDP per capita	Country	US dollars (\$)	\$ 23,300	\$ 28,800	\$ 20,200	\$ 27,100	\$18,000	\$ 10,400	\$ 19,600	\$ 26,300	\$ 13,800	\$ 14,400	\$ 38,100
Median monthly disposable income (after taxes)	City	US dollars (\$)	\$1,137.13	\$ 1,268.69	\$1,088.25	\$ 1,161.13	\$882.28	\$ 557.81	\$ 593.40	\$1,070.24	\$ 547.20	\$ 1,129.94	\$2,781.70
Unemployment rate	Country		12.80%	12.30%	12.60%	8.60%	19.00%	25.90%	11.20%	24.40%	9.90%	9.00%	6.50%
Population	City	# of people	5,397,036	280,607	1,708,491	1,268,796	790,017	1,659,440	208,016	3,089,698	1,296,615	13,624,240	3,501,872
Urbanization rate	Country	% of population	0.1%	0.2%	-0.1%	0.3%	0.4%	0.6%	0.3%	0.6%	-0.3%	1.7%	0.0%
Prevalence of dining out	City	# of Subway locations in city	6	0	25	6	0	0	1	0	19	9	29
Ease of doing business rank	Country	Rank out of 183 countries (1 - 185)	46	35	55	65	84	86	54	78	66	71	20
Corruption index score	Country	0 - 10: 0 = Highly corrupt, 10 = Clean	4.0	5.9	5.5	4.4	4.0	3.3	4.6	3.4	3.3	4.2	8.0
Meat consumption per capita	Country	Average pounds per person	130.4	185	168.8	188.6	110.5	181.5	176.7	167	99.9	53.8	193.7
Expenditure of vegetarian foods per person	City	US dollars (\$) spent per person (total dollars spent/population)	\$ 8.06	\$ 56.84	\$ 55.99	\$ 53.48	\$ 30.32	-	\$ 34.66	\$ 27.52	\$ 15.98	\$ 11.46	\$ 98.89
Expenditure of vegetarian foods per Year	Country	US dollars (mil.)	43.5	15.95	95.65	67.85	23.95	-	7.21	85.02	20.72	156.19	346.29

Note: GDP = gross domestic product

Sources: (1) CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/>, accessed February 18, 2013.

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(5) Philip Parker, *The 2009 Report on Vegetarian Foods: World Market Segmentation by City*, Insead, Icon Group International, San Diego CA, USA, 2009

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