

LAB University of Applied Sciences  
Faculty of Tourism and Hospitality, Lappeenranta  
Degree Programme in Hotel, Restaurant and Tourism Management

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## **Marketing Plan for a “Tangiers Lounge” Hookah Lounge in the US, California.**

Thesis 2020

## **Abstract**

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Marketing Plan for a “Tangiers Lounge” Hookah Lounge in the US, California 46 pages, 1 appendix (confidential)

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The main objective of the research was to study the key aspects of developing a marketing plan and to create as the result a clear marketing guideline for the ART Hookah Family company: the brand that launches its new hookah lounge “Tangiers Lounge” in the US, California, in 2021. The research was accredited and commissioned by the organisation, and the strategic objectives of the marketing plan were discussed with its CEO.

The theoretical framework part of the thesis is composed mainly of excerpts from the lecture materials and related literature as well as of author’s observations and thoughts about the topic. Secondary data proves obviously useful for the theoretical research. However, market analysis and marketing plan imply information that is more specific. The main sources of the primary data for this thesis were interviews with the company’s top-level managers.

The marketing plan in its final purpose should provide the brand improved visibility and increased sales on the settled but still expanding market of hookah lounges in the USA. It is up to the ART Hookah Family company executives to follow or not the predesigned strategy of the marketing plan which is attached as the appendix due to the confidentiality reasons.

Keywords: marketing, marketing plan, hookah lounge, tobacco industry, b2c, USA, California

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# **1 Introduction**

It is very well known that nowadays the industry of marketing is developing gradually all over the world, and the key of success is the good marketing plan.

Moreover, as Brandon Andersen, the marketing expert maintains “Marketing strategy will impact every piece of your business and it should be tied to every piece of your business” (Andersen 2017).

The main idea of this thesis project is to develop a clear marketing strategy for the very strong brand, which is also a great responsibility. The main reason for choosing the topic was my willingness to help one individual company practically. At the same time, I have always been interested in marketing and franchising. Moreover, this company belongs to my husband.

I thought that the best opportunity to discover the industry of marketing would be during the work on my thesis. In my opinion, franchise business is one of the strongest and most competitive ways of doing business nowadays and all business statistics are revealing the same results.

Another significant factor for choosing Art Hookah Family Company as my partner was the fact that now I am graduating as Interior Designer from International Design School in Saint-Petersburg, Russia and at the moment, as my design practice, I am developing interior design for a few of the Tangiers Lounges, which are at the moment under construction in 6 cities across Russia. I am working as the assistant together with the main architect and my partner Ivan Krupin, so I have learnt a lot of things about the company from the inside.

## **1.1 Thesis structure**

The thesis may be logically divided into three main parts. The first part is purely theoretical and covers vital marketing related topics necessary for designing a marketing plan. The second one is also theoretical but at the same time of a more empirical nature as it includes various researches and market analyses. Finally, the third part of the thesis is the marketing plan itself. Sources of

information vary in correlation with the topic; starting with the academic researches for the theoretical part and ending with first-hand knowledge from interviews with the company leaders.

Some elements of a broader concept of the Tangiers Lounge marketing plan (e.g. market analysis and competition analysis) will be described within the body of the thesis while more specific information (including preliminary budgeting, marketing actions etc.) that also constitutes the marketing plan will be enclosed as an appendix.

The author decided to choose the format of a 180-day marketing plan. It is short enough to be effectively tracking the set goals and to embed possibly needed changes, but at the same time long enough to provide more reliable data and the feedback on current marketing actions and decisions.

## **1.2 Aims of the research**

Main goals that the thesis pursues are to research modern USA tobacco and specifically hookah industries and to develop an optimal marketing plan for successful operation of a hookah lounge bar at the initial period after starting the business. Other significant aims of the research intersect with the company's strategic aims. They include brand building, which hopefully will lead to expansion on the market and increase the brand recognition, and creating additional value for the company's offer, which is planned to result in increased revenue and profit.

The need for such research was caused by the upcoming launch of a new hookah lounge Tangiers Lounge by ART Hookah Family in Los Angeles in summer 2021. The company wishes to stay up to date with tendencies on the market and to use most appropriate marketing techniques for this new project.

Due to the fact that the US legislation and specifically tobacco consumption legislation is very complicated and different from the European or Russian, many unobvious aspects must be considered. One chapter of the thesis is particularly dedicated to this issue. Analysis of the data about the target market

and market conditions was among primary reasons for the research as it is a source of any valuable and successful marketing plan.

### **1.3 General background information about the company**

The history of the ART Hookah Family started in 2012 when the company was registered in Beijing, China. The business idea had been inspired by experience and enthusiasm of the company founders who wished to construct and produce an innovative high quality hookah, which later was planned to be sold on Russian market. None of the existing offers on the market were able to satisfy needs. During the planning process, accents were made on the memorable hookah design, quality of the materials, functionality and a possibility to serve various fruit cocktails. The first order for 50 hookahs had been successfully completed and sent to Russia as a test batch. It had a huge success; the Russian market was completely amazed by it and valued all the benefits of the new product. As the result, this had led to the decision in increasing volume of production and starting building the brand, which soon resulted in re-registering the company on the American market and the first international supply contract was signed with the Turkish partners. Word of mouth has started to spread followed by first very positive video reviews by popular hookah and tobacco YouTube channels like “HookahJohn” and “Narguile Club”. (Narguile Club 2013; Hookah John 2013.)

By constantly developing its product, building strong brand name and signing partnerships with foreign companies the ART Hookah Family has finally developed into an international brand with offices in the USA and Russia, several chains of partly franchised hookah lounge bars and a network of dealerships all over the world (ART Hookah Family 2019).

The company uses franchising as the expansion strategy due to its multiple benefits. It allows expanding rapidly and conquering bigger pieces of market in shorter periods while staying within budget limits. At the moment there are in total eleven lounges operating under different brands with one in San Diego, the US, and ten in Russia in Moscow, Saint-Petersburg, Kazan, Krasnodar, Rostov,

Nizni Novgorod and one in Almaty, Kazakhstan. Additionally, there are currently six more hookah lounges under the construction. The one in Los Angeles is still under development. (ART Hookah Family 2019)

## **2 Theoretical framework**

It is needless to say that careful planning of the marketing strategy and marketing plans leads to higher chances of success on a market. In its turn, vast theoretical knowledge might prove very useful for developing the marketing plan and conduction of market researches. In this chapter, the author concentrates on theoretical marketing-related subjects (that are highly recommended for familiarization).

### **2.1 Marketing**

Marketing is a vast complex of processes and techniques that influence relations between a company and a customer. The marketing definition itself has been going through constant updates, and its essence was described by numerous authors in different periods of time. It will be shown by several examples below.

*Marketing is a “total system of business activities designed to plan, price, promote, and distribute want satisfying goods and services to present and potential customers” (Stanton 1984).*

Philip Kotler was considered to be one of the “founding fathers” of modern marketing. In the author’s opinion one the most accurate but short definitions of marketing is the relatively later one which states that marketing is “The process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return.” (Kotler & Armstrong 2011, p.5.)

Another solid source is the American Marketing Association that has a board of qualified researchers who update the definition of marketing every three years in accordance with modern tendencies. Their latest definition is: Marketing is

the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. (American Marketing Association 2017.)

It is worth mentioning that several important marketing features are highlighted in these definitions above: marketing is a process, it is intended to generate value, should be mutually beneficial, and preferably should create long-term relations with customers. In fact, companies use marketing as a link between them and their customers in order to satisfy needs of society in general or of a specific market in particular but also to make profit from this cooperation. A simplified scheme of marketing process as described by Philipp Kotler is shown in the figure 1:

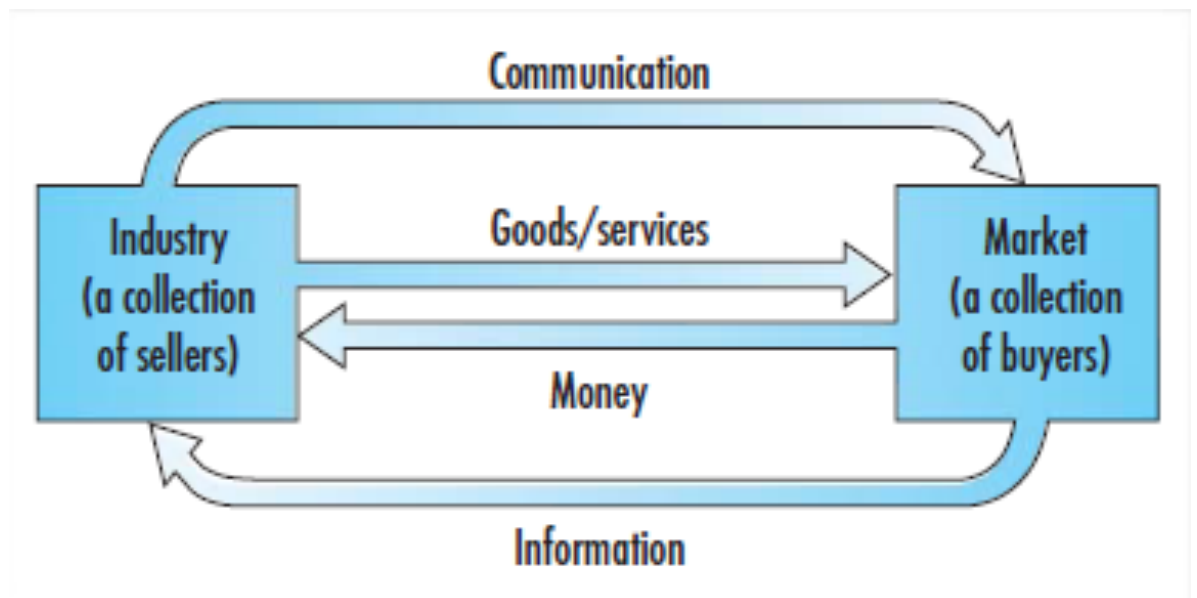


Figure 1. A simple marketing system (Kotler 2002)

To put it simply, marketing is the tool that companies use in order to stimulate customers to buy their products. It may be recognized as total marketing success when customers do not even suspect they are being manipulated and that their buying habits and preferences are being changed and/or stimulated.

## 2.2 Marketing strategy and marketing plan

An ordinary person would likely confuse marketing strategy with marketing plan. Despite seeming similarity of these two concepts, it is necessary to distinguish



them. To start with, marketing strategy is rather a vision of future developments of business, a faraway milestone, as it describes what business goals must be reached and what kind of marketing campaigns would benefit the company. It is essentially a formula for how a business is going to compete, what its goals should be and what policies will be needed to carry out these goals. (Porter 1980.) Business Dictionary provides probably the most detailed definition of marketing strategy, describing it as:

*An organization's strategy that combines all of its marketing goals into one comprehensive plan. A good marketing strategy should be drawn from market research and focus on the right product mix in order to achieve the maximum profit potential and sustain the business. The marketing strategy is the foundation of a marketing plan. (Business Dictionary 2019)*

Marketing strategy serves as a well calculated and a far ahead planning method aimed at increasing revenue while following and supporting the company's mission and business goals. However, it still may be subject to change as any good marketing strategy must be able to face always changing market trends and conditions.

The process of developing a marketing strategy involves thorough analysis of many different aspects of company and market and, as West, Ford and Essam stated in their book, one must answer the four fundamental questions prior to forming a strategy: 1) Where are we now? 2) Where do we want to be? 3) How will we get there? 4) Did we get there? (West, Ford and Essam 2010.)

Contrary to the marketing strategy with only general directions, a marketing plan serves as a manual and detailed guide to action. It answers the question how exactly marketing-related aims of a company will be reached and concentrates on more specific and substantial matters.

Topics covered in a marketing plan may vary depending on the company's business goals but in most cases the plan includes situation analysis, marketing tools, forecast of results, workforce management, etc. However, all this highly likely would not be of big help, if not based on a solid marketing strategy.

Canadian entrepreneur Ryan Holmes once said in an apt manner about the importance of market research and planning out a strategy: If you form a

strategy without doing the research, your brand will barely float – and at the speed industries move at today, brands sink fast (Holmes 2012). Generally saying, implementing a marketing plan without knowing the strategy looks like trying to answer the question “how” without knowing “what” needs to be done.

Thoughtful planning of marketing measures to be taken, calculation of possible outcome and application of appropriate marketing tools become available and effective only on the basis of market research and analysis, which will be described in the chapters below.

### **2.3 Strategic analysis tools**

There are numerous models and techniques for conducting a market analysis and all of them have their distinct positive features. Due to the importance of careful analytical research and the impact, it will certainly have on future state of business, several different strategic analysis tools may be used at once in order to cover all important aspects of the target market.

In the author’s opinion, the most widely known strategic planning technique is nowadays the SWOT concept. SWOT is the acronym for the company’s strengths, weaknesses, opportunities and threats. Strengths and weaknesses in this model are considered as default internal factors of the business that can hardly be changed while opportunities and threats are variables that depend on external factors.

This analytical tool had proven to be highly effective, structured and simple for understanding, hence was added into every marketing university or college program. It provides a thorough overview of external and internal factors that may influence the course of affairs of the analysed company.

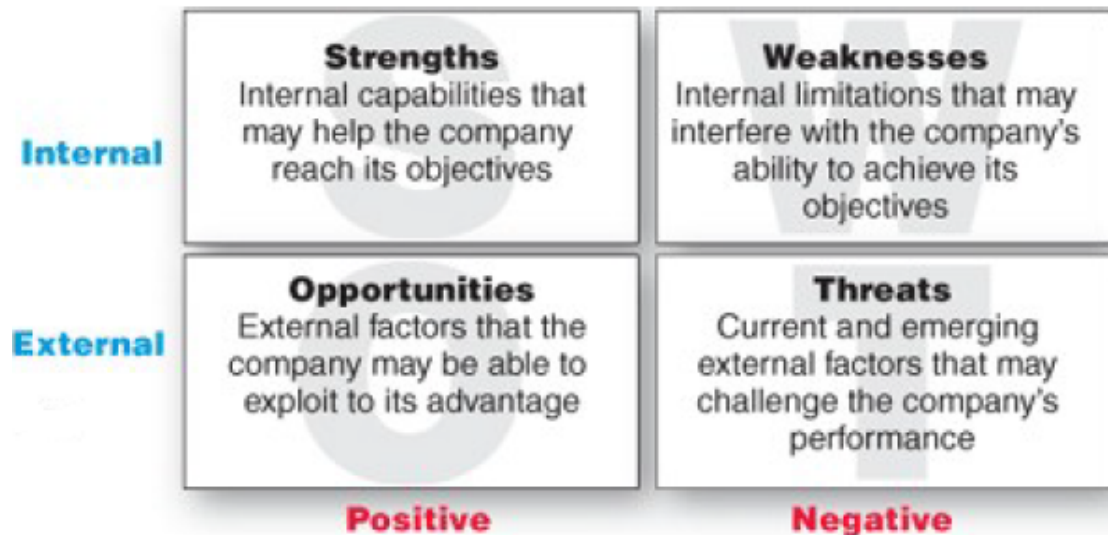


Figure 2. The SWOT analysis scheme (Kotler & Armstrong 2011)

The author's idea for the Tangiers Lounge marketing plan was to enhance SWOT analysis with PESTEL analysis as it provides even broader overview of possible opportunities and threats according to the figure 2. This decision had been made as some kind of insurance for the SWOT analysis due to the fact that the legal component concerning usage of tobacco is undergoing constant changes and the social factor plays a huge role in this kind of business. The acronym stands for political, economic, social, technological, environmental and legal issues. All of them have external nature and must be considered when planning both strategic campaigns and operative marketing plans.

#### 2.4 Marketing tools and marketing mix

Depending on a situation and company's strategic aims, marketers use different marketing tools to meet desired objectives. Nowadays, there exist numerous techniques and the new ones are being invented and implemented, as the market develops and new marketing channels appear.

Any technique that helps a company to influence customers, boost sales, improve its brand recognition or simply get any advantage via marketing may be considered as a marketing tool. In its turn, "marketing mix is the set of marketing tools that the firm uses to pursue its marketing objectives in the target market" (Kotler 2002).

The concept of marketing mix dates back to mid-20th century and is the result of work of three American academics. To make a long story short, James Culliton was the first thinker who presented business owners as "artists" and "mixers of ingredients" (Culliton 1948). This served as a source of inspiration for Neil Hopper Borden who was a colleague of Culliton and was the first who started popularising this term in lectures and his works. Borden later developed his broad and detailed concept of marketing mix consisting of 12 elements (Borden 1964).

In his days, professor Borden had massive influence on the marketing business and played a great role in popularisation of the marketing mix. Nevertheless, his concept had little success and did not manage to become the cornerstone of marketing for the two basic reasons. First, it was a little bit too bulky, not so specific and less applicable to ever-changing market conditions. Second, several years prior to Borden's publications, Edmund Jerome McCarthy had developed and documented in his book the concept of 4P's (McCarthy 1960), which happened to be a true revolution in the field of marketing management, due to its simplicity and applicability.

Forming up a marketing mix is crucial. Carefully planned out marketing plan will most likely have great positive influence on business processes and final outcome. However, any serious miscalculation in planning and analysing can lead to unpredictable damage. In the next three subchapters, main marketing mix categorizations will be described and their features will be explained.

#### **2.4.1 4P's**

This is the original and the most popular marketing mix concept, which was developed by McCarthy in the 60-s. It revolves around 4 key factors: product, price, place and promotion. (Goi 2009.)



Figure 3 The Four P Components of the Marketing Mix (Kotler 2002)

Figure 3 shows the four P components of the marketing mix. Anything that a company has to offer to the target market to satisfy customers' needs is product whether it is a service or a material product. Price is the cost of a product that is offered to the target audience. For a long time, marketers have been falsely defining price as the key factor in the whole 4P's marketing mix.

However, later it was found out that "customers do not buy solely on low price. They buy according to customer value, that is, the difference between the benefits a company gives customers and the price it charges." (Leszinski & Marn 1997) Promotion is the main component that stimulates sales. It may have any form of messages that are used by a company to remind customers about its products and advantages. At last, place is the final link in the whole marketing mix chain: it makes products available to potential and current customers and is the key component for actual distribution of products.

#### 2.4.2 7P's

The marketing mix theory continued to develop. Constantly changing market conditions and accompanying challenges demanded from marketers a slightly more all-embracing version of the massively widespread 4P's mix. The main

issue with the 4P's concept is that it works fine with physical products, but implementation of the same approach to products that are services works rather poorly. The demand for an update of the 4P's had aroused. (ToolsHero 2020.)



Figure 4. The Seven P Components of the Marketing Mix (Marketing Mix 2019a)

As it is represented in the figure 4, three new elements were added: People, Process and Physical Evidence (Booms & Bitner 1981). The People element is essential for appropriate customer relationship, especially in service industry. In a company all people that can have influence on the way that customers perceive the company's product relate to the People element. However, even having the possibly best sales managers and CEOs will unlikely lead to success, if the process of interaction between the business and customers or other companies cannot satisfy the second party. The Process component is intended to make interaction between both parties as convenient as possible

because it is the basis for successful sales and has great influence on customer loyalty. Finally, the Physical evidence element includes basically everything that a customer sees when interacting with a company and what the customer gets after the interaction, for example business cards or gifts. Well planned out physical evidence component plays a great role in brand recognition and it also influences the 6 other components of the 7P's marketing mix because, as in every marketing mix concept, all of them are tightly interconnected. (Tools Hero 2020.)

### **2.4.3 4C's**

One more popular concept is the 4C's marketing mix. It became well-known among marketers due to its revolutionary approach: where the whole concept revolves around customer and not around company. As the author of this concept professor Robert Lauterborn mentioned in his book "I felt that the 4P's was wrong-headed because it looked at the marketing process from the company out, instead of from the customer in, which I felt was backwards." (Schultz and Lauterborn 1994.)

This approach was a real game changer because none of the marketers had come up with this kind of idea and to look at the issue from this point of view. "The 4C's enables you to think in terms of your customers' interests more than your own. From being business-oriented, you'll become customer-centric." (Marketing Mix 2019b.)

So, instead of focusing on the Product component marketers started to pay attention to Customer element. In the world where offer sometimes exceeds demand, there is no use from a product that cannot be sold. Researching customer preferences and needs is the new reality because of the market satiation with thousands of new products and their equivalents. Value that customers see in product, and not the product itself becomes prevailing in the decision making process. The same is with the Price element that is replaced with Cost in this model. Amount of money spent on a product does not play very significant role anymore. What is important is how much a customer values what they purchase. Nowadays the Place factor is not as important as back in

the day because of hundreds of different channels of distribution available in the modern time. People have choice, and if one person would order a product from China via the Internet and wait for it for weeks to arrive, another person would gladly spend 20 euros more and buy the same product immediately in the nearest store and vice versa. In some cases, Convenience becomes the decisive factor. In the 4C's theory Promotion is replaced with Communication and the main difference is that it is no longer a one-way flow of information. According to this concept, any good advertisement should be encouraging a "dialogue" between a company and its target audience, create bonds, appeal to customers and make every single person from the target market feel unique and valued. This goal can be reached by modern means of communication with customers, and the Internet provides simple and incredibly effective opportunities for personification and targeting. (Marketing Mix 2019b.)

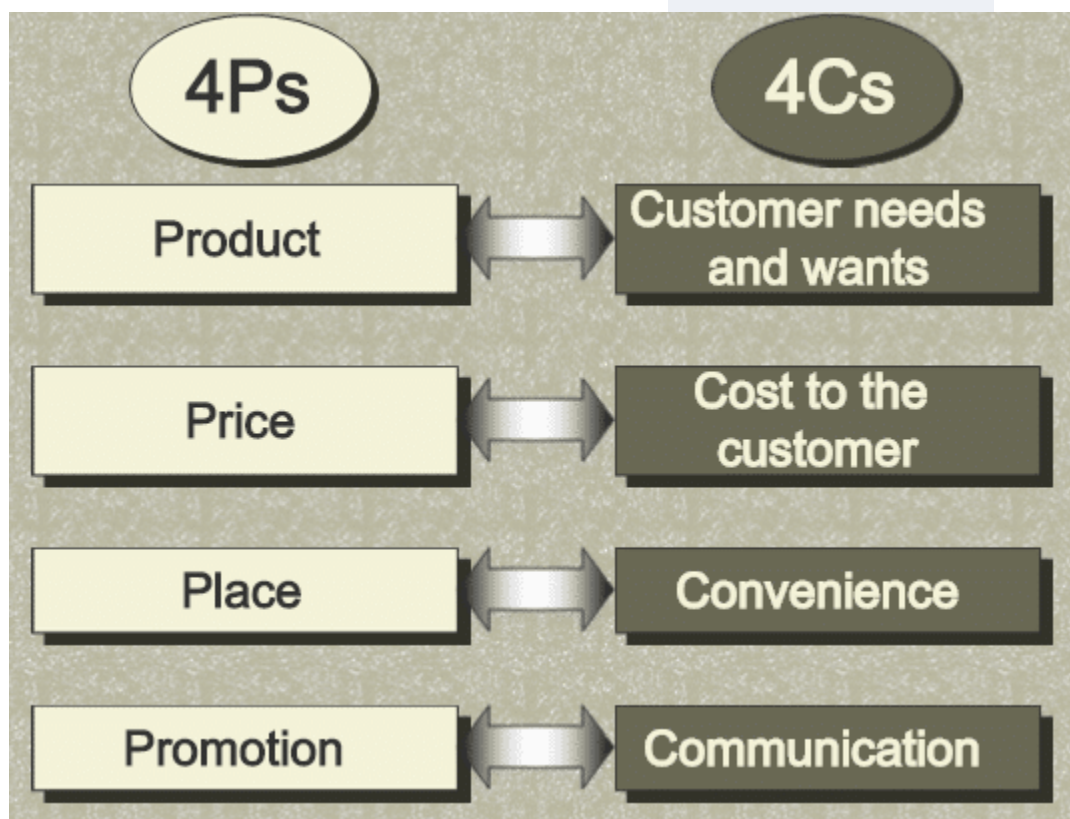


Figure 5. The Four C Components of the Marketing Mix (Marketing Mix 2019b)

Overall, the 4C's theory seems to work really well in modern conditions, as some previous concepts fade away, become slightly obsolete and become replaced by the new ones that follow changes on the market. From the author's



point of view, a combination of the 7P's all-embracing and detailed approach along with the 4C's customer-oriented approach would provide a truly fantastic outcome for a modern service based business.

## **2.5 Marketing plan structure**

To start with, designing a marketing plan without a marketing strategy is almost equal to creating a marketing strategy without knowing the target market. As it was said before, marketing plan serves as a guideline, which describes measures to be implemented and decisive actions to be taken; all this brings best results on the basis of preliminary careful market research and a well thought out marketing strategy. "Marketing without data is like driving with your eyes closed." (Zarrella 2012.)

Marketing plans are intended to help a company achieve certain tactical aims and realize the current state of a company, its objectives and goals and a plan of actions that constitute the marketing mix.

*"Unlike a business plan, which offers a broad overview of the entire organization's mission, objectives, strategy, and resource allocation, a marketing plan has a more limited scope. It serves to document how the organization's strategic objectives will be achieved through specific marketing strategies and tactics, with the customer as the starting point." (Kotler & Armstrong 2011.)*

Of course, there is no readymade template for a marketing plan as its creation varies depending on different aspects. It depends on the pursued aims, the size of a company and the type of business it is in.

Graeme Drummond, John Ensor and Ruth Ashford (2008) presented in their book about strategic marketing an example structure of a comprehensive in-depth strategic marketing plan, which is presented in the figure 6 below.

Provides a link to the overall strategy and illustrates marketing's contribution to achieving corporate goals.	<b>1. Executive Summary</b> 1.1 Current position 1.2 Key issues  <b>2. Corporate Strategy</b> 2.1 Corporate mission/objectives 2.2 Summary of overall position and corporate strategy	Improves communication and staff involvement by summarizing key aspects of the plan.
There is a need to define financial targets and translate these into specific, measurable marketing objectives (e.g. market share, sales volume, customer retention).	<b>3. External and Internal Analysis</b> 3.1 Overview of market 3.2 Competitor analysis 3.3 Future trends 3.4 SWOT  <b>4. Marketing Objectives</b> 4.1 Financial objectives 4.2 Marketing objectives	A picture of the competitive environment is developed. Internal factors (strengths and weaknesses) need to address external factors (opportunities and threats)
Specific programmes are broken down into lists of activities. These are scheduled and given a time scale. Responsibility is assigned for each activity. A contingency (e.g. funds or time) may be set to cover any unforeseen problems.	<b>5. Marketing Strategy</b> 5.1 Market segmentation 5.2 Competitive advantage 5.3 Marketing strategy 5.4 Specific marketing programmes <ul style="list-style-type: none"> <li>■ product</li> <li>■ place</li> <li>■ promotion</li> <li>■ price</li> </ul> <b>6. Implementation</b> 6.1 Schedule of key tasks 6.2 Resource allocation 6.3 Budgets 6.4 Contingency  <b>7. Control and Forecasting</b> 7.1 Assumptions made 7.2 Critical success factors <ul style="list-style-type: none"> <li>■ Benchmarks established</li> <li>■ How measured</li> </ul> 7.3 Financial forecasts <ul style="list-style-type: none"> <li>■ Costs</li> <li>■ Revenue</li> </ul>	The overall strategic direction of marketing policy is defined. The strategy may vary according to market segment.  Decisions are made relating to specific aspects of the mix. These may generate additional plans for each element of the mix.
		A clear understanding of the assumptions underpinning the control process is required (e.g. projected market growth). The benchmarks measuring success must be assigned to critical activities. Profit and loss accounts may be forecast for the planning period.

Figure 6. Illustrative example of a strategic marketing plan (Drummond et al. 2008)

In a shorter-term marketing plan, which is sometimes called an operative or tactical marketing plan, one could skip certain topics and leave them for higher-level managers or CEOs involved into strategic planning. “Smaller businesses may create shorter or less formal marketing plans, whereas corporations frequently require highly structured marketing plans.” (Kotler & Armstrong 2011.)

If one decides to look through a couple of dozens of marketing plans from various business spheres, they would notice a certain pattern of topics going in a certain order. Different topics of a strategic marketing plan answer the same four fundamental questions that West, Ford and Essam described in Chapter 2.2, but on a smaller scale, on a more grounded tactical level. There are several topics that absolutely must be covered in an operative marketing plan.

To start with, marketers should comprehend the current state of the company and provide an overview of situation analysis followed by a summary of market research, which must be conducted beforehand. The market research and gathering the data is probably the most time consuming yet rewarding step. This is extremely necessary for a sober assessment of company capabilities and position on the market.

Then it is the time for clarification of what actually needs to be done and what aims are pursued by the company. Once again, setting realistic goals would not be easy without a vast knowledge of the market and preliminary research.

When it is clear what aims the company strives to achieve, it needs to be explained in detail how exactly the goals should be met. The marketing mix appropriate for declared aims and company capabilities is the answer for the question “How”. Usually, it is necessary at this moment to appoint people who in theory would be responsible for their contribution to the common cause.

However, it is crucial to recognize the moment when the set goals are in fact reached and the time has come for a new marketing plan. For such cases, companies usually use customer feedback, especially in service oriented industries, and specific metrics that are called KPI. A key performance indicator (KPI) is a metric that helps you understand how you are doing against your objectives (Kaushik 2009).

*“A solid marketing plan has clear, realistic goals which you can be confident of hitting, the best strategy to achieve these goals against your competition, sufficient details of the tactics and actions needed to translate the strategy into action, and a method to check you are on track with your plans.” (Smart Insights 2019)*

### **3 Analysis and research**

Knowing the market and the target audience is the key to gaining advantage over competitors, building strong customer relationship, and using the allocated budget in the most reasonable way. In order to achieve all mentioned above, it is essential to analyze the market thoughtfully. In this chapter, the market research is broken down into several crucial subtopics. And even though it is only a part of a more complete marketing plan that is attached as appendix, it still can give readers an insight into the US hookah market.

#### **3.1 Market analysis**

Tobacco industry in the US is deservedly going through tough times and has to face different legal and social barriers, primarily because of nowadays evident health risks and consequences of tobacco smoking. Due to the fact that every state has its own laws concerning tobacco usage, and even within state cities may choose their own tobacco policy, it is quite difficult to take into consideration the whole territory of the US and to make precise predictions of future demand from marketers' point of view. Therefore, all further information will mainly apply to the state of California in general and to the area of Los Angeles city in particular.

To start with, people more and more tend to quit smoking because of US government policies and various statewide tobacco control programs. California department of public health – CDPH – started its program in 1989 when every 1 of 5 adults smoked and has achieved results that may be called impressive as nowadays only 1 of 10 adults in California keeps smoking tobacco (CDPH 2019c).

This was made possible by certain steps taken by local authorities. Such steps include making smoking little by little less acceptable by the society through various public campaigns, fencing non-smokers and especially minors from the exposure to secondhand smoke, providing psychological help for those who are willing to quit smoking, restricting tobacco advertisement, and making tobacco products less accessible for a regular customer.

In addition to this, probably the most effective taken measure was the decision to raise prices of tobacco products to such level that it becomes less and less affordable for a low to middle class citizen. The World Health Organization approves that raising prices on tobacco products is the best method to produce the expected result to lower tobacco consumption. It discourages non-smokers from taking the products, makes existing consumers quit or reduce the consumption of tobacco, helps former smokers to stay quit and prevents occasional smokers from smoking on a regular basis. (World Health Organization 2019.) In California, where the average price for a pack of cigarettes hits \$7.89 after a recent tax increase, that pack-a-day habit runs \$2,880 a year (Money 2019).

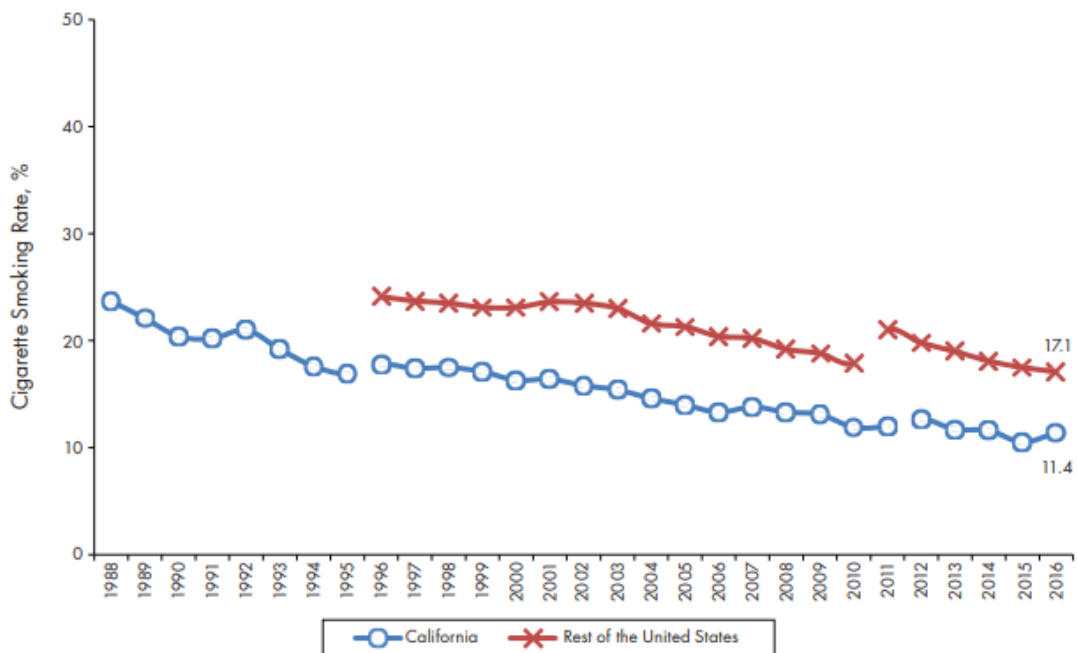


Figure 7. Adult cigarette smoking rate in California and the rest of the United States, 1988 to 2016 (CDPH 2018a)

*According to figure 7, "Fewer adults are smoking cigarettes than ever before. The adult cigarette smoking rate in California declined by 57.4 percent between 1988 and 2017 with a current rate of 10.1 percent or about 2.8 million adults." (CDPH 2019d)*

Nevertheless, such government actions caused another problem. The idea of vaping and e-cigarettes as a much cheaper and healthier substitute for tobacco

products has recently become very popular in the US, especially among young people from 18 to 29 years old (Gallup 2019).

But in spite of that, the wave of vaping popularity, which at some point was considered as a "healthier" alternative to tobacco, is gradually failing at the end of 2019 because of new medical researches and vaping-related deaths. It turns out in the end, that vaping is just as addictive as traditional cigarettes (John Hopkins Medicine 2019). What is even worse, is that the liquid used in vapes contains hundreds of non-researched chemical components that may cause severe health consequences such as heart diseases and lung injuries.

*"What makes e-cigarettes so harmful to the heart and lungs is not just nicotine... It's the completely unknown bucket of manufactured products used to form vapors that is likely causing the most harm. This is what we believe is underlying the current public health problem."* (Cedars Sinai 2019)

Dozens of hospitalized or suddenly passed away people across the state of California, who tried to use vaping as a recreational or a smoking cessation tool, make the Los Angeles county officials follow the example of San Francisco and also implement vaping ban policy (USA Today 2019). More and more doctors and scientists insist that there is no truly healthy substitute for nicotine.

Californian mass media keeps informing people about the dangers of any kind of smoking and encourages people to completely quit this bad habit. However, these restrictions and mass media campaigns do not relate to cannabis, which seems a little bit hypocritical. Huge advertisement banners may be found everywhere in California promoting recreational usage, but this is another topic.

All previously mentioned aspects concerning tobacco cause a feeling that the industry is slowly dying and soon will completely perish as well as hookah business, but several factors must be taken into account. First, some of Californian heavy smokers were quite disappointed by the government's restrictive decisions that may be called tough. And it is not a surprise, as any social initiative has its opponents. This relates particularly to older generations of tobacco users who are already too addicted to nicotine now and who still remember how smoking was legal even on airplanes and how TV commercials used to show famous celebrities, athletes and doctors who were persuading people that smoking is really good for health (Metro 2018). There is no country

in the world that would cultivate the idea of freedom to such extent as the United States does. Some smokers of the "land of the free" perceive smoking bans as an assault on their personal freedom, even though it is the freedom to harm their own health. Second, one of the major reasons for an urge to smoke is psychological stress that can hardly be removed from any society, while many people who are trying to give up smoking simply cannot find another method to relieve stress. This topic will further be described in detail, as well as the final reason – ethnic communities. The United States is often called a "melting pot" with millions of immigrants from the regions of the world, where there still exists a completely different view on smoking. Some minorities simply refuse to quit smoking because of their cultural background and traditions formed through hundreds of years. This greatly plays in favor of hookah industry.

It is time to bring up statistics to start explaining why hookah, also commonly named as shisha, nargila or waterpipe industry is in some way endangered but still has incredible opportunities to become a strongly niche but high-yield market.

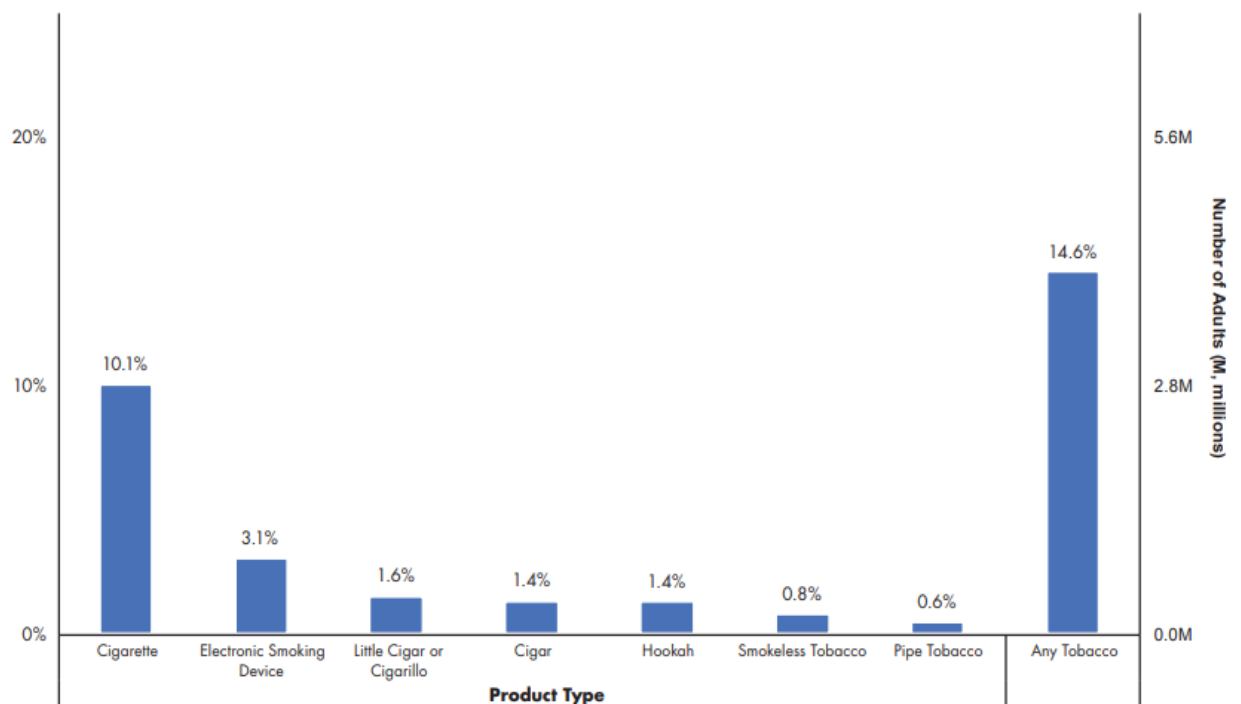


Figure 8. Tobacco use rate among California adults by product type in 2017 (Vuong, Zhang & Roeseler 2019)

The figure 8 represents that current target market is surprisingly large for a state with such drastic measures taken by local authorities. And as it can be seen from the graph, that hookah holds a solid though not mainstream chunk of 1.4% of California's tobacco market.

Even though there has been registered a major decline in cigarette smoking rate across all the United States and in California, in particular there are approximately four million adults who still use tobacco products – this is more than the population in 23 states (Vuong et al. 2019).

Of course, one can say that cigarette smoking rate only shows the fact that people started buying cigarettes with more reluctance than before because of many factors, among which the most obvious would be the costs of smoking habit. Most people are simply switching to hand-rolled cigarettes or e-cigarettes or trying other ways of tobacco usage. This reasoning is only partly true. People really started saving money but the overall picture is much more worrisome: government pressure and constant attempts to regulate the market even tighter leave less space for entrepreneurs and the industry keeps on losing customers because of people actually quitting smoking.

Social norms are changing fueled by government policies and statewide healthcare programs, which causes more and more people to think about smoking cessation. According to the CDPH, there were approximately 1.9% of hookah users in 2016 (CDPH 2018b). A significant but not so threatening number – 0.5% per three years. But what staggers the most, is that in comparison with the period of the industry is monstrous growth of 2008 the hookah market has shrunk in extreme proportions. The industry was absolutely booming back in the days with growth of adult hookah smokers by almost 40% per three years since 2005. This tendency may be seen from the figure below, supported by relative percentage numbers.



Hookah Use, % (95% CI)			
	2005 (n = 14 262)	2008 (n = 10 397)	% Change, 2005–2008
<b>All adults (≥18 y)</b>			
Men	7.9 (6.8, 9.0)	11.2 (9.8, 12.6)	41.8 <sup>a</sup>
Women	1.9 (1.5, 2.3)	2.8 (2.1, 3.5)	47.4
<b>Young adults (18–24 y)</b>			
Men	19.7 (16.7, 22.7)	24.5 (21.4, 27.6)	24.4
Women	8.1 (5.9, 10.3)	10.0 (8.0, 12.0)	23.5

*Note.* CI = confidence interval.

<sup>a</sup>Confidence intervals do not overlap, indicating significant ( $P < .05$ ) change between 2005 and 2008.

Figure 9. Standardized Prevalence Rates of Hookah Use for Adults and Young Adults: California, 2005 and 2008 (Smith et al. 2011)

Overall, the situation on the market nowadays looks satisfactory even though conditions for doing tobacco related business are far from excellent which reflects the figure 9. The number of hookah users is all-time low but the remaining audience is very much uniform and loyal. The government policy on tobacco usage is among the strictest across all the United States but there are significant exemptions from the statewide smoking ban law, which grants access to the tobacco market on advantageous terms. Hookah lounge as a high margin business demands comparably medium starting investments and offers surprisingly high profit potential. In addition, this combination of features could theoretically cause snowball effect leading to rapid market expansion if everything goes well.

Nonetheless, from the author's point of view the most significant factor is that according to the Blue Ocean Strategy, in the described market situation there are millions of potential customers who relate to the first-tier noncustomers, the best possible type of potential clientele. There is a more than significant amount of tobacco users who are not hookah lounge visitors yet, but most probably could become ones or even completely switch from cigarettes to hookah. Upon

finding any better alternative, first-tier noncustomers turn into actual customers. In this sense, they sit on the edge of the market (Kim & Mauborgne 2015). This factor is the most crucial, as there is obviously huge unsatisfied demand meaning fantastic opportunities for business.

### **3.2 Laws and regulations**

As one could already get the idea, the United States laws and regulations concerning hookah lounges, distribution of tobacco and its usage are unquestionably strict and difficult to sort out. Moreover, prior to delving into tobacco related issues it is absolutely necessary to study basic concepts of the United States legislative system.

To start with, there are different types of laws in the US – federal and local. A federal law applies to all people throughout the whole country, is called “the Supreme Law of the land” and is considered above all other laws but only if it does not contradict the Constitution (United States Senate 2019).

On the other hand, local laws apply to people who live in a particular territory like a state, county, city or any other administrative unit. Local laws may be statewide or applicable only to certain territory but in some cases can contradict federal laws. This may cause a situation when a person is doing something completely legal for a state he or she lives in, but still illegal from the point of view of federal law, hence the police can act as though the person was a criminal. Such cases of conflicting legislations may cause a lot of public discontent and legal mess and are usually solved by the doctrine of preemption that originates from the supremacy clause, which means that federal laws legally prevail and completely nullify local laws (United States Senate 2019). Nevertheless, what really matters is actual law enforcement; the executive branch of the government may or may not take any actions depending on the level of threat to national security imposed by the case.

But returning back to tobacco control, hookah industry is of course tightly regulated; however, as it was mentioned earlier it has major advantages over other tobacco related businesses, thanks to some loopholes in the law. Latest major changes in the tobacco regulation law happened in California in 2016

when so called “Tobacco 21” or simply “T 21” statewide law was enforced. It has raised the minimum legal age to purchase tobacco products from 18 to 21 years old with exception for active military duty members, made vaping devices to be also considered as tobacco products, and introduced to companies operating in tobacco industry a set of new requirements. Its schematic list of less significant but still obligatory changes is shown in the figure below as well as its aims (CTCB 2019).

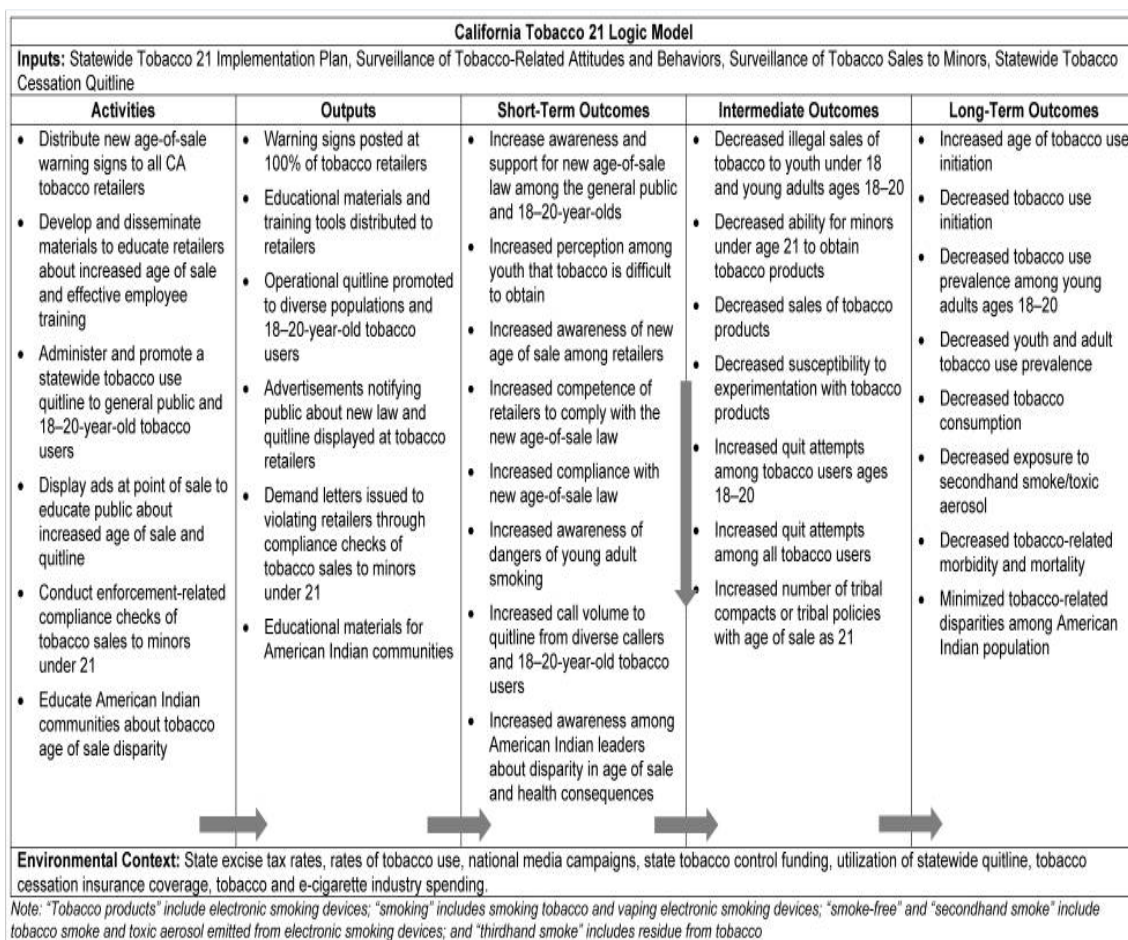


Figure 10. T21 logic model (Zhang et al. 2018)

The figure 10 shows that dealing with all the legal issues needed to be considered when opening a hookah lounge, is notoriously known for its difficulty, and constant attention from the government officials in the future will follow any tobacco related project.

At first, it is needed to carry out proper market segmentation and decide on the type of services that will be provided, as further legal actions and required licenses largely depend on the services. Even prior to that, it is needed to check if the planned entity even complies with the correct relevant laws because as it was said earlier local, statewide and federal laws do not always comply. Cities may set stricter laws concerning tobacco usage than those that are accepted on a statewide level. For example, San Francisco hookah lounges were forced either to quit business or to switch to herbal tobacco-free hookahs after local law came into force in 2018 (SF Chronicle 2019). Similar situation has happened in Los Angeles, when a Los Angeles City Council committee voted in support of ban of all flavored tobacco products excluding menthol and hookah lounges, which de-facto gives hookah lounge owners a tremendous business advantage (ABC7 2019).

The Los Angeles Tangiers Lounge business plan revolves around the concept of a lounge where indoor smoking of tobacco-based hookahs is allowed and some tapas would be served. It means that several licenses need to be obtained and several legal conditions need to be fulfilled in order to operate legally. Probably, the most important aspect of the plan lies in the fact that Tangiers Lounge would also act as a retail store of a renowned high quality hookah tobacco brand “Tangiers” (B2 Hookah 2017). Being registered as a tobacco retailer is one of the only two ways for a hookah lounge to operate legally and to let customers smoke indoors. The other option is to register the company as a private smoker’s lounge but in this case the only employee allowed to work there would be the owner. In both cases, the potential place for a hookah lounge requires excellent and often costly ventilation system, which is quite logical.

The Tangiers lounge will be licensed as a tobacco retail store, so it means that as a retailer the ART Hookah owners need to do following: 1) Get a Seller’s permit (a basic license for anyone engaged in business in California). 2) Maintain a valid California Cigarette and Tobacco Products Retailer’s license (costs \$265 as one-time fee, must be renewed annually for another \$265).

3) Display the license as well as age of sale warning signs and window clings in a manner visible to the public. 4) Keep purchase invoices for tobacco products for 4 years. 5) Allow inspection checks upon request. (CDTFA 2019b.)

According to the T21 law, it is prohibited to serve food in premises where indoor smoking is allowed. However, there is a safe loophole for this issue and it is catering. The law says nothing about bringing in ready-made food instead of cooking it; catering some simple but delicious sandwiches, salads, tapas and desserts is an option for actually serving food in hookah lounges in a legal way. Serving alcohol in hookah lounges is forbidden even though this prohibition may also be gotten around. The Tangiers Lounge will initially be alcohol-free, as the loophole for serving alcoholic beverages in hookah lounges is a little bit too erratic. If an option to increase sales and revenue would be really needed — then, the alcohol license could also be acquired in order to increase revenue. The T21 law also forbids smoking inside the lounge where alcohol is served. The law specifies that drinking inside the premises where people smoke is forbidden so some hookah lounge owners use the loophole in the law and build an open-air patio where it is forbidden to smoke, in order to get around this prohibition.

Tobacco industry is tightly regulated, so hookah lounge owners should be ready for various inspections upon request. The most all-embracing and frequent one is the local Health Department inspection. They come approximately three to four times a year and check if everything from ventilation and lighting to food storage conditions around the place meets required standards. A sub department of California Health Department – Wastewater Department – comes to check sewage and drainage systems. They are responsible for prevention of groundwater contamination so they even check if grease traps contain normal amount of fat. Finally, from time to time, an inspector from California Department of Tax and Fee Administration comes to check purchase invoices if the wholesaler that delivers tobacco is included in the list of licensed distributors. They also pay attention that the official tobacco wholesale supply matches with the tobacco assortment being sold and check if paid taxes match with previously mentioned invoices.

To sum up the law's and inspection's topic, it is necessary to mention how taxation in the industry of tobacco products works. According to the California Department of Tax and Fee Administration, almost 60% (59.27% to be exact) of wholesale cost needs to be paid to the government in form of taxes as of 1 July 2019 (CDTFA 2019a).

### **3.3 Customer portrait**

Any marketing campaign becomes even more effective, when proper market segmentation is previously carried out. Nevertheless, focusing only on potential customers is a straight road to never ending fights for customers with other companies on the market and missing unobvious but potentially lucrative business opportunities. In this chapter, the author describes a typical Los Angeles hookah lounge visitor and gives an idea about who might be viewed as potential hookah lounge clients, and what features of the business they value. Some context on various factors that cause impact on the industry will be given as well.

Simply fulfilling existing demand is a short-sighted strategy that most likely will not work in a long run. Instead of simply fulfilling existing demand — it is necessary to reach beyond and create new markets (Kim & Mauborgne 2015.) The conventional strategy of expanding a business is to focus on existing customers, which leads to finer market segmentation especially in case of intense competition. As the result, companies risk creating too small target markets in order to satisfy their customers. Instead of concentrating on customers, it is recommended to focus on noncustomers (Kim & Mauborgne 2015.)

To start with, hookah, shisha or nargila have eastern roots with centuries old history and great influence on traditions of Islamic world from Indochina to Morocco. It is not a surprise, that the most dedicated hookah connoisseurs are people of eastern descent. Their amount and influence is so great that they actually were the ones who made government officials include exemptions for hookah lounges in the Tobacco 21 law (FOX News 2019). The Arab American Institute Foundation research declares that California has the largest of all the

states community of people of Arab descent with supposedly almost 817 000 legal citizens and legal or illegal migrants (Arab American Institute Foundation 2015). The majority of Muslim community stays away from alcohol and tries to follow what had been prescribed by their religion. However, smoking hookah is viewed as somewhat acceptable in the community, and this attitude has been forming throughout centuries. It is very common in the middle-eastern region to the extent when a family goes out for a picnic and takes shisha with them or when mother asks her underage daughter to make hookah and light it up for her (Baheiraei et al. 2015).

ART Hookah's founder confirms that ethnic factor plays major role in hookah industry. Strong cultural affinity and positive attitude towards smoking hookah form a loyal hookah lounge clientele among people with migrant past or ethnic descent. For example, in the San Diego ART Hookah lounge representatives of ethnic minorities of mostly Arab, but as well Russian and Eastern European descent compose about 55-65% of all visitors (Siniakov 2019). Russians and Eastern Europeans also smoke a lot, primarily because of milder social view on the issue compared to people in the USA and overall unawareness about how harmful for the health tobacco smoke really is.

From the demographic point of view, the popularity of hookah smoking is strongly dependent on age. Before the smoking ban of 2016, young people from 18 to 24 years old was the largest category of hookah lounge customers (CDPH 2018b). From the observations of hookah lounge owners, it follows that after the smoking ban, the age of the majority of customers has shifted towards more mature age, and nowadays the most frequently met age group is wealthy young people from 21 to 35 years, most of them having at least college degree. Nonetheless, there are exceptions because representatives of the previously mentioned ethnic minorities in their 50s and even 60s may also be found in the lounges smoking hookah.

Gender does not play any significant role in demographic statistics concerning usage of hookah. Despite the common stereotype that hookah smoking is more widespread among males, it is not true. Researches show that females and males use hookah at similar rates (Barnett et al. 2013). In addition to this, there

is almost no gender difference in use of hookah than other tobacco products, especially compared with cigars and smokeless tobacco (snus) (Johnston et al. 2014). Most hookah lounges in Los Angeles offer their customers ambient, mellow and smooth atmosphere suitable for both sexes. However, women usually tend to go out to hookah lounges in groups or at least in pairs, although many male visitors do not hesitate to come in for a solo smoke while working on their laptop or simply chilling. This is probably the only real difference in gender-related customer behavior. (Oganesyanyan 2019.)

Portrait of a typical Los Angeles hookah lounge customer begins to take shape from the earlier provided information. It is a person of approximately 28 years old with college or higher education. Gender and age are of little relevance but ethnic descent is an important factor. Some of the customers are probably involved in freelancing, IT industry or video blogging as they often can be seen alone working on their laptops or tablets while having a smoke. It seems that most of the customers despite their young age, have high regular income as they are able to spend \$35-\$50 from three to four evenings a week. In general, the lounges have become especially popular among people who got tired of loud nightclubs and crowded bars and simply look for a more serene and aesthetic kind of leisure designed for socializing in a comfortable setting. (Siniakov 2019.)

In this relation, hookah lounges look like a market that is able to entice unheeded customers from other spheres of business by offering analogous value and services. The market in its broader concept is diverse and some segments of it have never been targeted. Even a co-working combined with bar, educational space and hookah lounge opened in Moscow in 2019, proving that people of different professions, interests and class do not have anything against hookah, at least as long as the space is properly ventilated (The Village 2019). Tearooms and anti-café's may be mentioned as other examples of rival business spheres full of potential customers. At this point, switching to competition topic would be logical.



### 3.4 Competition analysis

The first hookah lounge in the USA opened in 2000 in Las Vegas (Hookah Lounge 2018). Since then, the industry has begun its rampant growth, and hundreds of lounges have been opening across the US and particularly in California during last twenty years. The competition is tense, number of enterprises keeps growing, and companies have to invent clever moves in order to conquer their customers' hearts.

*"When you ask existing customers, "How can we make you happier?" their insights tend toward the familiar, such as "Offer me more for less." But this focus almost always drives you to merely offer better solutions to your industry's existing problem, keeping you trapped in the red ocean." (Kim & Mauborgne 2017.)*

In this situation, increasing value that the company can offer to its clientele and implementing new innovative approach to business, would be a farsighted and wise way of winning the competition without actually fighting. Blue ocean strategists do not seek to beat the competition. Instead, they aim to make the competition irrelevant (Kim & Mauborgne 2017). Entrepreneurs, who put value and innovation as two equal cornerstones of their business ideas, can switch from defensive actions against growing competition to wandering across previously uncontested market space. By pursuing growth of value and implementation of innovation, companies stay on the right track towards new market segments and new business possibilities. However, equal emphasis must be placed on both value and innovation. Value without innovation makes the company stand higher in customers' eyes, but still does not let it stand out in the marketplace. Innovation without value often creates situations when market pioneers create something truly groundbreaking but not yet ready to be accepted by the buyers. In both these cases, if company does not succeed in aligning innovation with value, its rivals would later simply skim the cream off the previously made developments and achievements (Kim & Mauborgne 2015.)

Further in this chapter, the author will pay attention to two key competitors of Tangiers Lounge in the market space. It needs to be added that the market in

its entirety is red, and most hookah lounges in their core differ from one another only in interior design and variety of products offered.

### **3.4.1 Hookah Place LA**

Hookah Place LA is the main competitor, as its business plan and strategy are in some way similar to the ones of ART Hookah. Hookah Place is a partly franchised chain of hookah lounges, and it claims to be the largest hookah franchise in the world with over 180 lounges opened in 15 countries (mostly CIS and ex-USSR countries). The company was registered in 2013, and on that year its first hookah lounge in Moscow was opened by Russian owners. The Los Angeles lounge is not a franchisee but a chain store and it operates as a tobacco retail store.

The location for a hookah lounge has been chosen well: Downtown is considered as the historic central district of Los Angeles and is the attraction for all tourists visiting the city. With lots of its old historic buildings tucked between skyscrapers, Downtown is in addition a business area that is full of life during daytime and at night. Lots of bars, nightclubs and restaurants are located here. The Downtown is a transport hub, a crossroad for metro lines and bus routes, which has influence on how many people move through this area. Nevertheless, some citizens consider the Downtown dirty, crowded with homeless people and even dangerous, especially late at night.

Hookah Place LA offers wide selection of hookahs, which are packed with tobacco from most popular brands like Al Fakher, Starbuzz, Vintage, etc. The variety of offered products can satisfy almost every hookah appreciator. Some simple snacks, salads and soft drinks are served in the lounge; however, alcohol is not. The place is equipped with high quality system of ventilation and is well planned for a hookah lounge.

The overall interior design is relatively plain, unexciting and cheap. However, some interesting interior decisions may be found in form of statues, little accessories and selfie spots. There are board games and gaming consoles provided for customers' entertainment. Average check after an evening with one hookah and some drinks will be approximately \$40, with normal prices on

hookahs ranging from \$20 to \$50 per session. Hookah Lounge LA's prices are considered medium on the market. However, the company successfully implements various loyalty systems, discounts on "happy hours", offers such as "bring a friend", etc.

Usually, the place needs two to three people of staff to operate – one serves customers at the tobacco selling point and makes hookahs, the other welcomes customers at the front desk and takes orders, and the third is responsible for food and beverages. This is enough for a midweek day, but obviously not for an intense evening shift or a weekend; it can be seen from rare negative online reviews. The lounge's working hours are 14:00 to 02:00 from Monday to Thursday, 14:00 to 04:00 on Friday, 16:00 to 4:00 on Saturday and 16:00 to 02:00 on Sunday. As it can be seen, the place predictably attracts increased amounts of visitors on weekends and Friday nights.

The company is represented only in digital format through accounts in all relevant social networks. All in all, the Hookah Place LA lounge is a "casual" everyday lounge with medium prices and average level of service and products.

### **3.4.2 Mojo Hookah Lounge**

Mojo Hookah Lounge is another representative of a successful and completely different hookah lounge business model in Los Angeles. Some elements of Tangiers Lounge business plan intersect with the strategy chosen by Mojo Hookah. This chain is absolutely tiny, when compared to the previous one. Despite the fact that there are only two lounges, the Mojo Hookah is international as one lounge is located in Los Angeles while the second is in Chelyabinsk, Russia. The owners are Russian as well. The lounge has operated as a tobacco retail store since 2016.

This hookah lounge has chosen a completely different approach to positioning on the market. Mojo Hookah conducts a finer and narrower customer segmentation policy and mainly focuses on solvent, upper-level customers who are ready to pay more. The company clearly tries to increase its value in the eyes of customers by offering premium products and creating luxurious brand image. It even promotes itself as "The best hookah in Los Angeles" and "The

highest quality hookah on the market” (Mojo Hookah 2019). The fact that they have valet that would park visitors’ cars on a private parking lot, already tells something about the set level of the lounge.

The owners have paid great attention to interior design because it looks really fascinating and acts as the hallmark of the establishment. Enjoyable, relaxed, stylish and a bit fancy atmosphere is created by wooden interior details, live tree under the roof, complicated system of lighting and a DJ that plays deep house music. All the smoke coming from hookahs is completely neutralized by effective and noiseless system of ventilation as it should be in respected establishments.

Tobacco is represented by proven brands like Tangiers, Nakhla and Fumari. Average check for a smoking session for two with a hookah and a couple of cocktails amounts to approximately \$60-\$70. Mojo Lounge offers a variety of non-alcoholic beverages and some catered food like crepes and cheesecakes as well. Cross-selling food and beverages is a good technique to significantly increase revenue, though tobacco and hookahs in hookah lounge business remain the main generator of the revenue (Oganesyan 2019).

Mojo Hookah’s working hours are specifically adjusted to satisfy its target audience. Most people come in for a smoke before or after a night out and almost nobody goes to hookah lounges of such type to sip some tea and play a board game during daytime. This lounge normally works every day from 18:00 to 02:00 with extended shifts until 05:00 on Fridays and Saturdays. From six to seven people of staff are usually on shift on Friday and Saturday nights: one is responsible for food and beverages, the second makes hookahs and serves customers at the tobacco selling point, the third works as valet, the fourth is DJ, and the rest are a hostesses and waiters who greet incoming clients, take orders and serve customers at their tables. During midweek shifts, there is usually no need for a second or third waiter.

The lounge’s location is very much suitable for a luxurious establishment. Sunset and Hollywood boulevards as well as the famous Hollywood Walk of Fame are located in a 5-minute walk from the lounge. Only wealthy citizens can

afford buying a house in neighboring resident areas like Hollywood Heights, Hollywood Dell and Whitley Heights. Of course, the fact of being located in such fashionable and upper-class vicinity has its influence on how payable clientele would be in this area, and high prices would still be suitable for this lounge.

Same as with the previous competitor profile, Mojo Hookah uses social networks and the Internet as their main tools of marketing, because of its obvious effectiveness, speeds at which information is spread, and relatively low costs of digital marketing.

To sum it all up, Mojo Hookah lounge has taken a rather interesting niche on the market. They position themselves as a premier lounge with luxurious products and attract their customer segments by offering higher-than-usual standards of service and quality of products. Some online reviews state that the lounge is too overpriced for what it offers, but the majority of customers are content, which grants ongoing flow of solvent clients.

### **3.5 Comparison with Russian market**

Running a hookah lounge in Russia has its pros and cons. Laws and regulations are nowadays milder than in the US, but the effectiveness of law enforcement gradually increases. Number of people who lead a healthy way of life rises, and there are visibly fewer smoking people than before. Despite this, the market started its growth in 2005-2006, and it seems that until now there is still unsatisfied demand. Lots of new hookah lounges keep popping up in Russia year after year, and popularity of hookah smoking is higher than ever.

Civil trend on healthy way of living is on the rise in Russia. More and more people quit smoking because of almost identical reasons and governmental actions as in the US: raising prices on tobacco, public health campaigns, prohibition of tobacco promotion, etc. However, social views on tobacco smoking in Russia are still less deep-seated than those in the US: 23% of Russian population smoke cigarettes on a daily basis (The Globalist 2018). Even after Russian government has almost doubled prices on cigarettes, the price for a pack stays at too low level of approximately 140 rubles or \$2,12, which hinders development of public health campaigns (Statista 2019).

In 2014, the 15th federal law of Russian Federation “On the protection of the health of citizens from the effects of surrounding tobacco smoke” was implemented, and its essence is about making smoking of tobacco products illegal in most public places. Legal smoking age remained unchanged — 18 years. The law differs from the American one in the way that it does not specify certain tobacco products that are prohibited, but rather forbids all tobacco without any exemptions. Serving alcohol and food is forbidden in premises where tobacco smoke is present. Thus, hookah lounge owners either switch to tobacco-free herbal mixes or use various semi-legal loopholes, which are many. At the end of 2018, the import of raw materials for hookahs (special tobacco and flavored mixtures) increased by 40% to 11 thousand tons, compared with 2017 (Izvestiya 2019). In recent years, the Russian market has been characterized by an increase in the consumption of tobacco-free products due to the fact that running a tobacco-free hookah lounge is much more profitable, because alcohol and food can be legally served.

Exactly as it used to be in the USA in times before the smoking ban, hookah lounges in Russia currently remain as popular as bars majorly among students and young to middle age people from 18 to 40 years old. Smoking hookah in Russia is an easily affordable leisure. Smoking a regular simple hookah costs about 1000 rubles or \$15, which is approximately 20-25% cheaper than in the US. From the lounge owner’s point of view, hookah lounge business in Russia is much more marginal when compared to the US. (Siniakov 2019.) Basic costs are lower as well as costs on consumable materials, while prices on the final product remain just slightly cheaper than in the States; this allows keeping the larger part of revenue as profit.

The legal side of the issue is considerably easier. First, lounge owner has to formalize the business in form of individual entrepreneurship or an Ltd. Then there needs to be acquired a permit from Fire Department and a permit from Sanitary and Epidemiological Service. However, there is no requirement to be registered as tobacco distributor, so basically every store can legally sell tobacco without any license as long as the general “tobacco law” is obeyed. Also, it needs to be mentioned that full-scale inspections in Russia are in

general most frequent at the initial period of business shortly after the opening; in some time passing them gets easier. The most common inspections are usually conducted by Fire Department, Tax Department and Sanitary and Epidemiological Service.

Competition is much higher in Russia than in the US. Almost every Russian town, even far beyond the Ural Mountains, with population over 100 000 people has at least one hookah lounge. Of course, hookah business is strongly dependent on the overall amount of population, but also on the amount of migrants and tourists. Similar to the States and basically every other country, people of eastern descent bring in their homeland traditions and preserve them carefully. This means that for a hookah lounge there are more business opportunities as well as competition in large cities and areas of increased population of migrants from the regions of Caucasus and Central Asia, where smoking hookah has been normal for ages.

It can be concluded from what has been said before that being an owner of a hookah lounge in Russia has its strengths and weaknesses when compared to the situation in the USA. At first sight, situation on the market is very much similar. However, main differences are that the competition on the Russian market is much tenser, and an ordinary lounge that has no distinct business idea will hardly last for more than a couple of years. Another feature of the Russian market is that relations with the government officials are easier, and inspection checks are much rarer.

#### **4 Marketing Plan**

Please see the appendix.

#### **5 Conclusion**

As the result of this work, the author has developed the marketing plan that is intended to enhance Tangiers Lounge's marketing strategy. The lounge will be opened in summer 2021, and the company is free to choose whether they decide to implement it fully, partly or at all. In theory, it should be of help in

terms of expansion on the USA hookah lounge market, building brand name and brand recognition, and appealing to specific target audience.

The author has gained an inside view on hookah lounge business both in the US and Russia, and researching different legal and practical sides of this niche unusual business which was an interesting cognitive experience. Applying theoretical knowledge on real life examples grants better understanding of the issue and allows looking at it from the point of view of intersecting topics. Necessity of thoughtful preliminary market analysis has been proven, because marketing plan effectiveness is strongly dependent on it.

ART Hookah must be especially careful and forward-looking. Despite obvious strengths and opportunities of the business, there are significant threats to the industry, and a lot of attention must be paid in order to remain flexible and to be able to adjust to changing market conditions.



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## **Appendices**

Appendix 1 – Tangiers Lounge marketing plan (confidential)