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Tacos in Tel Aviv?

Research advises Mexican restaurant chain against opening franchises in Israel

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When a company or brand is considering a launch in a new geographic region, several factors must be considered in great depth. Companies and brands planning expansions must first answer the questions "Can we do this?" and - perhaps more importantly - "Should we?"

Various research techniques can be employed for guidance and this article details how a feasibility study combined with primary quantitative research can be a winning strategy to answer both of those pressing questions.

Assessing the viability

A recent project was tasked with assessing the viability of opening four franchises of a Mexican casual-dining restaurant (CDR) in the metropolitan Tel Aviv, Israel, area, which includes the city of Tel Aviv and the adjoining, affluent northern suburbs of Ramat Gan, Ramit Aviv and Hertzlia. The study itself involved several phases of analysis, incorporating various expertise. Given that Mexican cuisine is not native to the Israeli palate, a number of questions needed to be addressed. In all, three consulting firms were involved.

Market analysis

The first step for a restaurant - particularly a franchise - feasibility study is the market analysis. Simply put, do the requisite diners exist in the location where the parent company hopes to place its franchises? Market analysis consists of the following components: industry trends; location and facility; area characteristics; competition; customer demographics; and projected sales.

By conducting a market analysis, the parent company will be able to answer such questions as:

- What trends are emerging in the local food-service industry?
- What are the strengths and weaknesses of my competition?
- Are the locations suitable?
- Does the CDR concept fill a niche in the market?
- How many customers can each franchise potentially serve a year?

Existing operators often use a market analysis to identify opportunities for market growth, brand equity improvement or expansion of a new idea.

A macroeconomic assessment

In the initial phase of a feasibility study, the market analysis is usually a macroeconomic assessment of the potential venture. For example, is there an economic base for the type of clientele required to support the investment? Is there market demand?

In our specific case, the answer to the first question was yes. The metropolitan Tel Aviv area, including the towns of Netanya and Rananna, are Israel's Silicon Valley. In addition, many pharmaceutical companies and communications firms are headquartered along this stretch of the Mediterranean. The highly-educated employees and entrepreneurs of this region tended to marry in their 20s and have approximately two children; have ample disposable income; and exhibit dining habits consistent with the placement of mid-scale commercial ventures. In short, it seemed to be fertile ground for a moderately-priced CDR located in mall settings.

For the Mexican CDR, the first hurdle was cleared. There existed a viable, growing market that is economically robust. Moreover, the parent company entered this market with a distinct advantage. In the Mexican food category, there was no noteworthy competition. At the time of the study, the field was wide open.

Fell to survey research

It fell to survey research, then, to answer the following questions: Will Israeli yuppie couples frequent a restaurant when, to them, the slogan "South of the Border" means Egypt? Will their children whine for tacos in a nation where hummus is king? Can the lure of a burrito beat the steakia restaurant next door that features a la aish (mixed grill) and lamb hearts?

To answer these questions, there is no alternative but to conduct primary research. A local, Israeli data collection service was engaged to partner with us to collect data via targeted phone sample and mall intercept studies in and near proposed locations of the Mexican CDR, which included the Tel Aviv beach promenade; an upscale mall located in the Ramat Gan financial market center; and in other central commercial areas such as Herzlia Pituach, where high-tech and pharmaceutical centers are based.

While the content of the survey remains proprietary, there were several components considered in the survey, including assessment/familiarity with Mexican cuisine and top-of-mind awareness of the CDR brand (many of the Israelis interviewed had worked or spent time in the U.S., where the brand is prevalent). The survey also presented questions about the culture stamp of Mexican food (e.g., in the U.S. peanut butter is culturally stamped as a sandwich mommy made to take to school, while in France peanut butter is viewed as a condiment or garnish for pastry) and restaurant occasions respondents might feel the restaurant would be appropriate, such as a night out with the family; a night out with friends; a company party or event; or dates/social occasions. Finally, the survey addressed potential menu options (i.e., appetizers/soups, entrees, desserts, nutritional concerns, cultural/kosher concerns, pricing and demographics) and the competition. (As stated before, there existed no credible Mexican cuisine competitor at the time of the study.)

Findings in hand

With the market analysis and survey research findings in hand, the next step was to create a market projection of the investment based on macroeconomic input, the size of the market and survey findings.

We performed this market forecast as part of the survey research project using a Monte Carlo simulation. Projected costs, anecdotal input (i.e., the distance a respondent might travel to dine at the Mexican CDR), projected advertising costs and political stability of the region were considered. The findings were summarized and presented to the C-suite, the parent company of the Mexican CDR. Based upon that information, the parent company ultimately made its decision.

Cannot be understated

The role of primary research in feasibility studies cannot be understated. While all too often we limit ourselves to single methodologies for the purpose of simplicity, it is critical that the right tools be used to answer the right question.

The foundational question of "Can we do this?" needs to be based on hard figures. Rigorous market analysis is a necessity to prove that people and money are accessible.

"Should we do this?" is another question entirely. Survey research is where we can define the cultural stamp and begin to understand what it would take to create successful menu offerings and assortment. More than anything it is the survey work that allows the brand to see how their personality and messaging will be interpreted by their potential customers.

Not ready enough

In this case it wasn't that the Israeli did not like the idea of an upscale CDR Mexican restaurant. The cultural stamp was exotic and appealing. However, according to the various forecast scenarios, the Israeli market was not ready enough for the final decision makers to give their stamp of approval. The parent company did not move forward.

Our global economy is still a new concept and navigating a global branding strategy has many feeling like they could sail off the edge of the world. As in any localized market, brand equity is the gold standard and feasibility studies need to reflect the branding reality along with the potential for profit.

It could be a while before patrons sip on faux-authentic margaritas while gazing at the Mediterranean or devour an enchilada before hitting the Tel Aviv club scene but as American brands continue to define themselves with the consideration of global perceptions, maybe it's only a matter of time. | Q