AMERICAN UNIVERSITY OF BEIRUT

SCALING UP FOO: TRANSFORMING A LEBANESE
STARTUP INTO A MENA MOBILE APP DEVELOPER

by
FATEN JAMIL ABDEL AHAD

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for the degree of Master of Business Administration
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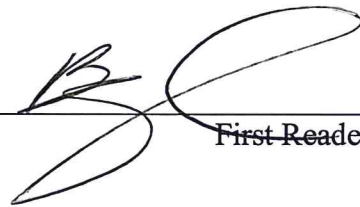
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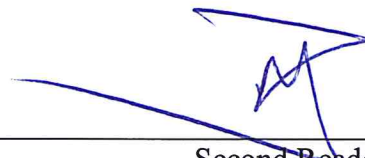STARTUP INTO A MENA MOBILE APP DEVELOPER

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Approved by:

_____
Dr. Bizhan Azad, Associate Professor   First Reader
Suliman S. Olayan School of Business

_____
Mr. Tarek Kettaneh, Senior Lecturer   Second Reader
Suliman S. Olayan School of Business

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AN ABSTRACT OF THE PROJECT OF

Faten Jamil Abdel Ahad   for   <u>Master of Business Administration</u>
<u>Major</u>: Business Administration

Title: <u>Scaling Up FOO: Transforming a Lebanese Startup Into a Mena Mobile App Developer</u>.

This case focuses on documenting the key issues faced by FOO—a key SME player in the ICT sector—and more specifically on how it tackled those issues during its growth process over the prior six years. Based in Beirut, Lebanon, FOO was founded by two AUB graduates in 2009, right at the beginning of the mobile apps boom. As a startup, FOO focused on mobile app development in order to generate revenue and profit by deploying mobile technologies to enhance mobile user experience. Since then, however, FOO has emerged as a leading ICT player providing content based apps, user driven apps, interactive marketing, video streaming, e-business solutions, and more, for various operating systems including Android, iOS, Windows, Blackberry OS, and Symbian OS. In addition, FOO founders are currently expanding their work to include virtual reality, smart homes and cities, wearable technologies, Bluetooth beacons and big data, among others. The evolution of the case highlights the subsequent points, focusing in particular on how FOO faced and tackled them. First, the case shows how the role of complementary skills and expertise in the founding team of FOO was key to its success. Second, it portrays how FOO dealt with the risks and challenges that a high-tech startup company faces when entering a new market space in the Middle East – e.g., mobile apps. Third, it highlights how a startup like FOO adapted and pivoted from its startup business model as an app developer to a digital innovation partner, while it grew and learnt the importance of differentiating its offerings. Fourth, it focuses on how human resources-related issues come up and are worked through as a firm like FOO grows beyond the founding team into a full-fledged functional organization. Finally, the case study documents how the financing decision faced by the founding team came about and was thought through via weighing the pros and cons of partnering with venture capital versus strategic investors. Overall, the case contributes to our practical knowledge of Middle Eastern (and Lebanese) startup growth processes. More specifically, it demonstrates how such local and regional high technology firms face growth challenges and tackle them.

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To

My Beloved Family

CHAPTER I

INTRODUCTION[1]

It was 11 am on a Monday (November 9, 2015), which meant that it was almost time for FOO founders' weekly meeting at 12 noon. Elie Nasr was driving to his office at the Queen Plaza Center in Sin El Fil, one of Beirut's eastern suburbs. As he progressed slowly through the city's usual morning traffic, he began to reminisce back to the days when he and Ghady Rayess quit their respective jobs and established FOO. Suddenly Nasr's mobile rang. He pulled it out of the pocket of his jacket to realize it was Hadi Khoury, a friend of his in investment banking.

> "Remember our conversation last week at Mandaloun Café? Well, someone is very interested!" Khoury excitedly started.

> "Are you serious? Already?!" Nasr was in disbelief.

One week earlier, Nasr and Khoury were discussing over lunch how FOO, the mobile app development lab founded in Lebanon six few years ago by two enthusiastic entrepreneurs, and with just $20,000 USD, was now ready to scale up its operations and go big. For that purpose, and as a continuation to their conversation, Nasr communicated to Khoury that he and his partner were looking for US$ 3M in investment capital.

> "You actually won't believe it. It is Arab Venture Affiliates (AVA), one the most respected venture capitalists in the region, and they are very interested in partnering with you!" Khoury continued with even more enthusiasm.

Nasr was in total amazement and had no direct answer to give to Khoury. Burning with excitement, he couldn't wait till FOO's weekly meeting in half an hour. He called

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[1] The authors may have disguised certain names, financial and other identifying information to protect confidentiality.

Rayess and surprised him with AVA's offer.

"They are ready to contribute the full US$ 3M," Nasr explained, and the two agreed to deliberate the investment opportunity shortly during their meeting.

On a different note, three days earlier, Rayess had received a phone call from Khaled Al Amir, Chief Strategist and Business Development Officer at Middle East Telecommunications (MET), a reputable Kuwaiti Telecom company and a client of FOO's, through which the latter expressed the interest of his firm in buying a controlling stake in FOO. Al Amir had read in an interview in Executive magazine, Lebanon's premier economic, financial and business magazine, that Nasr and Rayess were seeking US$ 3M in investment capital.

The founders always knew that the day would come when the success of FOO would grab the attention of investors. As competition in the mobile app industry is fierce, Nasr and Rayess have continuously discussed various financing opportunities to help grow their business in order to remain competitive and meet growing demand. With MET's and AVA's investment proposals now, the entrepreneurs could begin working on turning their company into a strong regional player in the industry.

FOO is one of the prominent mobile app development companies in the Middle East. Based in Beirut, Lebanon, the firm was founded by Elie Nasr and Ghady Rayess in 2009, right at the beginning of the mobile apps boom, with a goal to advance the use of mobile technologies and to enhance mobile user experience. Since then, FOO has emerged as a leading provider of mobile apps, ranging from content based apps to user driven apps, interactive marketing, video streaming, e-business solutions, and more, running on various operating systems including Android, iOS, Windows, Blackberry OS, and Symbian OS. Through releasing apps of its own and also working on several custom made apps for other

corporations, FOO has built an in-depth experience in mobile cross-platform application development. FOO caters for local, regional and international clients and brands, differentiating its services and products by focusing on quality and innovation[2]. Recently, the company has started building a series of off-the-shelf products including interactive marketing, digital ad networks and e-business solutions. Business-wise, this has certainly paid off. FOO currently boasts 120 clients in more than 15 countries (See Appendix I, Exhibits 4 and 5).

Nasr and Rayess were childhood friends before they founded their company. As such, the atmosphere of their meetings was usually very light. Today, however, there was a bit more nervousness in the air. The management team needed to make one of the most difficult decisions in FOO's history. Both partners had to agree on which investment proposal to accept in order to take FOO to the next level: that of AVA or that of MET, or perhaps should they refuse both offers and look for other modes of financing? The founders needed to make some critical decisions and make them fast.

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[2] FOO Website; available from http://foo.mobi/about-us/

CHAPTER II

THE STORY OF A STARTUP EMERGING FROM THE TRENCHES

Nasr and Rayess: A Match Made in Heaven

Nasr and Rayess both grew up in Lebanon. They went to the same school, Saint Joseph School, on a hill up in a village called Cornet Chahwan in Mount Lebanon. Upon graduating from school, the two friends went to the American University of Beirut (AUB) where they studied Computer and Communications Engineering (CCE). There, they worked together as a team on numerous projects and under varying circumstances, therefore learning how to effectively interact, make decisions, resolve conflicts, celebrate success and deal with disappointment. After that, each of them went his separate way. Despite the diverging career paths, Nasr and Rayess stayed in touch and continuously discussed starting a company together.

Nasr's passion for information technology emerged as a teenager where he would spend his time hacking computers and making websites.

> "I once hacked my school's IT system and published the passwords in the school's newspaper to pinpoint the vulnerability of that system" Nasr recalls. "I would also spend hours just playing around with computers and experimenting with building websites during a time when hardly anyone even knew about the Internet."

Parallel to his university studies, Nasr continued building and developing websites for reputable clients such as the United Nations. He even used the income he generated to pay part of his degree.

In 2002, with just one year left in his studies, Nasr was offered an internship at BMW Germany, where his hard work would earn him another internship the following

year.

During his last year of university, he took an entrepreneurship course in the business school. At this time, the entrepreneurship spirit in him started to take shape. In addition, he worked in collaboration with classmates on a very interesting final year project that triggered him further into entrepreneurship and the world of IT and telecom. The project won second prize in a contest sponsored by Nokia, Ericsson and Microsoft. The team had invented, back in 2003, a digital bracelet that could monitor a carrier's movement and heartbeat and report the data to a mobile phone. Later that year, he participated in 'Spark', one of the first entrepreneurship competitions in Lebanon, sponsored by Microsoft, and won the first prize.

> "The final year project really spurred me on, and I didn't want to stop there. Therefore, when I read about the Microsoft competition, I signed up immediately. My knowledge of both computer hardware and software enabled me to design a lean computer that would be used by two or three people. That computer would cost no more than $200 to build and would be sold to developing countries. Ten years later, I found out that Microsoft was promoting a similar computer in Africa."

The contest made a great impression on the young Nasr who started dreaming of becoming an entrepreneur one day.

Upon graduating from AUB, Nasr moved back to BMW Germany, where he climbed up the corporate ladder from an intern to Project Lead at BMW Financial Services. He spent years travelling across Europe, managing various big scale projects, while absorbing new cultures and business practices. Four and a half years later, satisfied with his achievements at BMW, Nasr resigned and accepted an offer from consultancy firm Accenture.

> "I learnt a lot at BMW but I needed to try something else, something new. So I joined Accenture in August 2007, which for me was another type of school that accelerated my career, the way I think, the way I operate, the way I do things in life."

At Accenture, Nasr worked in consulting multinational telecom operators on adopting latest concepts and being the market leaders in innovation. He managed and rolled out projects for Vodafone Group, one of the world's leading telecommunications groups, with the aim of optimizing the telecom giant's supply chain and revenue streams. Nasr took the lead on several projects and had a dedicated team of 200 people in India whom he managed on a daily basis. The idea of opening something on his own, however, never stopped haunting him.

Meanwhile, and upon graduating from AUB with a CCE degree, Rayess traveled to the United States in order to pursue his Masters Degree in Information Technology at Carnegie Mellon University. After his Master's graduation, he returned to Lebanon and joined the corporate world with Lebanon's largest telecom firm, Touch, as Value Added Services Engineer. There, he worked on developing services for mobile phones and pioneered the credit transfer technology in Lebanon.

A year and a half into his tenure at Accenture, Nasr got a phone call from Rayess. Rayess was now ready for a new venture. Nasr left Accenture and returned to Lebanon to pursue his dream of starting his own business with his childhood friend, Rayess (See Appendix I, Exhibit 7).

> "I never stopped dreaming of becoming an entrepreneur. Every time I returned to Lebanon for holidays, I would contact Rayess and we would discuss the idea of opening a company together. I used to tell him I'm ready whenever you are. One day, I finally got the call I had been waiting for. Rayess told me he was ready, and soon after, we both resigned from our jobs. We even decided that the name of our company would be FOO, though we still weren't sure what it would be exactly about. Our main drive was to come back to Lebanon, start our own thing and contribute to rebuilding the country and making a positive change."

FOO's identity took shape thanks to Rayess, whose experience at Touch gave him an invaluable insight into the business potential of mobile applications. Additionally, both

entrepreneurs began to notice that the aforementioned domain had a promising future. It was expected to grow and expand further as more and more people relied on technology, including smartphones, to make their lives easier.

"Regardless of a company's stage or size, a startup's founding team is key to its success" (Simoudis, 2014) and chemistry between the founders is instrumental. Countless startups, including some of FOO's local competitors, have actually failed early on because of their weak founding teams. Nasr and Rayess's technical and complementary backgrounds allowed them to address the multiple contingencies and challenges that faced them while kicking off their company. Nasr's excellent project management skills, accompanied by his worthy consultancy experience with multinational telecoms, was complemented by Rayess's deep technical proficiency in the digital mobility industry, especially in the MENA market.

> "We knew the future was in apps, and the combination of Rayess's knowledge of both the telecom industry and programming and my project and business management skills which I had acquired at BMW and Accenture was a match made in heaven" (See Appendix I, Exhibit 8).

Founding FOO

FOO was officially launched in February 2009, before there was the blossoming technology startup ecosystem present in Lebanon today. Although Nasr and Rayess were confident that mobile apps had potential commercial success, it was not so obvious in Lebanon.

> "There were very few smartphones in Lebanon and it wasn't obvious that apps were going to be the next big thing. In addition, investors were still reluctant to provide seed funding and mentoring to technology startups."

Receiving no external funding to start up their company, they had to pull their

own bootstraps.

> "Money is the fuel for any start-up, but definitely not the factor that will stop you from realizing your dreams. The moment you think that money is a bottleneck; you are no longer an entrepreneur!" advised them Rani Saad, an experienced entrepreneur they had been consulting with since they decided to launch their startup.

Saad had been in their shoes many times before and was therefore able to offer them much-needed business mentoring and useful guidance.

Encouraged, the founders put in LBP 30M (equivalent to US$ 20,000) and rented a 100 square meter office from Nasr's father, where the two would work relentlessly for more than 13 hours a day, and pay themselves salaries of US$ 300/month each. They developed two app ideas: a mobile mapping solution and a secure messaging app that prevents spying. Unfortunately, both projects had to be soon discontinued. The first one was dropped because the local market was not yet ready and the second one was dropped due to a special governmental security request. Along the way, the entrepreneurs had to overcome numerous obstacles inherent to operating in developing countries like Lebanon, including political instability and ailing infrastructures, specifically in electricity and broadband.

Towards the end of 2009, Bader, a Lebanese NGO that helps entrepreneurs get mentoring, visibility and angel funding, invited the promising engineers to pitch their mobile applications development startup. The idea, however, was not well received.

> "I remember one of the biggest investors in Lebanon telling us that our startup was a joke and that we were wasting our time. That was in 2009. In 2011, that same investor knocked our door and told us he was ready to invest," said Nasr.

Despite all the difficulties, the geeks never gave up. Nasr started working on pure IT consultancy projects in order to raise money for the startup, whilst also better understanding the Lebanese and Middle Eastern corporate world. In parallel, Rayess was

focusing on 'FOO-ME', a location-based app with social features he had been experimenting with. The app located a user's whereabouts and listed nearby restaurants, events and movie schedules from featured vendors. 'FOO-ME' also incorporated a free messenger system between Blackberry and Symbian devices. Within weeks, 'FOO-ME' gained wide popularity, quickly reaching 30,000 downloads. In March 2010, FOO won its first award from ArabNet Conference, a large regional digital and tech conference, for its 'FOO-ME' app, when it was voted the third best startup in the Arab region. That brought Nasr and Rayess visibility among media outlets and even potential clients.

Even with the limelight from ArabNet Conference, attracting clients in the region was still challenging, as the value of apps was not yet well understood. The founders were introducing something novel and innovative and thus had to work hard to create a market.

> "We spent two years educating clients on the value apps add to their businesses, including the latters' role in enhancing market awareness and ultimately increasing profits. Eventually, we started taking on more projects and our client base started to grow steadily (See Appendix I, Exhibit 9). At that time we had no sales team, so we relied on word of mouth and recommendations. We gained many clients from different industries and countries in the region, which gave us more visibility in various MENA markets", clarified Nasr.

CHAPTER III

BALANCING BETWEEN SERVICING CLIENTS AND CREATING OWN PRODUCTS: A KNIFE EDGE BUSINESS MODEL

In computer programming, the word 'foo' is often used as a term to express different variables or functions when presenting examples. Accordingly, it takes the value you assign to it and can be anything, like the 'x' in algebra or the 'widget' in economics. As its namesake, FOO has throughout its six years of existence pivoted from one business model to another, assuming diverse business roles in the mobile field.

> "You have to validate your business model every single day, every single hour and pivot appropriately. In a fast changing industry like mobile developments and given the unpredictability of future market conditions, if you don't pivot the right elements of your business model at the right time, you die", justified Nasr.

The mobile device and application industries are moving at a fast rate, which can hurt businesses that do not keep up. FOO has been confronted with this change since its inception but has always been swift to react, reimagining and reinventing itself to cater to the changes in technologies.

In 2009, the founders started building their own products such as 'FOO-ME'. Nonetheless, further developing 'FOO-ME' or other in-house apps required capital investment, which was difficult to secure at a time when few people in Lebanon believed in the mobile app space. For this reason, by the end of 2010, Nasr and Rayess decided to freeze in-house app development and focus instead on building apps for third parties to generate much needed revenues and expertise. Building on 'FOO-ME's reputation after ArabNet, the two founders were able to attract international clients including Heineken and McVitie's (See Appendix I, Exhibit 11). They also received a number of requests from

leading companies in the region asking them to act as their mobile applications agency (See Appendix I, Exhibit 12). According to Nasr, switching business models was the only way for FOO to survive during its embryonic stage.

By the end of 2011, FOO had established itself as a reputable app developer with an impressive portfolio of clients. With finances raised from servicing clients, Nasr and Rayess were capable of branching out into product development. Additionally, during the same period, they had observed a growing number of competitors (See Appendix I, Exhibit 13) and knew they would not be able to differentiate themselves by continuing to heavily rely on their service business activity. Although they enjoyed first mover advantage and established a good reputation in the region, the barrier to entry was low as any technically gifted developer with a small capital could enter the market. Subsequently in 2012, they opened Lebanon's first app incubator by hosting different innovative app ideas that would be sold directly to consumers.

> "Servicing other clients by developing their apps was something that kept us alive, but we always wanted to build those products", said Rayess.

> "We were always resisting servicing clients. We didn't want to build their companies and dreams. We wanted to build our own company and dreams", added Nasr.

Nasr and Rayess filtered through dozens of ideas and shortlisted 11 ideas to work on. But, they quickly realized that each idea required substantial more money, time, and effort to research, develop, build, market and sell. Progress was slow, and after a difficult year, in 2013, the founders decided to drop most of the ideas and change course again.

> "We were so excited to get back to building our own consumer apps that we didn't think of all the challenges and risks we might face", stated Nasr.

> They were trying to do everything at the same time: service clients and also build

B2C apps sold on app stores. Their failure in the incubator experience eventually taught them to be more focused and specialized. Based on that, beginning 2014, FOO started developing industry-specific solutions sold as products to businesses rather than to consumers. Focus is now limited to industries that the FOO team understands well, specifically telecom, banking, retail and healthcare. This focus gives FOO an advantage to better compete and increase its market share. To date, the company has developed ten products that have gathered traction, these include: a news app for media companies, a self-care app for telecom operators, an auto loan and a loyalty program app for banks. For example, after developing an auto loan mobile application that allows Byblos Bank's customers to fill out loan applications online and get an answer on their request within minutes (See Appendix I, Exhibit 14), the entrepreneurs are now packaging that technology as a product and slightly altering and improving it each time to tackle other types of loans for other banks, locally, regionally or even internationally. The existing platforms allow for a quicker response to market demands with an increasingly superior quality after each iteration. What basically changes is the design and the branding of the already developed app. This renders FOO more efficient in terms of development cost and time and that efficiency gives it an advantage over its competitors. In addition, applications developed by FOO are hosted on their own servers which makes it expensive for their current clients to switch to competing companies.

CHAPTER IV

GROWING FOO

FOO's steady growth continued into 2015 supported by a staff of 36. So far, the founders had never cashed out dividends, but rather invested all profits generated in the growth of the company. FOO's headquarters had already relocated three times to accommodate a growing number of staff with different types of skillsets (See Appendix I, Exhibit 15).

Nasr and Rayess did a great job in hand picking the right people to work with them. They focused on attracting the top-notch developers, designers and engineers in the country. They spent a lot of time interviewing and filtering candidates because they knew that those selected would be the most valuable assets of their startup, the pillars that would push their company forward.

Initially, FOO founders handled Human Resources (HR) related issues themselves and relied mostly on employee referrals to locate talent. Later in 2011, they employed a part-time HR manager to attract and recruit high quality talent based on their fit in six core areas: a) ethics, b) drive (passion), c) personality, d) hard work and perseverance, e) creativity and intelligence and of course f) skill.

> "At Foo, we've always worked hard to make our people the most important and influential factor. We employed people of various personalities, interests, and qualities in order to mix it up with carefully studied steps. This has helped us achieve a 'fluid' company capable of positioning itself quickly amid highly rapid technological change"

Retaining skilled employees was one of the main challenges that FOO faced however. The political instability and economic uncertainty in Lebanon have led to a high level of brain drain, "as the brightest Lebanese university graduates seek higher salaries in

the US, Europe, or the Gulf" (King, 2015)[3].

> "The problem is not migration to competitors in Lebanon but people going overseas," elucidated Nasr. "Our employees are top developers, engineers or designers in the country and could easily be hired by international companies, so I've always been concerned about the likelihood of keeping them at FOO and bringing the similarly motivated expats back to Lebanon."

As a result, FOO had to invest substantially in employee loyalty and retention. Nasr and Rayess built a strong entrepreneurial culture, empowered their employees, raised their financial packages and incentives and maintained a steady flow of exciting and challenging projects that would boost the career paths and development of those talents and keep them interested.

> "I confess that we have worked very hard to convince each and everyone of our 36 team members to stay here. For us, this is an achievement!" said Nasr.

Because FOO provides a full spectrum of digital services, the founders made sure to build a team that provides the entire value chain.

> "Our team's skill set ranges from product design, software development, project management, to testing and maintenance."[4]

Part of FOO's path to growth was to reorganize the startup as it grew and pivoted its business model. For instance, now that they began working on products that can be sold to many clients rather than on a project-by-project basis, the founders are consolidating the company into a structure that is easy to scale up going forward, with different teams focusing on different sectors. There is one interdisciplinary team for each of the main industries they are currently focusing on (telecom, banking, retail and healthcare)

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[3] For instance, the average wage of software engineers in Lebanon is nearly 37% lower than in the Gulf Cooperation Council (GCC) and nearly 50% lower than in selected developed economies (Information Technology Fact book, 2015)

[4] FOO LinkedIn Page; available from https://www.linkedin.com/company/foo

comprising a project manager, developers, UI/UX designers (User Interface/User Experience designers) and other functional specialists. The direct and frequent contact between the different members of the same team ensures better communication and more flexibility.

Along the way, and although the founders exhibited fierce loyalty to their employees, especially the early ones, they were objectively able to evaluate performances and as a result laid off employees who had reached the limits of their capabilities or who were unable to effectively handle growth and change.

To keep up with FOO's rapid growth, Nasr and Rayess are now recruiting an experienced full-time HR professional who will formalize the company's organizational structure and establish a company guidebook that contains formal HR policies and procedures.

CHAPTER V

RIDING THE WAVES OF INNOVATION

"The mobile app industry has never seen so many rapid changes and new trends as what we will see in next two years. We can expect mobile apps to replace our wallets, monitor our health, control our cars and home and support several functions of our lives that were not possible with older technology" (Jain, 2015). In such a fast-paced industry, FOO will continue to differentiate itself through innovation.

Dubbed as "Mobile Magicians" by the Entrepreneur Magazine, Nasr and Rayess are innovators and renowned figures in the digital mobility industry. The entrepreneurs reaped awards such as the "Young Creative Entrepreneur" by the British Council, "Nokia Champions" by Nokia, "Innovation Partners" by Bank Byblos, "Winners in the Brilliant Lebanese Awards" by BLC Bank, "Honorary Partners" by Microsoft and many more (See Appendix I, Exhibit 16).

Although Nasr and Rayess charge higher prices as compared to their competitors, their work is recognized for its quality and innovation (See Appendix I, Exhibit 17).

> "A few of our clients have actually moved to our competitors due to our higher prices, but those soon returned back when they did not find better value elsewhere."

Nasr and Rayess have remained true to their techie roots, constantly embracing new technologies, currently leaning on M to M (machine to machine), which is the 'internet of things' notion that every machine in the future will be interconnected and interoperable (Murray & Schellen, 2014). In addition, they are expanding their work to include virtual reality, smart homes and cities, wearable technologies, Bluetooth beacons and big data, among others.

"We are known as mobile app developers but we don't want to be labeled as such. We always want to be in the forefront of technology, we want to be innovative; we want to be a company that delivers unique solutions."

Eager to give back and share their story, Nasr and Rayess have set up an academic alliance with the AUB MBA program to deliver an entrepreneurship course that promotes digital innovation. In addition, they continue to inspire the youth through the 'Darwazah Student Innovation Contest' and other similar innovation-related competitions.

CHAPTER VI

FINANCING DILEMMA

Founders usually have to choose between becoming "Rich" versus remaining "King": Founders who bring in outside resources imperil their control of the startup; conversely, founders who resist imperiling their control often fail to attract the resources necessary to realize the full potential of the startup (Wasserman, 2012).

Nasr and Rayess knew that equity capital was crucial for financing their startup growth beyond initial stages. Although the founders have been bootstrapping for six years and occasionally using loan financing, they now recognize the need to look for outside resources in order to accelerate their scaling up and build the greatest value. FOO needed to raise money in order to grow its team, develop its current products, invest in new research and development and finance its expansion in the MENA region.

> "FOO plans to open offices in Kuwait, the United Arab Emirates, and Saudi Arabia over the coming two years, in order to better serve its local clients in those countries as well as acquire new clients in the Gulf region,[5] which is a favorable ground for apps," said Nasr.

By the end of 2015, FOO founders were looking for US$ 3M in investment capital. In this regard, they have been actively exploring investments from various types of investors, and have narrowed down their choice of financing partners to two: either the venture capital firm, Arab Venture Affiliates (AVA), or the mobile and data services operator, Middle East Telecommunications (MET), who have themselves expressed strong

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[5] "High income levels and a large expat population put Gulf countries in the lead when it comes to mobile broadband penetration. Saudi Arabia and the United Arab Emirates both boast a penetration of over 100%, according to the 2015 Digital, Social & Mobile Worldwide report. Neighboring MENA countries are also catching up with this trend" (Baghdadi, 2015).

interest in investing.

AVA

Founded in 2008, AVA is the Middle East's leading independent venture capital firm with more than 25 investments in the retail space since establishment. Having a unique combination of backgrounds and expertise, AVA invests in the early and growth stages of innovative companies run by clever entrepreneurs primarily, but not exclusively, in Lebanon, Qatar and Jordan. With more than US$ 50 million in assets under management, AVA is the largest and most established VC firm in the Arab region, with clear cross border investment appetite. In an attempt to diversify their portfolio, AVA are looking to invest in technology companies with proven traction in the MENA region. Their first investment with a technology-oriented company in Jordan was a failure however.

In October 2015, two investors from AVA met with Nasr and Rayess at an award dinner. Both company representatives were seated on the same table. The investors had already heard about FOO and its success in Lebanon and the Arab region: FOO had gained a strong reputation of quality, innovation and expertise in the regional mobile domain. As soon as they sat with them, the investors couldn't but notice the natural chemistry and mutual respect between FOO founders. In addition, after talking closely to the entrepreneurs, the AVA people realized how the relevant past industry experience of each of them complemented that of the other. Right away, they recognized that they had to invest in FOO. Apparently, the high tech company had a strong foundation, durable competitive advantages and a high-growth potential.

When AVA heard from Nasr's friend in investment banking that FOO was looking for funding, they directly expressed their readiness to invest. They were willing to

put in US$ 3M in return for 46% equity.

Although Nasr and Rayess have been often approached by venture capitalists in the past, they were never interested. Synergy was the most important factor for FOO when looking at partnerships, because to them, it was that the element that nurtured growth. This time however, they needed the money in order to grow FOO exponentially. As a result, they thought it would be useful to weigh the advantages and disadvantages of accepting an offer from a VC firm.

MET

Middle East Telecommunications Group (METG) is a leading innovator of mobile communications, founded in 1981 in Kuwait. Part of METG, MET is MENA's first mobile operator. The company grew rapidly in the region through the acquisition of several other regional mobile operators. With a commercial footprint in eight Middle Eastern and North African countries (Lebanon, Bahrain, Jordan, Kuwait, Iraq, Saudi Arabia, Sudan, South Sudan) and a workforce of over 7,000, MET provides a comprehensive range of mobile voice and data services to over 45.6 million active individual and business customers. MET's key emphasis across its eight markets in the Middle East and Africa has always been to utilize telecommunications technology to provide its customers with the best user experience available.

Recently, market conditions became challenging for telecom operators across the globe, given the high penetration rates in most markets and the fierce competition between rival telecom players. Like many other telecom operators, MET's business was badly hurt as subscriber growth idled and replacement services including instant messaging (like Whatsapp) and Internet-based calls (like Viber) replaced higher-margin text messages and

conventional phone calls. Consequently, and as part of the MET Digital Innovation (METDI) business unit which is charged with launching MET into the digital space, MET is currently trying to grow through innovative business streams that add to its customer service offerings. Accordingly, it is now looking into investing in profitable high tech companies that develop top digital solutions.

Khaled Al Amir, Chief Strategist and Business Development Officer at MET, read in an interview in a Lebanese business magazine that FOO was seeking US$ 3M in investment capital. Immediately, he contacted FOO founders, and there were several reasons for his enthusiasm. First, MET is one of FOO's repeated clients. MET people have already interacted with FOO's team and worked with them on several projects. They are familiar with the culture of the company, the quality of work and the innovative spirit dominant among the highly skilled developers and designers who are collectively able to meet any project's requirements. Second, FOO has worked and is still working on various projects related to telecom, including projects for MET, the fact that shows that FOO is knowledgeable in the domain in which MET operates. Also, it would be highly beneficial for MET to partner with a component of its value chain. Third, FOO has gained a strong reputation in the regional mobile domain and is constantly working on new and innovative technologies and ideas. Fourth and last, FOO has been profitable and growing since its early beginnings, which was an important factor for MET while evaluating its acquisition options.

> "FOO is one of Lebanon's technology success stories and a strategic investment in it will fast track and enhance MET's delivery of innovative digital services to customers and enterprises," acknowledged Al Amir.

MET was willing to contribute the US$ 3M for 52% of the company. MET insisted on buying a controlling stake in FOO. They are a company listed on the Kuwaiti

Stock Exchange and therefore make sure to be majority shareholders in any partnership so that they can protect their investments. On the positive side, MET said it will respect the startup's autonomy, allowing Nasr and Rayess to continue managing, growing and handling the company's day-to-day operations.

Nasr and Rayess were hesitant. Over the years, they had invested so much time and effort into FOO and weren't willing to give up control easily. In spite of that, they decided to think about MET's offer. After all, MET's experience and strong presence in the MENA region would offer their company significant growth opportunities and open new markets for them.

Decision

In their meeting today, the founders needed to set out the advantages and disadvantages of teaming up with each of AVA and MET in order to make the best decision. As usual, they consulted with Rani Saad, their business mentor, who advised them the following:

> "As an experienced entrepreneur who has been confronted with this dilemma several times in the past, I strongly urge you not to simply choose the financing partner who is offering you more attractive economic terms. Pick the partner you will most likely feel comfortable with (Fisher, 2014). You are getting married to this financing partner and are going to be spending a lot of time with him as you go about growing your business. On another note, I advise you to do your due diligence on both firms. Talk to entrepreneurs who have already partnered with each of them and ask about the value that those firms added to the partnerships."

APPENDIX I

EXHIBITS

Exhibit 1

FOO's Vision and Mission

VISION
To become the leader in digital innovation and become our client's innovation partner.

MISSION
To deliver: INNOVATION. EXPERTISE. QUALITY.

Source: Company profile.

Exhibit 2

FOO's Main Offerings
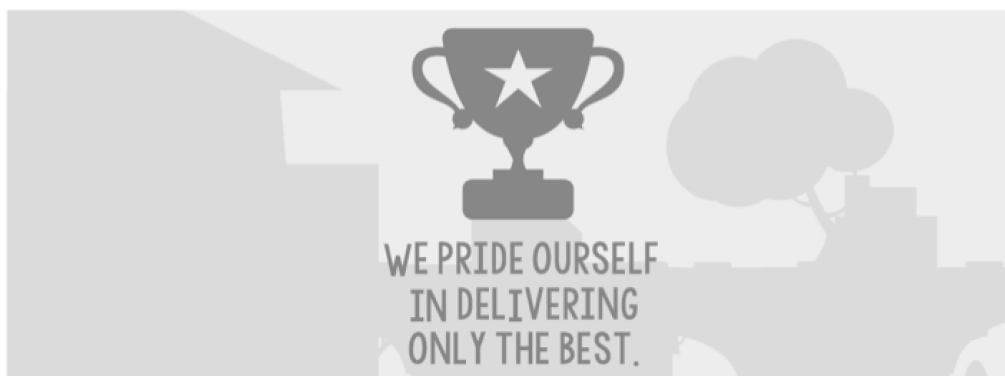
Source: Company profile.

Exhibit 3

FOO's Work Methodology

Business Development / Client Acquisition → Project & Concept Design → Tech Development & Content Integration → Quality Assurance & User Acceptance → Publishing & Marketing → Maintenance & Support

Business Development / Client Acquisition
- In the past, sales were driven by word of mouth or referrals from ad or media agencies. FOO is today taking a more aggressive stance towards regional expansion. It recently hired business development managers and is now able to target large clients more aggressively, and secure a bigger market share in the region.
- Once a project is identified, draft proposals are made in consultation with the technology and design teams for an initial concept template to be presented to the potential client. Although it is offered free of charge for the potential client, this phase can cost anywhere from US$ 100 to US$ 5,000 depending on the type of proposal required.
- The sales cycle typically takes three to four months with an average of four touch points with the potential client before a decision is made.
- Apart from sourcing for new clients, the Business Development team performs continuous research on the latest technologies and trends in order to ensure they are presenting the clients with the most updated cutting edge solutions.

Project & Concept Design
- Concept creation and project feasibility begin at the onset of each signed project. A project manager is assigned to the task and becomes the point of contact with the client while keeping in mind that every new business opportunity that arises from the same client is relayed back to the business development team. Each project manager can take on 15 projects at the same time.
- The project manager works closely with the business development and the design teams to develop in detail the project concept. Once the concept is finalized, the User Interface/ User Experience (UI/UX) team ensures the proper design for a seamless user experience. This phase constitutes the building block of the development process and usually takes an average of 1.5 weeks.
- The project manager then liaisons with the technology team in order to guarantee the feasibility of the application concept and design.

Technical Development & Content Integration
- FOO employs a team of specialized engineers who work on the development of products on a full-time basis and are divided according to technical expertise (iOS, Android, Back-End, and Windows). Each technical team is led by a senior technical lead. The senior technical leads work closely with the project manager and report both to Rayess and the COO.
- Tech development typically takes a month and a half for completion. However, with FOO's developed and tried frameworks, development now takes around three weeks per project.
- Once the application is developed, the client's content is integrated into the app.

Quality Assurance & User Acceptance
- A dedicated quality assurance person (in most cases the project manager) ensures optimum results on delivery and utility aspects while the senior technical lead reviews the code.
- Taking a week for completion, code review, compliance to mobile development standards, graphical user interface usability, and functionality to requirement verification amongst others form an integral part of the quality assurance process.
- Once the mobility product is developed, a user acceptance test is performed in order to ensure that the final outcome meets the client's expectations.

Publishing & Marketing
- FOO publishes the final product or delivers it to the client while offering a marketing service to complement it. This separate service helps the client achieve high visibility for the created product.
- The product is delivered with a warranty phase of three months in order to ensure a proper quality and user experience.

Maintenance & Support Services
- 65% of clients sign up for maintenance & support contracts, which constitute 10% of total revenues. These contracts are created in order to ensure full support of FOO to their developed applications and maintain continuity for the developed products.
- Clients can opt for different service levels from standard support schemes to full-service contracts, which include a 24/7 hotline as well as a dedicated technology person on their account.
- These services typically cost 10 to 15% of the initial contract value.

Source: Company records.
Exhibit 4

FOO's Major Clients

Source: Company profile.

Exhibit 5

FOO's Client Geographical Spread

Source: Company profile.
Exhibit 6

FOO's Technology Partners

Source: Company profile.

Exhibit 7

FOO Founders Brief Timeline

Source: Created by authors based on original information.
Exhibit 8

FOO Founders Complementary Expertise

| ELIE NASR | | GHADY RAYESS | | | |
| PROJECT MANAGEMENT SKILLS
+
CONSULTANCY EXPERIENCE
WITH MULTINATIONAL TELECOMS | + | TECHNICAL PROFICIENCY
IN DIGITAL MOBILITY INDUSTRY
+
KNOWLEDGE OF MENA MARKET | INNOVATIVE
FLAIR → | "MATCH
MADE
IN
HEAVIEN" |

Source: Created by authors based on original information.

Exhibit 9

FOO's Growth in Client Base

	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
# of Clients	3	8	42	54	76	98	120

Source: Compiled by authors based on information provided by FOO.

Exhibit 10

FOO's Growth in Revenues

	2013	**2014**	**2015**
Revenues	US$ 760k	US$ 1.1M	US$ 1.8M

Source: Compiled by authors based on information provided by FOO.

Exhibit 11

Mobile Games for 'Heineken' & 'Mcvitie's' created by FOO
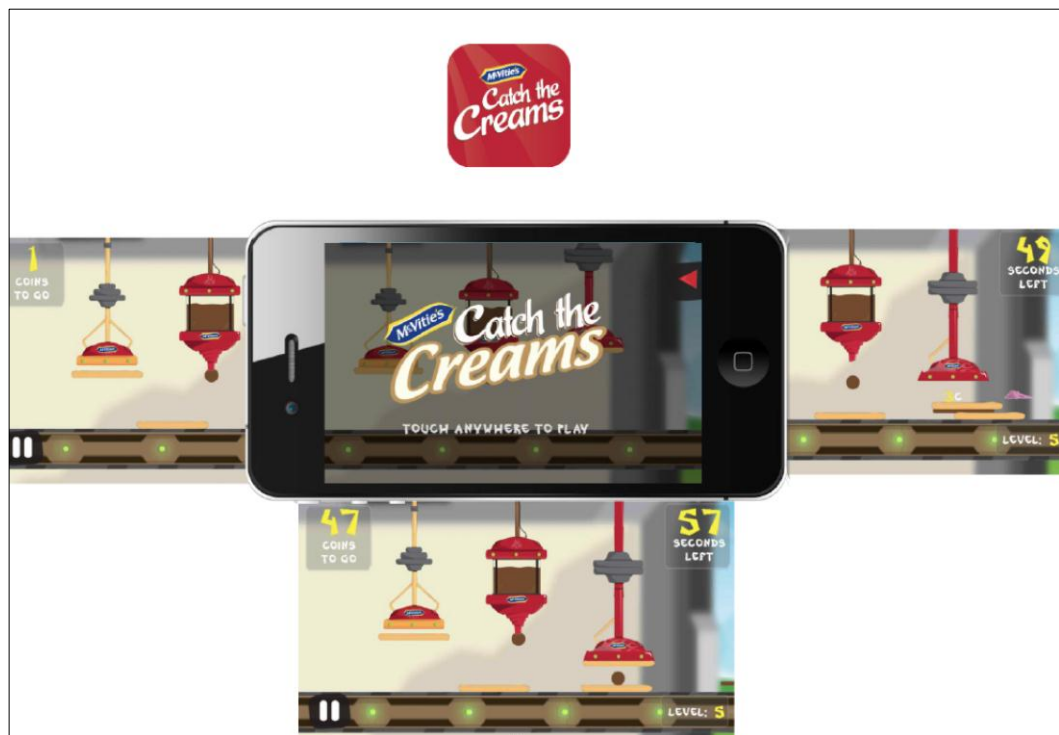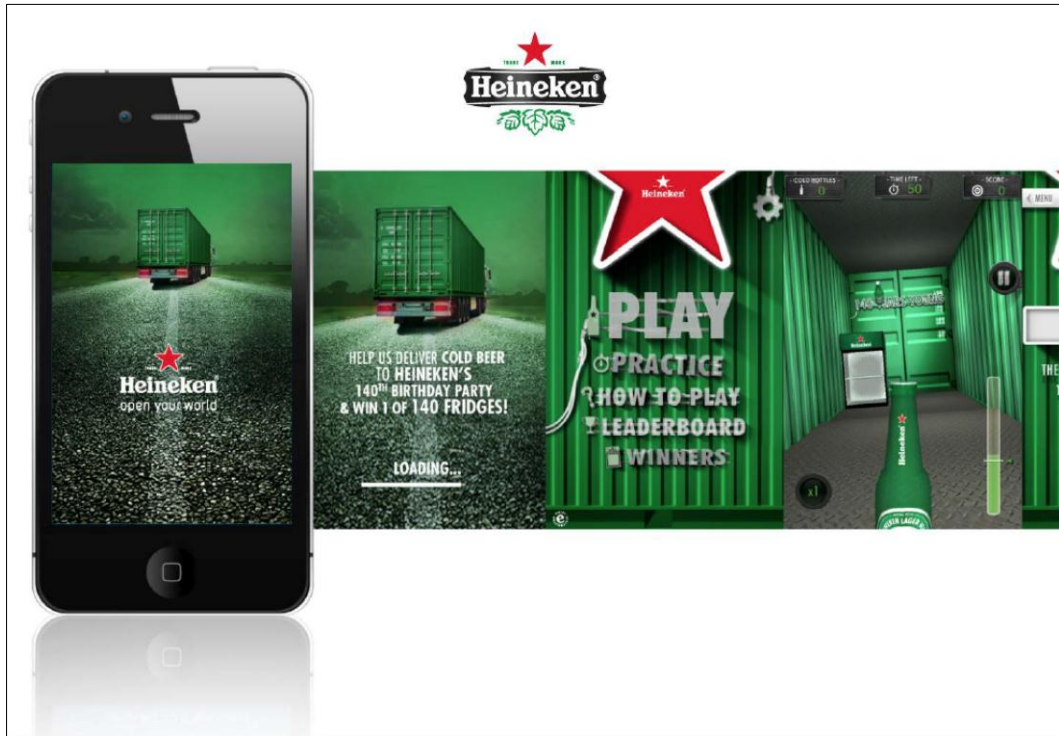
Source: Company records.

Exhibit 12

'Touch' Brief Case Study

	CLIENT: TOUCH **LOCATION:** LEBANON	**CLIENT SINCE:** 2011 **TOTAL SALES:** US$ 850K
	DESCRIPTION: Foo has been Touch's partner in mobility for the past five years. Touch first contacted foo for its mobility consulting services in 2011. After having worked with various departments within the company and consulted them on the best mobility strategies to follow, foo developed an excellent understanding of their client needs which made them the ideal candidate to actually develop the applications and implement them. Since then, Touch has hired foo for 14 additional projects - generating a total of US$ 850k in revenue.	

Source: Created by authors based on information provided by FOO.

Exhibit 13

FOO's Major Competitors
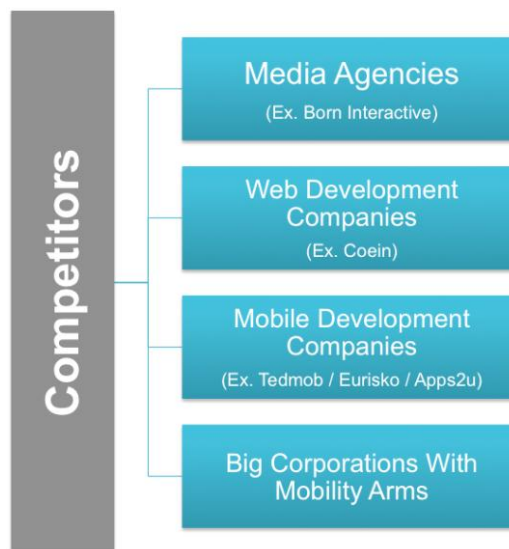
Source: Compiled by authors.

Exhibit 14

FOO's Loan Origination System

This is a consolidated solution for loan origination across mortgages, auto loans and personal loans. It helps in process standardization and effective pipeline management. The loan origination system is highly scalable and enhances the speed and accuracy of processing loan applications. It is implemented on multiple browsers and operating systems. Needless to say, the system conforms to the central bank regulatory requirements.

Source: Company Website (http://foo.mobi/products/).

Exhibit 15

FOO's Employee Growth & New Positions Introduced

	2009	2010	2011	2012	2013	2014	2015	2016 (expected)
# of Employees	2	4	8	18	28	32	36	40
Key Functions Added		Graphic Designer Web Developer	Part time HR Manager Project Managers to manage and track projects	User Experience Designers	Business Developer	Sales team to sell B2B	R&D team to dig into new technologies including virtual reality, Internet of things, smart homes, and other	Full time HR Manager Data Scientist to tackle big data Marketing Manager specialized in online marketing

Source: Compiled by authors based on information provided by FOO.

Exhibit 16

Awards Won by FOO

Efma & Accenture
2015 Innovation Awards
Best New Product

Won for the **auto loan origination** platform rolled out at **Bank Byblos**

Global Telecom Business
2015 Innovation Awards

Won for the **Leb Keys** app rolled out for **touch** telecom operator

Bank Byblos
Innovation Partners Award 2014

Won for the **constant innovation** rolled out at **Bank Byblos**

BLC Bank
Brilliant Lebanese Awards 2014

Top 6 brilliant businesses awarded by BLC Bank

All World Network
Arabia Fast Growth 500

Awarded to Arabia's fastest growing businesses

Executive Magazine
Lebanon's top 20 Entrepreneurs 2014

Awarded to top Lebanese entrpreneurs

Microsoft
Honors Partners Award 2012

Arabnet
Best Startup 2010

Awarded to top 3 Arab startups in 2010 based on our FOO-ME product

Source: Compiled by authors.

Exhibit 17

FOO's Work

- Telecom

- Healthcare

- <u>Banking</u>

CMO MOBILE PAYMENTS
Through the mobile phone, users can securely pay at merchants, withdraw cash at ATMs, transfer money to other users

OMNI-CHANNEL BANKING
Users can look instantly on their accounts, transfer money between their accounts, make loans and credit card payments, order a check ... The app also helps customers to locate the nearest Bank branch, ATM and smart ATM to deposit their checks and money 24/7.

CAR LOAN PRODUCT
A business-to-business mobile application allowing car dealers to simulate with ease and speed loan applications and track progress instantly.

LOYALTY PRODUCT
A rewarding card loyalty program. Through the app, users discover hot deals, gift lists, and travel destinations. Also, users will be able to find out how to double their points.

- <u>Retail</u>

Sosho
Sosho is a fashion discovery app with a social community. You discover, like, comment and tag what tickles your curiosity, and the app learns about your personal style. Sosho guides you to all the coolest places to shop and keeps you up to speed about what's new.

Merits
It's your shopping loyalty companion everywhere you go. Just visit a participating store, check in, and collect merits for your purchases. It is easier than carrying all of your loyalty cards in your wallet. You can always track your merits and how many you still need to redeem your reward which can be a free coffee at the coffee shop next door or cash back at your favorite store or even a special discount.

- Other

Source: Compiled by authors.

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