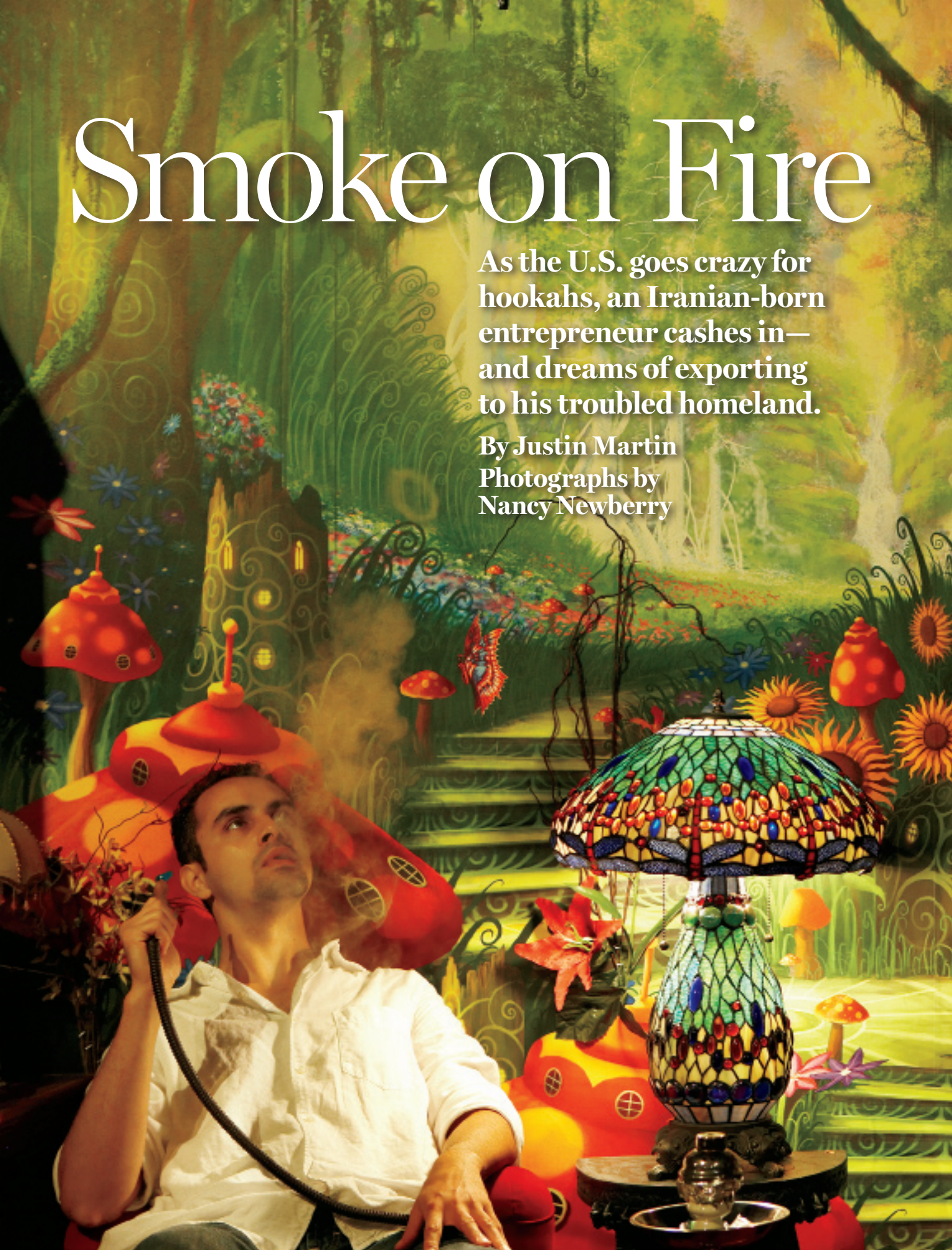


Smoke on Fire

As the U.S. goes crazy for hookahs, an Iranian-born entrepreneur cashes in—and dreams of exporting to his troubled homeland.

By Justin Martin
Photographs by
Nancy Newberry





WANT TO PLUNGE INTO THE MODERN AMERICAN melting pot? Try the offices of Social Smoke, a hookah manufacturer in Arlington, Texas. Here a silk Persian rug and a piece of Arabic calligraphy, *The 99 Names of Allah*, share wall space with a signed photo of a Willie Nelson impersonator. There's a Chinese green tea set in the conference room, and Mom's homemade enchiladas are chilling in the fridge. Abraham Nadimi, director of sales and marketing, is tapping a bobblehead doll of Dwight from the TV show *The Office*. "Welcome to the 21st century," he says. No kidding.

Social Smoke is growing gangbusters, and its success says a lot about the new international, cross-cultural landscape of American small business. It is run by Abraham's father, Sayyid Nadimi, 51, who emigrated from Iran before the 1979 revolution, and his U.S.-born sons. The Nadimis are tapping into America's deepening love affair with an ancient Arab tradition: hookah smoking. The company makes "authentic" Iranian and Egyptian hookahs in China, having tried and mostly failed to source them in the Middle East. Yet Sayyid is anxiously watching developments in Iran—and praying the U.S. government will soon let him sell his product back to his homeland.

Social Smoke is one of the largest and fastest-growing suppliers in the international hookah market. There is no trade group to track sales in the industry as a whole, but individual companies are reporting brisk growth. The first quarter of 2009 was Social Smoke's best ever, with sales rising 28% from the same period a year ago. Sayyid won't disclose revenues but says the company is profitable. The family firm employs 11 people and sells in 15 countries.

Though Social Smoke sells hookahs and *shisha* (tobacco for use in water pipes) to consumers online, 90% of sales come from supplying wholesalers and hookah lounges. At a time when cigarette sales are in steep decline (20% of U.S. adults now smoke, the lowest percentage since the Centers for Disease Control started keeping statistics in 1965), hookah lounges are booming. There are now more than 400 in the U.S., up 400% since 1999, says Piergiorgio Maselli, who maintains a directory on his site HookahCrazy.com.

Several factors account for the hookah boom. The smoking bans that municipalities nationwide have imposed in the past decade affected restaurants and bars, but not establishments dedicated exclusively to tobacco use. Unlike cigarette smoking, which has turned into something of a furtive activity, hookahs are inherently communal. Customers can get into a hookah lounge at age 18, three years before they are allowed in a bar. (The largest number of new lounges are found in midwestern college towns such as Lawrence, Kans. and Madison, Wis.) And most important, hookah lounges are a very attractive business model.

Just ask Yis Tigay, 28, owner of the Shouk Lounge in Philadelphia and a Social Smoke customer. Patrons stay twice as long in the hookah bar as they do in the three conventional diners his family owns, he says. Everything about his establishment—the languid music, the dim lighting, the divans—is designed to impart an unhurried vibe. A table of four puffing at a leisurely pace consumes roughly \$16 worth of *shisha* an hour, Tigay says—plus the food and drink frequently ordered. The cost of that *shisha* to him: \$2. "It's like putting a chain around people's ankles," he says. "They tend to stick around."

There's scant research on the health effects of hookah smoking,

which tends to be a sporadic, ceremonial activity, and many people don't inhale. Nevertheless, health experts warn that even such limited exposure to nicotine can spark addiction. "I worry because hookah use is so prevalent among young people," says Donna Vallone, senior vice president of research and evaluation at the American Legacy Foundation, an anti-tobacco group based in Washington, D.C. "What starts out as innocent experimentation could become a lifelong struggle to quit."

Social Smoke's response? "Everyone knows smoking is bad for you," says Abraham, 30. "The alcohol and food served in a hookah lounge also have the potential to be dangerous. Moderation is the key, and a hookah by its very nature is a device that promotes moderation. You can't get all fidgety, reach into your pocket and pull out a hookah."

Abraham's younger brother Ali, now 27, founded Social Smoke in 2003 while a student at the University of Texas at Arlington. As an observant Muslim, Ali does not drink alcohol, so he started taking a hookah to campus parties as a kind of social prop. "People asked a lot of questions," says Ali, speaking in a curious blend of Tex-Mex twang and Farsi lilt. "Everyone wanted to try it. Then everyone wanted one." Ali says he didn't encounter any racist misconceptions about the device. Perhaps, he mused, there was money in hookahs.

Ali built a Website for Social Smoke, bankrolled by his credit card. He bought \$3,000 worth of hookahs from a U.S. distributor, Hookah Brothers of Los Angeles. At first he sold most wares at cost, hoping to establish himself in the market. But the business took off quickly. Within two months he was renting warehouse space and selling roughly \$5,000 worth of hookahs a month, but still at cost. He was also supplying hookah lounges with *shisha* in exotic flavors such as citrus, cappuccino and strawberry margarita. Margins on *shisha* are thin, but the volume is high—tobacco has to be constantly replaced. It proved to be a modest profit center.

In 2004, Hookah Brothers went out of business. So Ali decided to forge direct trade ties with the Middle East. He figured he needed to buy direct if he was ever going to turn a profit and ordered \$1,000 worth of hookahs from an Egyptian supplier. But they arrived weeks late and were poorly made. Stems didn't fit into bases. Some units leaned; others were

broken. Almost none were sellable. The supplier refused to return Ali's money, saying the goods must have rattled around too much because Ali's order was too small. He then had the gall to ask Ali to place a second, larger order.

Outsourced: After bad experiences with Mideast suppliers, Social Smoke sources most of its hoses and hookahs from China.

“I return to Iran to visit family. I’d like to go as a businessman.”

—SAYYID NADIMI

The Nadimis united to save Ali's business. At the time, Sayyid and Abraham both worked as engineers at Bell Helicopter, one of the area's largest employers. In 2005 father and son both quit their solid jobs for the wild ride of the international hookah trade. Sayyid now serves as CEO of Social Smoke. The matriarch of the clan—Iman Enciso (born Martha Alicia Enciso Barba in Guadalajara, Mexico)—became office manager. The youngest son, Mohammad, 18, runs the warehouse.

Sayyid decided to make some exploratory trips to Egypt and Jordan. Because of U.S. trade sanctions against Iran, he had to skip his homeland. "From time to time I return to Iran to visit family," he says. "I'd like to go back as a businessman."

After 30 years in the U.S. and a decade at Bell Helicopter, Sayyid had grown used to the breakneck pace of American business. He was amazed to find that Arab business dealings required three full days of social preliminaries before actual negotiations could begin. "They might take you sightseeing or invite you to their home and prepare six different kinds of food," he says. "But it doesn't mean anything. It's all cosmetic. After days of this, you finally get down to business and argue over a \$1-per-unit price difference."

Misunderstandings were legion. One Egyptian prospect put Sayyid up in a hotel for a night. When Sayyid offered to pay him back, the man took offense. The language barrier made matters worse. (Sayyid is fluent in Farsi but speaks Arabic poorly.) On a drive through Cairo, Sayyid tried to patch things up with his host, who promptly pulled over to the side of the highway and berated him for 20 minutes.

Sayyid persevered and managed to sign up four hookah makers in Egypt and Jordan. Most Arab manufacturers required down payments of up to 40%. The balance was due—wired directly into the manufacturer's bank account—when production was complete but before shipping. "There's always a point when the other party has all your money and also all your products," Sayyid says.

Worse, damaged goods appeared to be the norm. After much





All in the Family: Ali Nadimi (in white shirt) turned control of his company over to his father, Sayyid (seated). Abraham (left) handles sales, while Iman (center) manages the office.

searching, he tapped a reputable Jordanian manufacturer who presented an array of attractive, well-made hookahs. Social Smoke placed a \$70,000 order. But when they arrived, glass and ceramic parts were cracked, metal was rusted, and the stems were too long. The company is still trying to recover its money, but its entreaties have slowed to a trickle. The Nadimis were forced to combine undamaged parts—a stem here, a bowl there. Overall, only 80% of the hookahs that Social Smoke ordered in the Middle East were usable.

Like many American businessmen before him, Sayyid started researching Chinese factories online and teaching himself Mandarin. (He says he is now fluent in English, Farsi and Spanish and pretty good in Mandarin.) Visiting factories in Qingdao and Shanghai, he was impressed by Chinese standards of customer service. Unlike a past Egyptian supplier, who could communicate only by Arabic snail mail, the Chinese vendors all spoke some English and communicated promptly by e-mail.

Making hookahs in 10 Chinese factories is a far cry from having them handcrafted by Middle Eastern artisans. The job of manufacturing metal pieces such as stems went to a fabricator with experience making latches and doorknobs. A flowerpot factory produces ceramic bowls for the hookahs. But Sayyid can now have his hookahs built to spec. Social Smoke has been able to add shapes like cones and cylinders to its product line. It also festoons hookahs with intricate art, such as images of cobras and Anubis, the jackal-headed god of ancient Egypt.

Despite all that Chinese manufacturing expertise, Social Smoke has persisted in importing some hookahs from Egypt. This is key for selling to hookah bars in such Arab-American centers as Dearborn, Mich., which prize Egyptian hookahs, irregularities and all. Sayyid now has a point person in Cairo who sources hookah components separately—and packs them with care. “Communication isn’t great, and shipments still arrive late,” says Abraham. “But this supplier is honest. That’s a big deal.”

Still, 75% of Social Smoke’s hookahs now come from China. Sayyid spends about a third of each year in the country and owns a condo in Guangzhou. “I feel like I’ve created the modern equivalent of the Silk Road, which once connected China and Persia,” he says. And as Silk Road traders knew, supply can be fickle. In the three years since Social Smoke started doing business in China, the cost of making hookahs has gone up about 60%—and is now on par with Egyptian prices. Sayyid says he’s thinking about manufacturing in Vietnam or Latin America.

Finally, of course, there’s the Iranian market, where Sayyid is convinced his U.S.-brand hookahs would have cachet. Earlier this year, before that country’s contentious presidential election and the protests that followed, Sayyid contacted the U.S. Commerce Department to ask about the permits necessary to export to Iran. Filling out the forms, he was told, would be a waste of time.

That may soon change. Sayyid is heartened by the protests and demands for fair elections. He’s thrilled by the softer tone that President Obama has adopted toward the country. Discussing the possibility of setting up shop in Tehran, Sayyid and sons break into big grins. “That,” Sayyid says, “would be like coming full circle.” □