

International Expansion of Starbucks under the Background of Global Tourism Development

EXPANSION INTERNATIONALE DES STARBUCKS DANS LE CADRE DU DÉVELOPPEMENT DU TOURISME GLOBAL

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Abstract: In 1995, with the rapid development of tourism industry, Starbucks began to adjust its business strategy to exploring foreign opportunities. To fulfil this objective, it used many strategies, such as two main business strategies: license and joint venture; HR strategy: maintaining quality workforce; operations strategy: multiple channels of distribution and design strategy. During the process of its international expansion, it met several troubles such as stiff competition from well-established existing players; market saturation and culture challenge, and also took corresponding measures to overcome those difficulties. To pursuit success in the foreign markets, it is very important to export exactly the unique nature of shopping at Starbucks, like its unique corporate culture, coffee services, exclusive taste, etc. Then challenges Starbucks may meet for its further expansion into a specific country—China is proposed.

Key words: International expansion, Starbucks, Tourism development

Résumé: En 1995, avec le développement rapide de l'industrie touristique, Starbucks se mettait à ajuster sa stratégie commerciale pour explorer ses opportunités étrangères. Pour accomplir cet objectif, il utilisait des stratégies tels que les deux principales opportunités commerciales : la licence et le joint-venture, HR stratégie : maintenir la productivité qualitative ; stratégies d'opérations : multiples voies de distribution et la stratégie de design. Pendant le processus de son expansion internationale, il a produit plusieurs troubles comme la compétition vivez par les existants établis ; la saturation du marché et le défi des cultures. Aussi il a pris des mesures correspondantes pour surmonter ces difficultés. Pour poursuivre le processus dans le marché international, il est très important d'exporter exactement la nature unique de shopping dans Starbucks, comme son unique culture corporative, des cafés services, le goût exclusive etc. Après les défis. Starbucks pourrait connaître une expansion d'avantage dans un pays spécifique – La Chine est proposée.

Mots-clés: expansion internationale, Starbucks, développement touristique

1. INTRODUCTION

Rapid development of international tourism industry pushes more and more local people outside America are familiar with Starbucks coffee shop around the world and poses new opportunities for the extend of Starbucks enterprises. Hence, it is essential to detect trends and understand strategic issues that stem from a global economy. This report studies the international expansion process of Starbucks coffee shop, a leading group in the worldwide coffee market. It also analyses the troubles Starbucks met during its process and how it

overcame those troubles, based on its unique nature of shopping and the strategies it used for during the same period. Finally, the report tries to seek the challenges Starbucks may meet in its further expansion into China, a very large potential customers market.

2. ANALYSIS OF STRATEGIES USED FOR ITS INTERNATIONAL EXPANSION

In 1995, with the development of global tourism industry and almost 700 stores across the United States, Starbucks began to adjust its business strategy to

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exploring foreign opportunities. This decision was not made by chance. Some analysts believe that the United States coffee bar market may be reaching saturation. They point to the fact that there have been some consolidations as bigger players snap up some of the smaller coffee bar competitors. Further, they note that Starbucks' store base is also maturing, leading to a slowdown in the growth of their unit volume and the firm's profitability. Higher coffee costs have also cut into their margins, intensifying the competition in what has now become a crowded market (McLean, 2000). Recognizing this, Starbucks has turned its attention to foreign markets for continued growth.

2.1 Two main business strategies: License and Joint Venture

In 1996, Starbucks invested \$1.5 million and established a subsidiary called Starbucks Coffee International, Inc. The focus of this subsidiary will concentrate on the Asia-Pacific region.

In Asia, the most common strategy was to license its format to a local operator in return for initial licensing fees and royalties on store revenues (Hitt et al., 1999). And Starbucks has also sold coffee and related products to the local licensees, who then resold them to customers. However the company also realized that a pure licensing agreement would not give Starbucks the control needed to ensure that the licensees closely followed Starbucks' successful formula. Thus, in Japan, the company established a joint venture with a local retailer, Sazaby Inc. Each company held a 50 percent stake in the venture, Starbucks Coffee of Japan. Starbucks initially invested \$10 million in this venture, its first foreign direct investment. Then the Starbucks' format was then licensed to the venture. Similarly, in Thailand, Starbucks initially signed a licensing agreement with a local Thai company, requiring its partner to open at least 20 Starbucks coffee stores in Thailand in five years. However, the coffee partners found it difficult to raise funds from the Thai banks to finance this expansion. In July 2000, Starbucks acquired Coffee Partners to gain tighter control over the expansion strategy in Thailand. The joint venture also enabled Starbucks to exercise greater control over the growth strategy in South Korea.

At the beginning, in order to expand its brand as soon as possible, Starbucks opened its first outlet in Tokyo's posh Ginza shopping district, with its second in a student area. It focused on students and office workers as its first targeted customers. At both stores, customers can eat in the store or take out their purchases. Not only do those stores provide coffee, they also offer different types of beverages, snacks and even coffee mugs and T-shirts. Besides offering different and qualified products, it also focussed on the roles of their employees. In order to make sure the Japanese operations replicated the "Starbucks' experience" in North America, Starbucks adopted a special but

necessary human resources strategy. The company transferred some of its employees to the Japanese operation directly and required all Japanese store managers and employees to attend training classes similar to those given to U.S. employees.

Although the sceptics doubted that Starbucks would be able to replicate its North America success overseas, it is approved that such competitive and HR strategies be successfully implemented, even if it met serious competition with existing coffee companies in these areas. By 2001, Starbucks had more than 150 stores in Japan and plans to continue opening them at a brisk pace.

2.2 Blanket an area completely

Starbucks' strategy is simple: blanket an area completely even if the stores cannibalise one another's business (Anonymous, 1996). A new store will often capture about 30% of the sales of a nearby Starbucks, but the company considers that a good thing: The 'Starbucks-everywhere' approach cuts down on delivery and management costs, shortens customer lines at individual stores, and increases foot traffic for all the stores in an area. A typical customer stops by 18 times a month. No American retailer has a higher frequency of customer visits. Sales have climbed an average of 20% a year since the company went public. Even in a 'down' economy, when other retailers have taken a beating, Starbucks store traffic has risen between 6% and 8% a year. Perhaps even more notable is the fact that Starbucks has managed to generate those kinds of numbers with virtually no marketing, spending just 1% of its annual revenues on advertising (Retailers usually spend 10% or so of revenues on ads).

2.3 HR strategy-Maintaining quality workforce

Howard Schultz, the CEO of Starbucks, believes that "our only sustainable competitive advantage is the quality of our workforce. We are building a national retail company by creating pride in - and providing a stake in - the outcome of our labour." (Schilling & Kotha, 1999). With this strategy, Schultz has transformed Starbucks from a local coffee manufacturer 30 years ago into a profitable national retailer with global ambitions. The centrepiece of Schultz's vision is like a generous and comprehensive employee-benefits package, including health care, stock options, training programs, career counselling and product discounts for all workers, full-time and part-time. Emily Ericson, head of human resources, puts it another way: "We are in the people-development business almost as much as the coffee business".

But this strategy did not achieve the goals Schultz imagined at first. From the fiscal year 1989 to 1990, the company's losses almost doubled, to \$1.2 million, as

overheads and operating expenses ballooned to \$18.4 million on \$19.2 million in sales. However in 1991 sales shot up 84 percent, dramatically outpacing expenses, and the company broke into the black. Although the company already had an adequate benefits package in place and had been covering part-timers since 1971, Schultz began to beef up offerings substantially. Now, Schultz needs no further proof that employee benefits are the key to competitiveness and growth. He is convinced his employees are working harder and smarter because they have a stake in the outcome.

3 TROUBLES FOR ITS OVERSEAS EXPANSION AND CORRESPONDING MEASURES

From Zurich to Tel Aviv, Starbucks' overseas expansion is running into trouble (Holme, et al, 2003). Starbucks is now operating in 30 countries beyond the U.S. and Canada; Starbucks cafes have encountered a host of problems, from high start-up costs to stiff competition, and, in many cases, resistance to the Starbucks experience.

3.1 Stiff competition from well-established existing players

For example, although as the world's third largest coffee consumer, Japan has the absolute size of the coffee market; Starbucks is facing stiff competition from two well-established players: Doutor Coffee Company and Pronto Corp., which is the second largest coffee bar chain in Japan (Schilling & Kotha, 1999). Competition for suitable sites to locate stores has become intense. Many of established suppliers, like Pronto Corp., have greater financial and marketing resources than Starbucks. So Starbucks has to compete against them for attractive locations and for qualified personnel to operate its retail stores.

3.2 Market saturation

In 1996, Starbucks established a joint venture with a local retailer, Sazaby Inc. in Tokyo, Japan, which brought them profits during the first two years. However, after opening an ambitious 470 Japanese stores, in just seven years and making the nation its largest overseas market, the chain of Starbucks is reaching saturation in key cities, including Tokyo. In response, Starbucks is trying to rich the variety of commodities to attract the customers, which probably will be the only way to revive their position from the profit tumble.

Alcohol at Starbucks? It sounds like a crazy idea, but it has already become true (Singer & Fackler, 2003). A couple of months ago, shareholders of Starbucks

Coffee Japan Ltd. approved a change to the corporate charter allowing the sale of alcohol at any outlet. The Japanese unit of Starbucks Corp. is a joint venture with Sazaby Inc. Starbucks has no specific plans to sell alcohol in other Japanese stores, let alone in the U.S. Even if Starbucks wanted to add alcohol to the menu of its American stores it would be difficult because liquor-license laws vary by state.

But, as the chain's business in Japan slows and profits tumble, it could be one way to revive the business. Dabbling in alcohol would be an adventurous move for Starbucks. Analysts say adding alcohol in Japan could be promising, but caution the company of the risks of diluting the character of the franchise as a coffee purveyor. Alcohol also could attract boisterous crowds, spoiling one of the chain's main selling points, a quiet refuge for busy urban Japanese. One possible compromise is offering a few coffee-based alcoholic drinks, such as Irish coffee (hot coffee with a shot of whiskey and a dab of cream).

3.3 Culture challenge

The former Starbucks executive, an American whose company signed an agreement with Starbucks Coffee International of Seattle, to open franchise outlets in Beijing, China, a tea-drink nation, after selling Starbucks coffee to Beijing hotels for the past four years, already has cleared a few hurdles. The Beijing outlets will be operated by Beijing Mei Da Coffee Co. a joint venture of Mr. Maltz's Borderless Investment Group Inc., Mercer Island, Wash., and Beijing Agriculture & Industry Corp. of Beijing, through which Mr. Maltz has distributed Starbucks coffee to Beijing hotels.

When Mei Da began planning to open its first gourmet-coffee outlet in Beijing, attracting good people to run the shops was a key concern, says Catherine Chau, deputy general manager of Mei Da. Maltz(1998) pointed out that people don't go to Starbucks for the coffee but for the different experience. Focusing on the development of employees so that they can deliver that experience is their priority for now.

4. UNIQUE NATURE OF SHOPPING MAKES IT DIFFERENT

The pursuit of success in the foreign markets is very important in exporting exactly the unique nature of shopping at Starbucks, like its unique corporate culture, coffee services, exclusive taste, etc. All of them differentiate Starbucks from other competitors in the industry.

Today every Starbucks employee gets health insurance and other benefits, even the part-timers. These and other perks, including stock options, have

helped make the chain famous for not only its coffee but also the employee culture, which, I think, is the foundation of the company. Schultz says the employee ownership and healthcare programs are his proudest accomplishments. Though he set up these benefits when the company was losing money, he maintains that a progressive corporate culture has given Starbucks an attrition rate far lower than the industry average.

Starbucks provides consumers with richer, intriguing, exotic and more flavourful coffees that taste mild, smooth and bold. Wherever you are in one of Starbucks in the world, you will find your favourite coffee and something new.

Another distinguished service is called Starbucks Card. By registering your Starbucks Card, consumers protect its value against theft or loss. The replacement Card value will match the balance of your account at the time the Card is reported missing. Use the Card to purchase anything from participating Starbucks locations. Starbucks Cards make getting coffee in the morning a seamless experience and they are the perfect, thoughtful gift.

5. CHALLENGES STARBUCKS MAY MEET FOR ITS FURTHER EXPANSION INTO CHINA

It sounds like Mission Impossible: Sell coffee to China's tea drinkers (Lee-Young, 1998). China, the biggest developing and politically stable nation, for Starbucks, is a potential and attractive customers market. Starbucks' first outlet in China opened in January 1999 at the China World Trade Centre in Beijing; 69 stores now operate around China. However Starbucks is hardly known there and they are meeting serious challenges.

5.1 Lower purchasing power

The goal of Starbucks is to build hip hangouts that tap into a new taste for China's emerging middle class, to see and be seen. This is not easy since even for the middle-class Chinese, Starbucks is a barely affordable luxury. At a price of 22 RMB (\$2.65), even a medium latte takes a bite out of the monthly disposable income of an average three-person Shanghainese household (about \$143 in April 2003) (Fowler, 2003).

5.2 Chinese unfamiliar with the Western lifestyle and taste of coffee

Starbucks faces another huge challenge: selling an upscale, Western lifestyle that is both in demand in China, yet meets resistance among those unfamiliar with the taste of coffee (Fowler, 2003). Indeed, many

Chinese consider that coffee too bitter. Shanghai Starbucks customer Charles Lo drinks tea at home but coffee in public. "I prefer the taste of tea," he said, but he likes the image that drinking Starbucks coffee conjures up: relaxed affluence. "It's an attitude," he said.

5.3 Finding the right location is more like gambling than science.

In the fast-changing Chinese cities, it is not easy to find the right location where potential customers live, work and play. "In the U.S., if you see a mall, it will probably still be there in two years," says Ernest Luk, vice president of finance at Starbucks Coffee Asia-Pacific. "A year passes by in a Chinese location, and you almost won't know your way around there anymore," he says, referring to major development that can alter a neighbourhood in a matter of months.

5.4 Farmers prefer other economic plants rather than coffee plants

Although local governments encourage farmers to plant coffee beans and sometimes abandon tea in favour of coffee, farmers still do not like to follow the directions of local authorities because they know that coffee plants take three years to mature and must be cut back after seven, while other economic plants, like longan bring rich harvests almost immediately. Johnson (1999) strengthened that Chinese customers, the average concept of coffee is still instant coffee since almost all the coffee beans are sold to hotels rather than at supermarkets.

6. CONCLUSION

From the material presented, it can be seen that there are two important points for Starbucks' international expansion process: 1) which foreign markets to enter and 2) the strategies adopted for that entry. The latter is worth a rethink, even after Starbucks had decided to enter into a specific country or area in the world, since the investment outside its home country incurs high risks, such as culture shock, government policies and existing competitors. Its experiences or lessons are also valuable for the development of the hotel industry around the world. As international trade and business expand, there is no question that international linkage will become more important for the hotel industry. Unlike Starbucks, the common and more useful expansion strategies for hotels probably are establishing wholly owned subsidiaries and the forming of a strong related hotel chain for comparative advantages, especially in developing countries.

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