

Feng Chia University
Outstanding Academic Paper by Students
Starbucks Company

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in English (BIBA)

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Course: Introduction of International Business

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Department: Business dep.

Academic Year: Semester 1, 2021-2022



Abstract

This is a research that introduces how Starbucks succeed via their management and their strategy both long and short term. Persisting on how their founders thought, Starbucks has risen and become one of the most popular companies in the world. This study not only analyzes the pro and cons of the company but also their success and some failures when expanding to other countries.

Keyword : Starbucks Company. Starbucks study. Why Starbucks success.



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December 1, 2021

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1. Company Background

1.1 Four main people of Starbucks

1.1.1 Co-founder

There are three founders, namely Gerald Baldwin, Gordon Bowker and Zev Siegl. At that time, there was a well-known Bittz coffee and tea specialty store. Its owner, Alfred Peet, was the spiritual godfather of Starbucks. It was under Bittz's training that Baldwin and Polk learned to be very different from American shallow baking. Heavy baking technology laid the foundation for Starbucks.

1.1.2 Alfred Peet

He is a coffee-roasting entrepreneur and also a major inspiration to the founders. He import fine arabica coffees into the United States during the 1950s. And, successfully encouraged the Starbucks' founders to base their business model on selling high-quality coffee beans and equipment.

1.2 How Starbucks named

1.2.1 How St. comes from

They started with a simple goal: find a company name that starts with "St." Advertising specialists had suggested that "St" words were powerful, so the three founders began sifting through whatever material they could find. Someone pulled out an old mining map and found a small town called Starbo. From there, co-founder Gordon Bowker thought immediately of Moby-Dick.

1.2.2 The name meaning

There is a character in the classic book named Starbuck, Captain Ahab's first mate and no-nonsense crew member of the Pequod. In the book, he's known for his quiet nature and moral goodness. According to the company website, Starbucks chose this name because it evokes "the romance of the high seas and the seafaring tradition of the early coffee traders."

1.3 How Starbucks expands

1.3.1 Starbucks in Seattle

The store's original main business was not to sell coffee but to sell top Arabica coffee beans and some coffee-related utensils. It wasn't until Starbucks opened its sixth branch in April 1984 that Howard Schultz set up a small coffee bar in the store. Starbucks opened its sixth store in downtown Seattle in 1984. This was a breakthrough in Starbucks history because it was the first store approved to sell both coffee beans and hot coffee beverages, and it was also the first Starbucks store located in a commercial center.

1.3.2 Customer-friendly

The Howard Schultz era; in 1981 Howard Schultz, a sales representative for Hammarplast, a Swedish company that made kitchen equipment and housewares. Starbucks bought drip-coffee makers and Schultz noticed that first-time customers sometimes felt uneasy in the store because of their lack of knowledge about fine coffee. He works with employees on developing customer-friendly sales skills and produces brochures that make it easier for customers to learn about the company's products.

1.4 Timeline

In 1983, Schultz went to Milan to attend an international housewares show, impressed with the country's cafes and discovered that Milan alone boasted 1500 coffeehouses. Envisioned turning a tiny regional operation into a national coffeehouse chain via rapid store expansion, but Baldwin and Bowker were not enthusiastic. Later in 1985, Schultz left Starbucks and started his own coffee chain (Il Giornale), which immediately became successful.

In 1987, Baldwin and Bowker decided to sell Starbucks, at that time, Schultz used Il Giornale to purchase with investor backing combined all his operations under the Starbucks brand. In four years, the coffeehouse chain grew from fewer than 20 stores to more than 100.

In 1992, entered into a meteoric period of expansion that continued after the

company went public. In 1996, it began opening stores outside North America, and by the end of the decade, it had 2500 locations in about a dozen countries. And finally, in 2007, the chain boasted more than 15000 locations worldwide, seeks to support the farming communities, and works with a number of non-governmental organizations with programs designed to strengthen economic and social development.

2. How Starbucks Expands into Global

In the case study, our group found out that not only did Starbucks focus on how the management styles work and stick close to it, but also adjust to local in order to fit the taste into locals. After we analyzed reports and case studies, we found out a few important elements that made Starbucks become a very successful corporation and furthermore expand into global.

2.1 The Management/Operating Style

After years of evolution, Starbucks knows that if they want to catch consumers' attention, then the management style should change with time, in other terms, to use appropriate managerial strategies to make sure they can get with the times.

2.1.1 Powerful Leadership Strategy

To begin with, Starbucks had used a powerful leadership strategy that focused on the greatest goals. It focused on the best practices in order to offer the best support to its customers. For instance, the idea of a third place, third place dates back to 1983 while Howard Schultz, the CEO of Starbucks came back from Italy, he was amazed by the café's position in Italian's daily lives, in his mind, a third-place becomes a place where customers can spend time in, relax, rather than at their office or house. The third-place made it easier for Starbucks to offer quality services to the targeted consumers. Managers wanted every store to provide quality services to its clients. The approach conveyed a sense of comfort to every customer. At the same time, they formulate a strong and powerful strategy to lead and reach the goals, that is, the managers mentored their employees to achieve the best goals. It is important that employees know their goals and what they would like to achieve, more importantly, how Starbucks would like them to achieve and how they are going to achieve. All the

workers were ready to support the company's mission. It evoked the passion, tradition and heritage at Starbucks, said Howard Schultz.

2.1.2 Good Relationship Between the Company and the Community

This kind of management style promoted a positive relationship between the company and the community. The employees at the company were to be also able to offer their own personalized services to every targeted consumer. Starbucks created a coffee religion in order to match the era when the center of consumer demand shifts from products to services, and then from services to experiences. The difference between Starbucks and ordinary coffee shops lies in the cup of coffee which has a richer experience and deeper cultural connection. For this reason, Starbucks has conducted in-depth training for its shop staff to make every employee an expert in coffee. While sipping coffee, customers can interact with the staff and discuss all kinds of knowledge about coffee together. In the service process, it implements a customized one to one service, and thought thoroughly and sincerely for customers, for example, while the front desk is serving a customer, the staff will remember what is your name, the preference of your taste, and maybe just have a normal chat just like friends, the training progress in Starbucks not only have their own standard of the procedure but also have a main topic when training, that is to care about the customers. Starbucks is unique in that the focus is not on how people taste coffee, but how they enjoy coffee, not only customers with customers but also customers with staff, the close, comfortable, safe and pleasant emotional connection between people is different between coworkers or family members. Not only did they achieve creating good vibes between customers and employees but also let customers gain more while enjoying a cup of coffee elegantly. With this kind of training and management skills, Starbucks is very popular throughout the world.

2.1.3 A "Third-place" Study

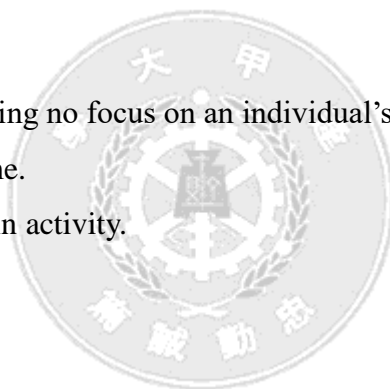
Just like what was mentioned in 2.1.1, a third-place is a term and a phrase that was created by Howard after the trip back from Italy. Dating back to 17th-century Europe, coffee shops have embodied many characteristics of the third-place, and that's why Howard felt so in it after his trip back.

After the first coffeehouses were opened in England in the 1650s, they offered the opportunity for people to mix without alcohol compared to the tavern, where people

were often either unable or reluctant to host at home, they would instead meet there to drink and socialize. ‘People could meet someone they had never met before and wouldn't encounter under any other circumstance, and they could speak to one another as equals’ said professor Jonathan Morris, also an author of *Coffee: A Global History*. The long benches and tables were laid out in such a way that you would basically be seated next to next with other customers, which encouraged conversations between strangers from every position in society. Which created a pleasant place for customers to stay and enjoy their time while drinking coffee.

“A third-place”, in all its various forms, from the beer garden and the bookstore to coffee shops and bard, is actually the heart of a community, social vitality, and outlines eight key characteristics that one should have. Below is the list of all eight keys of characteristics.

1. Neutral ground.
2. A levelling place (meaning no focus on an individual's status).
3. A home away from home.
4. Conversation as the main activity.
5. A playful mood.
6. A low profile.
7. Accessibility.
8. Regular patrons.



Why is a third-place so important to Starbucks success to maintain it and then make it global? The answer lies in history. Ray Oldenburg, an urban sociologist, published a landmark book, *The Great Good Place*, which discussed about third-place. In the book he wrote about in any healthy, strong democracy, citizens should balance their time between work, home, and the third place. Though he disagreed with his own words in the last few pages of the book. We still can see and make sure that Starbucks is successful, and always be successful throughout the spirit it has maintained for years.

2.2 How Starbucks adapt to Locals

Currently, there are more than 30,000 Starbucks stores in the world. There are two main points that Starbucks can adapt to in such a large number of regions.

2.2.1 Consistency

You can see Starbucks at a glance no matter where you go in the world. Because Starbucks uses the green letters of the logo and trademark.

Also, the ordering and pick-up location system are the same for more than 30,000 stores around the world, with the same quality of service, whether in Texas, USA or Paris, France.

Moreover, consistency has a positive impact on the recognition of customers. As a result, the consistency of Starbucks is making brand power spread all over the world.

2.2.2 Localization

The success and acceptance of Starbucks by different cultures stems from its carefully planned business strategy, which is localization. With localization, Starbucks is able to adapt to the tastes of different cultures, managing to convince consumers in other locations to drink coffee.

This is particularly impressive in Asia where tea is the preferred drink. Localization, one of many translation services, goes beyond standard translation. The service ensures that all information about a company and product is in the local language. In some cases, it requires some changes in the brand's colours and appearances as well as adapting the brand name to fit the local culture. Company websites are localized, making them available in the local language and conforming to local preferences, traditions, beliefs, laws and regulations.

Localization makes the company approachable and accessible, eliciting trust and confidence from local consumers because the company becomes one with them, a company that understands and responds to their needs.

Starbucks makes it a point to carry out extensive research on the history, culture and the locals' taste preferences before it decides to partner with coffee companies available locally. Their market research is done before they start to build their stores in the target location. Starbucks formulates their menu to fit the needs of the locals without compromising its signature brand.

Starbucks' localization strategy is a mix of local products with innovative store designs, so they are able to fully adapt to the culture of the location. Here are some

examples; Starbucks maintains 18 design centers worldwide, which work to understand and conceptualize store designs to reflect the local market.

I. Localization Case 1

In Japan, local buildings have low roofs and most of them have indirect references to Shintoism, which is the country's religion. The company hired local designers in order to create the right atmosphere.

For example, the store in Kyoto used Tatami styles and wood that interlock to give a forest-like feel to the place and honor nature, in reference to the religion. The store in Meguro looks like a local craft store, with the style of a traditional Japanese teahouse.

The shops offer localized food and drinks, such as matcha (green tea) frappuccinos. The servings are smaller and less sweet than the items sold in American stores. In addition to adapting to the taste preferences of people in Japan, drinks incorporating local famous products were sold in all 47 prefectures in Japan.

II. Localization Case 2

In South Korea, the letters on the signboard were not written in English for the first time in the world. Originally, Starbucks seems to have a rule that it is not possible to put a signboard with the characters of that country. However, this area has a lot of historic buildings, traditional tea shops, and craft shops. This is because it was written in Korean as a special case.

3. Starbucks Bottlenecks

Starbucks is being known for one of the world's most successful businesses. However, in order to expand their companies or services into another country, Starbucks must first comprehend what it would be like when they arrive in that country. Starbucks must acknowledge that each country has its own tastes and preferences, and when it comes to food and beverages, no country can have the same flavor choice. As a

result, understanding the eating behaviors of the targeted country can help Starbucks succeed easier when they decide to grow.

In spite of its success, Starbucks has struggled to expand its business several times. The majority of the obvious reasons for Starbucks' failure are cultural differences; as previously said, each country has its unique preferences. Starbucks may face difficulties as a result of underestimating the culture, or a lack of awareness. In this report, two countries will be used as examples of Starbucks' expansion failure: Australia and Vietnam, respectively.

3.1 Starbucks' Failure in Australia

In July 2000, Starbucks launched its first store in Australia, in Sydney's central business district (CBD). It does sound promising for Starbucks to become successful since the percentage of coffee-drinkers in Australia is up to 75% or approximately 18 million people. Starbucks assumed there would be somewhat low competition because their main rivals were Dunkin Donuts and Gloria Jeans; they believed they could easily achieve a significant market share in the coffeehouse market, but the reality was quite unexpected.

Starbucks first appeared in 2000, and the number of stores has grown steadily since then. Starbucks had 87 locations at the beginning of 2008, but by the end of the year, it had accumulated \$143 million in recorded losses, and almost 61 of them were forced to close. Hence, Australians do not prefer Starbucks, and there are three significant reasons why it fails in Australia, i.e., Coffee Culture in Australia, Expansion Pace, and Lack of Adaptation.

3.1.1 Coffee Culture in Australia

Australia has a very sophisticated coffee drinking culture thanks to the influence of Italian and Greek immigrants in the early 1950s. Australians adopted the concept of espresso drinking as a social medium much earlier than the United States. The Australian cafe market is the only country outside Italy with 100% espresso-based markets in the world. So, when Starbucks introduced the lighter version of American coffee, mostly dominated by filter style, or brewed coffee, in Australia, where the country already had a strong-settled cafe tradition focused on espresso. It had to confront cafes that offered a similar, if not better or cheaper, product.

Besides all those flavor preferences, Starbucks also had failed to offer its unique experience for Australians. As mentioned before that Australia has a long tradition of coffee drinking, people tend to have strong bonds with their specific barista or their local coffee shop. The coffee shop for the Aussies means much more than just a place where people will only socialize. Therefore, the concept of a “fast coffee” from Starbucks just did not suit their culture. Plus, it prevents people from creating their connections with Starbucks and also their loyalty to the store.

3.1.2 Expansion Pace

Starbucks was at the peak of the American coffee market at that moment, and they believed their business plan could be implemented in Australia with no complications or concerns, which was far from the case. This was due to the fact that Australians had different coffee preferences than those served by Starbucks. The underestimation of Australia’s cultural differences does make Starbucks plans go wrong when they thought that Australians were “Americanized” enough for them to be able to accept their stores/ or coffees immediately.

More than 87 Starbucks stores were opened within eight years, this extremely fast pace of expansion can be stated that it did grow faster than its reputation. Starbucks overlooked developing brand loyalty to the local people, which is notably one of the essential factors if you want to be a successful coffee chain in Australia. On the other hand, it chose to launch new stores aggressively, and neglect the fact that it would lose its value rapidly too. Starbucks did not provide enough time for Australian customers to get used to its taste, size, and price, in consequence, it caused a huge loss from Starbucks, and many of its stores were forced to shut down.

3.1.3 Lack of Adaptation

In comparison to other countries, Australia's coffee culture is far more personal. But when Starbucks decided to expand into the country, it completely ignored adapting to Australia's market. Starbucks was more concentrated on lattes and iced coffee with plenty of sugar, whilst demand for espressos and specialty menus such flat whites and Australian macchiato was significantly high in Australia, something Starbucks didn't take into account.

Therefore, due to their failure to adapt and adjust their menu to what the Australian market needed, they were unable to maintain their expansion caused by a lack of local

consumers. Starbucks' menu was too sugary, too pricey, and the experience was too impersonal to keep Australians interested, hence demand was low, as evidenced by what happened in 2008.

3.2 Starbucks' Failure in Vietnam

The company has 30,626 retail locations around the globe. Entering the Vietnam market in 2013, Starbucks has brought its dominant coffee culture to the country that is well known for its passion for coffee. Despite the high expectation of the company's success, Starbucks has also moved slower than expected. Eight years after its entry, the number of Starbucks stores reached just 34, which is much lower compared to 4,100 Starbucks stores in China, 326 in Indonesia, and 330 in Thailand. Starbucks opened its first cafe in Vietnam in 2013 in Ho Chi Minh City as part of its strategy to expand across Asia and plans to add more shops throughout the country. The Vietnam Starbucks has announced the plan to close some stores in the next few years due to poor performance (Vietnam Investment Review, 2018). Starbucks is struggling in a coffee market that is worth more than \$5.9 billion (USDA Foreign Agricultural Service, in 2019).

3.2.1. Vietnam Has Stronger Robusta Beans

As the world's second-largest coffee exporter, Vietnam knows its coffee. The country is famous for a thick, heavy brew sweetened with condensed milk. Vietnamese coffee drinks are brewed with robusta beans, which have a sharper, bitter flavour and higher caffeine content than more mild arabica beans. Robusta beans are available all over Vietnam, whereas Arabica beans are served in most Western coffee outlets.

The middle class is growing in Vietnam, and the market for specialty coffee and tea shops in Vietnam is worth more than \$1 billion, according to Euromonitor International. Starbucks doesn't seem to care about their weaker caffeine content, and apparently, they don't want to +far from their American-style coffee.

3.3.2. Vietnam Is a Powerhouse of Coffee Production

Vietnam is the second-largest coffee producer and exporter in the world,

with more than 30.5 million bags of coffee has been produced. The forecast growth rate is higher than 8% a year and expecting to increase steadily over the next five years. Domestic consumption will also increase to 3.4 million bags, which is about 10 percent of total coffee production. Vietnamese people are proud of their traditional robust, dark brew coffee. Coffee becomes a part of their daily life. The market for specialty coffee in Vietnam is worth more than \$5.9 billion in 2020 (USDA Foreign Agricultural Service, 2019). That makes Vietnam become an attractive target for global cafe chains.

The domestic coffee market has fierce competition with well-known foreign coffee brands such as Starbucks, Highland Coffee, Gloria Jeans, and Coffee Bean competing against each other and with local chains, such as Phuc Long, Chot Nho Cafe, and Trung Nguyen Coffee. The five largest coffee chains represent 15.3% of the market share, of which Highlands Coffee takes 7.2%, while Starbucks holds about 3%. Foreign brands have been struggling to reach this potentially profitable market as local Vietnamese chains offer low prices, adapt more quickly to new trends, have more significant quantities of stores and perform better than their foreign chains.

3.3.3. Tough Locals Competition

Foreign brands have been struggling to reach this potentially profitable market as local Vietnamese chains offer low prices, adapt more quickly to new trends, have more significant quantities of stores and perform better than their foreign chains. Local Vietnamese chains are expanding faster and performing better than their international counterparts. Local chains charge less for coffee, adapt more quickly to new trends and have a huge footprint

4. Conclusion

From our perspective, Starbucks is one of the most well-known coffee shops in the world. For providing its high-quality service, a richer experience, and a deeper cultural connection to the customers. As we mentioned before in the report (2.1.2 Good Relationship Between the Company and the Community), with its management style, Starbucks creates its own coffee culture that satisfies its customers by enhancing the connection between the clients and the staff while having a cup of coffee.

On the other hand, success can also turn into failure, with Starbucks management style that may seem powerful and effective. But, during our study, we discussed the major issues about the reason why Starbucks failed to enter Vietnam and Australia. Which turns out to be a lack of understanding of those countries' cultures before expanding. Starbucks' reputation is nothing compared to the local coffee shops in Vietnam and Australia that are already familiar with the locals and know more about the culture.

Our best suggestions for Starbucks are, first and foremost, before they decide to enter a new country, they should know everything including their coffee culture, preferences, and the density of customers in different areas. Secondly, while they are expanding into countries, they should do surveys about the experience every customer feels when they pay a visit to Starbucks in order to keep up not only the trend but also the change of the taste of customers.



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