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Appendix

Alternative Entry Plans

1. I Can't Believe It's Not Starbucks - copy Starbucks's products, atmosphere, organization, etc. This could be a new company or could start with an existing company following this strategy (e.g. Caribou Coffee).

Pro: Starbucks is extremely successful and has opened a new market of upscale coffee. This is our motivation for entering the market. In the absence of large economies of scale, doing the same thing could bring us similar success.

Con: At some level, this is functionally equivalent to "expand Starbucks." Starbucks is better at expanding Starbucks than anyone else could be.

2. Emulate Starbucks's products, atmosphere, etc., but operate most stores as franchises.

Pro: Enters the core market while reducing the amount for central management required.

Con: Does this offer enough (if any) comparative advantage to compete effectively with Starbucks, or even with second-tier competitors like Caribou?

3. Merge existing regional companies (e.g. Caribou Coffee, Coffee Bean and Tea Leaf) and unify them under a national brand.

Pro: Our goal is to be recognized as #2 to Starbucks, and this would be the fastest way to create a national competitor to Starbucks. It has the additional benefit of removing some of the most likely competitors for the #2 position behind Starbucks.

Con: There would be some loss of value in merging existing chains, because the individual appeal of acquired chains would be reduced if the brand and products were changed. Merging regional chains is also subject to substantial hold-up if one of the larger regional companies refuses to join.

4. Modify and expand Tim Hortons in America with a more upscale ambiance and more types of coffee.

Pro: Leverages a large existing (Canadian) brand with a good reputation in coffee and the strong corporate infrastructure of Wendy's International. Sells donuts.

Con: Tim Hortons is starting in the wrong market, much closer to Dunkin Donuts than to Starbucks, and a major shift in positioning would be difficult.

5. You are Panera Bread (an upscale retail chain that sells freshly made sandwiches, bagels, pastries, salads, etc.). You are already rapidly expanding this chain of company-owned stores. Open a new chain of Starbucks-like coffee shops in the same areas as the Panera Bread stores. Sell a limited selection of pre-made Panera Bread sandwiches, etc. through the coffee shops (prepare the sandwiches at existing Panera Bread stores and ship them to the coffee shops). Sandwiches will mostly be sold in the morning to people picking up coffee on the way to work, to be eaten during lunch at work. Allow pre-orders to registered customers so that a sandwich of the proper type is guaranteed to be available when customers walk in in the morning.

Pro: The biggest advantage of this scheme is in better complementarity between coffee and food products. High quality coffee and high quality food will attract many customers who are currently stuck with low quality on one of them. One stop

shopping allows for higher prices. Independent of complementarity, there is still a substantial profitability advantage in selling more products to each customer.

Panera Bread already sells substantial amounts of specialty coffee in the morning, but its stores are not ideally positioned and laid out to capture the "Starbucks market." Nevertheless, Panera Bread's corporate expertise in coffee, expansion, and general retailing would be extremely valuable in starting a new coffee shop brand. This strategy makes use of unutilized late night/morning capacity at Panera Bread stores, so disruption of the existing chain would be limited.

Con: Panera Bread is a successful and rapidly growing company that already shed all its other corporate units in 1999 (including Au Bon Pain, its former parent) to focus on expanding the Panera Bread brand. Opening a new chain in a somewhat different market saddles a successful concept with enough risk to cripple the success of that concept. Dilution of expertise and focus would be a part of the risk. Selling pre-made Panera Bread sandwiches might reduce the perceived quality of the Panera Bread brand.

More Factors Considered (a list of many of the other options that did not make the final analysis)

- Addictiveness of caffeine
  - Reduces demand drop-off characteristic of other fad foods
  - Potential lawsuit vulnerability
- Unique products to establish brand recognition beyond the core coffee shops
  - Coffee-flavored "adult cereal"
    - "the best thing to get you going in the morning"
  - Smirnoff Ice-esque beverage to hook 'em young on the soft stuff and then get them to move up to real coffee.
- Contradiction in strategic prerogatives – if you don't differentiate from Starbucks (i.e. people will describe you as "like Starbucks"), then you should enter near Starbucks so that people are familiar with the product. But Starbucks saturates its markets, so it is better to enter somewhere that they are not entrenched yet.
- The specialty coffee industry in the growth phase of the product cycle. How does a company prepare for the mature stage?
- What existing resources can be leveraged to overcome Starbucks's scale advantage of name recognition?
  - Existing coffee brand
  - Existing non-coffee brand
- Franchising reduces quality control, which reduces the known-quality advantage of chains
- Differentiate on complementary products
  - WiFi
  - Sandwich vs. donuts vs. etc.
  - Many others
- Have high caffeine to match Starbucks? Lower caffeine would induce withdrawal symptoms in people switching from Starbucks, making them more likely to return to Starbucks.
- What are sources of business expertise?
- Sit-in-the-store market vs. stop-in-on-the-way-to-work market
  - The former group attracts the latter to the store
- Roasting some beans locally produces a pleasant and distinctive aroma that would attract customers
- Have a "good" owner that some group of people wants to be profitable, i.e. if they are overpaying, the premium is thought of a donation. This is related to concepts like the Democratic Party credit card. Perhaps a university endowment as the owner would be a good choice.
- Tim Hortons is all over Canada. It sells good coffee. It is beginning to enter the U.S. market. Where does it fit into the specialty coffee market?
- Starbucks has an advantage in name recognition/branding and a large array of complementary products, but it also has an anti-Starbucks "following" that could possibly be tapped. However, a substantial portion of the anti-Starbucks crowd would be against any chain, so this is probably not a large potential market.

- Fair Trade strategies to differentiate from Starbucks (Fair trade coffee is sold at prices to benefit small-farmers and is produced under environmentally friendly conditions)
    - go 100% Fair Trade
    - go "evil" – lower coffee bean prices – Starbucks supposedly on average pays double the market price because it partially supports Fair Trade and quasi-Fair Trade practices
- Starbucks and other coffee shops teach people coffee appreciation. but when they gain enough appreciation they buy (or receive as gifts) fancy machines of their own (coffee grinders. espresso machines. etc.) to use at home instead of going out to buy coffee.
- What is the sensitivity of the specialty coffee business to macroeconomic changes? (e.g. do people getting pay freezes stop buying expensive coffee?)
- Could the government regulate caffeine as a drug to create an entry barrier benefiting existing companies?

Abstract

Starbucks is one of the leading international food retailing chains. The caselet examines the market entry strategies used by Starbucks in various countries. The caselet discusses the evolving coffee drinking culture around the world and the role of Starbucks in the growth of this culture. The caselet outlines the efforts of Starbucks in customizing the service offerings according to local customer needs and culture.

Issues:

» Modes of entry into foreign markets

» Design of service offerings

» Challenges in international food retailing

Key words:

Starbucks, International Food Retailing, Asia Pacific Rim, Consumerism, Western Lifestyles, Joint Ventures, Licensing, Wholly Owned Subsidiaries, 'No Smoking' Rules, Sazaby Inc, Local Partner, Coffee Drinking Culture, Europe, Self-Service Mode, Middle East

Questions for Discussion:

1. What made Starbucks enter the international market?

2. What strategy is adopted by Starbucks for international expansion?

3. What are the various risks that a company faces while entering the international market? What are the risks and difficulties that a food service company like Starbucks may face?

Starbucks International - Foreign Market Entry Strategy

Starbucks International has gone beyond the normal philosophy of Starbucks, to create a re-birth of their product line in foreign countries. Typically in the United States, Starbucks owns its entire line of coffee-bar stores outright with no franchise investments or partnerships. However, their international operations are quite the opposite. Starbucks International has adopted a strategy of partnerships to create its line of international coffee-bar stores. These joint ventures create an increased ease of entry into the foreign market.

Starbucks International choose to be involved with partnerships for the benefits these relationships offered over their typical wholly owned subsidiary philosophy. However, choosing the right partner, poses a potential problem for the company. Although Starbucks uses multiple lines of distribution to saturate to US coffee market, its international operations consist only of coffee-bar restaurants. Therefore, they only have one channel of distribution internationally.