

An Analysis of Starbucks as a Company and an International Business

Lauren Roby

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Edward M. Moore, Ph.D.
Thesis Chair

Melanie A. Hicks, D.B.A.
Committee Member

Harvey D. Hartman, Th.D.
Committee Member

James H. Nutter, D.A.
Honors Director

Date

Abstract

The researcher examines a detailed synopsis of the specialty coffee industry and the role that Starbucks plays in it. Starbucks is in a growth market, and it has a good relative overall position. The researcher will examine the business structure of Starbucks and the future implications of its current business strategies. By examining the strategic imperatives such as how to expand abroad and understanding the international context, the researcher will determine strong and weak business strategies of the company. Starbucks has overcome organizational and managerial implications that will serve as a strong model for international businesses. The researcher will then give strategy and implementation recommendations on how Starbucks can grow as an international business.

An Analysis of Starbucks as a Company and an International Business

Introduction

Millions of people all over the world walk into Starbucks every day for their cup of coffee, but it is more than the overpriced coffee that brings people in day after day to the Starbucks stores across the world. Starbucks offers an upbeat environment and friendly and helpful staff to assist customers in any question or problem they might have with the coffee or service. People buy Starbucks for what it represents and the status symbol that comes along with it. Although various business models exist, the principles and structure of Starbucks is a good model to follow, due to its national and global success. The researcher examines how Starbucks is financially succeeding as a corporation even through hard economic times. By looking at the industry and company situational analysis, the researcher will determine where Starbucks stands in the world coffee industry. The researcher will then discuss why Starbucks is a successful international business and the implications of being an international business. The last thing that will be discussed is the strategy recommendations for Starbucks, and how to go about implementing those strategies.

Industry Situational Analysis

Millions of people around the world thrive on their morning, afternoon, and sometimes evening coffee. Due to the massive amount of consumers for the coffee industry, there is also a lot of competition for those consumers. Coffee has been around for a long time, but the competition of coffee retailers has just recently sprouted with coffee sales rising more than 50% in 2007 (Burritt, 2007). The main competitors that

will be examined in this thesis are Starbucks, McDonald's McCafe, and Dunkin Donuts Coffee.

The dominant economic characteristics of the industry environment have to be examined in order to determine where the industry is headed, and why Starbucks is a good model to follow. The coffee industry is continuing to grow despite the increasing costs for coffee from January of 2009's 108.39 U.S. cents per lb. to December of 2010's 184.26 U.S. cents per lb. ("International Coffee Organization Prices," 2010). The almost 200% increase in the price of the coffee bean over the last two years has hurt the overall profits of everyone in the coffee industry. The price has been rising, not simply due to the price of coffee itself, but because of the supply chain and the current economic situation around the world. Last year Starbucks had to raise prices globally, but especially in the United States and China, due to rising prices for coffee and other ingredients, but this year they are taking the hit from the rising coffee prices for the consumers (Baertlein, 2011). Although the prices of coffee had to be raised globally due to the high demand of the product and the cost of producing it, there is still a strong outlook for the coffee industry because of the large consumer base of the industry.

The coffee industry is expected to continue growing through at least the year 2015 and even longer in other emerging markets around the world (Lingle, 2007). Even if the market in the United States begins to decline, there are other emerging markets for the specialty coffee industry. Due to Brazil's rising economy, it is set to be the biggest coffee drinking country in the world with recent coffee consumer growth of 39% from 2000 to 2009 (Murphy, 2011). With Brazil's upper and middle classes expanding, it has more money to spend on specialty coffee and other superfluous items. Brazil could be

the single most important economy to invest in for the coffee business, if its economy continues to grow.

India is another major source of economic growth. Starbucks plans to open its first shop in India this coming year, as well as begin buying coffee from India (Bose, 2011). India is also one of the emerging markets throughout the world that is becoming a spending oriented country. Due to its economic progress, its upper and middle classes are more able to spend money on coffee and other items that might not have been thought of as a necessity in the past. The coffee industry is definitely growing at a fast pace, and the company that can embrace a worldwide frontier will win the battle for market leadership among the many competitors.

Many other factors are driving the coffee industry and transforming it into what it is today. The key success factors of competitors in the coffee industry are innovation, marketing, and expansion. With coffee prices rising, companies have to find a way to either reduce their prices on their coffee, or find a reason to justify the price increases. Innovation through new types of coffee or new drinks can allow companies to have an upper hand in the market.

Marketing is also a key in any business, and especially the growing specialized coffee industry. McDonald's McCafe markets its low price strategy (Burritt, 2007). Dunkin Donuts, on the other hand, markets that it simply has better coffee and more to choose from on its menu (Dicarlo, 2004). Starbucks' claim to fame has always been its high quality and large varieties of coffee. With all of the mounting competition, Starbucks made a bold move by introducing free wireless internet and a Starbucks Digital Network that will allow access to sites such as the Wall Street Journal, iTunes, and more

that normally require a fee (Miller, 2010). This new added bonus for consumers will magnify Starbucks' high quality image in their eyes. It is exactly what Starbucks needed to improve its image after facing brutal competition from McDonald's who was also offering wireless internet.

Expansion is another key to success in this market. With much of the consumer market for specialty coffee existing around the world, the competition is not just in the United States. The nations of Brazil, Russia, India, and China, also known as BRIC, are all evolving economic economies that are going to be crucial in world in the years to come. Early entry into the market of these countries is a key to winning over the large and increasing upper and middle class (Nichols, 2011). These key success factors are important for each of the members of the specialty coffee industry.

Driving forces that shape the industry are a key element that every competitor in the specialty coffee industry has to take into account. The first and main driving force shaping the specialty coffee industry is disposable income. Starbucks' stock took a major hit during the economic crisis when its shares fell from around \$40 per share in 2007 to less than \$10 in late 2008 and the beginning of 2009 (SBUX Basic Chart | Starbucks Corporation Stock - Yahoo! Finance, 2011). Specialty coffee was not a product that people had to have when families and individuals had to scale back their budgets during a tough economy. The BRIC nations have a growing upper and middle class that are gaining the finances and expendable income to afford specialty coffee (Nichols, 2011). As long as the coffee industry takes expendable income into consideration when expanding domestically or internationally, it will succeed.

Another driving force for the coffee industry is industrialization. As more and more economies head towards industrialization, those economies also begin to be influenced by westernization. In India, tea was the common beverage for the upper and middle classes, but now coffee is becoming a statement of wealth and prosperity (Bose, 2011). With many countries finally embracing industrialization and westernization, coffee will become the beverage of choice for many individuals. Expendable income and industrialization are going to drive the coffee industry over the next few decades as new countries open up for specialty coffee vendors just as India is opening up to the coffee industry.

In the process of analyzing the current situation of the specialty coffee industry, one must examine the competitive landscape. Porter's Five Force Model allows for proper identification of the landscape of the industry (Thompson, Strickland, & Gamble, 2007). The biggest threat in the specialty coffee industry is the power that suppliers have over the price of coffee. Arabica coffee prices soared 77 % in 2010 which leads to major problems for the coffee industry (Murphy, 2011). Arabica coffee is one of the most sold brands of coffee in the specialty coffee industry. With prices for that type of coffee sky rocketing, it will definitely hurt the bottom line of every competitor, especially those that thrive on a low cost strategy.

The second biggest threat is from current specialty coffee competitors. McDonald's, Starbucks, and Dunkin Donuts, and other smaller coffee chains are continually competing for business. McDonald's is taking on Starbucks head on in Europe and plans to become the number one Café, thus overtaking Starbucks at its

current number one position (Liu, 2009). McDonald's is embracing the foreign market that Starbucks has been leery about.

The third strongest threat is the power that the buyers have in this industry. Because specialty coffee is not a necessity, people can decide that it no longer fits in their budget, or that they no longer enjoy the environment of a certain vendor. With coffee shops all over the world and almost on every corner, there are plenty of options for consumers, and that allows them to be picky about what they want to buy. Starbucks is even marketing its significantly lower costs to its Korean market (Han, 2009). Consumers have the power to choose between low cost or high quality which forces vendors to choose a strong and consistent strategy.

The fourth strongest threat is from new entrants. Although there are a lot of new mom and pop coffee shops opening up, there are not enough of them to significantly deter from the major competitors. The weakest threat for the specialty coffee industry is that of substitutes. Most consumers that drink coffee like it because of the taste. The energy that it gives a person can be substituted, but not the taste or richness of the drink. Avid coffee drinkers will not be torn away by a substitute product such as an energy drink or even a hot tea. The profit outlook for the specialty coffee industry, considering the five forces of competition, is still high. There will definitely be some challenges that the strong competitors will have to face; but overall, the coffee industry will not be completely overcome by any one of Porter's five forces.

The overall attractiveness of the industry and competitive environment is very strong. The growth rate for the industry is still increasing and does not look to plateau any time soon after examining the driving forces and Porter's Five Forces Model. With

innovation, strong marketing, and global expansion the coffee industry is on pace to make marvelous breakthroughs. The driving forces of industrialization and disposable income will allow the coffee industry to flourish and will present new and challenging opportunities. The competition is stiff to overcome and will take a lot of work from any member of the specialty coffee industry. The escalating prices of coffee will play a major role in the expansion of the coffee industry over the next decade. The specialty coffee industry, overall, is very strong and has the potential to grow and thrive.

Starbucks' Situational Analysis

Starbucks is currently one of the top contenders in the coffee industry. It is aware of the stiff competition and are prepared to combat it however possible. In order to better determine Starbucks' situation in the specialty coffee industry, it is important to look qualitatively and quantitatively at its current strategy. An analysis of the company's strengths, weaknesses, opportunities, and threats, SWAT analysis, and a strategic issues analysis will breakdown its strategy and provide positive and negative feedback on the company as a whole.

Starbucks has done many things to help its company grow and expand into the transnational business that it is today. Its high quality differentiation strategy allows it to focus on pleasing the customer in every way possible. Its introduction of wireless internet and the Starbucks Digital Network allows it to provide a better experience for its customers and increase its sales compared to the company's previous performance. If people stay at Starbucks for longer periods of time, they are more inclined to buy more beverages or food and music from the online stores that Starbucks is partnering with in its Digital Network. Starbucks is going to be able to sell its music, as well as other forms of

media through its introduction of wireless internet. In January, an announcement was made that sales increased by 4% after months of decline after the introduction of the wireless internet (Miller, 2010). Wireless internet is a major strategic asset to Starbucks, and it will continue to help them in the future countries that they introduce it to.

Another strategic asset to the company is the decision to enter India as a new international destination for business. India has a growing economy and upper and middle classes; because of this, Starbucks will be able to help open the eyes of its citizens to specialty coffee (Bose, 2011). Although a store has not been opened yet, India has a high propensity for the specialty coffee industry as it becomes more industrialized. Its citizens are starting to refrain from tradition and embrace new and trendy styles.

Another major country for Starbucks to explore is China. Starbucks recently entered China, and it is focusing on the growth potential that China currently has with coffee sales growing 9% just last year (Burkitt, 2010). With continual growth in China, Starbucks will be able to take on McDonald's as it begins to expand its coffee business. China is currently on its way to being the second-largest coffee market, leading Canada, the United Kingdom, and Japan (Burkitt, 2010). This means that Starbucks will see significant profits rise as its new star target market begins to rise. Starbucks has a strong transnational strategy that will allow it to continue to achieve success in the years to come.

In order to completely understand how Starbucks is doing in the specialty coffee industry, it is important to look at their numbers. In the last five years, Starbucks has had a major dip in its stock price. Its stock price went from \$35 in 2007, down to less than \$10 in 2009, and it has just gone up to the low \$30's recently in 2011. The economic

crisis throughout 2008 and 2009 really hurt Starbucks' stock price ("SBUX Basic Chart | Starbucks Corporation Stock - Yahoo! Finance," 2011). The important aspect to learn from the hit that it took is that it was able to overcome the loss. Starbucks is on track to continue to keep its stock price high. Although Starbucks' stock price plummeted during the midst of the financial crisis, its net revenues did not. Starbucks' profits went from \$7.8 billion in 2006, to \$10.4 billion in 2008, down to \$9.8 billion in 2009, and back up to \$10.7 billion in 2011 (Starbucks Corporation, 2010). The economic crisis that caused many companies to fail barely put a damper on Starbucks' revenue. A company that can endure an economic crisis and still come out stronger than when its stock price was through the roof, is a company that will not be taken down easily. The stores opened at the year's end in 2006 have also continued to grow in the last five years. There were 12,440 stores open worldwide in 2006, 16,680 in 2008, and 16,858 in 2011 (Starbucks Corporation, 2010). Starbucks has realized the importance of expanding its business worldwide in order to create a larger target market. It has also maintained growth and revenue during times of economic failure in their main market. Starbucks has faced a lot of challenges these last five years, but it has made it out on top and will continue to expand and succeed.

SWOT Analysis

Another significant tool in analyzing Starbucks's current position in the specialty coffee industry is a SWOT analysis. Starbucks has several strengths in the coffee industry. A couple strengths that Starbucks has is that it is the market leader in the coffee industry, and that it has 16,858 stores as of the end of the fiscal year in 2010 (Starbucks Corporation, 2010). Another strength that Starbucks has is its rapid pace of growth, not

only domestically but also internationally. Many of the stores that are opening are coming from the international market. Starbucks is also financially sound which was proven during the financial crisis in 2008 and 2009. Its stock price might have fallen, but its profits barely took a hit (Starbucks Corporation, 2010). Starbucks also has strong brand recognition by consumers. It is known for its high quality products and its consumer friendly environment. Starbucks' has a lot of strengths that will carry it through the years to come.

Although Starbucks has a lot of strengths, it also has weaknesses. One of Starbucks' major weaknesses is its price. McDonald's uses Starbucks' high price directly against the company in their marketing campaigns. Another weakness of Starbucks is that 75% of its profits are based off its coffee products and other specialty beverages (Starbucks Corporation, 2010). This means that with the escalating coffee bean prices, that Starbucks will take a direct hit every time the price of coffee rises. Dunkin Donuts and McDonald's both focus first on food and then coffee; therefore, it makes them less vulnerable as a company to the escalating coffee prices around the world. Overall, the weaknesses of Starbucks do not outweigh its strengths; therefore, it is a strong and sound company overall.

The next issue that needs to be examined is the opportunities that Starbucks has in the coffee industry. The international market is the main source of opportunity for Starbucks as a company. In countries with growing economies, such as the BRIC nations, there are growing upper and middle classes that want to spend money on specialty coffee. Those countries are becoming more industrialized and are expanding their tastes to include coffee. With Brazil set to be the world's largest coffee consumer in

the world by 2012, it offers a huge market for Starbucks to more fervently enter and propagate (Murphy, 2011). India is also a rising country that has recently begun to embrace the coffee industry. With Starbucks bracing to enter India this year, there are high expectations for success in the country (Bose, 2011). Business men and women in India have turned away from tea and embraced coffee as the country has begun to experience economic success. Starbucks has also signed an agreement with Tata coffee of India, which is the fifth largest exporter of coffee, to begin selling their coffee worldwide (Bose, 2011). This is a great opportunity for Starbucks because it allows them to have more access to coffee. With coffee prices rising due to production costs, it will be important for Starbucks to have access to large quantities of it around the world. Starbucks also has a goal to permeate China throughout the next few years in hopes of expanding their already blossoming market. Starbucks has a lot of growth potential with all of the opportunities that await them in the years ahead.

The last issue that needs to be examined is the threats that Starbucks is facing and will face in the future. A major threat that Starbucks has to face is competition, of which McDonald's is a rising competitor. McDonald's is able to open their McCafés in current franchise stores around the world, and they are aiming at Europe. This gives McDonald's a leg up on Starbucks when opening an entire store in Europe takes an investment of more than \$350,000 compared to McDonald's investment which would be about a third of that (Liu, 2009). If McDonald's continues to open McCafés through Europe and other parts of the world because of the low start up costs they encounter, it could greatly decrease geographic scope advantage that Starbucks has over McDonald's at this time.

Overall, Starbucks has more opportunities for business than threats. It also has a

unique environment and atmosphere that cannot be copied by competitors. It will be important for Starbucks to take advantage of the opportunities that it has for business over the next few years, but it has to uphold its standards in order to succeed. Starbucks will always encounter threats to its business, but it will overcome them.

After taking an in depth look at Starbucks' situational analysis, it is clear that it is a good strong company and that it is going to have a lot of success in the future. The company has a strong qualitative and quantitative strategy. Starbucks' plans are not just on paper; the company is implementing them to the betterment of the brand. Financially it is very sound. Even after going through a financial crisis that destroyed thousands of companies, it came out on top with only minor dips in profits. The SWOT analysis of the company illustrated that it is a company that is sound internally and externally. It is important to understand the current situation of Starbucks before determining how it is competing on an international front. If a company is not sound, it will not be able to compete under the pressures of an international environment. Starbucks has the makings to be a strong international competitor; therefore, the next thing that needs to be examined is the company's international mindset and strategy.

Introduction to Starbucks as an International Business

Businesses face many complications when they develop an international mindset. They have to change their way of thinking from a simple domestic market to a complex and intricate world market. Starbucks has expanded into many different markets in the recent past and has succeeded greatly in doing so. The strategic imperatives that drive Starbucks allow it to succeed as an international business. Starbucks has faced and will face many organizational challenges, but fortunately it has already overcome many

problems, and will continue to overcome them one at a time. The managerial implications that Starbucks faces while expanding into new global markets are varying and complicated, but the managers are working very hard to discover the reasons and sources behind the problems that they face. Starbucks is becoming a great transnational business, but the company still has work to do in order to gain a greater presence in varying international markets.

Starbucks's Strategic Imperatives

Expanding abroad and realizing a greater market area is one of the first strategic imperatives of a company. The main motivation that pushes Starbucks to expand its business internationally is to gain access to larger markets. Howard Schultz, the director of retail operations and marketing in 1987, began looking globally for business early on in his business. He encouraged and helped to open the first international Starbucks in Vancouver, British Columbia ("Company Timeline," 2008). Crossing national borders early on helps to overcome the fear of expanding abroad and encourages cross-border integration. Starbucks utilized many different alliances and joint ventures in order to expand its market control outside of the United States and Canada ("International Development," 2009). The alliances and joint ventures allow Starbucks to expand its product ranges and understand the markets that it encounters. In the 1996 North American Coffee Partnership between Starbucks and Pepsi-cola, the two companies were able to start selling Starbucks' products in bottled form at grocery stores and other various convenience stores ("Company Profile," 2008). This is one of the few joint ventures that allowed the products and capabilities of Starbucks to expand. With people having access to Starbucks at more convenient places, it allows for a larger market scope.

Not every town has a Starbucks, but every town can sell its products. Starbucks' main goal is "to establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining [its] uncompromising principles as [they] grow" ("Company Factsheet," 2008). Starbucks is a great multi-national company, and it has the correct motivations, means, and mentalities to allow it to succeed.

Starbucks wants to be a global giant in the coffee industry, but the company is not willing to sacrifice or put aside its morals in doing so. Starbucks goes above and beyond the call of duty for ethical standards and wants to be an environmental leader in all facets of their business ("Starbucks Shared Planet - Our Responsibility," 2009). Starbucks aims to run a business that has high standards and is above reproach in the business market. One way that Starbucks tries to embrace the environment is through promoting its fair trade coffee. Fair trade coffee is a way for peasant farmers to get fair or economically sustainable prices for their coffee and extra money that farmer groups can use to help better their community and businesses (Davids, 2009). This insures that coffee farmers are not taken advantage of by huge coffee enterprises. The Fairtrade certified coffee market was set to increase by 18% due to Starbucks' role in selling fair trade coffee and its Starbucks Shared Planet verified coffees in the United Kingdom and Ireland (Fairtrade Foundation, 2009). This increase in production of Fairtrade coffees significantly helps peasant farmers all over the world. It is important that Starbucks completes its role in social responsibility, and that it is doing that by insuring it does not take advantage of poor and underprivileged farmers. Starbucks is already the leading producer of fair trade coffee, and this increase in productivity will set Starbucks apart from every other competitor (Fairtrade Foundation, 2009). Starbucks' coffees may be more expensive, but

they are also contributing to the economies and betterment of people around the world. It is important for consumers to take this into consideration when they are swiping their card at their favorite coffee shop.

Understanding the international context is another major strategic imperative of a company. Starbucks had to expand its company globally in order to expand its market cap and continue to grow its business. Because of the need for a greater and stronger market, Starbucks has expanded into 43 countries (“Company Factsheet,” 2008). Each of the countries that Starbucks has entered has its own culture and practices. The differing cultures can be nearly impossible to overcome on their own; therefore, Starbucks utilizes joint ventures to help alleviate some of the difficulties of expanding abroad. Starbucks has opened more than 700 stores in Japan, and without the joint ventures with Japanese companies that allowed it to gain cultural understanding, it would not have been able to succeed (“Company Profile,” 2008). Every culture has a different set of values and beliefs that affects what it buys and what it sells. Starbucks was careful in researching every country that it went into; thus, it insured its success and ability to expand into difficult and different countries and regions. Starbucks realized the need for local differentiation and responsiveness in Japan. Starbucks works to have a basic set of core products, but it is not closed minded to new products either. It works to create new products for different geographic areas because of the differing cultural tastes that accompany them. Starbucks is willing to respond to different conflicting environmental and cultural factors; and because of that, it has been able to grow drastically as a company since its first small store in Seattle.

The last strategic imperative that a company needs to focus on is achieving a worldwide competitive advantage. Starbucks has multinational flexibility to be able to take on and manage risks that come its way. One major risk for Starbucks is the availability of coffee beans compared to the demand for coffee that Starbucks has at any given time. In order to protect its risk of losing its high quality coffee, it began the preferred supplier program in 2001 to attract and reward farmers who are committed to environmentally responsible farming (Schrage, 2004). This program attracted farmers because it gave them the peace of mind of knowing that they would receive above average pay for their quality coffee. The program gave farmers an incentive to continue growing coffee for Starbucks and helped them economically as well. Starbucks also has to exhibit worldwide learning in the organization. National differences between cultures are very common, but sometimes there are also similarities between cultures that can help determine new fads or trends throughout the world. In Singapore Starbucks offers the same upper-class, hip, and fun working environment (Simon, 2009). Starbucks consistently markets to the upper-class of every market. Although there are national differences between cultures, Starbucks aims to keep a consistent environment and target market. It wants to insure that the values, culture, and environment of its company remain intact or at least very similar throughout the world. Starbucks aims to market its high quality coffee to the high quality, upper-class with consistency and style. Starbucks also has a consistent international strategy as it exports coffee from around the world to each of its international stores to achieve its worldwide competitive advantage as a company. Starbucks offers many tastes from around the world in each store, which allows it to market to each culture within its markets.

Organizational Challenges

Organizational challenges will constantly arise in an international business; therefore, Starbucks must learn to manage integration, responsiveness, and flexibility. Starbucks normally enters a market by joint venture or acquisition of various national companies in order to gain a hold on the cultural differences within each new geographic region ("International Development," 2009). The administrative heritage that Starbucks holds also allows it to prosper in the many differing cultures and geographic areas. Starbucks strives to hold on to its high quality product and customer service which can transcend language and culture, but it realizes that its success is not entitled to them ("International Development," 2009). Entitlement is one of the main things that many companies that fail have in common. Starbucks realizes that it has to gain its reputation in each new culture and community. That knowledge is what allows it to succeed. Starbucks works with its many "partners" to help with its global success ("Company Profile," 2008). Starbucks counts on its employees for new ideas and customer information. Every store reports back to the main hub with ideas to help the organization succeed. Starbucks divides up its company into different geographic regions ("International Development," 2009). Each geographic region has its own needs and desires. By dividing the world into different countries or regions Starbucks is able to break down the differences and similarities between markets. By breaking down its global market into smaller geographic areas, it is capable of being more flexible and responsive to varying needs and wants; therefore, it is able to overcome a main organizational challenge.

Another organizational challenge that a company will face is how to create

worldwide innovation and learning through cross-border knowledge management.

Starbucks does this mainly through its relationships with customers, suppliers, alliance partners, and its own employees (Gulati, Huffman, & Neilson, 2008). Starbucks' relationship with its suppliers is one of the best in the coffee industry with its focus on insuring not only their continued profitability but also the profitability of the farmers ("Company Factsheet," 2008). Starbucks also helps to encourage worldwide learning with the benefits that it offers its employees. Starbucks strives to make every employee a "partner" in its business by offering different stock options, health benefits, and even different forms of grants ("Company Factsheet," 2008). By making every person a partner in the success of Starbucks, the company encourages worldwide learning. If every individual feels as if his or her opinion and work ethic is vital to not only the company's success, but also his or her own success, it will motivate each individual to do his or her part to insure that the organization is prospering. It allows every person to have a stake in the success or failure of the company; and thus, it makes each person feel as if he or she should work as hard as possible to succeed. Starbucks also works off a system of interdependence. The corporate headquarters is called the Starbucks Support Center which reflects central management's role as an information and support provider, not an autocratic decision maker (Gulati, 2008). Through decentralization and regionalizing of much of the decision making process, Starbucks is able to develop the culture specific patterns for each store. It allows the managers to know and understand the patterns developed in order to be relevant to each and every geographic region they enter. The close ties that Starbucks has with its corporate teams allow the stores to keep their specific distinctions and values that transcend throughout all of their stores (Gulati,

2008). Through the decentralized structure and strong relationship that Starbucks has made into one of its core values, the company is able to achieve worldwide learning and innovation.

The last organizational challenge that a business faces is trying to engage in cross-border collaboration. Starbucks takes great care in determining what companies it will partner with when going into a new market. Through global alliances, joint ventures, and licensing Starbucks gains access to new markets. Starbucks like to “leverage its increasingly strong brand through a variety of alliances to sell Starbucks coffee and develop new products with the Starbucks name” (Gulati, 2008). Starbucks’ strong name allows it to have the upper-hand and power to leverage in its negotiations with other companies. Starbucks utilizes these alliances to help create innovative new products that it might not have been able to complete or justify if it were to take them on alone. Starbucks also knows what it is looking for in a strategic alliance. Starbucks looks for a partner that has a shared set of values and corporate culture, sufficient financial and human resources, real estate knowledge and access, leverageable infrastructure, and is a strategic fit (“International Development,” 2009). Because of the previous experience and uncompromising standards of Starbucks, its corporate alliances have succeeded very well. When Starbucks made a licensing agreement with Kraft Foods, Inc., it allowed Kraft Foods to start making Starbucks’ products available in grocery stores, and now because of that effort their products are available all over North America and even the United Kingdom (“Company Profile,” 2008). If Starbucks did not have the core attributes of what it is looking for in a partner in mind, it might not have been as successful in its partnership with Kraft Foods, Inc. or any other partner. Starbucks was

willing to weigh the good and bad in the possible alliance and decide on whether or not the alliance would benefit its company. If Kraft Foods, Inc. did not have the same corporate mind set and goals that Starbucks had, Starbucks would not have done business with them. Starbucks was able to succeed in creating cross-border collaboration; therefore, it was able to expand and grow successfully as a company.

Managerial Implications

There are also managerial implications of running an international business such as being able to implement the sound and strong strategy that has been put in place. Starbucks has implemented a new approach to marketing; instead of simply spending money on marketing and advertising, the employees become the communicators of the brand (Gulati, 2008). While Starbucks spent less money on advertising, it spent more money on its employees. Because of that, they worked harder for the company and helped to promote the brand. Starbucks also strives to create a comfortable environment and even build a personal relationship with each of its clients (“Company Profile,” 2008). Through the relationships that Starbucks strives to achieve, it is able to gain a strong and consistent customer base that will not change or flip-flop between different chains or brands. A knowledgeable employee base is also another key to Starbucks success. Starbucks insures that each store partner participates in an extensive training program, exhibits product expertise, and has a commitment to customer service.

One managerial key to success is understanding the importance of diversity. Starbucks focuses on diversity as a company because it believes that it is defined as “a combination of differences and similarities in the pursuit of new ideas and individual relationships made every day” (“Company Overview,” 2009). The diversity that

Starbucks consists of allows it to grow and change in ways that might not have otherwise been possible. In a group of diverse people it is possible to come up with more ideas and innovations than could be thought possible or probable with a group of asymmetric clones. After every quarter, Starbucks' four geographic zones meet together to discuss changes and improvements that should be made within the company (Gulati, 2008). Starbucks allows its managers to make decisions on a regional and geographic basis and then share the good and bad results at a corporate level. This allows for collaboration and two way communication between the head office and the regional offices. By having different regional managers, Starbucks allows its managers to assert interdependence when making decisions. This allows its employees to think on their own behalf and on the behalf of the company which allows them to become empowered business men and women. Thus, Starbucks builds strong international managers through its strong personal relationships, diversity, and its geographic boundaries for product management.

In light of an economic decline, an organization has to decide whether or not to become a place of exploitation, stagnation, or responsiveness. Starbucks has been able to keep a strong balance sheet and generate solid cash from operations during the recent economic crisis (Edgar Online: Balance Sheet, 2008; Edgar Online: Cash Flow, 2008). Even though Starbucks' stock has significantly gone down the last few years and is just now getting back to where it once was, it has been able to remain a strong company because of its strong ethics and business practices ("SBUX Basic Chart | Starbucks Corporation Stock - Yahoo! Finance," 2011). It strives to insure that all customers receives value and quality from it along with the customer service that they deserve ("Starbucks Coffee Company- Investor Relations- Financial Releases," 2009). Starbucks

has also not stopped investing in the community that it believes is the sole reason for its success. It has a corporate goal of contributing one million hours of community service by the year 2015 (“Starbucks Shared Planet – Community Involvement,” 2009). Even in the face of economic downturn, Starbucks wants to invest and help to prosper the communities that it is involved in and surrounded by. They could be cutting out community involvement to help bridge the gap of lost sales that has recently occurred, but instead it is choosing to uphold its commitment to its various communities.

Starbucks could have easily raised its prices and tried to gain as much as possible from the people it served, but instead it kept its prices the same and raised its community involvement. Starbucks is a company that tries to go above and beyond the call of duty in a time of crisis for its customers; therefore, compared to other businesses who take advantage of people in similar situations it is known as a responsive company that does what it can to better the world and economy.

Businesses will face many challenges and struggles when they focus on an international market; Starbucks has faced many of those but it has been able to succeed greatly in the world market. Starbucks has narrowed down its strategic imperatives of how to expand abroad, understand the international context and develop transnational strategies. Starbucks has also overcome organizational challenges such as developing a transnational organization, creating worldwide innovation and learning, and engaging in cross-border collaboration. The managerial implications such as how to implement a strategy and how to look into the company’s future have also been surmounted.

Starbucks is a strong and resilient company, but even the best companies have areas that they need to improve.

Strategy & Implementation Recommendations

Starbucks has expanded greatly in the last few years into international markets. Even with its recent expansion and great success in foreign markets, most of its stores and sales are still in the United States. Starbucks has doubled in the amount of stores it possesses since 2004, but it has consistently stayed at only a 30% international market (“Starbucks Coffee Company- Investor Relations- Financial Highlights,” 2009). Currently 11,131 stores are in the United States versus only 5,727 stores throughout the rest of the world (Starbucks Corporation, 2010). Starbucks needs to expand its current international markets in order to diversify its income base. Starbucks has a great base in the United States, but it greatly outweighs the base that it has throughout the rest of the world. Starbucks needs to put more effort into expanding its business empire into more countries or regions. It can also add more stores in the countries it is already doing business in. Starbucks has over 50% of its profits all coming from only one market, the United States (“Starbucks Coffee Company- Investor Relations- Financial Highlights,” 2009). Because of that, it makes it difficult to recover if and when that one market begins to do poorly. Although Starbucks needs to invest more in foreign countries, it still has to be careful to watch out for social norms and cultural differences in and throughout countries. Depending on the culture “products can touch a deeper nerve, triggering associations related to the consumer’s identity as a member of a particular community” (Bartlett, Ghoshal, & Beamish, 2008, p. 227). No matter where Starbucks goes as a corporation, it still has to consider the market of people it is selling its products to. Tea is the common beverage of Britain and other countries, while Mormon populations will not drink tea or coffee because of their religious background and heritage. Although

Starbucks needs to broaden its market scope, it must take time and put in the proper amount of research when going into different communities and countries. By balancing out its income between several different markets, Starbucks will not have to worry as much about the crash of one particular market. Starbucks has taken great efforts to expand its sales base but it still needs to increase its percentage of foreign investment.

Another way that Starbucks could better succeed as a company is by diversifying its product base and offering more economical pricing for customers. Starbucks is known for its high quality coffees, teas, and light appetizers, but it doesn't offer anything of more substance. Trends come and go every day just like the latest fashions in New York or hair styles in Hollywood. Starbucks has made a lot of money as a company, but that could also change if it is only a mere high class trend. In the event of another economic crash, Starbucks' high quality coffee is not something that most people will find as a need compared to house or car payments. During the last economic crisis Starbucks' stock took a major hit, and it is just now getting back to where it was in 2007 ("SBUX Basic Chart | Starbucks Corporation Stock - Yahoo! Finance," 2011). Starbucks needs to take into consideration the possibility of maybe another economic crash. The economy has somewhat risen back from the last crash, but many people in the United States are still without jobs and incomes. Most of those people were middle to upper class workers that would spend their extra money on novelties such as Starbucks. Many people have started rethinking their spending habits, and picking up a cheaper cup of coffee to help get them through the day. Starbucks has become a status symbol to most people, especially college age students, but more and more the main priority in people's lives is just getting by and paying bills on time. If Starbucks offered meals or even more dessert options, it

would be able to greatly extend its product base and increase its scope of operations.

Starbucks could also run more specials illustrating that it is doing its part in rejuvenating the economy. If Starbucks would diversify its product base and offer more economical ways of buying its products, then it would greatly prosper as a company even through the toughest of economic times.

Starbucks should expand its global market presence and spread out its profit base to insure a more stable economic base for the company. Expanding its geographic scope will be key to allowing Starbucks to grow as an organization. The United States has almost hit its limit for expansion and growth, but the world still has plenty of customers and opportunities. A lot of regions have not been ventured into by Starbucks. If it begins to research and explore new countries, it will be able to allow its company to grow exponentially over the years to come. By diversifying its product base and creating new and innovative economic pricing, Starbucks could expand its scope of operations. More people might stop at Starbucks for lunch if they had an option to do so. Starbucks is a great company with a bright future ahead of it, and with minor changes it could be one of the world's leading transnational corporations.

Conclusion

Overall, Starbucks is a strong corporation that is in a growing industry. The researcher discovered that Starbucks is taking a strong stand in the coffee industry and initiating promising strategic and environmental goals. It is also securing coffee supplies from India as well as China in order to keep its costs under control. Over the next few years, Starbucks will continue to grow in the international market. Although two-thirds of its stores are currently domestic, over the next few years the percentage of foreign

stores will escalate. Starbucks is handling the transition from a domestic to international company very smoothly. It is taking the right steps to allow it to succeed in its long term goals. Starbucks' strong business model can and should be copied by international businesses. Starbucks is a company that takes their global product and customizes it to fit local and cultural needs of different regions and communities. They have a transnational business model that allows them to have a universal product that can be tailored to fit national needs. Starbucks' system of corporate learning allows them to gain knowledge of new marketing or product ideas that can then be transferred to other national areas within Starbucks. Starbucks has to be responsive to its varying markets as well. Economic crashes and political instability can ruin a business market. Starbucks has to be aware of the changes in the government and culture in order to better forecast the problems that they will be facing. It is important for Starbucks to continue its strong system of communication in order continue growing as a business.

The researcher also examined that there are many organizational and managerial implications of running an international business, but discovered that Starbucks is working diligently to overcome those problems. One problem that they had to overcome is the ability to understand the international context. It is important to understand a culture before a company begins marketing to a different country or region. The BRIC nations are going to play a major part in the future of Starbucks as they begin to grow and influence the coffee market. These nations have millions of people that are begging to embrace coffee, and it is important that Starbucks has a strong market presence in these areas. If Starbucks expands internationally through the undertaking of new countries, it will be difficult and time consuming, but it will also greatly improve their company as a

whole. But in the end, the undertaking of new regions and countries will allow Starbucks to gain a strong hold on the coffee industry as a whole. By opening additional stores in the countries that Starbucks already is currently marketing to, Starbucks can expand internationally without the additional funds for research and without the additional time and money it takes by expanding into a new market. This would also give them a cultural advantage in opening the new stores because they are already familiar with the customs and practices of their target market. Starbucks has a strong international business model, but it still has to continue building its goals and expectations. Starbucks will never be finished growing as a business; therefore, it is important to keep its goals in mind and its strategies in place in order to overcome any obstacle that might stand in its way.

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