

Starbucks: global brand in emerging markets

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In March 2017, Howard Schultz attended the last shareholders meeting as Chief Executive Officer (CEO) of Starbucks Corporation. The meeting was full of patriotic fervor, and it ended with handing over the company's reins to his successor, Kevin Johnson. The audience also saw the emotional gesture regarding Schultz handing over to Johnson the key of the company's first store at Seattle's Pike Place Market, which he always carried with him over the past 35 years. The leaders talked fervently about core values, principles and compassion which helped the corporation over four decades. Schultz after stepping down was destined to take the mantle of executive chairman. After April 3, 2017, he was planning to re-build Starbucks as the higher-end brand and 'experiential destination. Schultz had resigned earlier also but ended up in stepping back in (Janet, 2017).

Post Schultz, Johnson had tough tasks ahead of him. He faced multitude challenges like cooler growth in Starbucks' home market at the USA plus intense competition from rivals and managing massive expansion project in China (The Straits Times, 2017). During the past five years, Starbucks achieved significant growth in markets such as China but failed to replicate the same in the home market (Taylor, 2017). Since 2008, in the US market, same-store sales had been growing at its slowest pace. Investors' expectations from Starbucks had fallen short of the mark in the last four quarters of the year 2016-2017. The revenue reached \$21.3bn during the year, though 3 per cent annual growth in revenue was slowest in the previous five years (compounded annual growth rate, i.e. CAGR in the past five years was between 6 and 7 per cent). In general, most retailers faced a reduction in in-store traffic.

Consumers in the US market were spending more time at home. Also, a growing trend was consumption of ready-to-drink coffee and other beverages at home or office. Starbucks faced. Consequently, the US retail market was reaching a saturation point while Europe was a weak growth region. Foregone conclusion was that future growth in coffee and beverages retail business would come only from the emerging markets like China and India. As a result, Starbucks announced an ambitious target of adding 12,000 outlets in the next five years, of which nearly half would be in China alone (Exhibits 1-3) However, emerging markets were intriguing, complex and at times incomprehensible. How Johnson would meet socio-cultural and political challenges in the emerging markets, was to be seen. Whether these markets would be the next growth engine for Starbucks, only time would prove.

During the eight-year period, when Schultz first stepped down as CEO in 2000 to return in 2008, the company focused on growing fast by opening many stores. Nevertheless, Starbucks grew too quickly and lost its unique appeal. The cafés which were designed to offer a superb experience to its customers were reduced to providing coffee – a commodity. In 2017, Johnson would face a tough situation of going for quick expansion of

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retail network without losing brand uniqueness. Of late, the company had started a mobile order and pay services (Taylor, 2017) The additional feature offered customers to order remotely and then arrive to pick the product. However, already busy in-store employees were feeling more pressure due to this innovation and the practice had led to long queues and holdups in the service. Few experts analyzed that there were too frequent changes in the food menu. Food element in Starbucks traditionally contributed a smaller pie to revenue as compared to rivals like Panera Bread and Dunkin Donuts. Schultz had always focused on customer excellence, and with changing times, it would be a grim task to ensure the policy of customer first. Johnson had served Starbucks' board since 2009 and had been Chief Operating Officer (COO) for over two years now. He had been with Microsoft for 16 years and was CEO of Juniper Networks for five years. The technological background might be beneficial to Johnson to overwhelm the challenges and tread the path of innovation. Johnson expressed that he would concur on excellent financial performance as well as to make brand Starbucks sustain for more than a century (Financial performance as of October 1, 2017 Exhibits 4 and 5).

Starbucks' journey

In 1971, Professors Jerry Baldwin, Zev Siegl and Gordon Bowker of University of San Francisco, opened the first coffee shop 'Starbucks' in Seattle, USA. The coffee shop offered a specialty of whole-bean coffee, tea and spices to the connoisseurs. Howard Schultz was working for a Swedish drip coffee maker manufacturer – Hammer Plast. Leading a team of 20, Schultz was heading sales and marketing portfolio. Once during his sales analysis, he observed that a small shop called Starbucks regularly orders for many plastic cone filters. During his visit to Starbucks in Seattle, met three promoters and was amazed by the depth of their knowledge about coffee business. Their passionate approach towards life and coffee business impressed Schultz, and he offered to join their business, but he was discouraged by them. After much persistence and sustained efforts of one year, the promoters allowed him to join Starbucks as director of retail marketing in 1982. Very soon, Starbucks started supplying coffee beans to fine restaurants and espresso bars. During a chance visit to Italy, Schultz got captivated by Italian coffee bars and cafés. Café culture, the relaxed atmosphere, and taste of coffee at Italy impressed him, and he envisioned to develop a similar cafeteria culture in the USA as well. On his return, persuaded the owners to extend the brand 'Starbucks' into a chain of coffee shops or cafés where people could socialize and relax. He was of the opinion a retail company must think beyond just selling coffee beans and seed crushing machines. Hence, the first retail café of Starbucks was opened in downtown Seattle serving Starbucks Caffè Latte. Despite the first café's success, the three owners were not keen to enter the restaurant business. Because of that, Schultz decided to leave Starbucks in 1986 but could not dissociate himself from the appeal of Starbucks café business. Within one year, he and few local investors raised money for the new venture and opened the first store "Il Giornale". In 1987, Schultz offered to buy the "Starbucks" brand and business from the promoters at \$3.8m. After prolonged negotiation, they acceded and sold off the company to him. Starbucks became the Starbucks Corporation and went on opening a chain of stores in Chicago, USA, and Vancouver, Canada.

By 1991, Starbucks sales shot up, and Schultz could pay off all the debts. The number of Starbucks coffee outlets jumped to 116 by then, and Schultz promoted Starbucks café as a hang out "third place" for people after their home and office. Within no time, Starbucks was the bestseller amongst all the coffee brands in North America. The company came up with an Initial Public Offer (IPO) in 1992. Though the initial reaction by Wall Street analysts was lukewarm, Schultz carried out efforts with great self-conviction. They could raise \$25m from the public and focused on the new store opening in different parts of North America, and the number of outlets reached 165 by 1992. Starbucks corporation crossed the US shares in 1996 and entered Japan followed by other markets like England, Malaysia, New

Zealand, Taiwan and Thailand. For the next six years sales grew by a CAGR of 40 per cent. By 2000, the company was serving over 20 million customers daily, and the number of outlets touched 5,000. During the expansion spree, Starbucks was opening nearly three outlets in a day. Starbucks achieved the phenomenal growth without much expenditure on marketing and advertisement. Most marketing efforts focused on the point of sales material, and in-store display only, and Schultz as CEO was spearheading most of these planning and strategizing efforts.

Post-2000, he remained Chairman and Global Strategist of Starbucks and gave CEO position to Oren Smith, a long-time associate. Schultz kept to himself the role of Chief Creative Officer. By 2008, however, the company's performance was waning, and the stock price had been flat over the past eight years. The competition was giving a tough fight, and the corporation's growth is mainly dependent on new stores opening. Same-store sales statistics were flat, and therefore, Schultz decided to step-in to retain the core values and reverse the sales trend ([Exhibit 7](#)). On his return, he took some harsh measures and removed most of the top executives while closing the non-performing stores. The senior management announced that operational excellence and customer experience were essential for growth option. The stock market also welcomed his return, and by March 2015, the stock price had jumped five-fold since 2008. Customer First Since inception, Starbucks focused on brand awareness and long term-connect with customers. Over the period, this helped in sustainable growth in revenues and profits. Starbucks strategy was an integrative approach with could be well understood regarding the policy of focused differentiation. Starbucks concentrated on maximizing the customer's experience while he/she visits the outlet. This policy was offered to customers as a "third place" after their home and office. Schultz always wanted Starbucks to be known as a company with a difference.

The company treated employees with a sense of humanity, respect and dignity. Company's strategy was to offer excellent services to its customers through motivated "baristas" – the staff behind the service counters. Baristas were kept motivated through high-quality product, unique work environment, better than industry HR policies and a caring attitude from employers. The regular, as well as part-time employees, were offered benefits like health-care coverage and stock options. Training was a continuous affair and aimed to keep employees updated. They went through each process from coffee bean roasting to managing customer relationship ([Starbucks News Room, 2016](#)). Starbucks did not advertise, and it always relied on superior customer service as part of marketing communications. Baristas were encouraged to know its regular customers by first name and their favorite drinks. The company spent heavily on employee training, complaint handling, store ambiance and providing the right set of conveniences for customers.

The quality of the Starbucks operational process and the products offered were unique. They purchased coffee beans only from select suppliers, not from wholesalers who controlled the market for other coffee chains. In the early phase, Starbucks owned retail outlets rather than adopting the franchising model ([Gigi, 2016](#)) Starbucks was at crossroads now. With same-store sales getting plateaued, it reflected fewer people were visiting stores. Baristas were expressing concerns about staffing issues, expecting improved pay and bridging the gap between baristas and corporate workers. According to them, most stores were understaffed, and most staffing decisions were in the hands of store managers. The employees were expected to serve the customers through many modes including mobile apps and drive-thru. Starbucks was continually adding new drinks and variants to the menu which were gourmet and time-consuming. Understaffing could also affect the top line of the company as the waiting time for customers grew. Employees were feeling exhausted at the end of their shift and the emotional connect with the customers-the core tenet of the Starbucks was increasingly undervalued. The stress and extra work of baristas, if not addressed in an integrated manner would have an impact on customer in-store experience.

Focus on China and the Asia Pacific

After achieving success in the USA, the first overseas store opened by Starbucks was in Tokyo, Japan in 1996. England, Malaysia, New Zealand, Taiwan and Thailand in 1998 and China, Kuwait, Lebanon and South Korea by 1999, followed. It expanded to more than 60 countries in the next ten years with a consistent, objective of bringing non-coffee drinkers into its fold by merely offering “Starbucks” experience. Total 9,000 out of 23,000 outlets were currently out of the USA. The revenue in the Americas grew at 11 per cent, and Europe, Middle East and Africa registered just 2 per cent improvement. Amazingly, China and the Asia Pacific clocked 27 per cent growth in 2015-2016 compared with the previous year. Schultz strategically took Starbucks to cultures which were traditionally non-coffee enthusiasts. The mature coffee loving markets, i.e. France, Italy and Latin Americas planned for entry at a later stage.

Entry into newer markets earlier than competitors proved right. Moving into emerging markets involved educating the market about the coffee consumption, quality of coffee, the café experience and accepting Starbucks as the third place. It included local partners in emerging markets to understand local conditions. The tie-up worked towards developing a unique buyer-supplier relationship, recruit local talent, train them and retain. Interestingly, the emerging markets offered distinct cultural traits with strong food preferences. Starbucks also focused on local taste in food items, i.e. local teas were served alongside in Japan and China given a powerful tea-drinking legacy there. In China, it served local brews like green tea, soy along with the assortment of choice of Chinese food items. Turkish coffee was served in Turkey while the freshly prepared orange juice in Spain. Starbucks carried out in-depth research before planning any move for entering China. Understanding of intellectual property rights was critical, and attempts were made to reflect the utmost respect for Chinese culture in all aspects. Starbucks took protection through intellectual property right laws to prevent its business model from being copied. Local tea-based beverages were introduced to bridge the gap between love for tea and the coffee as a new beverage. Conventional media of communications like advertising and sales promotions dropped in favor of brand and product positioning through highly visible stores. These high-traffic locations could give subtle messages about Starbucks coffee to mostly tea-drinking society. More direct communication would have construed as a frontal attack on local tea-culture in the community. A deeper understanding developed through extensive market research on how capitalism worked within China. China being the different market, Starbucks decided to have regional partnerships with different parties. However, Starbucks learned that its competitive advantage in China was because of the excellent product, service and brand attributes. Therefore, maintaining brand integrity was utmost important while pursuing the internationalization efforts with sufficient flexibility in new markets (Gigi, 2016).

In China, Starbucks devoted substantial time and resources to educating consumers about coffee. When the grand opening of the store in Nanchang in China in 2012 happened, customers learned the difference between “Latte Coffee” and “American-styled black coffee”. Customers in Shanghai had started appreciating and preferring Starbucks’ service. The design center of Starbucks China ensured the look and felt of the stores according to local culture. The high roofs, local courtyard style layout and sliding doors were unique to Chinese outlets. The cost of establishing such stores was high, but Starbucks was envisaging future growth potential in the Chinese market. Currently, China had become Starbucks’ second largest and fastest growing market in the world. There had been a great need of Starbucks staff, baristas from the local population. These roles did not fit into traditional choices of a good career in China. Howard Shultz had identified the problems, and he held four partner, family forums at four large cities. The gathering typically involved young staff members of Starbucks along with their families. It was a fantastic experience for them to meet affable Schultz. The meetings reassured the family

members about the continuity of employment, requisite perks and incentives like one-year sabbaticals for senior employees. Schultz put thrust on developing long-term orientation and loyalty among the employees while parents looked it a matter of pride to be associated with brand Starbucks (DNA, 2016).

Starbucks planned to open 5,000 new stores in China by 2021. Wall Street experts raised eyebrows after seeing the plan. Starbucks' planning was that China might eventually overtake the USA as Starbucks' largest market. The company invested ahead of the growth curve in people, in the process and in systems which carried in-built risks. Starbucks was getting aggressive in a market where technology firms like Facebook, Netflix, Uber and Google faced stiff challenges in China (Mullen and Kapur, 2016). Starbucks carefully pursued the marketing strategy in China without offending the Chinese culture. Schultz planned Starbucks outlets in high visibility locations and introduced coffee and other beverages in those areas where traditional Chinese outlets had been selling only local tea-based ingredients. In any foreign market entry, it was essential to understand intellectual property rights law of that country. Starbucks registered its entire major trademark. Chinese market being complex, the Starbucks entered into a series of local partnerships to help to customize per taste and preferences of customers. Regional partnerships were followed to expand in China as the tastes and preferences were different in diverse markets. Joint venture partner was Beijing Mei Da Coffee company in Northern China, Taiwan based Uni-President in Eastern China, while Maxim's Caterers from Hong Kong joined in Southern China. Starbucks meticulously organized its marketing around three pillars of Chinese society, namely, family, community and social status. The family held a revered position in every Chinese person's life and was vital to safety, education and social spirit. Starbucks organized meetings of family members of new employees who could see their wards in the safe environment while being associated with the company. Even CEO Shultz attended such get-togethers and spoke to parents. It was extremely critical to connect, local relevancy and social sensitivity. The other pillar was a community with Chinese value themselves as an inseparable part of society. People would flock retail outlets, and the outlet staff welcomed crowds, noise and the spirit of lounging. The seating arrangement was kept flexible, open and chairs could be moved lobbies or even walkways as if Starbucks did not sell coffee but rented couches. Consequently, the Chinese customers started enjoying not only coffee but also the outing with their friends and family (Zakkour, 2017).

Chinese customers started seeing Starbucks as a premium brand and held it as a symbol of upward moving in the status, and this was the third pillar of the strategy. Premium pricing adopted, and the brand positioned as a premium coffee brand. High-end locations identified for outlets and luxury malls as well as iconic commercial buildings chosen for opening the outlets. In any case, Starbucks decided to play with a long-term orientation in China with deep commitment (Zakkour, 2017).

Asia was increasingly becoming critical to Starbucks operations. As of 2016, it operated 6,443 numbers of outlets in 15 countries of China and Asia-Pacific (CAP region). The area includes Australia, Brunei, Cambodia, China, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam. CAP region contributes 25.7 per cent of the total stores' numbers and contributes 14 per cent of the company's revenue. This market was vast with consumers of varied tastes. More than that, the natives were primarily tea-drinkers, and coffee was the not-obvious drink for them. The strategy of Starbucks had always been two-pronged in most emerging nations, especially so in the Asian region. For easy access, Starbucks engaged local partners and tweaked its menu to suit the tastes of the local population. Although Asian tastes were evolving to develop the liking for Starbucks' global products, however, designing a menu based on coffee beverages would have been very risky.

Indian market

Starbucks entered the India market quite late, and it was a relatively new addition to an Asian portfolio of markets. With 1.3 billion inhabitants and a vibrant middle-class population, it naturally offered an opportunity to any company. However, the journey of Starbucks in India had been much slower than China and many other Asian countries. India's devotion to tea and its affinity for a coffee variant, i.e. filter coffee had proved a hard nut to crack so far. In the past five years of operation, Starbucks-Tata Alliance had opened about 84 outlets in six different cities of India ([Agarwal, 2016](#)).

While Sazaby League, a major retailer in Japan was the 50:50 joint venture partner, in India Starbucks partnered with Tata Global Beverages (TGB), a Tata group subsidiary, in India. Another most critical aspect of global expansion was a continuous adaptation in food menu as per the local tastes. Food was Indianized quite a lot like Alphonso Frappuccino, which one would not find in the USA.

On the other hand, Starbucks Jelly Drinks which were immensely liked by customers in other Asian countries, not by India. In India, they served foods like "Murg Kathi wrap," "Chicken Makhani" and "Teavana" line of tea beverages including mocha, espresso fusion. Black tea with ruby grapefruit and honey was on the menu as also the iced green tea with aloe and prickly pear flavors. The ethnic food variants introduced in the Asian Top markets were unheard of in western Starbucks stores. The company was trying its best regarding imagination, innovation and entrepreneurship ([Srivastava, 2014](#); [Bailay, 2016](#)).

Starbucks currently had 1,300 employees called as partners. Fighting the challenges of high attrition and low employee engagement, Starbucks hired smiling, engaging and positive people to work at their outlets. Five days a week work schedule, part-time and flexitime options were executed to keep the bunch of people together. The female employee number improved with the objective of gender diversity and a better working environment at Starbucks outlets. Starbucks magic created two aspects that were terrific coffee and partners who could build the lasting relationship with their customers ([Menon, 2016](#)).

Starbucks had faced challenges in replicating the store designs in Asian markets like the regular ones in Western countries. Most designers working for Starbucks until 2008 had not stepped out of Houston, New York or Chicago, the Pacific Northwest and therefore had no idea how to develop the right designs for oriental tastes. Almost all of them had never visited the cities in Asia or the South American continent. However, in the last few years, the design teams were encouraged and pushed to the actual sites of Starbucks. The impact of such exposure to emerging markets led to the amalgamation of corporate objectives, customer service and local architecture. Store designs and seating layout in the Starbucks reflected cultural affiliation and respect for socio-cultural roots.

Cultural differences could be felt even regarding seating layout in the different part of the world. In the USA, customers in-pair would prefer to sit right next to each other rather than sitting across the table. While in China or Mexico, people tend to visit Starbucks in groups and expected a group kind of seating. In such markets, Starbucks' store designers preferred to offer individual seats or stools which could be dragged around near the table. It created a lounge kind of feel by sitting in closer groups.

Starbucks positioned itself in India, as an aspirational brand and its stores were mostly in up-market locations. The cafés were inviting and happening place for people to meet friends, connect, relax and treat it their "third place". Unique designs and up-market locations were carefully chosen to offer good visibility and to make Indians acquaint with unique "Starbucks experience." All stores in India were designed with the objective of offering connect with a local touch, and the diverse culture of Indian states led to the customization of each store design. If a store in New Delhi had ropes, cane wood on walls

with henna patterns on the floor, a south Delhi store was ornate with wood panel. Pune city store had a vibrant display of antiques and copper on the walls. Overall the traditional elements of Indian culture had been presented with a modern outlook. According to Schultz, these were the early stages of experimentation until they would settle for a standard layout for the Indian market. The upbeat Mumbai outlet was indeed a high-end outlet even by global standards.

Starbucks had completed a little over five years in India and considered the Indian coffee retailing market as one of its vast potential markets as the consumption of coffee in India was yet very low. According to Starbucks – Tata management, they had yet not explored even the tip of the iceberg concerning market potential. However, consumers' response and the way they are embracing the Starbucks experience, buoyed the company management.

However, the environment in India was getting stricter day by day. The business of cafés could only be run successfully by companies with strong balance sheets, high execution capabilities and a sound understanding of consumers' preferences and with a long-term orientation (Vijayraghavan, 2016). Starbucks products were not cheap either in India or globally. Keeping currency rates in mind, Starbucks' pricing in India was nearly at par with that in the US and China market. Compared to Local Indian retailer Café Coffee Day (CCD), Starbucks priced its products at 1.5 to 2.0 times. They were even costlier than a higher version of CCD retail outlets called Lounge. To maintain premium positions, Starbucks had to strive through premium offerings on the menu and décor in India. CCD had first mover advantage, and Starbucks was finding it difficult to match the CCD regarding reach and market share (Balasubramanyam, 2011).

Seeing stiffer competition from a local player in India, Starbucks chose not to opt for some outlets instead focus on niche consumers who carry premier tastes and preferences (Shanker, 2015). Avoiding head-on with CCD on pricing, Starbucks smartly priced it higher than CCD and CCD lounge, but less than Costa Coffee (Pinto, 2016). In five years, Starbucks had opened 100 outlets in India, which was a much slower pace than expansion plans in China. If the high real estate cost in Indian metros was discouraging, Indians' devotion to tea drinking was disheartening. Majority Indians would enjoy different variants of tea variants called "chai" prevalent in different part of the country and different Indian communities. The southern states of India preferred coffee, but their "filtered" coffee was hugely different from offering in the Starbucks' outlets. The company was determined to implement customization to different regions while keeping its global appeal intact.

Emerging markets and beyond

The expansion of the Starbucks store chain in China had been a much talked about the growth story. Starbucks had adopted long-term orientation, local relationships, and product localization as part of a strategy. The management understood that challenge was not about coffee initially, but rather a revival of "tea-house culture." Further family and community bonding were valued highly in accord with tradition. Starbucks strived in China to be considered as carefully planted and nurtured the tree instead of a foreign brand transplanted there. Starbucks currently opens new retail outlets at the rate of three per day. So far slow but now the company was showing its intention to encircle Europe which had not been challenged by outsiders so far. European countries including Italy, which gave coffeehouse culture to the world, carried the tradition of different variants of coffee in diverse markets. Europeans preferred their coffee plain and simple while Starbucks had traditionally customized, high maintenance coffees. As of 2016, Italy consumed 4.6 per cent of the world's coffee, but they enjoyed mostly making coffee at home. When they order coffee at an outlet, they generally drank it in small shots. Italy had strong traditions and customs in food, and Italian consumers did not like less caffeinated American coffee. Customers there were not prepared for Starbucks' prices. Starbucks' needed to customize

its offerings as it made in China. With local brands like “Lavazza” dominating with a 37 per cent market share in 2016, it was a risky move for Starbucks to invest in cafés. There were reflections of blue ocean strategy in Starbucks’ customer-centric approach, hitherto unexplored. With increasing competition, instead of focusing on the product only, Starbucks developed its brand with a difference. In-store experience, excellent service, newspapers, Wi-Fi network, were part of the design to make coffee-lovers stay longer, relax and chat. With 100 per cent quick service retailers going for franchises, Starbucks refused to adopt that to conserve the company’s values and culture. Starbucks planned to capitalize on changing consumer tastes and preferences. Non-dairy products like almond milk, coconut milk and soy milk became part of menu corroborated by a research company Mintel that nearly 49 per cent of Americans were non-dairy consumers.

Future challenges

Notwithstanding the impressive growth in China and CAP, Starbucks faced fierce competition in the US market. Dunkin’ Donuts (DNKN), McDonald’s (MCD) and Tim Horton (Burger King Brand) were posing stiff challenges. German Conglomerate JAB Holding, owned brand of outlets like Caribou Coffee, Peet’s, Stumptown and Keurig Green Mountain was also shaking up the US coffee business. Johnson would be keen to earn and maintain the faith of investors, while Schultz would be there to extend support as the company’s executive chairman. The later would be focusing on Starbucks’ premium Reserve brand and Reserve Roastery stores.

Starbucks’ new mobile order and pay service allowed customers to order online remotely and to pick up order was causing excessive queuing. It was leading to bottlenecks, hassled baristas and frustrated customers. With more than 7 per cent of transactions taking place in this fashion, the company was facing the most urgent challenge. During rush hours, the mobile sales would jump to 25 per cent causing colossal rush and congestion in the order pick-up area of stores. Starbucks would also face a happy headache situation wherein the company would be inundated with data on consumer behavior and buying patterns ([Starbucks News Room, 2017](#)). New digital positions were to be created in the company to explore and exploit the digital footprints ([Exhibits 7 and 8](#)). The company could also think concerning pushing the premium food options which contributed almost 20 per cent of the revenue in the first and second quarter of 2017 ([Delventhal, 2017](#)).

Over the years, food items had been a significant challenge to Starbucks and at one-point Schultz discontinued sandwiches from the menu as it was interfering with the aroma of coffee. While the food business was a great opportunity, it still contributed much less in revenue percentage for Starbucks compared to ‘Panara Bread’ of DNKN. Recently, Johnson launched a new lunchtime menu named Mercato which might prove a catalyst to double food sales in the next four years.

Schultz always sought to deliver Italian-style café ambiance to the customers. According to him, Starbucks was not just a coffee beverage, but experience and he was able to build a company with the customer-first objective. He would often discuss the “theatre” and “romance” of coffee drinking and that Starbucks should be hugely different from other coffeehouse chains. However, with more than 23,000 retail outlets globally, the considerable responsibility lies ahead to manage brand integrity, quality, passion and yet maintain customer focus. The first quarter of 2017-2018 saw a 2 per cent drop in revenue, while the second quarter was flat. Baristas were feeling overworked, understaffed and disconnect between them and company executives. Starbucks had introduced many gourmet drinks, which were time-consuming in preparation leading to more pressure on staff. One of the most exceptional qualities of baristas was to connect with regular

customers, which was difficult to practice any more with long queues. At times, store managers would frown upon baristas and advise them to cater to more customers instead of giving personalized service to a few regulars.

After massive growth as the world's largest coffee-shop chain mainly in the USA, the company was upswing on the expansion in other countries. By January 2017, the company had recorded 25,734 operational cafés across the globe. The increase was at the rate of three restaurants per day, and more than half of new outlets were outside the USA. As per John Culver, president of Starbucks' China and Asia Pacific region, they were still in nascent stage in Asia, and it would remain the fastest growing market in the coming two decades in the future. Starbucks had offered its cafés as the third place after home and work which could be a place for relaxation, fun along with excellent coffee.

Growth in markets like China and India was there, but the continued slow growth in the home market in the USA remains a significant cause of worry for Starbucks and its investors. To de-risk Starbucks' core business by diversifying into consumer products and more so in other emerging markets was probably the task cut out for Johnson. China and Asia-Pacific showed results in of fastest growing geography for coffee retailer. China had 2,000 stores already, and Schultz would be increasing it to 3,400 by 2019. China and India would remain two of the Starbucks' key consumer markets (Pinto, 2016).

Johnson would be keen to earn and maintain the faith of investors while Schultz would be there to extend support as the company's executive chairman. The later would be focusing on Starbucks' premium Reserve brand and Reserve Roastery stores. Also, there had been a vast difference between Schultz stepping down in 2000 and 2017. The brand, retail offering and servicescapes in Starbucks were hugely different and more established now. In short and medium term, Johnson would have greater stability.

Many US giant companies had decided not to expand or even shrink their business in China worrying censorship, political and economic upheavals, Starbucks had agreed to open 500 stores every year there creating more than 10,000 jobs annually. Johnson had expressed that the Chinese market could afford and support that kind of push for the next 10 years considering the sheer size of the economy. The company opened a 30,000-square-foot coffee emporium in December 2017 which would hugely impact on consumers in China. Starbucks had succeeded in finding a path into Chinese culture and invested heavily in building the extraordinary level of trust of Chinese customers, employees and government officials (Sorkin, 2017):

In some cases, stores layout and designs might change and at some other technology might change. Starbucks would always aim for ubiquity without brand dilution. We would visit other companies and would draw inspirations from other companies, brands, and leaders. We would on discovery journeys, drawing inspirations from huge companies that innovate continuously and the startups that disrupt & revolutionize their industries said Johnson (Taylor, 2017).

In June 2018, Schultz stepped away from Starbucks, hoping he might be yet to play another innings in public life. Johnson and the Starbucks' management would be without perceived leadership "safety net" at a juncture. Investors might carry a degree of uncertainty with intense competition from high-end coffee chains to more affordable fast-food outlet chains. The company had planned massive expansion in China, many East Asian countries and in Europe as well. Schultz had always been a hands-on leader and had initiated enormous Roastery outlets and upscale Reserve stores. The project was in a nascent stage when he left. Much uncertainty about the future was brewing at Starbucks (The Straits Times, 2018).

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Competitive strategy,
Customer relationship
management,
Global marketing strategy,
International market entry

The road ahead

Future of Starbucks lies in its growth beyond the US market. China was already their second largest market, while India holds a considerable promise with a vast population and despite cultural challenges. Asia Pacific region was also recording the most substantial revenue and profit growth. However, revenue growth and same-store growth in most areas are reasons to cause worries for investors. Many world markets were still way away from saturation, and this augurs well for Starbucks' growth story.

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Further reading

Starbucks Report (Annual Report Financial Year) (2016).

Exhibit 1. Spread of Starbucks stores as of October 1, 2017

Table EI

| Type of stores | Americas | China, Asia Pacific (CAP) | Europe, Middle East & Africa (EMEA) | All other segments | Total | As % of total stores |
|-------------------------|----------|---------------------------|-------------------------------------|--------------------|--------|----------------------|
| Company-operated stores | 9,413 | 3,070 | 502 | 290 | 13,275 | 48.6 |
| Licensed stores | 7,146 | 4,409 | 2,472 | 37 | 14,064 | 51.4 |
| Total | 16,559 | 7,479 | 2,974 | 327 | 27,339 | 100 |

Note: Compiled by Authors

Source: Company Annual Reports

Exhibit 2. Starbucks company-owned outlets spread

Table EII

| US | Canada | Brazil | China | Japan | Thailand | Singapore | UK | Other European Nations | Teavana and Others | As of October 2, 2016 |
|---|--------|-------------|-------|-------|----------|-----------|-----|------------------------|--------------------|-----------------------|
| 7880 | 1,035 | 104 | 1,272 | 1,140 | 273 | 126 | 366 | 157 | 358 | 12,711 |
| Between 2016 and 2017 | | Opened | 863 | | | | | | | |
| | | Closed | -163 | | | | | | | |
| | | Transferred | -136 | | | | | | | |
| | | Net | 564 | | | | | | | |
| Number of Stores as on October 1, 12,711 + 564 = 13,275 | | | | | | | | | | |

Note: Compiled by Authors

Source: Company Annual Reports

Exhibit 3. Starbucks licensed store data

Table EIII

| USA | Canada | Latin America | China | Korea | Taiwan | Philippines | Indonesia | Malaysia | All Other Asian Countries | |
|--|--------|---------------|----------------------|-------|--------|-------------|-----------|--------------|---------------------------|--------|
| 5292 | 364 | 369 | 1,110 | 952 | 392 | 293 | 260 | 226 | 399 | |
| UK | Turkey | UAE | Germany | Saudi | Kuwait | Russia | Spain | Other Europe | All other segments | Total |
| 532 | 314 | 148 | 161 | 92 | 95 | 107 | 96 | 574 | 35 | 12,374 |
| Between 2016 and 2017 | | Opened | 1749 | | | | | | | |
| | | Closed | –195 | | | | | | | |
| | | Transferred | 136 | | | | | | | |
| | | Net | 1,690 | | | | | | | |
| Number of stores as on October 1, 2017 | | | 1,690+12,374= 14,064 | | | | | | | |

Note: Compiled by Authors

Source: Company Annual Reports

Exhibit 4. Starbucks' performance comparison and return to stakeholders

Table EIV

Starbucks' performance comparison and return to stakeholders From September 30, 2012 to October 1, 2017
(Figures in USD)

| | 30-September-12 | 29-September-13 | 28-September-14 | 27-September-15 | 2-October-16 | 1-October-17 |
|----------------------------|-----------------|-----------------|-----------------|-----------------|--------------|--------------|
| Starbucks Corp. | 100.00 | 154.67 | 152.47 | 238.48 | 225.70 | 227.92 |
| S&P 500 | 100.00 | 119.34 | 142.89 | 142.02 | 163.93 | 194.44 |
| NASDAQ Composite | 100.00 | 123.38 | 148.79 | 154.52 | 178.82 | 220.25 |
| S&P Consumer Discretionary | 100.00 | 131.84 | 147.36 | 166.78 | 182.85 | 209.4 |

Note: Compiled by Authors

Source: Company's Annual Reports

Exhibit 5. Selected financial information

Table EV

Selected Financial Information (in millions US\$, Except per share data)

| | 1-October-17 | 2-October-16 | 27-September-15 | 28-September-14 | 29-September-13 |
|---|--------------|--------------|-----------------|-----------------|-----------------|
| As of & for Fiscal Year Ended | (52 weeks) | (53weeks) | (52 weeks) | (52 weeks) | (52 weeks) |
| <i>Results of Operations</i> | | | | | |
| Company-Operated Stores | 17,650.7 | 16,844.1 | 15,197.3 | 12,977.9 | 11,793.2 |
| Licensed Stores | 2,355.0 | 2,154.2 | 1,861.9 | 1,588.6 | 1,360.5 |
| CPG, Foodservice and other | 2,381.1 | 2,317.6 | 2,103.5 | 1,881.3 | 1,713.1 |
| Total net revenues | 22,386.8 | 21,315.9 | 19,162.7 | 16,447.8 | 14,866.8 |
| Operating income/(loss) | 4,134.7 | 4,171.9 | 3,601.0 | 3,081.1 | -325.4 |
| Net Earnings attributable to Starbucks | 2,884.7 | 2,817.7 | 2,757.4 | 2,068.1 | 8.3 |
| EPS-diluted | 2.0 | 1.9 | 1.8 | 1.4 | 0.0 |
| Cash dividends declared per share | 1.1 | 0.9 | 0.7 | 0.6 | 0.4 |
| Net cash provided by operating activities | 4,174.3 | 4,575.1 | 3,749.1 | 607.8 | 2,908.3 |
| Capital expenditures (additions to property, plant and equipment) | 1,519.4 | 1,440.3 | 1,303.7 | 1,160.9 | 1,151.2 |
| <i>Balance sheet</i> | | | | | |
| Total assets | 14,365.6 | 14,312.5 | 12,404.1 | 10,745.0 | 11,509.8 |
| Long-term debt(incl. current portion) | 3,932.6 | 3,585.2 | 2,335.3 | 2,041.3 | 1,293.2 |
| Shareholders' equity | 5,450.1 | 5,884.0 | 5,818.0 | 5,272.0 | 4,480.2 |

Note: Compiled by Authors

Source: Company's Annual Reports

Exhibit 6. Retail sales mix

Table EVI

Retail sales mix by product type for company-operated stores
Fiscal Year

| | 2017 (%) | 2016 (%) | 2015 (%) |
|--|----------|----------|----------|
| Beverages | 73 | 74 | 73 |
| Packaged and Single-Serve Coffee and Tea | 3 | 3 | 3 |
| Other (Serveware, Ready-to-drink beverages, coffee-making equipment) | 4 | 4 | 5 |
| | 100 | 100 | 100 |

Note: Compiled by: Authors

Source: Company Annual Reports

Exhibit 7. Starbucks is pushing the envelope in technology

Table EVII

Mobile transactions as (%) of total transactions

| <i>Fiscal Year (FY)</i> | <i>FY14</i> | <i>FY14</i> | <i>FY14</i> | <i>FY15</i> | <i>FY15</i> | <i>FY15</i> | <i>FY15</i> | <i>FY16</i> | <i>FY16</i> | <i>FY16</i> | <i>FY16</i> | <i>FY17</i> | <i>FY17</i> | <i>FY17</i> |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Quarter | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| (%) | 14 | 15 | 15 | 16 | 18 | 20 | 20 | 21 | 24 | 25 | 25 | 27 | 29 | 30 |

Note: Compiled by: Authors

Source: [Eule \(2017\)](#)

Exhibit 8. Restaurants app downloads (YTD from Apple App Stores)

Table EVIII

| <i>McDonald's</i> | <i>Domino's Pizza</i> | <i>Chick-fil-A</i> | <i>Pizza Hut</i> | <i>Panera Bread</i> | <i>Papa John's Pizza</i> | <i>Subway</i> | <i>Chipotle</i> | <i>Taco Bell</i> |
|-------------------|-----------------------|--------------------|------------------|---------------------|--------------------------|---------------|-----------------|------------------|
| 3.8 | 1 | 1.2 | 1.1 | 0.9 | 0.9 | 0.54 | 0.51 | 0.45 |

Note: Compiled by Authors

Source: [Eule \(2017\)](#)

Exhibit 9. Same-stores sales growth (%)

Table EIX

| <i>Fiscal Year (FY)</i> | <i>FY15</i> | <i>FY15</i> | <i>FY15</i> | <i>FY16</i> | <i>FY16</i> | <i>FY16</i> | <i>FY16</i> | <i>FY17</i> | <i>FY17</i> | <i>FY17</i> |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Quarter | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| | 7 | 7 | 8 | 8 | 6 | 4 | 4 | 3 | 3 | 4 |

Note: Compiled by Authors

Source: [Eule \(2017\)](#)

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