

Forty years ago, Starbucks was a single store in Seattle's Pike Place Market selling premium roasted coffee. Today, it is a global roaster and retailer of coffee with some 21,536 stores, 43 percent of which are in 63 countries outside the United States. China (1,716 stores), Canada (1,330 stores), Japan (1,079 stores), and the United Kingdom (808 stores) are large markets internationally for Starbucks.

Starbucks set out on its current course in the 1980s when the company's director of marketing, Howard Schultz, came back from a trip to Italy enchanted with the Italian coffeehouse experience. Schultz, who later became CEO, persuaded the company's owners to experiment with the coffeehouse format—and the Starbucks experience was born. The strategy was to sell the company's own premium roasted coffee and freshly brewed espresso-style coffee beverages, along with a variety of pastries, coffee accessories, teas, and other products, in a tastefully designed coffeehouse setting. From the outset, the company focused on selling "a third place experience," rather than just the coffee. The formula led to spectacular success in the United States, where Starbucks went from obscurity to one of the best-known brands in the country in a decade. Thanks to Starbucks, coffee stores became places for relaxation, chatting with friends, reading the newspaper, holding business meetings, or (more recently) browsing the web.

In 1995, with 700 stores across the United States, Starbucks began exploring foreign market opportunities. The first target market was Japan. The company established a joint venture with a local retailer, Sazaby Inc. Each company held a 50 percent stake in the venture, Starbucks Coffee of Japan. Starbucks initially invested \$10 million in this venture, its first foreign direct investment. The Starbucks format was then licensed to the venture, which was charged with taking over responsibility for growing



To make sure the Japanese operations replicated the "Starbucks experience" in North America, Starbucks transferred some employees to the Japanese operation. The licensing agreement required all Japanese store managers and employees to attend training classes similar to those given to U.S. employees. The agreement also required that stores adhere to the design parameters established in the United States. In 2001, the company introduced a stock option plan for all Japanese employees, making it the first company in Japan to do so. Skeptics doubted that Starbucks would be able to replicate its North American success overseas, but by June 2015, Starbucks had some 1,079 stores and a profitable business in Japan.

After Japan, the company embarked on an aggressive foreign investment program. In 1998, it purchased Seattle Coffee, a British coffee chain with 60 retail stores, for \$84 million. An American couple originally from Seattle had

started Seattle Coffee with the intention of establishing a Starbucks-like chain in Britain. In the late 1990s, Starbucks opened stores in Taiwan, Singapore, Thailand, New Zealand, South Korea, Malaysia, and—most significantly—China. In Asia, Starbucks' most common strategy was to license its format to a local operator in return for initial licensing fees and royalties on store revenues. As in Japan, Starbucks insisted on an intensive employee-training program and strict specifications regarding the format and layout of the store.

By 2002, Starbucks was pursuing an aggressive expansion in mainland Europe. As its first entry point, Starbucks chose Switzerland. Drawing on its experience in Asia, the company entered into a joint venture with a Swiss company, Bon Appetit Group, Switzerland's largest food service company. Bon Appetit was to hold a majority stake in the venture, and Starbucks would license its format to the Swiss company using a similar agreement to those it had used successfully in Asia. This was followed by a joint venture in other countries. The United Kingdom leads the charge in Europe with 808 Starbucks stores.

By 2014, Starbucks emphasized the rapid growth of its operations in China, where it had 1,716 stores and planned to roll out another 500 in three years. The success of Starbucks in China has been attributed to a smart partnering strategy. China is not one homogeneous market; the culture of northern China is very different from that of the east, and consumer spending power inland is not on par with that of the big coastal cities. To deal with this complexity, Starbucks entered into three different joint ventures: in the north with Beijing Mei Da coffee, in the east with Taiwan-based Uni-President, and in the south with Hong Kong-based Maxim's Caterers. Each partner brought different strengths and local expertise that helped the

company gain insights into the tastes and preferences of local Chinese customers, and to adapt accordingly. Starbucks now believes that China will become its second-largest market after the United States by 2020.

Sources: Starbucks 10K, various years; C. McLean, "Starbucks Set to Invade Coffee-Loving Continent," *Seattle Times*, October 4, 2000, p. E1; J. Ordonez, "Starbucks to Start Major Expansion in Overseas Market," *The Wall Street Journal*, October 27, 2000, p. B10; S. Homes and D. Bennett, "Planet Starbucks," *BusinessWeek*, September 9, 2002, pp. 99–110; "Starbucks Outlines International Growth Strategy," *Business Wire*, October 14, 2004; A. Yeh, "Starbucks Aims for New Tier in China," *Financial Times*, February 14, 2006, p. 17; C. Matlack, "Will Global Growth Help Starbucks?" *BusinessWeek*, July 2, 2008; H. H. Wang, "Five Things Starbucks Did to Get China Right," *Forbes*, July 10, 2012.

CASE DISCUSSION QUESTIONS

1. Starbucks prefers a combination approach to foreign market entry: the use of joint ventures and licensing. Do you agree with this approach? Why or why not?
2. Many would argue that Starbucks coffee is expensive, and yet customers get "value" for their money. How do you think Starbucks has been able to transfer this business model and value proposition to international markets?
3. Why did Starbucks not just go with a licensing approach internationally? Is the preference for joint ventures in strategic target markets coupled with licensing unique?
4. To stay competitive worldwide, what do you think Starbucks has to focus on in the next decade from a market entry standpoint and from a value proposition to customers?