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AN ERA OF GROWTH: Starbucks' Market Power and the Competitive Forces surrounding the Ready-To-Drink (RTD) beverage category.

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Introduction

The paper at hand overlooks Starbucks' origins as well as its operations in the coffee market focusing on the North American Coffee Partnership (NACP) Distribution Agreement, and its trailblazing significant impact on Starbuck's market position. Using Porter's 5 force framework, which describes the forces governing competition in an industry and includes:

- Threat of new entrants • Bargaining power of customers
- Threat of substitute products or services • Bargaining power of suppliers
- The industry Jockeying for position among current competitors (Porter 2).

We will determine that Starbucks was operating as a monopolistic firm within the Ready to Drink Coffee (RTD) category prior to Dunkin' Donuts entry into the market in February of 2017. As such this can be attributed to Starbucks' remarkable ability in influencing consumers through impressive content marketing; focusing on niche specialization aimed at increasing customer loyalty; and partnering with distribution channels capable of selling their superior product to untapped target markets. However, most importantly the efforts aligned with increasing brand awareness to potential consumers through both efforts established, and implemented by the NACP Starbucks defined itself as a monopolistic conglomerate operating within the coffee commodity chain.

How did Starbucks, which was founded after Dunkin' Donuts, achieve such a dominant position in the market for coffee as well as grow into such a huge company? When looking at Porter's *How Competitive Forces Shape Strategy*, we can model the path in which Starbucks operated over an era, a little larger than two decades, and evaluate the mechanisms leading to the company's tremendous growth. Throughout this paper, theoretical monopolistic economic concepts will be discussed depicting how Starbucks' operates and established themselves in the market for coffee. Since Starbucks' main business is selling coffee, its history as a commodity plays a critical role in regards to the operations of the competition in the marketplace. Therefore, it is critical to investigate financial statements, discuss literature that poses coffee as an internationally traded commodity, as well as explain the origins of Starbucks and the forces leading to its drastic expansion in the global market.

Michael Porter's 5 Force Framework

In the late 20th century a competitive force in the market for coffee, Starbucks; segmented themselves from other competition in the marketplace by injecting the market with a specialized product (i.e. Frappuccino) that not only adjusted consumer tastes, but created an opportunity for continued growth with the NACP. Starbuck successfully accomplished the task of educating the palates of American coffee drinkers by introducing consumers to darker roasts, as well as higher standards of quality (Bair 59). Aside from their market segmentation, their substantial efforts in making deals with both distribution channels and sourcing coffee beans directly from growers formulated an interesting business model that can be explained through three of the six major sources of barrier to entry that firms face given competition in the marketplace. Pertaining to Michael Porter's analysis of strategy formulation, Starbucks dominates the RTD coffee market by the following major sources of barrier to entry:

(1) Economies of scale, (2) Product Differentiation, (3) Capital Requirements

Porter describes Economies of scale by giving an example pertaining to Xerox where the key barriers to entry in the mainframe computer industry encompass production, research, marketing, and service. Specific to the RTD coffee sector, barriers to entry are similar with regards to marketing and service; but also includes the need for a distribution channel as well as partnerships that source high-quality coffee beans from farmers participating in fair trade agreements (Porter 4-5). With regards to Product Differentiation, Porter claims “it is perhaps the most important entry barrier in soft drinks…[and] to create high fences around their business [it is necessary to] couple brand identification with economies with economies of scale in production, distribution, and marketing” (Porter 5).

Regarding capital requirements, which cover the intense financial resources businesses need to compete in the marketplace in the case of Starbucks there are three areas that accelerated the business drastically:

• Howard Schultz acquiring Starbucks • The Initial Public Offering (IPO) • The NACP

Various competitive forces shaped Starbucks strategy in the market for operations within the coffee sector during the 20th century. Starbucks made business partnerships enabling them to attain a level of economies of scale which led to the growth of the RTD coffee category, ultimately cultivating the rise of the cold-coffee frontier. The entire landscape that comprises the commodity chain for coffee had been injected with a new specialized product that reinvented the wheel for consumers. Even though Starbucks pioneered a specialized drink known for its product differentiation compared to its competitor prior to the beginning of the 21st century, Starbucks had originally entered the coffee market by selling coffee beans. However, after Howard Schultz transitioned from a regular employee into a managerial role the company also transitioned into providing a completely different experience to consumers. The model Starbucks adopted after Schultz transitioned into a leadership role in the company focuses on exquisite customer service as well as providing consumers with pricey beverages sourced from Arabica beans. Simply put, Starbucks’ ability to charge a higher price for their product can be attributed to the economies of scale portion of Porter’s work because Starbucks forces competitors to accept a cost disadvantage. This occurs since the current model enables the core retail business and the RTD category of their balance sheet to source coffee from Fair Trade Agreements, and establish the same high quality through large-scale production by working with an independent distribution channel. The NACP provides significant benefits in the form of marketing. This will be thoroughly explained in the *History of NACP and RTD Overview* section of the paper by touching on the formation of the NACP agreement as well as the implications it has on Starbucks' primary and secondary markets with respect to general availability of Starbucks RTD beverages (i.e. secondary) and the increased brand recognition (primary).

Origins of the Starbucks Brand

The Starbucks brand stands not only for providing consumers good coffee, especially dark- roasted coffee, but also for educating its customers about its product. Going back to the original store, which did "not brew and sell coffee by the cup, but instead offered a selection of 30 varieties of whole-bean coffee" (Schultz and Yang 32-33)". The company was essentially in direct commodity sales to consumers within the coffee commodity chain as opposed to the Italian model encapsulating the concept of the 'coffee experience' where consumers sat down to enjoy espresso beverages at the location (Enz 5). Aside from the fact that both Baldwin and Bowker, the original founders, believed in providing consumers with European coffee, the vision of the 'coffee experience' had been more prevalent to Howard Schultz. During the year 1971 at the first location in Seattle, Washington; in "1981, Howard Schultz (Starbucks chairman and chief executive officer) had first walked into a Starbucks store" located at the historic Pike Place Market (Starbucks 1). As mentioned, the original business model created by the two Starbucks' founders were solely focused on whole-bean coffee sales. This model did not stick for long because the current chairman and chief executive officer, Howard Schultz, operates a conglomerate that sells cold coffee through the NACP Distribution Agreement. Schultz had originally joined the company in September of 1982 where his responsibilities required leading retail stores and marketing (Larson 86). When Schultz visited Italy as an employee under Baldwin and Bowker, he explored myriads of Italian espresso bars; his experiences prompted him to propose the concept of changing the sales pipeline of Starbucks coffee sales. The changes Schultz envisioned were a direct reflection of his exposure to the coffee industry in Europe and would transition Starbucks from solely focused on direct retail sales to embarking on providing consumers a finished product (i.e. "cup-of-coffee") within the store setting. In 1985, Baldwin and Bowker rejected Schultz's proposal to change the sales pipeline. Thus, Schultz decided upon leaving the Starbucks Corporation in late 1985 and founded the *Il Giornale Coffee Company*; which epitomizes Schultz jockeying for position among the current competitors in the coffee industry regardless of Baldwin and Bowker's decision. By imposing the threat of a substitute service to Starbucks corporation, Schultz was successful in breaking the barrier to entry. After receiving sufficient seed funding and launching, Schultz then received additional support for his business venture from the Starbucks founders in the form of an investment (i.e. increased capital requirements) further enabling the *Il Giornale Coffee Company* to develop several more locations. By April 1986, Schultz not only opened his first store but by March 1987 Baldwin and Bowker both agreed to sell Schultz the Starbucks Coffee Company. As such, Schultz proceeded to rebrand his *Il Giornale Coffee Company* locations using the Starbuck Coffee Company's branding. Following the re-brand, global operations began in 1987 with stores appearing in Vancouver, Canada. (Larson 86). After identifying the rich customer experience the Italian espresso bar service model offers, Schultz tested the product market fit with the aim to expand his newly founded organization. For Starbucks, an increase in capital could increase the company's market share during their store-front expansion and pose as a competitor against Starbucks.

Eventually what Schultz envisioned for the sales of Starbucks coffee had been accomplished through a successful merger and acquisition that transitioned the *Il Giornale Coffee Company* business model into the Starbucks sales pipeline. Starbucks would now provide its customers with an extraordinary experience, along with a distinguished commitment to source the highest quality commodity for its products; which both act as forces that guide Starbucks' decision making and further expansion into a new frontier beginning with the company's initial public offering.

Initial Public Offering

Starbucks has been publically offering shares of its common stock to investors since their initial public offering (IPO), which occurred on June 26th in the year 1992 facilitated through the NASDAQ Global Select Market. The Starbucks Corporation is denoted with the symbol 'SBUX' and the common stock offering had been priced at $17 per share but jumped to $21. After the closing bell of the company's first day of trading, Starbucks had reached a market capitalization of $273 million; Schultz raised $29 million with the IPO. The Starbucks company began to expand directly after its IPO, which found itself opening locations in Washington D.C. in 1993 as well as in New York and Boston in 1994 (Enz 7). Right around that time, the company had begun drafting the NACP, and formed Starbucks International. The formation of Starbucks International is an integral component of operations overseas and will be later discussed in the *Current Market Position* section. With Howard Schultz, leading Starbucks, the company had been placed on the trajectory to attaining a level of economies of scale attributed to the significant increase in capital from the IPO. Thus, with an abundance of capital Starbucks' possessed the ability to expand around the United States and resulted in a turning point for operations when “large number of customers in Los Angeles, San Francisco, Chicago and other major cities began drinking Starbucks coffee regularly. It was as if Starbucks had hit a critical mass and their belief in word of mouth over the traditional marketing campaign was beginning to reap long awaited benefits” (Larson 6). The company’s brand recognition began to rapidly develop alongside the pioneering expansion of Starbucks locations in North America. Since shifting from the original business model that brought about humble beginnings for CEO Howard Schulz, his Americanized version of a trendy and sophisticated European commodity propelled Starbucks into a multi-million-dollar company on the path to becoming a conglomerate generating billions of dollars in revenue.

With immense capital, Starbucks' could afford their own expensive marketing campaigns; however, Starbucks' opted for a different route fortified by one deal that Starbucks made. Thus, assessing their decision making with respect to the company's choice to enter the NACP agreement and how it enabled them to transform both the coffee commodity chain and consumers’ perceptions of coffee as a cold beverage will provide the necessary information to answer how Starbucks’ was further able to develop into a billion-dollar conglomerate, which is currently estimated at a market cap of $78.854 Billion Dollars (Retrieved from: finance.yahoo.com/quote/SBUX/).

History of NACP and RTD Overview

In 1994, two powerhouses in separate categories of the beverage industry joined forces and revolutionized the coffee commodity chain. By both operating as competitive firms jockeying for position among current competitors in the market for coffee, Starbucks and PepsiCo drafted the North American Coffee Partnership (NACP) Distribution Agreement. The agreement authorized the large-scale distribution of ready-to-drink coffee beverages licensed under the Starbucks trademark. This new type of beverage selling strategy offered to consumers formulated a new business phenomenon where RTD coffee beverages were going to eventually be introduced into the marketplace. this deal changed the trajectory of the industry by altering consumer tastes; while also making it easier for consumers to purchase cold coffee beverages.

While modern consumers in the marketplace may perceive Starbucks' RTD coffee beverages as a common item for sale, cold coffee beverages were not always a big hit. The boom in cold coffee consumption roots back to when "Frappuccino" was coined by Starbucks after the company's acquisition of *The Coffee Connection in Boston*. Shortly after, during the summer of 1995 Starbucks' launched two flavors Coffee and Mocha in their stores. It is noted that in Starbucks' 20th anniversary of the Frappuccino press release how the Frappuccino brought in new customers, at different hours as well as during warm weather. In that year alone, the prominent new beverage had accounted for 11 percent of Starbuck's sales (Starbucks 1).

This new direction, completely attributed to the different temperature of the beverage; a variable that had been unutilized by other brands. As such, Starbucks' was able to see the potential in selling a cold coffee beverage. The seamless execution of the introduction of the beverage into the market had been accelerated by their partnership with Pepsi since it allowed them to foster a supply-chain between their respective stores, factories, coffee growers and vendors (Bair 59). Even though it was not until 1996 when the first bottled beverage known as the "Frappuccino" was sold through the NACP, this strategic partnership synchronized the distribution of Starbucks' specialized coffee with PepsiCo's immense channel of vendors. With the NACP, Starbucks flourished because of their ability to initially increase the brand awareness of the "Frappuccino" beverage, then use the distribution network to sell their innovative cold coffee beverage on a large scale. Propelled by PepsiCo's distribution channel, Starbucks and their signature "Frappuccino" ultimately helped form the RTD coffee category. The NACP enabled beverages to be sold in locations such as convenience stores, big-box-retailers, as well as 'Mom and Pop' stores. Starbucks operated as a monopolistic firm and claimed an additional market share in their industry by being the first entrant into the market for RTD coffee. Most recently, Starbucks' provided data during its 2016 investor conference where the company said it "expects to quadruple the Cold Brew business by 2021 and its overall cold beverage mix to move from over 35% in 2013 to nearly 50% by 2021." In addition, the chain cited research noting that "iced coffee consumption has grown by 75% in the past decade and cold brew sales grew 338.9% between 2010 and 2015 per industry experts*" (Starbucks 1).

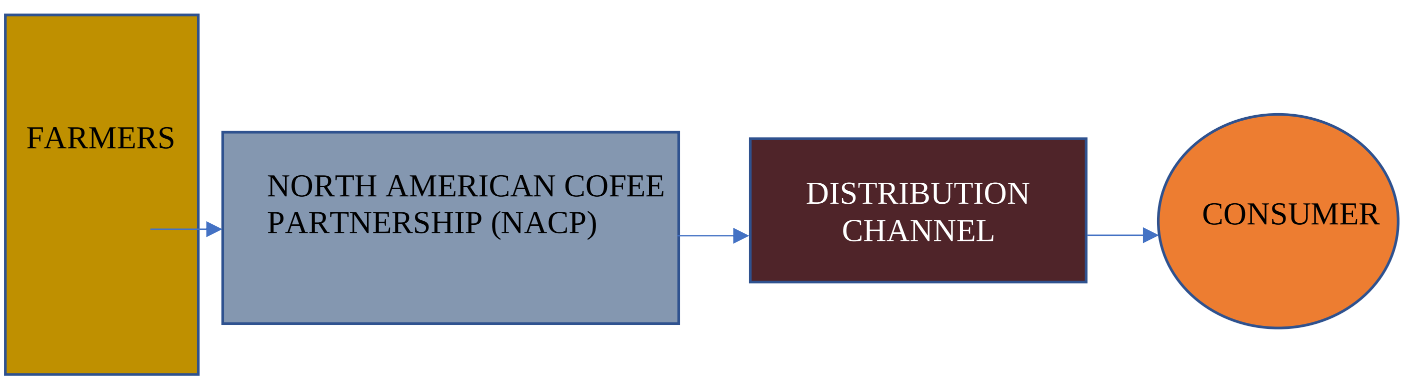
On January 1st, 2002, the SEC published the *North American Coffee Partnership Distribution Agreement*, which discloses the inner-workings of the model. The NACP under regulation by the laws of the State of New York indicates said "Partnership" between Bottling Group, LLC The Pepsi Bottling referenced as "Distributor" entered a Trademark License Agreement with Starbucks Corporation, which is governed by the laws of the State of Washington. The agreement will continue until September 6, 2069, where Pepsi is required to solely fulfill purchase orders for the necessary ingredients strictly from authorized sellers pre-approved by Starbucks. Regarding sales, Pepsi is now tasked with selling Starbucks beverages throughout the entirety of their distribution's territory; the agreement holds Pepsi to the highest standards requiring that they not only increase the demand of the Starbucks' product but also incurring the fees affiliated with extensively producing advertisements in all forms of media and during the point-of-purchase at locations (SEC 1).

N.B. * denotes Mintel and Starbucks Consumer Insight data

The SEC filing breaks down the model into components including sales, marketing, as well as legal and various other compliances. As mentioned, Starbucks requires Pepsi to fully invest themselves into not only bottling/creating the "Product" but also extensively engaging in marketing campaigns on behalf of said "Product". This is a prime example of Starbucks operating as a monopolistic firm gaining market share through the combination of their innovativeness (i.e. Frappuccino "Product") mixed with their foresight into the future of the coffee industry, and a tremendous increase in marketing efforts through Pepsi. The supplemental marketing efforts implemented through the NACP segments Starbucks' from the responsibility of marketing, which not only eliminates themselves from direct communication with the locations that Pepsi delivers to within the distribution channel. Additionally, Starbucks also experiences a positive upside since they can make a profit through the NACP without having to exert any of the factors of production (i.e. Land, Labor, Capital) to market their RTD beverages. Additionally, in the *Competing Products* section it highlights how by entering the agreement with Starbucks, Pepsi faces the limitation that it can neither enter into business with other companies selling coffee nor produce their own coffee beverage and sell it (SEC). This specific excerpt from the NACP agreement is where Starbucks' restricts Pepsi from claiming their own market share in the market, which enables Starbucks to continue growing as a brand while preventing their partner from generating revenue in their market by only allowing them to bottle/distribute coffee in the commodity chain.

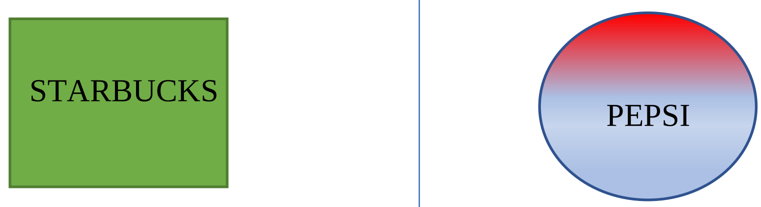
Lastly, in the *Sales by Distributor* section, it mentions how Pepsi assumes multiple risks. These risks may even pose their own respective pitfalls for Pepsi shareholders because the company retains complete responsibility regarding sales, collection and credit risks, as well as strict quality standards imposed by Starbucks (SEC). Therefore, the agreement set in place between both entities provided Starbucks with the groundwork for distributing their cold beverage to the masses. With this, they formulated an entire beverage category, gain a superior boost in marketing, receive payments for licensing their product, and mitigating operational risks by holding their partner responsible for maintaining their superior quality standards while additionally eliminating a new entrant in the coffee market (i.e., Pepsi). Thus, the argument supporting the notion that Starbucks transcended coffee from a commodity into a monopolistic position in the RTD coffee category presents itself. In the current market, the consumer reports published by Starbucks indicate a recent boom in cold coffee products. Thus, it is important to address the brand's strong investment into their "Frappuccino" product and visually depicting its selling strategy. To further understand the operations of the NACP, the agreement can be thought of as an interface that works within the coffee commodity chain.

Diagram 1. Coffee Commodity Chain of RTD Market



N.B. Farmers ➔ NACP ➔Distribution channel ➔Consumers

Diagram 2. NACP Interface



License name to Pepsi	Bottle coffee from Starbucks
Supply high-quality coffee to Pepsi	Supply Distribution Channel

Thus, the NACP interface includes two entities (i.e., Starbucks & Pepsi) and in layman's terms can simply be described by the actions each company makes listed above in Diagram 2. As previously mentioned, prior to the success of the Frappuccino and its accelerated distribution, the initial wave of expansion in Starbucks' operations had been attributed to its storefront expansion which occurred when Schultz decided to pivot from the traditional retail selling strategy into serving customers with personalized hot cups coffee of coffee.

Starbucks coffee in The United States of America had been only previously offered in the form of beans, but now with more stores, the whole landscape in which consumers had perceived the Starbucks brand had shifted to a sit-down experience as opposed to a quick purchase at a grocer. Aside from Starbucks' ability to introduce a cold coffee beverage into the market, another notable aspect of the new business model under the leadership of Schultz and his new management personnel occurred when they decided to directly source the coffee commodity from growers as depicted in Diagram 1.

History of Coffee as a Commodity

Coffee is an international affair. Whether it be the farmers selling to firms, or consumers purchasing roasted coffee from firms, coffee flows through various entities within economies through a chain as depicted in Diagram 1. The countries Brazil and Vietnam specifically pertain to Starbucks' operations since they produce and export Arabica beans that can only be found in their region. These Arabica beans play a huge role because they are used in Starbucks' beverages, which consumers deem a higher quality roast and pay significantly more for.

However, aside from focusing solely on big corporations that sell pre-made coffee, looking back at the nineteenth century and considering macroeconomic theory various countries played roles in the trade of coffee as a commodity. As mentioned a chain exists in which the coffee industry functions and can be better understood within, *Frontiers of Commodity Chain Research*, where Jennifer Bair provides her analysis on participants in the coffee commodity chain. She begins by addressing how Coffee is a commodity that is traded internationally and dates all the way back to the fifteenth-century having connected Africa, the Middle East, Asia, Europe and the Americas. Her analysis focuses on "growers, processors, and traders in coffee actively negotiate[ing] their respective interests among each other and with other socioeconomic and sociopolitical factors" on both the micro and macro scale (Bair 38).

The concept where these entities belong to a chain, (i.e. visually depicted in Diagram 1) is essential in understanding how factors such as exchange rates, and fluctuating prices of commodities can affect other entities within the model. Furthermore, by analyzing the financial statements published by the SEC, which provide shareholders with information essential to understanding the yearly business operations necessary in building models to assess stocks as an investment opportunity; we will be able to navigate the competitive forces that affect the operations of Starbucks. The filing by Starbucks' further elaborates on the commodity price risk they incur; an essential aspect of their storefront and RTD operations. The 10-K report published at the end of the year in 2015, outlines the various risks and how the risks would either positively or negatively affect the company's shareholders. Due to the nature of Starbucks' business selling a product sourced internationally, the filing makes a note regarding how their primary market risk belongs to 'Commodity price risk' that arises from their **"**purchases of green coffee and dairy products, among other items. [They] purchase, roast and sell high-quality *arabica* coffee and related products and risk arises from the price volatility of green coffee. In addition to coffee, [they] also purchase significant amounts of dairy products to support the needs of [their] company-operated stores. The price and availability of these commodities directly impacts [their] results of operations and [they] expect commodity prices, particularly coffee, to impact future results of operations" (SEC 2015). Firms selling products created with the direct interaction with commodities face operating costs that fluctuate due to many factors inclusive of foreign arbitrage. During instances of price volatility, varied prices become an obstacle because a companies' response will dictate their stock price.

In the case of the NACP, since Starbucks and Pepsi operate using an interface (i.e. Diagram 2), even though the volatility in the price of coffee would appear to be a burden on Starbucks it does not seem to meddle with the operations of the agreement. As previously mentioned within the NACP, Pepsi must purchase all its requirements for the product from the partnership, which means the volatility in the price of both coffee and dairy products used in creating RTD beverages will interfere with Pepsi's operations. For instance, in the case where the price of coffee is more expensive, Pepsi must pay the costs to fulfill quality standards.

Starbucks nonetheless must pay more, but since the NACP is a licensing agreement it requires Pepsi to either still purchase the required components from Starbucks or from an agreed upon source, however since the agreement also affirms that Pepsi must maintain the products high standard of quality; it is fair to assume that price fluctuations in commodities will either ultimately negatively impact the consumer's wallet or Pepsi's revenue from distributing the coffee. The NACP is headquartered in Purchase, NY where Pepsi employees create, bottle, and distribute Starbucks RTD coffee. The discussion of how international commodity markets "determine the prices of basic inputs to our economies such as food and energy…affect the well-being of consumers in the importing countries as well as developing countries' macroeconomic performance, which typically depends on commodity export revenues" (Igami 226). Various insights are provided from the macroeconomic perspective on how price fluctuations can affect multiple variables since factors such as the exchange rate is a portion of the GDP equation.

However, price fluctuations of coffee in the commodity markets drastically affect the operations in which firms such as Starbucks and others in the coffee sector operate and to maintain the quality of Arabica beans Starbucks focused their efforts on ethically dealing with their supply-chain. Starbucks was in the position to utilize their intense market power where they could position themselves "against their coffee suppliers to lower bean prices and, thus, improve their profits. [However, instead] Starbucks saw an opportunity to encourage social change by forming a strategic alliance with conversation international… Some of the primary reasons include the attempt to reduce risk, the attainment of economies of scale, preemption of competition, an attempt to overcome government barriers, or the facilitation of international expansions" (Larson 29). The specific commodity type of coffee commodity that Starbucks purchases and sells to its consumers is high-quality Arabica coffee, which is "ethically sourced under C.A.F.E. Practices”; standing for ‘Coffee and Farmer Equity’.

This comprehensive coffee-buying program aims to overall improve the farmer’s standard of living, which aims to not only foster a long-run plan to source the highest quality of coffee, but also restrict exploitation of trading partners in the coffee commodity chain. Overall, by entering this agreement both parties could “counteract an increasing oversupply of low-quality coffee, which acted to suppress the price of coffee inhibiting the farmer’s ability to improve production” (Larson 30). Yet again Starbucks can hedge the risk of exposure to commodity price volatility while engaging in a socio-economic agreement that promotes improved environmental and physical standards governing coffee farmers.

Monopolistic Competition

The current state of the coffee industry stems from a long history of successful marketing campaigns as well as strategic partnerships put in place that enable the seamless distribution of trade. In Larson’s, *Starbucks a Strategic Analysis*, the nature of the market rivalry is revealed within the specialty coffee market has consisted of unique product differentiation where flavor and presentation played a critical role in consumers’ decision making. Thus, "the consumption of specialty coffee was rather inelastic, or insensitive to price fluctuations. This presented an environment in which price wars would not be prevalent. Furthermore, the budding state of the specialty coffee industry meant competition was limited and small in scale. The last environmental factor affecting the nature of industry competition during the era of Starbucks’ founding was the market growth rate, which for retail specialty coffee was 6% in North America in 1987. (Specialty Coffee Association of America, 1988)” (Larson 10).

Furthermore, Starbucks originally identified a market opportunity available and then formulated a strategic partnership during the transition in leadership to establish themselves prior to even officially debuting the RTD beverage. Their model at the time encapsulated selling coffee in their stores, however with the success of introducing the ‘Frappuccino’ beverage into the market Starbucks enabled themselves to move their product from retail locations to the shelves of grocers included in the Pepsi distribution channel. Starbucks was so confident in their product prior to launching in 1996 that they did not even test-market it (Starbucks 20th anniversary). Ultimately, the NACP set up the framework for the ‘Frappuccino’ to hit shelves, but strategy wise Starbucks sought out to increase its market share by forming additional partnerships less than two years after launching its new product.

In *The Commoditization of Starbucks*, it is noted that to increase access to target customers Starbucks formed partnerships with Nordstrom, Barnes & Noble, Cruise lines, and various hotel chains. Even with deals such as the NACP agreement Starbucks’ continued to increase both their brand awareness and market share by selling their product to consumers in untapped markets. Another notable partnership formed after the NACP occurred in “1998, [when] Starbucks launched a partnership with Kraft, a unit of food and tobacco giant Philip Morris, to distribute whole beans and ground coffee to more than 20,000 grocery stores in the United States” (Enz 8). Yet again, another strategic partnership with an immense distribution channel enabled their entry into new markets. With a growing number of Starbucks retail locations and partnerships with distribution channels, consumers in the coffee marketplace become more aware of both the Starbucks brand and product. As previously mentioned in the NACP agreement the vigorous point-of-purchase advertisement strategy is fully implemented by Pepsi. Thus, aside from the confinements of the NACP distribution channel, Starbucks effectively illustrates that to continue growing it is necessary to pursue deals that increase their market presence as well as operational ability.

Product differentiation has remained a key component of the Starbucks brand and as earlier mentioned also a critical component in the barrier to entry section of Porter's competitive forces framework. Opposed to their competitors, Starbucks is highly recognized for their 'signature' quite literally on the coffee cup exchanged to consumers, which makes it a higher quality good. It is noted that the "coffee industry is experiencing a monopolistic competition, whereby there are many producers of coffee that are differentiated from one another. The competition in the coffee industry is moderately high because Starbucks enjoys a significant market share. Therefore, Starbucks is pressured to maintain its competitive advantage with its premium products." (Isa, Razak, Swan 44-45). Their aim with this strategy lies in the consumer not only receiving a high-quality cup of coffee, but also getting that feeling of comfort and acknowledgment when they purchase their morning cup of joe with their name on it.

After Starbucks increased its market share in the RTD beverage category their secondary efforts in partnering with Kraft's distributional channel enabled their bags of coffee to be stocked at grocery stores. This retail partnership held Kraft employee's in charge of marketing and distribution and was terminated in the year 2011. By constantly anticipating the direction of the marketplace Starbucks' has been able to stay ahead of its competition. Even after forming the NACP Starbucks continued to increase their market share in direct sales in the retail segment to grocers. The Kraft partnership ultimately came to an end in 2013 where Starbucks had to pay $2.76 billion to sever their contract since Kraft estimated that they brought in $500 million in annual revenue through their partnership. CEO "Schultz said the split cleared the way for the chain to significantly expand packaged coffee product sales in the grocery aisle"

(Baertlein). Right around this time "Starbucks announced a price increase on brewed coffee in 2012, the increase was described to be due to increased commodity costs", which was mentioned earlier in their 10k report as a sensitive economic challenge that the firm faces (Ferguson & Ellen). The price hike appears to be in the best interests of their current shareholders, however in the past during the winter of 1999, "Starbucks spokeswoman Helen Chung stated, 'We do not change our prices based on short-term fluctuations in the coffee market" (Seattle Times, December 7, 1999)"(Leitbag, Nakamura, Nakamura, Zeorm14). Even though in the past the firm has refrained from making changes to fluctuations in economic conditions given the situation with Kraft their price hike saved the firm from losses in operational costs.

Furthermore, given Starbucks' market share in the coffee industry, the following questions arise on the state of the market and whether there existed a monopoly within the RTD coffee industry.

Dunkin Donuts' Barrier to Entry in the RTD category

In February of 2017, Dunkin' Donuts began offering the same packaged RTD coffee to consumers. Prior to the efforts of Dunkin' venturing into the RTD category there existed several traces of evidence that Starbucks had been operating as a monopoly. When assessing the market for coffee, it is essential to understand the factors of capital and labor that enable the successful operations of the Starbucks corporation. Regarding the store-front category since "Starbucks has a larger footprint, with 22,519 stores to Dunkin' Donuts' 11,500 points of distribution" it is evident that by entering into the NACP Starbucks eventually was able to surpass its main competitor in the store-front segment of their business operations as well as create a barrier-to-entry within the recently created RTD beverage category (Downie).

Currently, if someone were to visit their local Wal-Mart they would be able to purchase both RTD beverage options from Starbucks and Dunkin Donuts'. Even though Starbucks was founded nearly 20 years after Dunkin' Donuts, their niche marketing strategy has differentiated themselves as a higher quality product, which has segmented themselves from their competition. As mentioned in a Dunkin' Donuts press release, "This launch marks Dunkin' Donuts' first entry into the ready-to-drink coffee category, which has enjoyed strong growth over the past five years and represents $2.3 billion dollars in annual sales according to Nielsen. The agreement supports Dunkin' Donuts' goal of strengthening its position as a coffee authority and further extends the Dunkin' Donuts brand into new distribution channels" (Dunkin' Donuts).

Given the nature of Starbucks' marketing, the current market price of their RTD beverage attests to consumers' perceptions on which firm is defined as a firm with a perceived greater quality product.

Table 1.

Brand	**Size**	**Price**
Starbucks	**13.7 fl oz**	**$2.50**
Dunkin Donuts'	**13.7 fl oz**	**$2.28**

Since the price of a Starbucks RTD beverage is higher than Dunkin Donuts', their biggest competitor, per Table 1 it is evident that Starbucks imposes a cost disadvantage on Dunkin Donuts.

Additionally, Starbucks' brand recognition and marketing practices have established intense competition, but most importantly their usage of Arabica coffee beans, enables the firm to set a higher price for their good. Therefore, as seen in Table 1 the inferior good at hand is clearly Dunkin' Donuts. From an overall perspective regarding price, "Dunkin' Donuts' management has described its intent to be the lowest cost provider in the market while maintaining quality above an acceptable minimum" (Downie).

Capital Requirements – Starbucks Vs. Dunkin' Donuts

Regarding factors of capital, when comparing both firms financially speaking "Dunkin' Donuts carries $2.5 billion of long-term debt, which is 74% of total assets. Starbucks' $2.4 billion of debt is only 18% of total assets[,]" which helps explain that Starbucks is a significantly larger corporation than its competitor (Downie).

As published by the SEC, within the 'Form 10-K' For the Fiscal Year Ended September 27, 2015, Starbucks announced their primary competitors in the 'Competition' section and include specialty coffee shops as well as quick-service restaurants. Specific to consumers of Starbucks' brand, customers select their distinguished coffee products due to its superior quality, service/convenience and price. Their competition is noted to reflect both the U.S. and the international markets. Competition between Starbucks and other brands results in store-front control where further acquiring retail locations is vital to maintaining brand-awareness. Starbucks has acknowledged that their operations "are sensitive to changes in macro-economic conditions". For instance, they claim that if their customers' income goes down, then their demand for their coffee decreases. Even though Starbucks' has distinguished itself as a brand second to none, given the new entrants into the market for RTD coffee it is clear that their lost profits may end up in their competitors' pockets due to lower prices. When discussing capital requirements, it is essential to re-address how Starbucks gradually expanded business after its IPO. As a competitive force in the global market, Starbucks is responsible for providing work for 157,000 employees (SEC 2015). Even though this is a factor of labor this is relevant when discussing capital requirements because the NACP, as well as the IPO, laid the foundation in which Starbucks' expanded into such a large company where 150,000 employees are operating "in company-operated stores and the remainder in support facilities, store development, and roasting, manufacturing, warehousing and distribution operations" (SEC 2015). By utilizing the funding gained from going public as well as the momentum and profit from the NACP, Starbucks positioned itself to expand its store-front operations as well as the global footprint of their dominance in the RTD category. The 10-K report previously mentioned had segmented Starbucks' operating segments into the four categories including:

1) Americas 2) China/Asia Pacific 3) Europe, the Middle East and Africa 4) Channel Development

These markets

Current Market Position

On July 23rd, 2015 both parties in the NACP agreement announced their expansion to 10 Latin American Markets in 2016. This business opportunity leveraged the current agreement by implementing the same model in "select markets in the Caribbean, Chile, Colombia, Costa Rica, Guatemala, Mexico, Panama, Peru, Puerto Rico, and Uruguay… Since launching its retail operations in Latin America in 2002, Starbucks retail presence has grown to more than 870 stores in 14 markets. Latin America is an important growing region for Starbucks coffee as it supplies more than half of the approximately 400 million pounds of high-quality arabica coffee that Starbucks purchases every year" (Starbucks). Starbucks continues to grow their RTD products presence while still retaining their core business model in the retail market.

Their ability to expand their products' reach to consumers in Latin America has further increased sales and brand awareness. These expansionary efforts can be attributed to Starbucks' ability in re-creating a product-market-fit from one region to another, which generates an additional revenue stream to increase their overall gross margins. The growth of their RTD product has come a long way from the inception of the NACP in 1994 because Starbucks "now offers more than 50 RTD coffee and coffee + energy products. To date, Starbucks RTD segment has approximately 88 percent market share in the RTD coffee category and 73 percent market share in the overall RTD category, and has grown to more than $2B annual retail business out of the $2.1B overall RTD category[2]"(Starbucks). The Starbucks Corporation aims to reach new heights by increasing operations in the Americas (i.e. entering Latin American Markets), which accounts for the highest demographic region of RTD sales revenue.

This is evident in the current landscape for big-box-retailers where Starbucks has positioned themselves by directly selling various cold-coffee options to consumers. Intricate displays are created by marketing teams at Pepsi and eloquently placed near cash registers. This strategy creates a last-minute window of opportunity for the NACP to sell you a bottle of coffee even if you passed by the various coffees displayed in the beverage aisle of the store and thought nothing of it. This marketing strategy allows consumers to quickly grab a cold coffee on the go. Starbucks continuously increases its brand awareness regardless of an actual purchase of their coffee since consumers are forced to view Starbucks advertisements at their checkout location. As such, regardless of whether consumers end up purchasing a Starbucks beverage at a grocer, the advertisement could even trigger the event in which the consumer visits a Starbucks location to purchase a beverage.

Conclusion

Overall, a strategy has played an integral role in the continuous expansionary forces that have made Starbucks a household name as well as into having operated a monopoly within the Ready-to-Drink beverage category. By implementing Starbucks' unique product differentiation the company ignited a revolution in the commodity chains for coffee and enabled itself to dominate a secondary market for coffee consumption while still following an original formula, which they use to add locations. As described in *How the local competition defeated a global brand: The case of Starbucks*, the "Starbucks formula also depends on location and convenience. Starbucks [has] worked under the assumption that people are not going to visit unless it's convenient, and it is this assumption that underlies their highly concentrated store coverage in many cities" (Patterson, Scott, Uncles 42).

Conclusively, the RTD coffee category continues to see growth on the global scale. Starbucks currently operates as the RTD market leader during these times of boom in cold coffee/brew consumption. Prior to entry of Dunkin' Donuts, Starbucks had operated a monopoly within the RTD coffee category because they were the only chain selling bottled beverages to retail sales in such a large-scale. Even though operating in an extremely volatile industry that experiences drastic fluctuations can be difficult, the Starbucks Corporations' ability to innovate in the marketplace as well as create partnerships with various entities has resulted in an effective business model.

Their former monopolistic presence in the RTD beverage category can be attributed to the fact that Starbucks established a high fence around the market by partnering with Pepsi. This not only prevented Dunkin' Donuts from accessing the Pepsi distribution channel but also required identifying their own strategy into entering the market. Additionally, Starbucks had already reached a level of economies of scale through the NACP agreement, began offering a significantly differentiated product and ramped up capital requirements. This enabled them to control the price of the RTD category and impose a cost disadvantage to Dunkin' Donuts; which did not even enter the RTD market for 20 years.

As such, Starbucks reaps the benefits of partnerships that enabled its expansionary efforts and protected itself from facing the risk of volatile coffee commodity prices. Forging the PepsiCo distributional channel using the NACP (i.e. bottling & marketing services) and C.A.F.E. practices epitomize the monopolistic presence Starbuck imposed on the RTD market for coffee.

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