Case Study: Starbucks: You may think it is franchising only, but it is not!

Starbucks in 2008, which still holds good today. In 2014, the company managed to strengthen its digital positioning in the markets and launched Starbucks Mobile Order & Pay.
Presently, Starbucks is international coffeehouse chain, which offers a wide range of products including coffee, tea, and other beverages and also food. The company mission of Starbucks is 'to inspire and nurture the human spirit-one person, one cup, and one neighbourhood at a time.' The company is one of the leading coffee businesses in the world and has more than 24.000 stores around the world. Starbucks has gained a leading position in the coffee serving industry. However, it has various competitors like small regional coffee house providers, which are common in Brazil. India, Italy, and Austria, or larger ones like Tim Hortons from Canada.

Business segments

As shown in Figure 4.7.1, Starbucks has launched a matrix organizational structure, which is a hybrid structure that includes elements from the basic types of organizational structure, such as functional and regional-divisional structures.
Starbucks's organizational structure includes geographic division by regions, which is considered to be the operating segments: The first segment belongs to 'Americas, which consists of the US, Canada, and Latin America. The second segment includes China and Asia Pacific (CAP), and the third segment covers Europe, Middle East, and Africa (EMEA). The last segment is named Channel Development, which compromises roasted whole bean and ground coffees, a variety of ready-to-drink beverages, and other branded products. Moreover, other segments include Teavana, Seattle's Best Coffee, Evolution Fresh, and Digital Ventures business, as well as other developing businesses, such as tea, which is common in China and India.
In 2015, the total net revenues of Starbucks amounted to USD 19.2 billion, whereas the net income was USD 2.7 billion, which indicates a margin of approximately 14 percent (Figure 4.7.2).
The revenues of Starbucks originated from the following business segments: company. operated stores, consumer packaged goods (CPG), foodservice operations, and licensed stores. 'Licensed stores' as categorized by Starbucks equals the business concept of franchising. The revenues from the company-operated stores in 2015 generated the largest amount with 79 percent of the total net revenues (Figure 4.7.4).
According to Starbucks's annual report, the America's market represents the largest market and 69 percent from the total net revenues. The other revenues were as follows: China/Asia Pacific (13 percent); Channel Development (9 percent); Europe, Middle East, and Africa (EMEA) (6 percent); and all other segments (3 percent, (Figure 4.7.3).
Furthermore. Starbucks's revenues can be differentiated by product type, which consists of beverages, food, packaged and single-serve coffees and teas, and others.
The products include coffee products with more than 30 blends, handcrafted beverages such as smoothies and teas, hot and iced espresso beverages, 'Frappuccino

drinks, and others. Starbucks offers not only beverages but also fresh food, such as baked pastries, sandwiches, salads, and yogurt. The successful brand offers merchandise such as coffee and tea brewing equipment, mugs and accessories, packaged goods, books, and gifts (Figure 4.7.5).

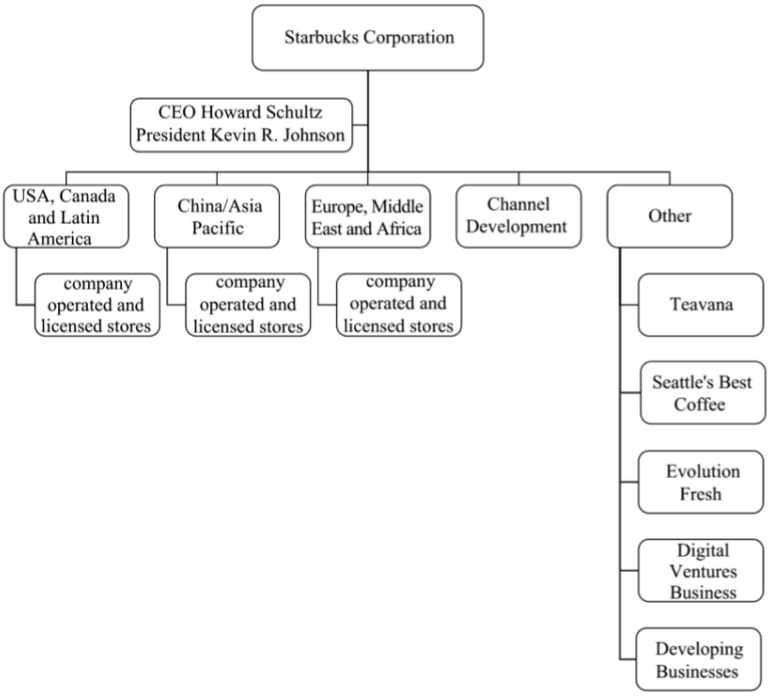

Figure 4.7.1 Organization of Starbucks (2015a).

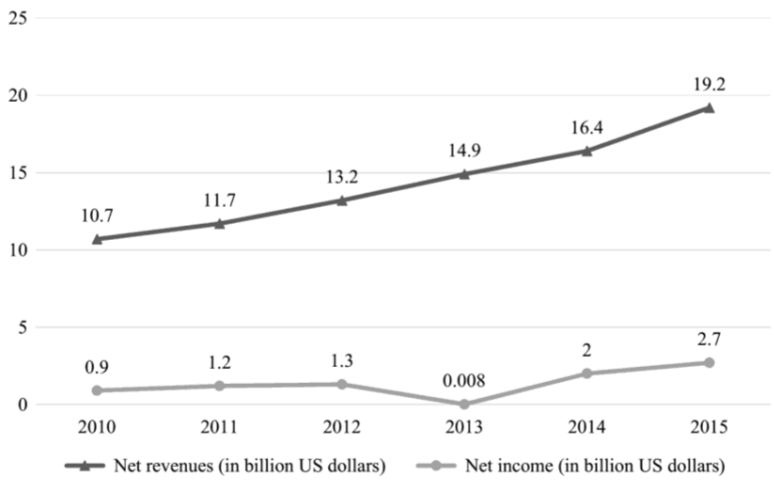

Figure 4.7.2 Starbucks: net revenues versus net income in the period 2010–2015 in billion US dollars.

Source: Author based on annual reports of Starbucks (2014a, 2015a).

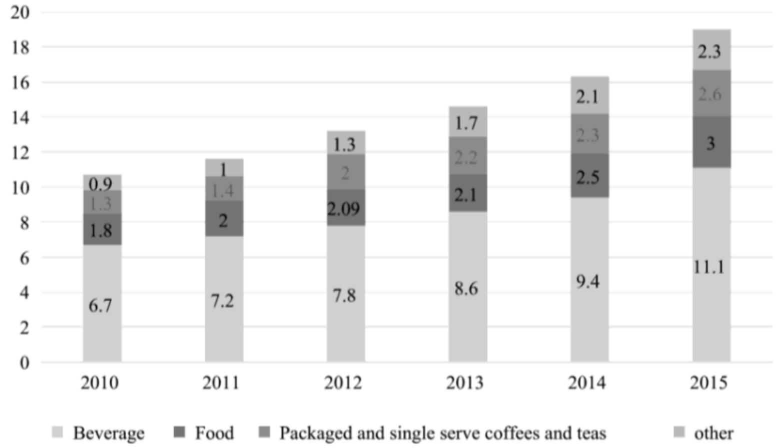

Figure 4.7.5 Revenues by product type for the period 2010–2015 in billion US dollars.
Source: Author based on annual reports of Starbucks (2012a: 87, 2015a: 85).

Mission and strategy

In 2014, Starbucks presented its '5-year growth strategy,' which includes the following 7 steps:

1 Be the employer of choice—invest in partners who would be able to provide superior customer experience;
2 Lead in coffee—strengthen the leadership position in the coffee industry;
3 Grow the store portfolio—increase the scale of Starbucks's stores;
4 Create new occasions—provide new product offers;
5 Extend consumer-packaged goods (CPG) to brand growth globally;
6 Build 'Teavana'—advance its position as a second major business in tea; and
7 Extend digital engagement—build brand awareness through mobile commerce platforms (Starbucks, 2014b).

Starbucks uses market entry and penetration strategies, which include joint ventures, strategic alliances, and acquisitions to expand its product mix and achieve sustainable advantage over its competitors (Geereddy, 2013). The most important acquisitions during the period 1999 until 2012 can be summarized as follows:

1 Acquisition of **Tazo** in 1999
   - Tazo was founded in Portland, Oregon, and produces premium packaged tea and herbal tea products.
   - Starbucks purchased Tazo for more than USD 8.1 billion.
   - Tazo pouches are sold in Starbucks stores, grocery stores, and other retailers around the world (Carpenter, 2015).

2 Acquisition of **Hear Music** in 1999
   - Starbucks expanded into the entertainment and music industry by purchasing Hear Music.

In 2012, Starbucks established a joint venture with Tata Global Beverages Limited, the second largest branded tea company in the world, which is based in India. The 50/50 joint venture, Tata Starbucks Limited, aimed to introduce Starbucks's products to Indian consumers.

Business opportunities and challenges

Undoubtedly, Starbucks can rely on a strong brand recognition and strong market position. Starbucks has a significant global presence, with more than 24,000 stores in 70 Countries. However, the firm is very dependent on the United States, with a clear focus on Western markets. Customers are emerging in countries like China, Vietnam, or India where tea is preferred rather than coffee. Thus, it remains questionable whether Starbucks is able to transfer its valuable coffee brand reputation from its Western hemisphere towards the East. The coffee provider pays enormous attention to quality and a comfortable and charming atmosphere at the shop where the coffee is sold. Starbucks shops are usually located at highly frequented and optimally visible locations in expensive town areas. Aesthetics and a wide product range of its shops are defined as Starbucks's strengths. However, all of these Starbucks shop features are not costless and its products are already perceived to be relatively expensive. Thus, it remains questionable how Starbucks can further develop in emerging markets with comparatively lower purchasing power than in the US, increasing local competition and how the firm will manoeuvre in times of economic downturns as experienced during the last subprime crisis.

Although Starbucks has managed very well its global growth strategy, it has not managed to successfully enter all of their target markets. Starbucks failed to penetrate the Israeli market, and although there was a remarkable launch at the beginning, Starbucks was forced to close its operations in Israel only after two years. The explanation for this unsuccessful experience is a lack of peripheral vision.

Peripheral vision refers to the ability to "detect and act on signals from the periphery before others'.

In this respect, Starbucks failed to scan the Israeli market signals appropriately, particularly in terms of local customer characteristics.

Starbucks failed to recognize the consumption behaviour of the Israeli customers. Furthermore, the senior management lacked experience running a coffee shop chain. In fact, many customers did not like the taste of Starbucks's products and perceived it as lower quality compared to local Israeli brands. Another important factor, which influenced Starbucks's poor performing business, was that the local competitors were prepared when Starbucks was supposed to enter the market and they managed to improve their businesses' presence by offering new products and opening new locations.

This combined local customer reaction can be interpreted as a (non-tariff) market entry barrier for Starbucks in Israel.

Germany serves as another example of less successful developing markets for Starbucks. Starbucks entered the German market in 2002 and operated 158 stores across the country. However, in April 2016, Starbucks announced the sell-out of Starbucks business in Germany to AmRest, a Polish restaurant operator. AmRest received the license approval to operate and develop Starbucks brand in Germany. This licensing agreement aimed to improve the foothold of Starbucks within the German market (Starbucks, 2016e), which has performed far below expectations. 'Drinking coffee' is rather understood as a pragmatic activity (e.g. enjoy the taste, 'become awake') and is not perceived as a prestigious lifestyle activity by many local German consumers. Consequently, the majority of German customers are not willing to pay higher prices for Starbucks coffee than market average as long as the quality is equal. Additionally, the competition in the German market is intense. Various local coffee shops exist, and some small bakeries offer tasty coffee in a more personalized and familiar atmosphere compared to what is offered at Starbucks's metropolitan shops. Nevertheless, the Starbucks's coffee shop located at the Brandenburg Gate in Berlin is always crowded mainly by tourists.

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