

# Starbucks in japan

## 18120

Business, Marketing



## I – Company Profile and Case Analysis Purpose

Starbucks Coffee Co. changed the concept consumers had about drinking coffee. With more than 1000 outlets across the USA (1997 numbers) and the intention of doubling that over the next 3 years and considering international expansion, the company has transformed a simple beverage into a lifestyle accessory with as much elegance as the latest fashion. The Seattle based chain's success over the past 25 years has a lot to do with the quality of the product, which has attracted a loyal and growing following among consumers.

The retail strategy has been to put a coffee shop on every corner and to make fresh-brewed coffee by selling only the highest-quality products and charging a premium price. However, the product mix has changed significantly over the years, with beans accounting for about 15% of the chain's sales. Meanwhile, Starbucks is expanding its offerings, with a line of ice cream for supermarkets and a joint venture with Pepsi Cola to market Frappuccino.

At the same time, the company continues to develop sales in alternative outlets, including foodservice and non-traditional retail sites as United Airlines, Holland America cruise line, Seattle Kingdome, an Alliance with Barnes & Noble bookstores, among others.

As mentioned above, to keep the growing pace, the company is considering expanding to international markets, especially Japan and APAC countries.

That's the main objective of this analysis: The strategy to enter into International Markets

## II - Situation Analysis

### GENERAL ANALYSIS

The US coffee market is being considered saturated, with bigger chains facing threatening competition among themselves and also from smaller coffee bars. Also the increase of coffee costs led to lower margins, intensifying competition in what has become a crowded market. Recognizing this, Starbucks has turned its attention to foreign markets for continued growth, especially the Asia-Pacific Region. It was also taken into consideration the potential of the Emerging markets, mainly Japan, as per their consumer income increasing and economy growing and another point is that the people in this country are open for western lifestyle, besides of differences in their culture.

### INDUSTRY ANALYSIS

The gourmet coffee industry has exploded, with a grow rate of 30% per year for the past 3 years, as coffee bars, shops and houses have turned coffee into a trend. According to figures, there were 463 coffee outlets in the country in 1991, but by the middle of 1996, there were 5, 425, which means an increase of 1, 000%.

Other highlights:

- Prevision specialty coffee to capture 30% market by 99 (approx. 5 billion)
- Growth of number of espresso bars and cafes to more than 10. 000

- Expect increase in the cost of coffee beans in near future tightening margins for merchants (coffee farmers are switching to more profitable fruit and vegetables crops, reducing the world's supply of coffee beans)

## COMPETITION ANALYSIS

### Highlights:

- Two Competitive Arenas: Retail Beverage and Coffee Beans Sales
- Whole Bean: Specialty Coffee sold at retail through Supermarkets (Kraft, Nestle, Procter & Gamble, Regional specialty coffee companies, etc), Specialty Retailers and a growing number of specialty coffee stores
- Compete with franchise operators and independent specialty coffee retailers (in metropolitan areas a single block may have 4 or 5 different cafes)
  - direct competitor: SBC, which follows Starbucks' steps
- Compete with established suppliers in its specialty sales and direct response (mail order business)
- Market saturated and Starbucks is in almost all of them (strong presence)
- Competition for qualified personnel to operate retail stores – need of a good compensation policy to keep talented people

## INTERNAL ANALYSIS

Starbucks is the largest USA coffee chain, owning more than 1,030 stores (1997 figures); through the third quarter of fiscal year 1997, it had profits of

\$38. 65 million, with sales for that same period of \$696. 25 million, a 39% increase from the previous year.

Other highlights:

- One of the fastest growing companies in the US - Rapid growth rate of 50% over several years
- Expecting to have 2200 retails stores by 1999
- Net revenue increase by average of 61% in the past 5 years
- Strategy to keep growth strategy consist on international expansion to Asia and Japan

#### - STAKEHOLDER'S MANAGEMENT

On the labor an environmental front, Starbucks has a highly focused “ coffee mission”- an international ethics development program that not only seeks to improve the quality of the beans, but also worldwide labor conditions for coffee workers. For example, in Guatemala, Starbucks, together with the country’s coffee production organization (Anacafe), has discussed the development of industry standards and labor conditions. It has also supported a rural water and sanitation program. In Indonesia, the chain has worked with CARE and the Nature Conservancy to promote sustainable agricultural environments near the Lore Lindu National Park. And on the Indonesian Island of Sulawesi, Starbucks has worked to provide shoes to school children.

## - MISSION STATEMENT

“ To establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining their uncompromising principles as they grow”.

“ The following six guiding principles will help Starbucks measure the appropriateness of their decisions:

- Provide a great work environment and treat each other with respect and dignity.
- Embrace diversity as an essential component in the way we do business.
- Apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee.
- Develop enthusiastically satisfied customers all of the time.
- Contribute positively to our communities and our environment.
- Recognize that profitability is essential to our future success”.

## III - SWOT Analysis

### STRENGTHS

Creativity / innovative against mom-and-pop Japanese coffee shops

Strong culture

Brand awareness

Employees' empowerment

Healthy finance situation

## WEAKNESSES

Low presence in the 3rd largest coffee market (Japan) and Asia in general

Limited Channels of Distribution

Japan has already 115. 000 coffee shops

## OPPORTUNITIES

Expansion to International Markets

Decline in use of alcohol can make coffee the new destination

## THREATS

Keep consolidated culture as expanding via partnership

Expected increase in the cost of coffee beans

Coca cola has alone 800. 000 vending machines with canned coffee

Starbucks can suffer from retaliation from well-established player

Japanese haven't developed Italian taste for espresso

## IV - STRATEGY

TARGET Japan – reinforce presence

## OVERALL STRATEGY

Reinforce presence through a joint venture or acquisition, finding the right partner which shares the same values and goals, once partnership and local connections is everything in Asia. By this way, Starbucks can take chance of one of its competitive advantage, which is its brand's recognition.

One option should be the acquisition of an established chain as Pronto, which has, in 1996 numbers, 95 outlets, and are threatened with the entrance of Starbucks in their market.

Development of a marketing/advertising plan with the objective to place Starbucks as a premium and differentiate brand in Japan, although its price is lower than a cup of coffee in Tokyo (JPY 280 against JPY 399), to be in accordance to Starbucks image of high quality and sophistication of the unique specialty coffee experience.

Word Count: 1160