The globalization of starbucks case study examples

Business, Company

Introduction

A lot of people have taken the presence of a Starbucks store, conveniently placed in a street corner, as part of everyday urban living. It is after all, just a cup of coffee. A lot however, can be said about a cup of coffee that the company Starbucks offers. For one thing, Starbucks has taken drinking coffee from a mere morning ritual into a lucrative business that is driven by a perception of upward economic mobility. And why not enjoy the image behind drinking a great cup of coffee? Drinking Starbucks coffee has become an enjoyable experience, anytime of the day. At the center of the new coffee experience is a global company and the most recent success story out of Wallstreet: Starbucks.

Starbucks is now one of the most widely known brands in the world. The Starbucks story began in March 30, 1971. Like many great things, Starbucks started humbly, with just a roaster and retailer situated in Seattle’s Pike Place Market. Three friends who met at the University of San Francisco started the business and none of the three founders were business majors. Jerry Baldwin was an English teacher, Zev Siegl a History teacher and Gordon Bowker was a writer. The three friends decided to sell high-quality coffee after watching Alfred Peet roast beans. The three decided to name their venture “ Pequod” which is the name of the whaling ship from the popular story of Herman Melville, Moby-Dick. After much deliberation, the three decided to name it after Starbuck, the chief mate of the ship. The company also sported one of the most recognizable brands today, the Greek-mythology based twin-tailed siren During the formative years of Starbucks, the company bought green beans, which is sold roasted to customers, from Alfred Peet. However, along with the move from the original location of 2000 Western Avenue to the first real Starbucks store at 1921 Pike Place Market, the company decided to purchase directly from growers. Thus began the unique farm-to- market model of Starbucks .

Because of their early success, Jerry Baldwin, Zev Siegl and Gordon Bowker decided to purchase Peet’s in 1984. This was a very fortunate time for the trio because coffee sales in the USA were declining but the sale of specialty coffee was increasing. The trio soon had six (6) stores in Seattle after two years and had ventured into selling espresso coffee as well. In 1987, the trio sold out the entire chain to former Starbucks employee Howard Schultz. Schultz then owned a chain of coffee outlets named “ Giornale” which he then rebranded as Starbucks thereby hastening the company’s expansion. The next three years was frantic, as Starbucks exploded to forty-six (46) stores across the Northwest and Midwest USA.

The success of Starbucks in the USA prompted the company to look for expansion overseas. In 1995, the company established Starbucks Coffee International, Inc., a subsidiary that housed 12 management personnel in Seattle. The purpose of the subsidiary is to look into the prospects of establishing Starbucks stores abroad. In less than 20 years this subsidiary has grown to more than 180 multinational managers located in regional offices outside of North America and is responsible for the growth of the company overseas. This subsidiary also handles all the business development duties outside the USA which includes financing, business planning, store operations, human resource development, product sourcing, and merchandizing. The rationale for the expansion is simple, Starbucks knew that the US coffee market will eventually reach saturation. The signs were all there, Starbucks was leading in market consolidation, with other bigger players absorbing smaller chains, lessening the number of competitors in the market. The market was slowing down which meant a maturation of the coffee-market. Slowdown in growth means a slowdown in revenues, that may translate to slower prospects and lower market valuations. The shareholders of Starbucks would simply demand that Starbucks management find ways to continue the staggering growth and financial returns the company experienced during its first few decades of existence. To do so meant to look at overseas markets and to compete in those markets aggressively. To do so it must double its number of stores exponentially to take a bite out of the very large and still very open coffee market at that time .

In 1996, Starbucks opened its first Starbucks store outside of North America in Tokyo, Japan. In Japan, Starbucks choose to work with a Japanese company as a partner because of cultural considerations. Starbucks understood the meaning of culture. Culture is defined as the collective program of people and the distinct collective thinking separates a group of people from another group. Culture can also be defined as a way of thinking, of feeling, of reacting to internal and external factors and can be conveyed using symbols. In many societies, culture is a learned behavior and in business terms is a critical factor for success. Culture is important because it affects the behavior or the consumer; it influences consumer demands and decision making, and determines how a brand is established. For Starbucks the understanding of culture drives the type of management framework and managerial decisions that are taken by an organization. According to Dr. Geert Hofstede in his article " Integrating Corporate Practices and National Cultural Values" the national culture relates to a person's core values and is learned by the individual early and is held deeply. On the other hand, organizational culture is learned by the individual and is composed of a set of guidelines that are necessary for learning and fulfilling a particular job or task.

Knowing how to work with the Japanese was a result of research conducted by Starbucks, whose researchers said that it would be impossible to succeed in Japan because of how Starbucks runs its stores. Starbucks was keen on this cultural difference but choose to play its weaknesses into strengths thus developing a viable model operationally and a Japanese-linked organization culturally.

Two years after in 1998, Starbucks opened itself to the European market by entering the United Kingdom. Ironically, it did so by purchasing a company called " Seattle Coffee Company" which was firstly a UK-based company that was marketing itself as a Starbucks mirror-image. Starbucks took over the company by acquiring it at a cost of US$ 22 million and then re-branded all sixty-five stores of the Seattle Coffee Company into what we now know and recognize to be Starbucks stores. After the successful venture into Europe, the company expanded to South America by opening a branch at Mexico City in September of 2002. In 2007, the company opened a Starbucks store in Russia and in 2008, the company ventured into fresh-pressed coffee, sparking a new business line. Currently the company operates in more than 50 countries worldwide and operates a staggering 17, 000 stores .

Figure 1 Starbucks Stores Growth

Starbucks operates in the following countries:

- Argentina
- Aruba
- Australia
- Austria
- Bahamas
- Bahrain
- Belgium
- Brazil
- Bulgaria
- Canada
- Chile
- China
- Cyprus
- Czech Republic
- Denmark

- Egypt
- El Salvador
- England
- France
- Germany
- Greece
- Hong Kong
- Hungary
- Indonesia
- Ireland
- Japan
- Jordan
- Kuwait
- Lebanon
- Malaysia
- Mexico
- New Zealand
- Netherlands
- Northern Ireland
- Oman
- Peru
- Philippines
- Poland
- Portugal
- Qatar

- Romania
- Russia
- Saudi Arabia
- Scotland
- Singapore
- South Korea
- Spain
- Sweden
- Switzerland
- Taiwan
- Thailand
- Turkey
- United Arab Emirates
- United States
- Wales

Despite this growth, Starbucks believes that the company is still within an early part of the entire business cycle. The Starbucks experience is the equity that the company relies on and that the delivery of that experience is what links customers to the company. Growing the company means that in all locations, the experience should be the same. Anyone who purchases a cup of coffee in any location in the world should experience the same high-quality coffee experience, to ensure growth and continued viability for the company.

The Global Business Model

The presence of Starbucks in more than 50 countries worldwide easily brands the company as a global organization. For a business organization that operates in regions that are geographically spaced, with a diverse number of employees and an even more widely varied legal and operating conditions, the company's business model must focus on the issues that are encountered on a global scale. Professor Richard Lynch of Global Strategy (2012), website devoted to business management defines International and Global Management a body of knowledge that focuses on controlling the practices of organizations that operate internationally. This subject are discusses the issues that come about due to the differing practices in international and global management strategies. International and Global Management strategies cover the many different organizational functions of operations, marketing, human resource management, finance, research, compliance and other aspects of management. Because of the size and complexity of operating in the international marketplace, these functions are confounded with many different, complex and often inter-related issues. On top of these functionary requirements, international organization also has to deal with external factors that complicate the situation such as a country's culture and the legal and administrative framework that an international corporation must work with to be eligible to compete in that said market place. Thus a corporation requires a " Global Strategy" which again is defined by Professor Lynch (2012) as a term that covers three areas (global, multinational and international) which is designed for an international organization to achieve its corporate goals as it operates in locations outside its location of origin. The online website Quick MBA (2012) defines the importance of Global Strategy. For the corporation, Global Strategy is important for the corporation because operating in a new country will is essentially a newly opened market that would drive both sales and profits. For many corporations that have “ exhausted” the market or is competing in mature markets, this is a welcome addition. Foreign markets also offer valuable resources that may make the corporation more competitive. For example, operating in low-wage seeking countries such as China would make production more cost effective. If costs are lowered, customers naturally benefit. A corporation operating in this scenario will pass on its cost savings to the consumer, making its market position more attractive. If it can do so successfully, then operating overseas has given this corporation another layer of comparative advantage over its competitors. Trade between countries is also a worthwhile activity for international organizations because in the long-run it brings the cost of products and services to a more competitive level, thus helping provide equitable distribution of wealth to all countries.

The proof that Starbucks is a “ global company” is the existence of a global strategy. According to the company’s chairman Howard Schultz, the goal of the company is to become the premier buyer of the finest coffee produced in many locations around the world. This is a precursor to the company’s desire of becoming a recognized and respected brand that “ nurtures” the human spirit. Thus the company has endeavored to develop relationships with respective countries that produce the coffee beans that Starbucks purchases for its stores. This was a hard process that Starbucks had to master since most of the coffee producers wanted to sell to Japanese and European buyers who purchased premium coffee beans during the formative years of Starbucks Corporation. Starbucks worked hard and became successful in 1992 when it was able to outbid European buyers for a premium crop of coffee beans. It then solidified its claims to this variety by setting up special purchasing operations thus setting itself apart from the rest of the American buyers of coffee who settled for “ dregs” of the coffee industry .

In light of this, Starbucks practices “ fair trade” which is to purchase from producers at prices that would enable them to continue farming and then work out the margins on each value chain level. This is critical to the success of the company’s global business plan because it ensures that the products (coffee beans) are maintained and the level of quality required is upheld.

On the retail front, Starbuck’s concentrates on blanketing an area completely and then cannibalizing the business of each store. To some, this may seem like a degenerative approach but to Starbucks, this approach meant that costs are minimized, customers are served better because of store proximity, and the promotion of the brand is increased because of the frequency of times customers see the Starbucks logo. A customer will intuitively purchase more coffee if the store is near, thus increasing Starbuck’s revenues. This strategy has worked wonders for Starbucks, who experienced growth despite a bear-ish economy. Other retailers have complained about a sharp decline in sales but Starbucks experiences growth of about 6 to 8 percent per year, with virtually no marketing expenses and with minimal advertising expenses .

Starbucks chairman Howard Schultz says that the market is much larger than coffee retailers thought originally. He adds that the market is big enough for healthy competition such that the company does not position itself to undercut competitors. Starbucks maintains their position in the market place and sells their products at prices that protect or maintain their margins .

- Works Cited

Grodan, G. (2008). Globalization and Starbucks. Retrieved September 13, 2013, from AssociatedContent. Com: www. asssocatedcontent. com

Hofstede, G. (n. d.). Integrating Corporate Practices and National Cultural Values. Retrieved September 13, 2013, from www. geerthosfede. nl/dimensions-of-national-cultures

Lynch, R. (2012). Global Strategy. Retrieved September 13, 2013, from Global Strategy: www. global-strategy. net

Quick MBA. (2012). Global Strategic Management. Retrieved September 13, 2013, from Quick MBA: www. quickmba. com

Starbucks. (2011). Our Heritage. Retrieved September 13, 2013, from Starbucks. Com: www. starbucks. com/about-us/our-hertigage

Ward, P. (n. d.). Starbucks: The Modern Globalization Imperative. Retrieved September 13, 2013, from GCCRM: www. gccrm. com

Yi, J. (2009, June 7). Starbucks: An Icon of Globalization. Retrieved September 13, 2013, from BrazenCareerist. Com: wwww. brazencareerist. com

Yunker, J. (2006). Starbucks CEO on Globalization: Dont Go Changing. Retrieved September 13, 2013, from Global by Design: www. globalbydesign. com