

Discuss how
starbucks downsizing
in the usa impacts
their global growth
strategy



Assignment Starbucks is a renowned coffee retailer which has more than 11,000 coffee stores worldwide. The company has been expanding its global operations across emerging economies such as China, Malaysia and others because of phenomenal economic growth and creation of new market segments comprising of middle-middle and upper-middle class white collar customers. Indeed, the company has been adversely impacted from financial crunch and economic turmoil in USA and other developed economies that in turn compelled the retailer to close its more than 600 stores and retrench over 12,000 workers that were around 7% of its total employed workforce. It is worthwhile to mention that Starbucks considers factors such as purchasing power of potential customers, demographics, societal norms and standards, consumers' attitudes, perceptions and inclination towards its brand, the competitors' strategies and their pricing policy, the availability of raw material in host nations, the exchange rate fluctuations, corporate tax rates, interest rates and government support to formulate and implement its strategies and make decisions for long-term business growth and monetary gains. (Merced, 2008) and (White, 2008)

The strategic planners at Starbucks started observing fall in sales revenue and volume in 2008 when USA suffered with a sub-prime property mortgage crises and trade deficits. This in turn resulted in bankruptcies and closures of many financial and production related business institutions thereby intensifying the unemployment issue and deteriorating future employment prospects. The skyrocketing international oil prices also resulted in inflation that then forced customers to tighten their belts and demand fewer luxurious products such as Automobiles and Coffee. Hence, Starbucks planned to expand its Chinese operations where a large pool of potential customers has

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an inclination towards branded products offered by supranational organizations. Chinese government also supported Starbucks so that it could enhance interaction and communication with Chinese farmers in Yunnan (an agricultural area), which produces over 30, 000 tons of Coffee Beans. In simple words, this region alone accounts for over 95% production of Coffee Beans, so Chinese officials seek help and guidance of Starbucks in business management, production and marketing process to ensure higher yield per acre and premium quality for domestic use and exports. (White, 2008) and (Haoting, 2009)

Indeed, China is a best available alternative for Starbucks since it has already been downsizing in USA. Haoting (2009) pinpointed that Starbucks company's managers are quite hopeful for their success in this emerging economy after analyzing the response and sales volume at their outlets. The coffee retailer has planned to open more than 250 stores to cater this huge segment of white-collar potential customers that enjoy stable purchasing power and have no real affordability issues after rapid industrialization and double-digit economic growth in China. It is, therefore, justified to conclude that downsizing in USA will not negatively impact and hamper Starbucks' Chinese business operations rather the retailer could expect to reap higher profits in near future. As far as the market entry strategies are concerned, it must be pinpointed that more than 65% of coffee outlets are established on the basis of licensing and franchising agreements in an attempt to minimize total business costs as the company does not have to invest its earnings in their establishment and construction. However, the remaining one-third is expected to be owned by Starbucks itself mainly because it is interested to invest on prime locations that have higher sales potential.

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