

# Starbucks' foreign direct investment

[Business](#), [Management](#)



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534 Q Initially Starbucks expanded internationally by licensing its format to foreign operators. It soon became disenchanted with this strategy. Why? The first country where Starbucks had first expanded its business internationally was in Japan. Back then, Starbucks expanded its business internationally by allowing its foreign operators to license its business format. It was only on the later part when Starbucks started realizing that the use of “ pure licensing agreement” does not guarantee that Starbucks’ foreign operators will comply with the business formula that was initially developed by Starbucks.

To ensure that Starbucks’ foreign operators will be able to imitate and deliver the “ Starbucks experience” in a foreign country, the company decided to consider entering into a “ joint-venture” agreement with the foreign business partners. By doing so, it was easier on the part of Starbucks to transfer its business culture and practice to Japan. This was done by instructing some American employees to train the newly hired workers in Japan. By teaching the foreign workers on how Starbucks is making their coffee, the company was able to extend the Starbucks atmosphere in a foreign land.

Q. 2 Why do you think Starbucks has now elected to expand internationally primarily through local joint ventures, to whom it licenses its format, as opposed using to a pure licensing strategy?

Starbucks decided to enter into a joint-venture agreement with its pre-selected foreign business partners. As a common knowledge, Starbucks is new in a foreign country. Therefore, it would be very difficult on the part of

Starbucks to gain sufficient knowledge about the business licensing requirements in Japan, its existing labor policies, and the business culture in Japan among others (Morrison et al., 2008, p. 56). By taking advantage of the joint venture agreement, it will be so much easier on the part of Starbucks to learn more about the Japanese market.

Likewise, joint-venture will also help the company remove barriers related to cultural and language differences (Kreitner & Cassidy, 2011, p. 96). Without losing Starbucks' control over its foreign business partner, the joint-venture agreement will make it easier for Starbucks to establish a strong business relationship with its potential suppliers.

Q. 3 What are the advantages of a joint-venture entry mode for Starbucks over entering through wholly owned subsidiaries? On occasion, Starbucks has chosen a wholly owned subsidiary to control its foreign expansion (i. e. in Britain and Thailand). Why?

Among the advantages of joint-venture agreement includes allowing Starbucks to share the risks of operating its business in a foreign market like the Britain and Thailand (Schermerhorn, 2010, p. 383). In case Starbucks' target consumers in a foreign land do not patronize Starbucks' products and services, the company will share its business loss with its foreign business partner.

Starbucks' decision to choose a wholly-owned subsidiary is to gain full control over its business in a foreign land (Neelankavil & Rai, 2009, p. 138). For the price of \$84 million, Starbucks decided to acquire Seattle Coffee in Britain. Since the coffee chain was already successfully establish a total of 60 retail store outlets, Starbucks did not experience any difficulty in trying to

introduce the concept of “ Starbucks experience” in Britain. After Starbucks entered into a licensing agreement with Coffee Partners (in Thailand), the company encountered some problems with regards to raising funds for its business expansion. To gain more control over the business expansion in Thailand, Starbucks decided to acquire Coffee Partners for \$12 million.

Q. 4 Which theory of FDI best explains the international expansion strategy adopted by Starbucks?

The FDI theory that best explains the international expansion strategies that were adopted

by Starbucks is similar to internalization theory. Aside from analyzing the imperfections of a foreign market (i. e. political barriers, etc.) (Moosa, 2002, p. 33), this theory explains why some companies avoid entering into pure licensing agreement (Rugman, 1996, p. 49).

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