

Cases in global business environment



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The modern market endures a huge of competition between firms. Some of them reach to the peak by covering all side in a country where have begun, so an alternative is needed according to situation. Firms have found that moving overseas would be one of the most effective ways, which is entering in a new market for increasing selling and then enhancing the profit.

However, upward from being as a national firm to as transnational corporation (TNC) is a complex issue. It can be clearly seen when looking at Starbucks case which is a growing Transnational Corporation in a food and beverage industry. A ubiquitous Starbucks coffee began in 1971 as retailer of whole bean and ground coffee, tea and spices. It becomes a part of lifestyle around the world nowadays, from little children to elderly, which operate 18,000 retail stores in more than 60 countries ([www. starbucks. com](http://www.starbucks.com)). We can see that, some strategies of Starbucks follow Dunning's eclectic paradigm (Ownership advantages, Location advantages and Internalisation advantages – OLI) that explains Foreign Direct Investment (FDI)[1]from firm's point of view. In addition, other strategies of Starbucks track the Friedman's nine questions which measure the company's economic power and potential. However, from our point of view, Starbucks has been facing several problems moving transnational.

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How Dunning's theory (O-L-I) applied on Starbucks

Starbucks applied Dunning's theory which focuses on why firms outward based on followings. First, ownership focuses on an asset that is owned by the firm which might compete with other firms in international level (Davies and Lam, 2001). Such ownership-specific advantages might include economies of scale and scope, brand name, superior technology, managerial or organisational skills (intellectual property) through which firm can has specific advantages over its competitor in the market (Subhadra, 2003). This strategy had been applied by Starbucks Canada in 1996 and Ireland in 2005 with 'wholly-owned subsidiary' where had full control over itself. Along with serving coffee, Starbucks also sold merchandise (ibid). In 1995, it started selling CDs of famous in-house music program to allure costumers. It also entered into alliances with various players such as Canadian Airlines, United Airlines, Starwood Hotel, and Barnes & Noble Inc., to serve its coffee (ibid).

Secondly, location focus about market and asset oriented production. This theory has mainly answered the 'where' question involving MNE activity outside the home country as well as the 'why' question. The price of natural and human resources on overseas territories, transportation, communication, infrastructure, market-size characteristic and other locational attributes are matter in the location finding. Starbucks was successful in attracting a young crowd in Asian market, as young people in these markets were eager to imitate the American culture (Davies and Lam, 2001). As US markets already occupied by Starbucks, so it decided to move to other countries like Cchina, France, Jordan, etc. (Subhadra, 2003). In the meantime, the variations in knowledge skills, wage cost, labour productivity

and controllability force Starbucks to outward. For example, China has enormous natural resources for coffee and the relative unit labour cost there is around 20 times less than the United Kingdom. At the same time large population influences the demand of coffee in China market.

Next, internalisation is about equity in transnational production and concern about cost of entering such as cost of monitoring, negotiating and enforcing a contract. The firm decides whether it is cheaper to own and operate a plant in other country or subcontract foreign firm to operate on behalf through franchise[2], license or supply agreement (Subhadra, 2003). Starbucks entered into international markets by using three prolonged strategy: joint-ventures[3], licensing[4]and wholly-owned subsidiaries (ibid). Since most countries are using ‘ strategic trade policy’ to protect their local market so they are restricting import from other countries. In addition, Ricardo’s comparative advantages in producing goods force countries to internalise. Government also provide land and tax subsidies to foreign companies to open industry in its country.

How Friedman’s nine questions applied on Starbucks

Furthermore, another theory which is Friedman’s nine question also been adopted by Starbucks. Based on Friedman (1999, ch. 11) analysis to see company’s potential, Starbucks has grown rapidly in almost 40 years, initially in Seattle United States during 1971 to approximately 18. 000 shops across more than 60 countries such as Brazil, Egypt, Bahamas, etc. (www.starbucks.com). This success is caused by innovation in product and process operation. In order to meet with the local culture, Starbucks diversified the products from instant coffee to food and tumbler and different processes

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operation in each country. Starbucks open to local partners to absorb their knowledge and they give input how to draw attention from local consumer. Innovation in new product plays a big role in competing with others in the same industry. Starbucks design different tumbler based on culture in each country, for instance in Russia it sells tumbler with picture of Matryoshka doll which is Russian Traditional Doll. The respectable management that transparent, open and willing to change also give a good impact in company. During operation, the overexpansion creates loss in many Starbucks shops which need the right decision making from management. In 2008, Starbucks takes a risk to fired more than 180, 000 workers due to efficiency (Subhadra, 2003).

Moreover, Starbucks management has been aware of responding quickly and doing its business well. According to Propris (2012), because of the rapid expanded around the world during short period of time, some Starbucks stores has been closed after realizing that stores has begun to beat each other and not making profit. Hence, when Starbucks management finds itself making mistakes, it just starts to fix them and tries to avoid them in the future. Also, what happened in the early 2000s regarding to Middle East political issue with Israel, some Arabs boycott Starbucks brand as an American company, the chief executive of Starbucks made an explosion when he mentioned to Jewish American; therefore, the management said that it was his own point of view as a respond (Subhadra, 2003 : 6-7).

Going anywhere around the world, people can find Starbucks brand, which is acceptable in the US and overseas. We also can see it moving everywhere in a smooth way and using different types of entry. For instance, Starbucks has <https://assignbuster.com/cases-in-global-business-environment/>

moved to Canada by wholly-owned mode because it is a well-known market (Subhadra, 2003). In addition, as Sue Chang (2008) indicated that Canadian development and operating rights from Coffee Vision and Coffee Vision Atlantic[5] will be bought by Starbucks and more than 740 employees would be Starbucks representatives. Other market such as in Japan has been entered by Joint Venture mode and got the benefits of accessing knowledge from the local partner (ibid). From above, it can be seen that Starbucks is good in making a great image to its brand and making friends.

However, the success of Starbucks' expansion is followed by some problems in international market. Its good strategies are beaten by environmental changes, economic recession, political condition and also competition from growing local players. Starbucks faces different problems in different countries. For instance, political pressure in Arab, over price in England, high room rent in Japan, economic recession in almost European countries makes Starbucks market grew slower. Besides getting obstacle from government and local players in host countries, Starbucks also got into trouble from Non-Government Organization that forced to use certified coffee beans. Along with all these, Starbucks faced stiff competition, high business development cost, tension of countries for each other and resistance from customers in international markets. It should review and renew the strategies depend on condition of every countries and aware of the global shift.

Conclusion

All and all, Starbucks follows these two theories to emerge into international market and become good transnational corporation. Nevertheless, it cannot avert problems that come to the surface. To minimize the barriers and

maximize the spreading process around the world, Starbucks should have a solid team in home and host countries that can cooperate each other. The team in home country (Seattle) will gather update information from team in host country and sent it to Research and Development team for innovation. We also think that Starbucks must flexible in its operation and products because the world condition changes rapidly. If Starbucks only care about its store expansion and not creating new products or developing new strategies, the business would sunk like others. A good TNC coalesces and survives in any condition in international market.