

Starbucks entry to china



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The Center for Hospitality Research AT CORNELL UNIVERSITY Starbucks Entry into China Starbucks Coffee International, a subsidiary of Starbucks Coffee Company has recently celebrated its first step into Southern China opening a new store in the country, the first one in Shenzhen. The store is owned by Coffee Concepts, a joint venture between Starbucks and Hong Kong's Maxim group, who together have already opened 32 Starbucks stores in Hong Kong between 2000 and 2002. 1 At the opening Pedro Man, president of Starbucks Coffee Asia Pacific Ltd. the Asian division of Starbucks Coffee International said: " As we celebrate the opening of our first store in Southern China today, we mark yet another key milestone in the history and tradition of more than 30 years at Starbucks. The heart of the Starbucks brand lies in two very important cornerstones our coffee and our people. Our passion for coffee means applying our coffee expertise and the highest standards of excellence to every detail of the coffee, from selecting and roasting the beans, to brewing the perfect cup of coffee. He added, " At the same time, our people are highly valued partners in creating the unique Starbucks Experience. It is 1 Business Wire. " Starbucks Celebrates First Store Opening In Shenzhen; Starbucks Brings Coffee Passion and Expertise to Southern China" Business Wire.

com Archives <http://www.businesswire.com/cna-index.html> Visited November 20, 2002. Release dated October 18, 2002.

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Starbucks Entry Into China, 2 their passion, knowledge, unsurpassed expertise and enthusiasm which helps to create a truly outstanding coffee experience for our customers. 2 Starbucks' success in Asia has surprised many people.

But the executives at Starbucks have been surprising critics for many years. How did a small coffee company from Seattle with 11 stores in 1987 grow into an international company with nearly 6, 000 stores worldwide? 4 The Story of Two Companies and One Man's Vision Starbucks Coffee, Tea and Spice opened its first store in April, 1971 in the Pike Place Market in Seattle. Its original owners, Jerry Baldwin and Gordon Bowker, had a passion for dark roasted coffee, which was popular in Europe, but hard to come by in America in the 1960's. They founded Starbucks for one reason: They loved coffee and tea and wanted Seattle to have access to the best. " 5 Starbucks stood not only for good quality coffee, especially dark-roasted coffee, but also sought out to educate its customers about their product. Jerry, a literary lover, named the company Starbucks, after the first mate in Moby Dick, because it " evoked the romance of the high seas and the seafaring tradition of early coffee traders.

" The original store did not brew and sell coffee by the cup, but instead offered up a selection of 30 different varieties of whole-bean coffee. Although they were bringing high quality coffee to Seattle, coffee was generally regarded as a produce item. In Italy, coffee bars serving up espresso drinks offered more than great coffee, they offered up a great coffee experience. 7 It took the vision of one man to turn coffee from a commodity into an experience. His name was Howard Schultz. Howard Schultz was born in 1953, growing up in a housing project in Brooklyn.

His father worked as factory worker and truck driver, and his mother worked as a receptionist. He received a football scholarship to go to Northern Michigan University, where he earned a BS in Communications, and was the first member of his family to graduate college. He started as a sales trainee at Xerox and then moved to Hammerplast, a Swedish house wares company, where he rose to VP of U. S.

sales. 8 It was while he was at Hammerplast that Howard discovered Starbucks, which was a Business Wire. " Starbucks Celebrates First Store Opening In Shenzhen; Starbucks Brings Coffee Passion and Expertise to Southern China" Business Wire. com Archives McDowell, Bill. " The Bean Counters. Restaurants & Institutions.

December 15, 1995. p. 44 Batsell, Jake. " Starbucks closes its year increasing profit by 19 percent. " Seattle TimesWebsite. <http://seattletimes.nwsourc>

. com/html/home/ Visited November 20, 2002. Release dated November 15, 2002. 5 Schultz, Howard and Dori Jones Yang. Pour Your Heart Into It: How Starbucks Built a Company One Cup at a Time.

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Hyperion Press, New York. 1997. p. 29 6 Schultz, p.

32-33 7 Schultz, p. 52 8 Holmes, Stanley, Drake Bennett, Kate Carlisle and Chester Dawson. “ Planet Starbucks. ” Business Week. September 9, 2002.

p. 100-106 3 4 2 Do not duplicate. Starbucks Entry Into China, 3 customer of his at the time. After first visiting the company and meeting its owners, he knew that he wanted to be part of Starbucks and see it grow nationwide.

Baldwin and Bowker hired Schultz as director of retail operations and marketing in 1982.

9 While traveling through Italy to learn more about the coffee business, Schultz was amazed that the country supported about 200, 000 espresso bars, with 1, 500 in the city of Milan alone. He was convinced that this was the way to get Starbucks to appeal to a greater number of people, and proposed the idea to his bosses. He finally convinced them to test the idea in a new downtown Seattle store in 1984. The test was a great success, but the owners decided not to expand the concept.

This disagreement caused Schultz to leave the company in 1985 and start his own coffee-bar company named Il Giornale. 10 Later that year, Schultz met up with Dave Olsen, who had run a successful coffee house in Seattle called Cafe Allegro. Cafe Allegro was a place where students and professors would hang out, studying philosophy or debating U. S foreign policy while drinking cappuccinos.

Cafe Allegro was more the prototype of the European cafe tradition than the Italian stand-up espresso bars that Howard Schultz had seen in Milan, Italy.

Cafe Allegro was what Starbucks later became, a gathering place in the neighborhood. ¹¹ The two shared a passion for coffee and shared views on how to run a business. Howard strengths were communicating the vision, inspiring investors, raising money and planning for future growth. Dave had a deeper understanding about how to operate a retail cafe, hire and train baristas and ensuring the best quality of coffee. It never occurred to Howard and Dave to become competitors, instead they were inspired by the idea of joining forces.

¹² They opened up the first Il Giornale in April 1986, and were determined to have it feel like a genuine Italian-style coffee bar. They had to eventually adapt some of their concepts to fit their customers, such as varying the music from only opera and selling coffee in paper cups to boost carryout business. The business was a success and the chain expanded to a second Seattle store as well as having their first international store in Vancouver in April of 1987. ³ That same year the owners of Starbucks, Howard's previous bosses, wanted to sell off their business, which consisted of 6 retail stores and a roasting plant.

Schultz and Olsen were able to raise the \$3.8 million and purchased Starbucks in August. They changed the name of all the stores to Starbucks because of the stronger brand name it had in Seattle and among mail order customers. Schultz had great plans for expansion Liddle, Alan. "Howard Schultz" Nation's Restaurant News. January, 1995.

p. 184 See note 9 ¹¹ Schultz, p. 81-86 ¹² Schultz, p. 82-83 ¹³ Schultz, p.

4-89 9 10 Do not duplicate. Starbucks Entry Into China, 4 even at this time, promising investors that Starbucks would open 125 stores in five years. 14 During the next five years Starbucks remained a privately held company and expanded its number of stores at a faster pace than planned. With a base of 11 stores in 1987, Starbucks opened 15 new stores in 1988 and 20 in 1989. Seeing that their targets were being met easily, they stepped up their expansion efforts and had 165 stores by 1992. Their expansion was limited to the Pacific Northwest, Chicago and parts of California.

They practiced a strategy of market saturation and building up customer loyalty. This loyalty helped their mail order business, which reached many people who have tried Starbucks coffee but did not live near a retail store. 15 Becoming a Public Company Starbucks management refused to franchise their stores because they did not want to jeopardize the quality of their product, and needed additional capital to keep up their expected growth. In 1991, Schultz and company decided to seek out an Initial Public Offering and raise needed capital by making Starbucks a public company. On June 26, 1992 Starbucks stock was listed on NASDAQ.

The price was priced at \$17 per share, but immediately jumped to \$21. The IPO raised \$29 million for Starbucks and by the closing bell the company's market capitalization stood at \$273 million. This was only five years after Schultz and company bought the company for \$4 million. 16 With more capital on hand the company could boost up its expansion efforts.

In April 1993 Starbucks opened its first East Coast store in Washington, D. C. After succeeding in D. C.

, they then moved their efforts to New York and Boston in 1994. This growing success throughout the country prompted them to think more globally. 7 A Successful Brand Needs Successful Managers Starbucks was able to expand so rapidly because of solid investments in larger facilities before they needed them and by hiring confident, experienced managers that knew how to expand the business. Howard Schultz' management philosophy is to invite creative conflict and debates. " If there is no tension, I don't think you get the best result". 18 Two key people on Starbucks' management team that Schultz hired to challenge the thinking of the company and help the business grow, were Howard Behar and Orin Smith.

Schultz, p. 0-108 Schultz, p. 110-115 16 Schultz, p. 180-185 17 Schultz, p. 190-204 18 Holmes et al.

" Planet Starbucks", Business Week, September 9, 2002, p. 100-106 14 15 Do not duplicate. Starbucks Entry Into China, 5 As Starbucks expanded into more markets in 1989, Howard Schultz hired Howard Behar, because he was familiar with opening and running many stores at once. He had twenty-five years experience within retailing in the furniture business and at Thousand Trails as an outside developer. In 1990, Howard Schultz and his team hired Orin Smith as Chief Financial Officer.

Orin Smith had an MBA from Harvard and was accustomed to managing far larger and more complex organizations than Starbucks. For five years, Orin Smith worked as budget director for the State of Washington and before that for Deloitte and Touche for thirteen years. 19 Behar and Smith joined Starbucks because they had a deeper understanding of the passion and the

potential of the business. Many other people had a significant part in the growth of Starbucks, but Howard Schultz, Howard Behar and Orin Smith (otherwise known as H2O) were the core of the management team that would lead the company for a many years to come.

0 The driving force between the management trio is, that they stand for the vision, the soul and the fiscal responsibility of Starbucks. 21 In 1994, Starbucks International was formed and Howard Behar was named president. Howard Schultz remained Chairman and CEO but stepped down as president and was replaced by Orin Smith who took over many of the day-to-day responsibilities. 22 In July of 2000, Howard Schultz showed his commitment to Starbucks' plan to expand globally, by stepping down as CEO and assuming the role of Chief Global Strategist. While the company has grown incredibly since he took over, Schultz said: " We're only in the infant stages of what Starbucks is going to be.

" 23 Orin Smith is now CEO, while Howard Behar returned from retirement in September 2001 to become the head of North American operations. 24 Dave Olsen is the Senior Vice president for culture and immersion. He is right at the heart of Starbucks, where the core purposes and values come together. Howard says that Starbucks would not be what it is today if Dave Olsen had not been part of his team. 25 The Employer of ChoiceIn the late 1980's, Howard Schultz and his team recognized that building a company like Starbucks would be a difficult task. They envisioned a national retail company with company-owned stores that were highly dependent on part-time Schultz, p.

154-156 Schultz, p. 142-156 21 Schultz, p. 154-156 22 Schultz, p. 190-204
23 Hume, Scott. “ Howard’s Blend. ” Restaurants and Institutions.

July 1, 2000. p. 45 24 Holmes et al. “ Planet Starbucks”, Business Week,
September 9, 2002, p. 100-106 25 Schultz, p. 83 19 20 Do not duplicate.

Starbucks Entry Into China, 6 workers. 6 Howard believed that in order to
build respect and confidence with customers, they must build respect and
confidence with the employees first. 27 Howard saw this benefit as a part of
his core strategy: “ Treat people like family, and they will be loyal and give
their all. Stand by people, and they will stand by you” 28. In one sense the
company is not only about coffee, but also about the experience created in
the stores and in the company. Howard and his team wanted to bring a
passionate commitment to the quality of the coffee and the company that
they were building.

They wanted to be proud of the equity in their name. They wanted to employ
people, who would share a sense of pride that was bigger than the job they
were doing. They would attract people who were well educated and were
eager to communicate their passion for coffee. 29 That is why employees are
highly trained in the subtleties of coffee tasting so that they can provide
information to customers. 30 Since the early days of Starbucks, employees
have had a major impact on the direction of the company. Even today,
Starbucks’ management stands in front of their employees in open forums
every where they do business to discuss the last quarter’s result.

They discuss openly the plans, decisions, strategies and concerns, because it
is a part of the Starbucks culture that people shall have the opportunity to

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say what they feel and what they feel is recognized as important to management. Howard Schultz recognized the tremendous trust developed when people feel a sense of belonging through their participation in the decisions. 31 Howard Schultz wanted Starbucks to be the employer of choice for many people. He saw his father struggle through life working at low paying jobs where he was treated poorly, and sought to treat his employees the best he could.

He planned to do this by offering a higher wage than other restaurant and retail stores, and offer benefits that weren't available elsewhere. He felt that offering these benefits was a key competitive advantage that attracted more knowledgeable and eager people. In late 1988 they began offering health benefits to all full-time and part-time employees, the only company at its time to do so. Then in August 1991, they started their Bean Stock program which made all employees in the company eligible for stock options, making all the employees "partners" in the company. 2 The purpose of the program was to educate their people on the importance of creating value and profits for the company by linking them to shareholder value. 33 Schultz, p.

181 Business Source Premier. , Interviews with Howard Schultz. Sharing success. Executive Excellence, November. 1999, Vol. 16, p.

16 28 Schultz, p. 127 29 Schultz, p. 125 30 " Starbucks' stir up brewing coffee culture". Jakarta Post.

Business Source Premier. June 23, 2002. 31 Business Source Premier. , Interviews with Howard Schultz. Sharing success.

Executive Excellence, November. 1999, Vol. 16, p. 16 32 Schultz, p.

123-135 33 Schultz, p. 33-136 26 27 Do not duplicate. Starbucks Entry Into China, 7 They wanted to make sure that the foundation on which they were building the company was linked to everyone in the organization, which would give them the ability to retain their staff and to retain their values. Schultz believes that skilled and motivated work force is an essential element to service quality, in other words “ Satisfied partners create satisfied customers.

” 34 Starbucks is still one of the only publicly held companies in the country to offer stock options and full health and dental coverage to all its full-time and part-time employees. Many of these policies have contributed to a turnover rate that is well below the industry average. 35 Howard Schultz recognized that the foundation of Starbucks’ success was the passionate commitment they had to quality of coffee that they bought and roasted, and because they viewed their people as business partners and not simply a line item. 36 Marketing the Brand Name Howard Schultz always believed that their quality coffee would speak for itself, but gradually Howard Schultz and his team realized that they needed to be more proactive in clarifying and elevating the Starbucks message as competition grew bigger. In 1994, Howard Schultz was looking for a senior marketing director to tell the Starbucks story to the world.

By 1995, Howard Schultz found Scott Bedbury who had worked as Nike’s director of advertising from 1987 to 1994. When Scott Bedbury began to work for Starbucks, he found himself challenged in his new position because

Starbucks was not only a brand, but also an importer, a manufacturer, a retailer, a wholesaler and a direct-mail business. He had never known a company that could survive by doing all five, but he found many similarities from his work with Nike. Until Scott joined Starbucks, the company had spent little money on advertising. The same year, Howard Schultz had just made a decision to find a new advertising agency that could express Starbucks brand personality. He wanted a company that could express who Starbucks is and what it does: a passionate, entrepreneurial company dedicated to providing great coffee which enriches everyday moments for millions of people.

Scott believed that Starbucks should be a “knowing” company with the latest jokes, the latest music, the latest personalities within politics, literature, sports and cultural trends. When Scott started working for Starbucks, Howard Schultz made him decide about advertising partners. Scott chose the award-winning San Francisco agency, Goodby, Silverstein and Partners that created “Got Milk”. 34 Business Source Premier.

, Interviews with Howard Schultz. “Sharing success”. Executive Excellence, November. 1999, Vol. 16, p.

16 35 McDowell, Bill. “The Bean Counters”. Restaurants & Institutions. December 15, 1995. Vol. 105/31 p-40-55 36 Business Source Premier.

, Interviews with Howard Schultz. “Sharing success”. Executive Excellence, November. 1999, Vol. 16, p. 16Do not duplicate.

Starbucks Entry Into China, 8 After the contract was signed with Goodby, Scott began to carry out marketing research for Starbucks together with Jerome Conlon, a market research expert from Nike. They developed the Big Dig, a three-stage, nine-month research project that began with focus groups of customers in three cities. They asked the customers: why do people come to Starbucks? and how do they envision an ideal coffeehouse?. They watched and analyzed carefully, the customers' and potential customers' perceptions of the coffee and the Starbucks experience. Scott and Jerome found that the customers in their thirties and forties were generally happy with the Starbucks experience.

However, the people in their twenties wanted more from a coffeehouse. They wanted a unique and funky place where they could hang out at night and not a quick to-go place on the way to work. Starbucks faced a huge challenge based on these results in order to maintain and at the same time strengthen the brand that would attract such a diverse group of consumers. The research helped the management team to understand that they needed to rethink their marketing strategy. 7 Today, Starbucks is one of the most rapidly developing brands in the world and one of the best 100 brands by Business Week.

Compared to last year, its brand value increased by 12% this year and is one of the few brands that keep its brand value increasing in the harsh economic environment. But, what makes Starbucks conspicuous is not its rapid development but its low expenses on advertisement. Starbucks only spends \$30 million per year, which accounts for 1% of its income. This money is

usually spent on promoting new flavors and new services as in-house wireless internet service.

The common cost to other similar businesses normally goes as high as 300 million a year. The core value of Starbucks is actually “relationship”, including the relationship between customers, employees, suppliers and business partners. It has been repeatedly proved by many successful companies that it is essential to motivate the strength of the whole company to build a trustful, mutual-benefit and long-term relationship among the customers, the employees, the suppliers and the business partners. Starbucks is the model of the relationship-centered company.

38 Expanding into New Markets The Starbucks’ brand not only expanded through its retail stores, but through various new products and partnerships. Starbucks has tried out new concepts in their store such as expanded food menus and drive-thru service, but both options were not pursued because the management felt that it took away from their core business. 39, 40 In 1994, Starbucks created a new drink in its stores called a Frappuccino, a cold drink Schultz, p. 260-265 <http://qiye.news.sohu.com/73/24/news203602473.shtml>, Visited November 17, 2002 39 McDowell, p. 52-55 40 Hume, Scott. “Howard’s Blend.” Restaurants and Institutions.

July 1, 2000. p. 54-56 37 38 Do not duplicate. Starbucks Entry Into China, 9 made from ice, coffee, sugar and low-fat milk. It was a hit drawing many non-coffee drinkers into the store and increasing sales on hot days.

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A new version was bottled to be sold in grocery stores through the North American Coffee Partnership, a joint venture between Starbucks and Pepsi.

41 The Starbucks traditional business model has changed over time with a departure from only selling its coffee from its own outlets. Starbucks' strategy acknowledges that the only way to sustain the company's growth rate is to open more shops and to expand through supermarket and retail channels. Schultz and his team are now focused on the big picture, rather than on store-by-store execution, as he was a decade ago⁴² (see Exhibit 1)^{43, 44, 45} To further build its customer base Starbucks also started forming more strategic partnerships to get access to more of their target customers.

Such partnerships have made it possible to drink Starbucks' coffee at Nordstrom, Barnes & Noble, on Holland America cruise lines and at Starwood Hotels. ⁴⁶ In order to offer their products in airports and schools, Starbucks has also made strategic alliances with Host Marriott and Aramark. ⁷ In 1996, the first Starbucks cup of coffee was served in a United Airlines flight as a result of a strategic alliance with that airline. The deal with United Airlines was perceived as an "incredible growth opportunity" because they would expose the Starbucks brand to numerous potential customers each year.

⁴⁸ In 1998 Starbucks launched a partnership with Kraft, a unit of food and tobacco giant Phillip Morris, to distribute whole beans and ground coffee to more than 20, 000 grocery stores in the United States. The key to all these ventures is in creating a premium-priced brand where earlier there was only cheaper commodity-type products. Demand for premium beans are on the rise, while sales of plain old coffee have decreased. ⁴⁹ In an effort to target

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smaller offices that don't require brewing equipment or full break room service, Starbucks now provides ground coffee packets through office supply dealers, such as Staples, Office Max and Office Depot.

50 Schultz p. 208-226 Schwartz, Nelson D. "Still perking after all these years", Fortune. 24 May 1999, p. 203-207 43 Schultz, p.

139 44 Starbucks. "Fiscal 2001 Annual Report". p. 19 45 www.

starbucks.com, Visited November 17, 2002 46 Schultz, p. 67-273 47 Schultz, p. 173-174 48 Bedbury, Scott. "A new brand world". Brand Strategy.

Apr 2002 Issue 158, p30, 1p, 2c 49 History of Starbucks, Press Release, <http://www.starbucks.com>, Visited November 16, 2002 50 Reuters Limited, <http://www.starbucks.com>, Visited November 4, 2002 41 42 Do not duplicate.

Starbucks Entry Into China, 10 Starbucks has expanded their reach into many markets that they feel complement their core strategy. Starbucks also offers a line of teas produced by its wholly owned subsidiary, Tazo, an Oregon based tea Company. 1 Starbucks has a partnership with Dreyer's Grand Ice Cream to market gourmet ice cream and worked with Seattle's Redhook brewery to develop a stout flavored with their coffee. Starbucks even expanded into the music industry with a partnership with Capitol Records to sell specialized musical compilations in their stores. 52 Social Responsibility Starbucks and its shareholders have committed themselves to social responsibility. The company's responsibility begins with being

accountable to its stakeholders - its partners, customers, suppliers, investors, community members and others.

The company values communicating openly about its business practices and performance, which led to the company published its first annual corporate social responsibility report for the fiscal year of 2001⁵³. In order to pursue its values, Starbucks has entered a partnership with The Center for Environmental Leadership in Business. Together, they have developed guidelines that they believe will not only protect their high quality standards, but also will promote the high quality coffee market. The guidelines are based on the following criteria⁵⁴:

- Quality baselines which are based on maintaining Starbucks quality standards.
- Social conditions which are based on conforming to local laws and applicable international conventions related to employee wages and benefits.
- Environmental issues based on growing and processing standards that contribute to conservation of soil and water and to biological diversity.

- Economics issues that will benefit rural communities by boosting producer, income, expanding employment and educational opportunities and enhancing local infrastructure and public services. Even with the high standards that Starbucks holds themselves to, they have faced demands from many social and environmental groups. Environmental activists such as the Organic Consumers Association (OCA) complain about Starbucks use of milk from cows that have been treated with growing hormones. Starbucks responds to this complaint by offering organic milk for an extra cost⁵⁵.

Social activists in Central America have accused Starbucks of abusing poor coffee farmers by paying them low prices for the coffee grain. In an attempt to protect its History of Starbucks, Press Release, <http://www.starbucks.com>, Visited November 16, 2002 Schultz p. 208-226 53 Starbucks.

“ Fiscal 2001 Annual Report”. . 51 54 Starbucks. “ Fiscal 2001 Annual Report”. p.

17 55 Barnes, Phillip E. “ Business”. Business & Economic Review. July-September 2002, Vol. 48 Issue 4, p.

27 51 52 Do not duplicate. Starbucks Entry Into China, 11 brand image, Starbucks has developed guidelines to pay farmers a premium price if they meet certain standards. However, some human rights organizations say this doesn't address the underlying poverty that is killing coffee farmers and their families. ” In general, activists suggest: “ It's time for Starbucks to share the wealth. 56 As a response to these demands, Starbucks is trying to build an image of social responsibility by encouraging farm groups who sell coffee beans to Starbucks to pay acceptable wages, avoid child labor, and provide acceptable living conditions.

57 In an effort to build its image, the company entered into licensing agreement with TransFair USA, to market and sell Fair Trade certified coffee. The Fair Trade coffee market has evolved as part of a worldwide movement to help coffee producers in developing countries by having certified cooperatives sell directly to imports/roasters at or above minimum price. 8 Starbucks formed a partnership with Conservation International to promote environmentally sound methods of growing coffee. 59 Furthermore, <https://assignbuster.com/starbucks-entry-to-china/>

Starbucks invested \$200, 000 to support environmentally friendly crops in Mexico, only to find out that these crops had better taste and had a greater economic potential. 60 Starbucks also donates old beans to charity, and at the same time it maintains the highest levels of quality by brewing only fresh beans.

61 Starbucks' Current Financial State On Wall Street, Starbucks is viewed as the latest great growth story. It has soared more than 2, 200% over the past decade, surpassing Wal-Mart, General Electric, PepsiCo, Coca-Cola, Microsoft, and IBM in total return. 62 As shown in Exhibit 2, 63 earnings per share have increased from \$ 0. 03 to \$ 0. 46 during 1992 to 2001. However, Starbucks has never given out dividends, instead choosing on reinvesting all profits back into the business.

Starbucks' sales have increased with an average of 20% annually since the company went public in 1992, hitting \$2. 6 billion in 2001⁶⁴. In 2001 Starbucks had a debt/equity ratio of 0. 4, and a return on equity ratio of 14. 4%.

See Exhibit 3 for 2001 year-end financials. 5 Homes, et al. " For Coffee Growers, not even a wiff of profits". Business Week. September 9, 2002, Issue 3798 Moskowitz, Milton R. " Starbucks".

Business & Society Review. Fall 1995 Issue 95, p. 73 58 History of Starbucks, Press Release, <http://www.starbucks.com>, Visited November 16, 2002 59 Organic Consumer's Association, <http://www.organicconsumers>.

org, May 21, 2002, Visited November 16 60 “ Less pollution, more profits”.

Bio Cycle World, Oct. 2001 p. 6 61 Welsh et al.

“ Starbucks International enters Kuwait”. Journal of Consumer Marketing. Vol. 15 No.

. 2 1998. p. 191-197 62 Holmes et al.

Planet Starbucks”, Business Week, September 9, 2002, p. 100-106 63

http://www.hoovers.com/premium/fin_tables/5/0,2152,15745,00.html,

Visited October 29, 2002 64 Holmes et al.

“ Planet Starbucks”, Business Week, September 9, 2002, p. 100-106 56 57

65 http://www.hoovers.com/premium/fin_tables/5/0,2152,15745,00.html,

Visited October 29, 2002 Do not duplicate. Starbucks Entry Into China, 12

From 1997 to 2001, revenues have grown at 31%, net income at 61% and assets at 21%.

See Exhibit 466 for Starbucks’ annual income statement and Exhibit 567 for annual balance sheet. In the first three quarters of 2002, sales have climbed 24% to \$ 2. billion, while profits rose 25% to \$159. 5 million. 68 With more than 5, 700 retail locations worldwide, Starbucks serves nearly 20 million customers a week⁶⁹ and in September 2001 Starbucks employed 54, 000 people as shown in exhibit 670.

In December 2001, Starbucks had 9, 650 shareholders, which includes employees’ shares. The board of directors consists of nine people including Howard Schultz as the Chairman of the Board. See Exhibit 7 for Board of Directors⁷¹. International Expansion into Asia Schultz’s team is hard-pressed
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to create new profits in a home market that is quickly becoming saturated with 4, 247 stores across the U. S and Canada.

However, there are still eight states in the U. S with no Starbucks stores. In Seattle there is a Starbucks outlet for every 24 square miles and in Manhattan, Starbucks has 124 cafes which is one for every 12, 000 people. With such a concentration, analysts give Starbucks only two years more before it saturates the U. S market, but Starbucks expects to increase the number of outlets worldwide to 10, 000 in three years.

The company is convinced that it can export its American-brewed concept around the world. Starbucks opened its first store outside of the U. S. and Canada in Tokyo in August 1996.

Japan was chosen because it is the third largest coffee importer in the world. Schultz felt going to Japan was an essential part of Starbucks International's expansion plan. For all its international operations Schultz decided it was best to form partnerships with local operators. The Tokyo store was opened as a joint venture with Japanese retailer and restaurant operator Sazabu Inc. In 6 years the number of Japanese stores has grown to 368, beating Starbucks' own projections.

Starbucks 2001, 1998 Annual Reports Starbucks 2001, 1998 Annual Reports 68 Holmes et al. Planet Starbucks", Business Week, September 9, 2002, p. 100-106 69 " Speed Meter, Starbucks is rolling". Fast Company.

October 2002. Issue 63, p132 70 http://www.hoovers.com/premium/fin_tables/5/0,2152,15745,00.html, Visited October 29, 2002. 71 Starbucks.

2001 Annual Report 72 Holmes et al. " Planet Starbucks", Business Week, September 9, 2002, p. 100-106 73 Papiernik, Richard L. " Starbucks' profitable brew turns up heat on expansion.

" Nation's Restaurant News January 9, 1996. p. 1, 4 74 Holmes et al. " Planet Starbucks", Business Week, September 9, 2002, p. 100-106 66 67 Do not duplicate.

Starbucks Entry Into China, 13 Starbucks now operates about 1, 200 international outlets, with 400 hundred more being planned in the next year. 75 A large portion of their international business is throughout Asia. There are 850 Starbucks locations in 14 Asian and Pacific markets including Japan, Singapore, Phillipines, Thailand, Malaysia, Korea, Beijing, Shanghai, Hong Kong and Macau as well as Australia, New Zealand, Taiwan and Indonesia. 76 Starbucks will continue expanding its presence throughout Asia, and Howard Schultz feels that one day they may be operating more stores in Asia than they do in North America. 7 Chinese Political Environment China is a communist country. The economic system operates within a political framework of Communist control.

The government used to control the whole economy. Since the People's Republic of China was created in 1949, the founder of the country, Mao Ze Dong ruled this soviet country in a highly centralized way. 78 Coupons were distributed by each level of the government to the civilians rationally to <https://assignbuster.com/starbucks-entry-to-china/>

exchange for daily necessities. This practice continued until after the “culture revolution” (a 10year struggle between Mao Ze Dong and the other communist leaders). After 1978, with the help of the late premier Zhou En Lai, Deng Xiaoping actually controlled the country.

He gradually introduced market-oriented reforms to China and decentralized economic decision making. Under his rein, China abandoned the old planning and distributing system. As a result, the national output quadrupled by 2000. Jiang Ze Min, the successor of Deng Xiaoping, followed Deng’s train of thought. The market was further opened to foreign trade and investment. More and more foreign investors trooped in to fight for their market share.

China became the second largest economy after the US measured by purchasing power parity even though by the year 2001, its GDP per capita was only US \$4, 300. From January to September 2002, the amount foreign investment in China reached 39. 56 billion US dollars, up 22. 6% compared with the same period in last year. For the first 9 months, the accumulated direct investment proved by the government History. Holmes et al.

“ Planet Starbucks”, Business Week, September 9, 2002, p. 100-106
Business Wire. “ Starbucks Celebrates First Store Opening In Shenzhen; Starbucks Brings Coffee Passion and Expertise to Southern China” Business Wire. om Archives 77 Schultz, p. 331 78 <http://www.cia.gov/cia/publications/factbook/geos/ch.html#Govt>

“ the World Fact Book 2002” Visited November 16, 2002 79. <http://www.cia.gov/cia/publications/factbook/geos/ch.html#Govt>

gov/cia/publications/factbook/geos/ch.html#Econ " the World Fact Book 2002" Visited November 16, 2002 80 [http://www. cia.](http://www.cia.gov/cia/publications/factbook/geos/ch.html#Econ)

gov/cia/publications/factbook/geos/ch.html#Econ " The World Fact Book 2002" Visited November 16, 2002 75 76 Do not duplicate.

Starbucks Entry Into China, 14 and the accrued contract investment are 2, 477. 1 billion and 68. 38 billion US dollars respectively, which represent an increase of 33. 4% and 38. 4%.

81The 16th Communist Conference. More recently, in the 16th central committee conference of the 16th Chinese Communist Party Conference held on November 8, 2002, President Jiang Ze Min stated that the country will only manipulate the market by distributing resources, creating an environment where all the economic players have equal opportunity to use the resources and enhance the movement of the merchandise and manufacture factors. The government will monitor the market, adjust the economy and manage the public service. 82 This conference further ensured that the opening-up policy will continue.

This ew policy action will reduce government intervention in privately owned business, attracting more foreign investment to the country. However, although privately owned businesses account for 60% of China's GDP, one fifth of each privately owned business is owned by the government. The growth rate of the national-owned business is lower than 10%. China's economy hasn't got on the track of sustainable development.

83 In terms of" personnel changes", since September 2001, the Chinese Communist Party started doing important changes. Provincial leaders, who <https://assignbuster.com/starbucks-entry-to-china/>

normally held their positions until age 70 were replaced⁸. Another of the changes that took place after the 16th National People's Conference, was the election of Hu Jintao as new president of China. WTO. In 2001, with China entering the WTO, the Chinese market started to share the same rules as the global market. The internal policy making will be more transparent and the government function will be strained by the law frame of the WTO.

The development of China supplied great opportunities for foreign investors. However, because of the special economic policies in China, investors may still meet unexpected difficulties. For example, foreign investors willing to invest in China will have to apply for a special government investment license. In some small cities, bribery is necessary to get the license. When Starbucks entered the Chinese market in 1999, the company had to deal with more rigid business policies in China. At that time Chinese government functions were not strained by the law frame of the WTO.

Now, tariffs are lower to foreign investors as well. This actually supplies a low-cost and low-risk operational [http://www. golden-age. com. cn/gold1/hjtxt/2002-5/0507. htm](http://www.golden-age.com.cn/gold1/hjtxt/2002-5/0507.htm) - Posted on June 4, 2002. Visited November 22, 2002 82 83 Recent Issues. 81 [http://cooltoy. yesky. com/20010515/1249148..shtml](http://cooltoy.yesky.com/20010515/1249148.shtml) - Visited October 14, 2002 Sheng, Chen Yong. " The Macro-Economic Economic Situation 2001", Page 2 Do not duplicate. Starbucks Entry Into China, 15 environment, so that the advanced technology, managerial experience, and marketing network will be better jointed with the low-cost labor Chinese market and other marketing potentials. This " WTO effect" may inspire Starbucks, as the majority of the famous international corporations already in China, to consider further <https://assignbuster.com/starbucks-entry-to-china/>

investments in China. ⁸⁴Chinese Economic Environment Economic Development Process. The Chinese market is considered the fastest growing and the most powerful market in the world in terms of its gigantic population and the overall rising economic growth. China's invitation for foreign investment started in 1978. But from 1978 to 1992, although the amount of investment increased every year, the accumulated amount was only 23.4 billion US dollars. ⁸⁵ During the 1990's, more foreign businesses trooped in to compete for their share in the market. From 1992 to 1995, the foreign investment in China entered a phase of rapid development. This was followed by an adjusting period of 2 years and a low period of 3 years. The total foreign investment went down from 45.5 billion US dollars in 1998 to 40.7 billion US dollars in 2000, a drop of 10.5%. After the adjustment, the quality and quantity of the investment increased significantly making the number of foreign companies investing in China to increase tremendously. ⁸⁶ Direct foreign investment in China recovered with a record increase of 14.7% during the first nine months of 2002. ⁸⁷ China's economy recovered quickly after the Asian Financial Crisis that took place in 1997. From January to September 2002, the amount of foreign investment in China reached 39.56 billion US dollar, increased by 22.6% compared with the same period of the previous year. During the first 9 months of 2002, the accumulated direct investment approved by the government and the accrued contract investment were 2,477.1 billion and 68.38 billion US dollars respectively, which represented an increase of 33.4% and 38.4%. Based on the analysis of China's historical economic data and economic development, it is estimated that the GDP of China will be higher than France in 2005. In the year 2020, China could be the third biggest economic power. By the year

2050, China could surpass Japan and become the second largest economy after the USA. 88 84 85 86 87 <http://www1.cei.gov.cn/hottopic/worldfrm.asp?class=17>- Visited November 17, 2002 <http://www1.cei.gov.cn/hottopic/worldfrm.asp?class=17>- Visited November 17, 2002 88 http://culture.9c9c.com.cn/food/coffee/topic_2653.html - Visited November 16, 2002 <http://bbs.fudan.edu.cn/cgi-bin/bbs/bbsanc?path=/groups/rec.faq/Fashion/liu/xiaozi/M.1010233881.A> - Posted March 15, 2002 <http://www1.cei.gov.cn/hottopic/worldfrm.sp?class=17>- Visited November 17, 2002 Do not duplicate. Starbucks Entry Into China, 16 The fast developing economy attracted investors from various industries such as, high-tech, and manufacturing. On the one hand, those foreign companies have created high-income potential customers to Starbucks. On the other hand, they may become Starbucks' supplier network in China. For example, Starbucks in Beijing is using Epson terminals for cash management. The stable economic environment promises investors like Starbucks a bright future. Socio-Cultural Influence western companies have been entering the Chinese market. US companies in food industry, such as McDonald's, KFC and Pizza Hut, have been able to capture the Chinese customers' taste. The young generation of Chinese customers are those who are the most susceptible to the western trend. 89 Because rigid governmental legislation, which allowed Chinese people to have just one child, young married couples have more available purchasing power. Young married couples could save more money and the economy was growing. They want to spend more money on recreational activities, such as American fast food restaurants. China used to be a closed country 20 years ago. In that time no one in China was familiar with the name McDonald's. But today, the <https://assignbuster.com/starbucks-entry-to-china/>

lives of the Chinese people are full of foreign names. A girl wants a Barbie for her birthday gift. Couples celebrate their wedding anniversary in a Korean restaurant. Busy office workers order pizza as for lunch. The increasingly wealthy Chinese people are willing to pay more for new experiences and better quality products and services. The change of culture influences many aspects of people's lives. For example, China has traditionally been a tea-drinking country. Most people started to recognize coffee in 1980's from Nestle's slogan "taste great!".⁰ However, 20 years later, Chinese new generations not only drink coffee but require quality of it. They want gourmet coffee instead of instant coffee, especially the petty bourgeoisie. To them, coffee only means Starbucks. As a result of the social unbalance, a new social class called "petty bourgeoisie" emerged. They are the typical consumers of those expensive foreign brands.⁹¹ Petty bourgeoisie refers to an expanding group of wealthy and educated young people who are enthusiastic about chasing "taste" and "fashion". Qualifying to be a petty bourgeoisie, a person only uses Gucci bags, Rolex watch and Chanel Perfume, visits ⁸⁹Social Trends. As China adopted market economy policies, more and more ^{Mediachina.net}. "Coffee Chain- War in Cups" August 23, 2002, http://marketinfo.mediachina.net/marketinfo_view.jsp?id=11160 Visited November 17, 2002 ⁹⁰ Starbuck Dictionary: <http://www.gemag.com.cn/gemedia/legend/0111021.asp> Visited November 17, 2002 ⁹¹ <http://www1.cei.gov.cn/hottopic/worldfrm.asp?class=17> Visited November 28, 2002 Do not duplicate. Starbucks Entry Into China, 17 bars 3 nights a week to enjoy 1972 red wine and travels overseas once a year. Petty bourgeoisie are the group of people who are most willing to spend money on expensive things that can show their social positions. Their <https://assignbuster.com/starbucks-entry-to-china/>

inclination to accept the western products demonstrates a social trend to connecting to the outside world. The petty bourgeoisie is getting bigger, probably supplying a stable consumer source for foreign brands. 92 Social Unbalance Currently, China has a problem with unbalanced distribution of income. There have been three main observations. First, the unbalance between the income of people in the cities and in the villages is still increasing. In 1998, the average income of people in the cities were ? 425 while the average income of people in the villages were only ? 2162. The second is the big discrepancy of income in the city. Since the non-national economy, the difference of the income of the people in cities expanded rapidly. The income of the richest 10% was 7-8 times that of the poorest 10%. 8. 74% of the richest families own 60% of the civilian wealth in the cities. The third unbalance is in the villages. Since village businesses only exist in wealthy areas, the distribution of the company income has not been balanced and therefore the difference in income is growing larger. In 1995, the income of the richest individuals was 18. 1 times that of the poorest individuals. The income of the rich provinces of Guangdong, Jiangxi and Zhejiang is 256%, 59% and 129% higher than that of Shanxi respectively. 93 Technology Environment Technology through the Wall in China. In the era of technology development, China is not an exception. Computers, internet, and cell phones are part of people's lives. Companies rely on technology to manage their purchasing, control their cash, and serve their clients. The modernization of China's technology enables foreign investors to communicate in real-time with their branches in China. In this way, the head offices outside of China get updated information from their Chinese branches. The technology development in China also makes it possible for

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foreign investors to apply the latest technology to efficiently and effectively operate their branches in China. For example, Starbucks in China has just started a strategic partnership with Compaq Computers. In this 5-year agreement, Compaq will serve as the chief technology supplier and technical supporter to Starbucks. 94 92 competition: http://marketinfo.mediachina.net/marketinfo_view.jsp?id=11160 Posted August 23, 2002 Visited November 28, 2002 93 Shu, Geng. “The Annual Appraisal Report- The Current Social Situation: The Unbalanced Development” 94 <http://www.gemag.com.cn/gemedia/legend/0111021.asp>, November 17, 2002 Do not duplicate. Starbucks Entry Into China, 18 Some conservative groups in China believe that it will be difficult to develop the coffee market for Starbucks. First, coffee is by no means a mainstream beverage in Main land China. Compared with tea, coffee is only a “new comer”. The average annual coffee consumption of the whole country is only 1 cup per person. The total coffee production per year is only 1000 tons per year, which is not comparable with that of Brazil whose annual production per year is 1, 500, 010 tons. Furthermore, the weather of China is not suitable for planting coffee⁹⁵. The Chinese Beverage Market (The Chinese Beverage Market) Tea, the classic Chinese beverage, represents more than 40% of total market volume. With more than 2, 500 tea processing companies active, production of loose tea in 1998 came to some 665, 000 metric tons, of which approximately one-third was exported. It was estimated that per capita tea consumption in 1999 was 27. 5 liters (7. 25 gallons). Tea bags, diet and instant teas consists only about 1% percent of the market, while packaged ready-to-drink tea is becoming more popular in China, with more than 100 brands⁹⁶. China exports approximately 200, 000 tons of tea. And 18 percent <https://assignbuster.com/starbucks-entry-to-china/>

of the total volume of tea is distributed throughout the world. In recent years, the price and consumption of crops have remained stagnant.

However, the growth rate in the domestic market has remained highly competitive against numerous other beverages, which makes tea the leading Chinese beverage market. 97 95 Welsh et al. “ Starbucks International enters Kuwait”. Journal of ConsumerMarketing. Vol. 15 No.. 2 1998. p 191197 96 Press Release, Beverage Market in China, <http://www.beveragemarketing.com/news2i.htm> Visited November 28, 2002 97

Shaojun, Luo (Director, Hangzhou Tea Research Institute, China), “ The Present Condition and Future Prospect of Chinese Tea” 1999 World O-CHA(tea) Forum in Shizuoka http://www.o-cha.net/festa/ochae/forum/99_s_1.html Visited December 2, 2002 Do not duplicate. Starbucks Entry Into China, 19 Since coffee and tea can substitute for each other, the competition between them will be fierce. In China, there is one competitive local coffee producer– Li Shen. However, Starbucks does not have a problem supplying the coffee beans to its Chinese stores. One of the sources of competitive advantage for Starbucks has been its ability to contact with coffee producers in the farthest places of the world. To sell a unique Espresso coffee, Starbucks buys the best coffee beans from Africa, South America, and Indonesia, regardless of price. 98 The statistics records in China show that in 1990, the annual sales of coffee in the Chinese market was only 25, 537 standard bags (60kg/bag). While in 1995, this figure soared to 159, 000 standard bags. By the year 2000, it reached 318, 000 standard bags. Although, compared to the annual coffee consuming per capita of the US (4. 02 kg), Chinese people don’t drink a lot of coffee (0. 01467 kg), China is still deemed an enormous market for coffee. Starbucks continues to try to

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expand its market in China, hoping that enough of that country's 1.3 billion people will put aside the country's old tradition of tea. So far Starbucks has opened about 50 locations in China, mostly in the more affluent cities of Shanghai and Beijing where throngs of young workers are more open to Western products.

Coffee Competition Zhen Guo Coffee, a Japanese chain entered China in 1998. When Zhang Zhen De, the manager of Zhen Guo in China, realized that the car ownership of Yi Wu, a small city in the Zhen De province of China, was among the highest in China, he opened a Zhen Guo in Yi Wu. And since Zhen Guo opened its store in Yi Wu, many local people become used to drink coffee before they go to work. After Zhen Guo captivated the Chinese people, coffee companies, such as Starbucks, Yi Shi, Xian Zong Lin of Taiwan and Jie Rong of Hong Kong, entered Shanghai. Even Seattle Coffee Company of the US is interested in investing in chain coffee stores.

9 Once the war started, choosing a right location became the strategic issue for each competitor. In choosing locations, Zhen Guo only focused on the less expensive venues, while Starbucks chose the most expensive locations. Mr. Zhang Jianhui, the general manager of Starbucks Shanghai, believes that a good location can maximize brand share. At the same time, Starbucks China applied the same strategy used in the 98 Welsh et al. " Starbucks International enters Kuwait". Journal of Consumer Marketing. Vol. 15 No.. 2 1998. p 191197 competition: 2002-08-23 http://marketinfo.mediachina.et/marketinfo_view.jsp?id=11160 Visited December 2, 2002

99 Do not duplicate. Starbucks Entry Into China, 20 US to the Chinese market: the coexistence of the branches of the Starbucks in the same area, which stimulates consumption. In Nanjing, a city in central China, in a distance of several hundred meters from the central business district, 3 <https://assignbuster.com/starbucks-entry-to-china/>

Starbucks are already in place. In May 2001, Taiwan Wang Wang group and Taiwan Seattle Supreme Coffee aligned to invest in the Chinese mainland. The first Seattle Coffee Chain store under Wang Wang Group opened in Shanghai in October 2001. And another Taiwanese food chain called Ding Hao is said to be interested in chain coffee store as well. Even McDonald's is attempting to enter the coffee business and has opened its own coffee shop in Beijing. Starbucks Organization in China Starbucks entered the Chinese market through a joint venture, like it has in other countries. In Beijing, China, Da Wei Sun is the manager of Starbucks' outlets. Da Wei Sun is 55 years old and was born in the Northern city of Tian Jin, in the east of China, close to the capital city. At the year 2, he moved to Hong Kong with his family. Sun spent his school years in Hong Kong in a middle-income family. He went to a university in Taiwan where he obtained a Bachelors degree in Business Management. After graduation, he went to the United States where he started working as a computer programmer in Texas. In the early 80's, he went for a trip to a town near Chicago with his friend who was an employee at McDonald's. The trip changed his life. Through his friend he became interested in the functional model and managerial style of McDonald's. He researched it carefully and concluded that McDonald's had a lot of potential in China. In 1984, Sun opened the first McDonald's in Taiwan and it was a great success. Although Sun finally sold those restaurants and got involved in other industries, the whole industry acknowledged him as the first person to introduce McDonald's to Taiwan. Sun not only made McDonald's in Taiwan prosperous, but he also trained managers. When the first McDonald's opened in Beijing, the first General Manager was from Taiwan. From 1993 to 1994, Sun opened a Hardrock cafe in Taiwan. After 2 years of successful operation

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of Hardrock, Sun sold it and started his career in the Chinese mainland. On November 11, 1999, Sun opened the first Starbucks in Beijing International Trade Center. In terms of Sun's believing in Starbucks success in China, he points out two major issues. " One is to integrate the western brand with local environment, and the other is to give your client a psychological space" 100. That is how Starbucks introduced coffee their coffee to China. Besides, the pace of life is getting faster, people in cities need a third space.

Starbucks supplies such a " third space" 101. 100 101 <http://www.dzdaily.com.cn/caijing/guanzhu/200209130753.htm>, Visited November 17, 2002 <http://www.dzdaily.com.cn/caijing/guanzhu/200209130753.htm>, Visited November 17, 2002 Do not duplicate. Starbucks Entry Into China, 21 In China, Starbucks has chosen to build its brand image first to its employees and then to consumers. Rather than mass advertising from the beginning to introduce its products as other food and beverage companies, Starbuck hires enthusiastic people who can build good interactive relationship with the customers¹⁰². Starbucks Future in China In May 2000, Howard Schultz went to Asia to open four new stores in Korea and China. In China, he went to Hong Kong to open the city's first Starbucks coffee store at Exchange Square, Central. Howard describes his experience as the following: " The store was packed with people, including many members of the press who had come to document the event. To celebrate the opening, I joined with our partners in Hong Kong to pour our heart shapes into a giant coffee press to symbolize pouring our hearts into this bustling store. We continued on to the opening of Hong Kong's second store at Hysan Avenue, Causeway Bay, where a traditional lion dance was performed to commemorate the event. The acrobatic dance was so remarkable that it stopped traffic. Afterwards, I <https://assignbuster.com/starbucks-entry-to-china/>

joined our partners in dotting the eye of the lion to bring good luck. At the opening of each store, I witnessed the excitement and enthusiasm of our partners and customers in these markets. As we prepared to move on, I couldn't help but reflect on this amazing journey" 103. Starbucks entered Beijing in 1999. It now adds 8 to 9 new stores per year each in the cities of Beijing, Hong Kong and Shanghai 104. With a population of over a billion people, China is a major opportunity for Starbucks. However, the Chinese market is drastically different than the U. S. market. Can Starbucks flourish there as it has done in the United States? 102 103 <http://qiye.news.sohu.com/73/24/news203602473.html>, Visited November 17, 2002 Starbucks. "Fiscal 2000 Annual Report". p. 14 Do not duplicate. Starbucks Entry Into China, 22 Exhibit 1 Starbucks vision, mission and goals 2001 Vision: To establish the company as the most recognized and respected brand in the world. Starbucks mission and enterprise strategy: Establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles as we grow. The following six guidelines will help us measure the appropriateness of our 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 of all the time.
- Contribute positively to our communities and our environment.
- Recognize that profitability is essential to our future success

Starbucks environmental mission statement: Starbucks is committed to a role of environmental leadership in all facets of our business. We fulfill this mission by a commitment to:

- Understanding of environmental issues and sharing

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information with our partners. Developing innovative and flexible solutions to bring about change.

- Striving to buy, sell and use environmentally friendly products
- Recognizing that fiscal responsibility is essential to our environmental future
- Instilling environmental responsibility as a corporate value
- Measuring and monitoring our progress for each project

Encouraging all partners to share in our mission

Company goals:

- Continue to rapidly expand its retail operations
- Grow its Specialty Operations

- Selective pursue other opportunities to leverage the Starbucks brand through the introduction of new products and the development of new distribution channels.

Starbucks retail goals: To become the leading retailer and brand of coffee in each of its target markets by selling the finest quality coffee and related products, and by providing superior customer service, that fosters a high degree of customer loyalty.

Starbucks strategy for expanding its retail business is to increase its markets share in existing markets and to open stores in new markets where the opportunity exist to become the leading specialty coffee retailer.

Do not duplicate.

Starbucks Entry Into China, 23 Exhibit 2 Stock History Year Stock Price (\$) FY High FY Low

Year	FY High	FY Low	FY Close
2005	25.6	22.63	20.5
2006	14.98	11.19	8.97
2007	5.53	4.06	3.53
2008	2.06	1.13	0.46
2009	10.69	7.88	7.19
2010	6.53	3.63	2.69
2011	2.38	1.69	1.28
2012	14.39	9.05	10.45
2013	8.25	4.73	2.88
2014	3.42	1.89	
2015	56	91	76
2016	79	66	64
2017	61	81	88
2018	69	29	43
2019	29	38	38
2020	26	30	48
2021	42	43	

Per Share (\$) Earns. Div. 0. 46 0. 25 0. 27 0. 19 0. 17 0. 14 0. 09 0. 05 0. 04 0. 03 0 0 0 0 0 0 0 0 0 0 0

Book Value 3. 62 3. 05 2. 62 2. 22 1. 68 1. 46 1. 1 0. 47 0. 4 0. 36

Sep-01 Sep-00 Sep-99 Sep-98 Sep-97 Sep-96 Sep-95 Sep-94 Sep-93 Sep-92

payout Market value (\$ mil.) 0. 40% 14. 40% 113. 2 1. 33 5. 8 380 0. 00% 0. 00% 5, 639. 90 Exhibit 4 Income Statement Sep-01 Revenue Cost of Goods Sold Gross Profit Gross Profit Margin SG Expense Depreciation ; Amortization Operating Income Operating Margin Total Net Income Net Profit Margin Diluted EPS (\$) 2, 649. 00 2, 068. 00 581 21. 90% 151. 4 177. 1 252. 5 9. 50% 181. 2 6. 80% 0. 46 Sep-00 2, 169. 20 1, 684. 30 484. 9 22. 40% 110. 2 142. 2 232. 5 10. 70% 94. 6 4. 40% 0. 25 Sep-99 1, 680. 0 1, 326. 20 353. 9 21. 10% 89. 7 107. 5 156. 7 9. 30% 101. 7 6. 10% 0. 27 Sep-98 1, 308. 70 996. 959 311. 74 23. 8% 77. 575 72. 54 109. 21 8. 3% 68. 372 5. 2% 0. 25 Sep-97 975. 389 751. 006 224. 383 23. 0% 57. 144 52. 8 86. 2 8. 8% 55. 211 5. 7% 0. 35 *All amounts in millions of US Dollars except per share amounts.

Do not duplicate. Starbucks Entry Into China, 24 Exhibit 5 Balance Sheet*

Sep-01 Sep-00 Sep-99 Sep-98 Sep-97 Cash Net Receivables Inventories Total Current Assets Total Assets 113. 2 90. 4 221. 3 593. 9 1, 851. 00 70. 8 76. 4 201. 7 459. 8 1, 493. 10 66. 4 47. 6 180. 9 386. 1, 252. 50 101. 66 50. 97 143. 12 337. 28 992. 75 70. 13 31. 23 119. 77 317. 55 857. 15 Short-Term Debt Total Current Liabilities Long-Term Debt Total Liabilities 62. 7 445. 3 5. 8 475. 1 57 313. 3 6. 5 344. 8 64. 2 251. 6 7 291. 5 33. 63 179. 47 0 198. 45 28. 58 145. 47 165. 02 323. 44 Total Equity Shares Outstanding (millions) 1, 375. 90 380 1, 148. 40 376. 3 961 366. 6 794. 30 170. 193 533. 71 156. 642

*All amounts in millions of US Dollars except shares outstanding. Exhibit 6

Historical Financials ; Employees* Year Revenue (\$ mil.) Net Income (\$ mil.) Net Profit Margin EmployeesSep-01 2, 649. 00 181. 2 6. 80% Sep-00 2, 169. 20 94. 6 4. 40% Sep-99 1, 680. 10 101. 7 6. 10% Sep-98 1, 308. 70 68. 4 5. 20% Sep-97 966. 9 57. 4 5. 90% Sep-96 696. 5 42. 1 6. 00% Sep-95 465. 2 26. 1 5. 60% Sep-94 284. 9 10. 2 3. 60% Sep-93 163. 5 8. 5 5. 20% Sep-92

93. 1 4. 1 4. 40% *All amounts in millions of US Dollars except employees.
54, 000 47, 000 37, 000 26, 000 25, 000 16, 600 11, 500 6, 128 4, 585 2,
853 Do not duplicate. Starbucks Entry Into China, 25 Exhibit 7 Board of
Directors Howard Schultz Starbucks Corporation Chairman of the board and
chief global strategist Orin C. Smith Starbucks Corporation President and
chief executive officer Howard Behar Starbucks Corporation President, North
American Operations Barbara Bass Gerson Bakar Foundation President Graig
J. Foley Wickham Capital Corp. President Gregory B. Maffei Kibble ; Prentice
President and chief executive officer Arlen I. Prentice Kibble ; Prentice Co-
chairman and chief executive officer James G. Shennan, Jr. Trinity Ventures
General partner Graig E. Weatherup The Pepsi Bottling Group, Inc. Chairman
and chief executive officer Do not duplicate.