The Globalization of Starbucks and Its Effect On the World

By: Ryan Hart (edited by Mr. Barry)

<u>HW Q That Goes With This Reading:</u>

After reading about the globalization of Starbucks, what are some pros and cons of Starbucks' efforts to become a global company? Do you think Starbucks produces more good than bad as a global company?

A cup of coffee; that's all it is, or is it? One company has taken a simple product and turned it into a **lifestyle**. People no longer only drink coffee in the mornings to get the caffeine they need for the day. People now drink coffee at *all* times of the day just for the **<u>fun</u>** of it...

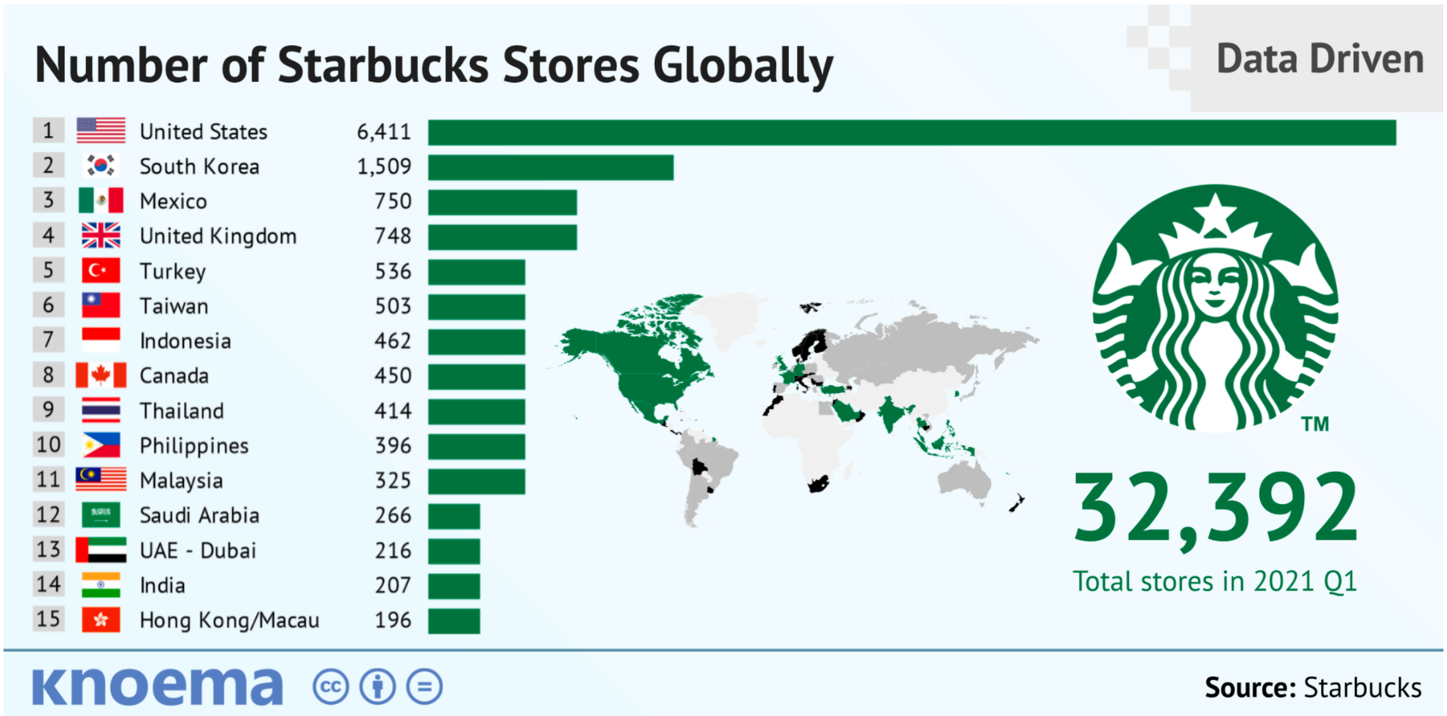
What used to just wake Mr. Barry up in the morning so he could get to work has now been transformed into something beyond "a cup of coffee". Coffee is now an enjoyable *experience* that anyone can have at any time of the day. Hanging out in coffee shops is now a "thing to do" for a fun, social experience. People literally go to coffee shops just to go to coffee shops. Why the drastic change? One word: **Starbucks**. When one buys a cup of Starbucks coffee, they aren't buying just a cup of coffee; they are purchasing an *experience*. From the strong coffee smell, the laid-back atmosphere, and the rich taste in any variety you want, Starbucks customers understand the difference between ordinary coffee and the Starbucks coffee experience. Starbucks, although technically an American name, is a name known and spoken by people regardless where they are from or what language they speak.

Starbucks, which used to be a tiny coffee store in front of Pike's Market in Seattle, Washington, has risen to be one of the **largest** companies in the world, with more than 15,000 stores in 50 countries. Since 1971, Starbucks has been offering some of the world's finest coffee to anyone who wants to pay the escalated price for a cup. It is true that Starbucks coffee is not cheap. It is actually some of the most expensive coffee on the market. Starbucks didn't rise to the top simply by luck however; it did so through **acquisitions, differentiating its product and experience from its competitors,** and by protecting the name it fought so hard to establish. Starbucks TOOK OVER the international coffee market...

The experience of Starbucks shows both how intellectual property rights are essential to globalization and how intellectual property rights have become globalized themselves. What is intellectual property? Intellectual property is the work or invention of an idea or theme that a company has the rights to. Companies are who they are because of their intellectual property. What do you think is the company's "intellectual property?"

This has also affected how Starbucks does business, as in purchasing trademarked coffee from Ethiopia. Starbucks owns the rights to certain coffee fields and farms, so that NO ONE else can buy coffee from them. This makes Starbucks' coffee *exclusive* so that NO ONE else can enjoy it…This has enabled Starbucks to become an economic powerhouse in the world of coffee shops.

The Globalization of Starbucks



Global expansion, or expanding your company across the globe, is essential to successful companies; Starbucks is no exception. While Starbucks was very successful here in America, the leaders of the company knew that they stood a chance and went global with their brand. Starbucks believed they could be a global powerhouse company. They were right. In 2003, Starbucks quickly expanded into foreign nations and began to evolve into the world-wide company we know today. Countries began experiencing the "Starbucks Effect." Some companies saw what Starbucks was doing and they, too, hoped their companies could do the same thing: compete in a foreign market as an American company.   In a nutshell - if your company can't keep up with the efficiency of the Americans, it won't succeed.

As globalization has helped to establish Starbucks as an international company, the company has run into problems. These problems arose both internally, within the company, and externally, in the form of overseas competition. Rival coffee shops started copying Starbucks' business practices, name, and even its company logo. Starbucks had to utilize intellectual property laws to dispel customer confusion between itself and competitors.

When Starbucks first expanded internationally, it used the same aggressive business model that it had developed in the US, but *quickly* discovered that the same tactics that had worked to establish the market in the domestic market were not going to work in international markets. Culturally, many cities opposed what Starbucks stood for. These smaller towns and villages who had coffee shops before already knew what Starbucks was doing, eliminating competition. By resisting Starbucks, these towns and cities resisted globalization to maintain their own independent culture. Coffee shops in Italy, Spain, France, Greece, Morocco, etc, all tried to fight Starbucks because they saw a big company coming into their towns and competing with local places that had been around for years.

Due to this resistance by coffee shops in some areas, Starbucks has had to establish ways to assimilate itself in the nations so that people would choose Starbucks over the local place. Starbucks does just this, and does so well, by listening to its customers. In a 2005 interview regarding international development and adaptation, Jim Donald, CEO of Starbucks from 2005-2008, said "The peak time in China is not 7 to 10 in the morning, it is 4 to 6 in the afternoon. And there are also food preferences we had to adapt to. There is the holiday Yorkshire pudding that is big in the UK but does not work in New York. Breakfast sandwiches in Germany, for example, are made up with a hard roll with sausage and tomato and served cold. So we listen hard to what our partners in a region say." Starbucks listened to what the people wanted, and they then delivered.

Starbucks encountered difficulties when attempting to enter the European market. What Americans find "exotic" doesn't translate well to Europe. Europe has been the trading center for some of the world's most exotic goods from far-flung locales for centuries. Europe figured, what the heck does Starbucks know? While beans from foreign locations were viewed as somewhat of a delicacy for Americans, Europeans thought differently. Coffee in Europe has been a thing for hundreds of years, quite some time before Starbucks.

In fact, the coffee shop in Europe is a normal thing. Initially Starbucks in Europe started with the US approach, as a coffee shop/restaurant offering the Starbucks experience. Over time however, Starbucks evolved to fit the demand of the European citizens. Starbucks' employees on the sidewalk would educate passersby on how to "create your own coffee," attempting to appeal to a classically French sense of artistry and creativity. The Starbucks strategy in Paris "promotes purchases of its coffees as an endorsement, and economic support, of the foreign producers of the coffee beans that capture the unique characteristics of the soil and light…which blends the classic French concept of pride in one's skill as an artisan or professional, land-specific produce, with a green and sustainable brand promise."

Starbucks doesn't just listen to its customers however; it also listens to and appreciates its employees. Starbucks was the *first* company in America to give solid health benefits and stock options to **every single** employee. 65% of those employees are part-time, and most other companies do not offer these things to their part-time employees. In addition to providing employees with a great benefit plan, Starbucks also offers its employees detailed training that enables the organization to promote its products through its employees. You can literally work your way UP in the company from barista to owner/manager of a store! The barista (the person who serves you coffee) has become an iconic person of someone who GIVES you a coffee experience!

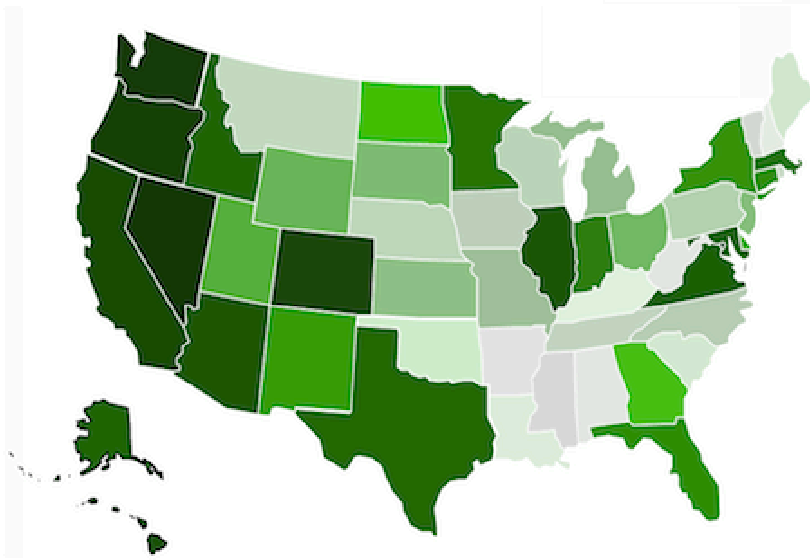
Starbucks spends just $30 million annual on advertising, or roughly 1% of revenues. Most of that advertising is during the holiday season with those little red cup commercials. That's not a lot at all! Why? Think about their logo, the coffee cup shapes, the names of the drinks...They don't need to spend money on advertising because we all know what their little white cups and little plastic cups look like! We don't need to be educated on their logo! Most consumer companies its size shell out upwards of $300 million per year on advertising so they can compete with big companies. This is a **huge** cost!

Starbucks competes with many companies. Dunkin Donuts, Seattle's Best, and Nescafe are some of its largest competitors. But, there are **thousands** more competitors in other towns. Like other major companies that move into smaller towns, Starbucks has taken over the coffee world and created shops and distributed their coffee to hundreds of local hotels, restaurants, and shops. When you go into a hotel, sometimes the lobby has a sign that says "Starbucks proudly served here." This might not seem like it was an important move on behalf of the company, but what about the local coffee shop that *used* to distribute *their* coffee to the local hotel? That local coffee shop and owner are now out of a "job" in that hotel, which also hurts local tourism. Many towns have suffered from the Starbucks effect and their economies have been impacted. This type of globalization is true with nearly all brands in nearly all industries.

Globalization and intellectual property go hand in hand in international business. Globalization helped Starbucks become the coffee-shop powerhouse it is today, and intellectual property law has kept it steady. Through intellectual property protection laws, Starbucks' has been able to preserve the differentiation that put itself above its competition; however, Starbucks may have to pay higher premiums on its coffee from Ethiopia as a result of the same intellectual protection laws. As we've seen through Starbucks' point of view however, intellectual property laws can be an asset and a liability at the same time. Through the experiences of Starbucks, we can see the forces driving globalization and intellectual property, and how they unfold in developed and developing countries.

A map of which U.S. states have the most number of Starbucks (per capita)

#1 District of Columbia
#2 Washington
#3 Nevada
#4 Colorado
#5 Oregon
#6 California
#7 Hawaii
#8 Arizona
#9 Alaska
#10 Illinois
#11 Virginia
#12 Maryland
#13 Idaho
#14 Texas
#15 Massachusetts
#16 Minnesota
#17 Indiana
#18 Connecticut
#19 Florida
#20 New York
#21 New Mexico
#22 Delaware
#23 North Dakota
#24 Georgia
#25 Utah



=26 Wyoming
=26 Ohio
#28 South Dakota
#29 New Jersey
#30 Kansas
#31 Michigan
#32 Missouri
#33 North Carolina
#34 Wisconsin
#35 Pennsylvania
#36 Tennessee
#37 Nebraska
#38 Montana
#39 Iowa
#40 Rhode Island
#41 Maine
#42 South Carolina
#43 Kentucky
#44 Oklahoma
#45 Louisiana
#46 Alabama
#47 New Hampshire
#48 West Virginia
#49 Mississippi
#50 Vermont
#51 Arkansas