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Growing Big While Staying Small: Starbucks Harvests International Growth

Adults all over the world drink approximately two cups of coffee every day.

Most of that coffee is not very good.

—Howard Schultz, Starbucks founder and CEO

In 2008 Starbucks announced that it would close most of its Australian locations, having failed to connect with the local market. Australia had relatively few Starbucks outlets, even for a foreign country, but the decision touched on a deeper issue: in the face of saturation and declining same-store sales in the United States, the giant coffee retailer was pushing aggressively for overseas growth, and its ability to bring its three-pronged value proposition—premium coffee, superior service, and an upscale coffeehouse experience—to foreign soil was critical.

By early 2009 Starbucks had nearly 17,000 stores worldwide, with about a third of these outside the United States. Although net annual revenues exceeded \$10 billion, yearly growth had been cut in half, quarterly earnings had dropped as much as 97 percent, same-store sales were negative, and Starbucks stock was languishing. A variety of factors, including a global economic downturn and increasing competition in the specialty coffee market from large players such as McDonald's and Dunkin' Donuts had combined into a perfect storm for the legendary coffee purveyor.

But even as founder Howard Schultz, who had recently returned to the position of Starbucks CEO, announced the closing of 300 U.S. stores (in addition to the 600 closings that had been announced previously), the company was preparing to open hundreds of new outlets overseas. Japan and the United Kingdom already had more than 1,500 stores combined, and Starbucks executives were betting that these and other foreign markets, including new ones, would drink up plenty of cappuccinos, lattes, and other products tailored to their cultures and preferences.

As the failure of Starbucks in Australia had demonstrated, however, that was not necessarily a safe bet. Compared to the United States, the number of Starbucks stores in a given foreign country was small, and there were likely many lessons still to be learned about succeeding overseas. The key question, then, was not whether Starbucks could transport its value proposition overseas, but how the three elements of that value proposition would play in foreign markets. Would what worked in Louisiana yield success in Lebanon? Was the definition of premium coffee the same in Peoria and Paris? Starbucks was slowly learning answers to these questions through its global store experience, but the stakes of making the right international moves rose with each U.S. store closure.

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Schultz and his team also faced a broader question, one that applied to both their U.S. and foreign stores: Could they “grow big and stay small,”¹ remaining a huge retailer that delivered both high-quality products and a consistently intimate and enjoyable experience to consumers worldwide?

The Rise of Starbucks

Starbucks, a key part of the U.S. retail landscape for more than twenty years, had risen from a small seller of whole coffee beans to a sprawling public company with strong growth potential overseas.

The Early Years

Starbucks first took shape in a down-market for its primary product: coffee sales had declined more than 30 percent from the 1960s to the mid-1980s.² However, demand for specialty coffee, while still just a fraction of the total coffee market in those decades, was growing steadily, built in part on the success of Northern California’s Peet’s Coffee chain.

Observing this growth in the specialty coffee market, college friends Gordon Bowker, Jerry Baldwin, and Zev Siegl opened Starbucks Coffee, Tea, and Spice in Seattle’s Pike Place Market in 1971. The store sold premium whole coffee beans and bulk tea and spices, but no coffee drinks or other beverages. Within a decade after its establishment, Starbucks was a “solid small business with a strong regional reputation and a devoted customer base.”³ Meanwhile numerous other specialty coffee sellers had appeared across the United States, contributing to annual revenue growth in this market from \$45 million in 1969 to more than \$750 million in 1980.⁴ However, it was still just a small percentage of the total coffee market.

Howard Schultz first became interested in Starbucks in the early 1980s, when he was in his late twenties. From a working-class Brooklyn family, Schultz was the first college graduate in his family. He had excelled as a Xerox sales representative before joining Hammerplast, the U.S. subsidiary of a Swedish housewares company; at Hammerplast Schultz rose to general manager. Starbucks was a Hammerplast customer, and when Schultz visited the retailer in Seattle, he felt that he had “discovered a whole new continent” of coffee selling, one that stood in stark contrast to the cans of instant coffee lining grocery-store shelves.⁵

Confident of the company’s potential, Schultz convinced Jerry Baldwin to hire him, joining Starbucks in 1982 with a large salary cut and a minor equity stake. A trip the next year to Italy exposed Schultz to that country’s “coffee bar culture,” including espresso and baristas, and he

¹ Howard Schultz and Dori Jones Yang, *Pour Your Heart Into It: How Starbucks Built a Company One Cup at a Time* (New York: Hyperion, 1997), 275.

² “Review of Consumption of Coffee in the United States of America—1961 to 1964 and 1979 to 1989,” *Coffee Annual 1989* (New York: George Gordon Paton, 1990).

³ Karen Blumenthal, *Grande Expectations: A Year in the Life of Starbucks’ Stock* (New York: Crown Business, 2007), 39.

⁴ Ted Lingle, “Avenues for Growth: A 20-Year Review of the U.S. Specialty Coffee Market,” *Specialty Coffee Association of America* (1993).

⁵ Schultz and Yang, *Pour Your Heart Into It*, 26.

suggested Starbucks enter that space. Management disagreed, wishing to avoid entering what they saw as the restaurant business.⁶

Undaunted, Schultz departed Starbucks in 1985 and raised \$400,000 in private funds to establish a coffee bar. Schultz opened Il Giornale in Seattle in mid-1986, selling Starbucks coffee beans and espresso and food such as paninis. Schultz and his team trained baristas and created the coffee bar's inviting environment carefully; Il Giornale quickly gained popularity. With additional private funds Schultz opened two new stores in downtown Seattle and Vancouver, and by mid-1987 annual revenues were \$1.5 million.

In 1987 Schultz learned that Starbucks was up for sale. By then the brand included six retail stores, a roasting plant, and fewer than 100 employees. That August Schultz acquired Starbucks for \$3.8 million and became CEO of the company. Immediately he and his team set ambitious growth goals, especially for a market—specialty coffee—that represented largely uncharted territory in the United States. The growth plan initially targeted Pacific Northwest cities such as Seattle and Vancouver—where Starbucks already had a presence and the demand for coffee bar offerings was better established—but also included Chicago.⁷ Starbucks also began offering a mail-order catalog in 1988 to help build brand awareness.

Full Steam Ahead

Despite expected growing pains such as losses in Midwest locations, Schultz and his executive team expanded Starbucks quickly, boasting 75 stores within three years of the acquisition.⁸ During this period the company also enhanced wholesale distribution, which helped drive revenue growth from just over \$10 million in 1988 to more than \$35 million in 1990.⁹ See **Exhibits 1 and 2** for the company's 2009 store counts and historical revenues.

In 1989 Starbucks hired retail veteran Howard Behar, who helped turn around the Chicago market and dramatically increased the company's attention to customer service, including hiring highly people-focused baristas.¹⁰ Other new executives, many from established food industry and other retailers, helped develop key strategy elements and scalable systems to prepare for growth and, despite early losses, Schultz raised \$32 million in private financing between 1988 and 1991.¹¹ The funds helped fuel expansion to new markets, including Southern California. The U.S. gourmet coffee market was also expanding, from \$270 million in 1984 to \$750 million in 1991. By the end of 1992 Starbucks, now a public company, handled close to 100,000 transactions daily, representing 60 percent growth from the previous year; thousands across the nation visited the store as part of their daily routines, with annual revenues topping \$100 million.¹² Schultz had realized much of his vision, building the small coffee-bean retailer he had acquired into a major seller of premium coffee products.

⁶ Ibid.

⁷ Ibid.

⁸ Nancy Koehn, "Howard Schultz and Starbucks Coffee Company," Case #9-801-361 (Harvard Business School, 2001, rev. 2005).

⁹ Starbucks Corporation Annual Report, 1992.

¹⁰ Blumenthal, *Grande Expectations*.

¹¹ Schultz and Yang, *Pour Your Heart Into It*.

¹² Starbucks Corporation Annual Report, 1992.

But there was much more to come. Starting in 1993, Starbucks expanded to the East Coast, opening stores in Washington, D.C., followed quickly by Boston, New York, Dallas, and many other cities. By 1996 Starbucks had grown to more than 900 stores and nearly \$700 million in annual sales.¹³ The company's location strategy included "clustering," or opening new stores close to each other or established outlets in key markets to attract attention and deter competitors' entry; while the strategy served this purpose, it also led to cannibalization and, in turn, to diminished expectations and stock price.¹⁴ Nonetheless, by 2000 Starbucks was averaging close to two new stores daily.¹⁵ That year Schultz stepped down from the CEO post to serve as Starbucks chairman and chief strategist; CFO Orin Smith became the new CEO.

During Schultz's reign, new products and alliances with United Airlines, Pepsi, Dreyer's Ice Cream, Barnes & Noble booksellers, Target, and many others had extended the company's products and reach and increased its brand strength. Launched in 1995 and distributed to supermarket chains through a joint venture with Pepsi, the Starbucks Frappuccino had become the most popular ready-to-drink coffee in the United States by 1998.¹⁶ New drinks such as fruit-flavored Tiazzis were aimed at non-coffee-drinkers.

The year 1995 marked the first time Starbucks ventured beyond beverages and food offered in the retail stores as the company partnered with Dreyer's Grand Ice Cream Company on a coffee-flavored ice cream. Like Frappuccino, by the late 1990s it was the country's best-selling product in its category.¹⁷ Even music fell under the Starbucks umbrella: in the mid-1990s the company had introduced Blue Note Blend coffee along with a special jazz CD featuring music often played in stores. The company also began selling books such as Mitch Albom's *For One More Day* and featured author signings in select stores. In 2004 Starbucks formed Starbucks Entertainment and retained entertainment agency giant William Morris to link the brand to media such as film, books, and music.¹⁸ There were even plans for Starbucks to become a publisher of books and producer of music and movies, building on the large sales it had helped stimulate for existing titles (e.g., 3 million copies of Ray Charles's *Genius Loves Company* album).¹⁹

A growing list of partnerships allowed consumers to enjoy Starbucks in a growing number of places, including on airplanes (Horizon Air and United Airlines), in retail stores (e.g., Barnes & Noble, Nordstrom, and Target), and in supermarkets (e.g., Dominick's; customers could purchase Starbucks beans and ground coffee from the grocery aisles—through a partnership with Kraft—while sipping Starbucks coffee purchased at in-store kiosks). The first Starbucks licensee was HMS Host, the largest U.S. airport concessionaire, and the list grew dramatically from that point.²⁰

Starbucks also developed a deep, multidimensional focus on ethical practices and giving back. From ensuring that coffee-bean farmers received fair prices for their products through the company's Shared Planet program, to encouraging importers to develop long-term relationships

¹³ Starbucks Corporation Annual Report, 1996.

¹⁴ Stanley Holmes, "Planet Starbucks," *BusinessWeek*, September 9, 2002.

¹⁵ Starbucks Corporation Annual Report, 1999.

¹⁶ Starbucks Corporation Annual Report, 1998.

¹⁷ Schultz and Yang, *Pour Your Heart Into It*.

¹⁸ Bruce Horowitz, "Starbucks Aims Beyond Lattes to Extend Brand," *USAToday.com*, May 19, 2006.

¹⁹ Steven Gray and Ethan Smith, "At Starbucks, a Blend of Coffee and Music Creates a Potent Mix," *Wall Street Journal*, July 19, 2005.

²⁰ Ranjay Gulati, Sarah Huffman, and Gary Neilson, "The Barista Principle," *Strategy & Competition*, August 2002.

with farmers, to improving coffee-growing processes in communities worldwide, Starbucks emphasized that customers were buying coffee from a “company that cares.”²¹ For example, in 2001 Starbucks started working with the U.S. Green Building Council to develop a LEED certification system to ensure that new stores opened by Starbucks and other retailers met high standards of environmental friendliness (e.g., ensuring water and energy efficiency). Starbucks also worked with Conservation International to address climate change–related issues at supplier coffee farms. For example, in 1999 the two organizations began working with farmers in Chiapas, Mexico, an identified biodiversity “hotspot,” to implement more ecologically sound farming practices.

Going International

Starbucks opened its first store outside North America in 1996 in Tokyo’s Ginza district. Four years earlier, Schultz had hired a Japanese consultancy to help design the go-to-market strategy for that region. The consultancy made several recommendations, including allowing smoking in stores because of its popularity in Japan, avoiding paper cups and other to-go items, and limiting store sizes to 500 square feet. “We had been warned that, culturally, the Japanese refuse to carry to-go food or beverages on the street,” Schultz said.²²

But Schultz and his team roundly rejected the consultancy’s advice on most issues, planning large stores featuring take-out items and smoking bans. Schultz flew to Tokyo for the historic opening and witnessed long lines of customers ranging in demographics on the store’s first day. As with U.S. stores, the company had relied on word of mouth rather than traditional advertising. Schultz noted that “many customers were walking out the door proudly carrying their Starbucks cups—with the logo showing.”²³ Customers continued to crowd the store over the next several weeks, eager to experience the coffee, environment, and other elements of the Starbucks brand.

To build on this success, Starbucks soon opened stores in Europe and the Middle East, typically relying on local business partners to smooth the way.²⁴ Even at this early stage of international growth, Starbucks had large ambitions; top executives spoke of building a global brand “that would be of the power and strength of the greatest brands in the world, the Pepsi-Colas, the Coca-Colas, the McDonald’s . . .”²⁵ And Schultz was convinced that Starbucks stores in Asia might eventually outnumber those in America.²⁶ (See “The End of an Era?” section below for more details on the company’s international growth.)

A Future Without Limits

At the beginning of this millennium, fueled by domestic and international expansion, Starbucks had 3,300 outlets, 37,000 employees, and annual sales exceeding \$2 billion, with no end in sight to the growth of new locations worldwide. Despite rising competition from multiple competitors, especially those featuring inexpensive premium coffee (e.g., Dunkin’ Donuts),

²¹ Starbucks advertisement, *USA Today*, May 4, 2009, p. 9A.

²² Schultz and Yang, *Pour Your Heart Into It*, 244.

²³ *Ibid.*, 244.

²⁴ “About Us,” <http://www.starbucks.com> (accessed July 8, 2009).

²⁵ Blumenthal, *Grande Expectations*, 141.

²⁶ Schultz and Yang, *Pour Your Heart Into It*.

Starbucks stock had split three times in the 1990s and revenues continued to grow at a double-digit annual pace, based on the multipronged value proposition the retailer had developed over the years.²⁷

The Starbucks Value Proposition

The Starbucks value proposition rested on three key elements: premium coffee products, superior customer service, and a unique coffeehouse atmosphere.

Premium Coffee Products

High-quality coffee products were a cornerstone of the Starbucks brand. Initially aiming for sophisticated, affluent customers, the company strove to offer coffee worlds apart from the traditional brands offered in the U.S. market.

Starbucks instituted measures throughout the entire coffee value chain to ensure quality. Whereas competitors typically bought beans from wholesalers, Starbucks carefully chose suppliers worldwide, ensuring that the beans purchased were of the highest quality and that the farms embodied integrity. “[A]nyone can buy coffee,” said Starbucks executive Dub Hay. “It is *how* we buy coffee that makes Starbucks special.”²⁸ Other measures included shipping the beans in special bags to seal in flavor and using high-tech gas-fired roasting machines operated only by highly trained roasters. Preserving product quality was also the motivation for the company’s refusal to franchise.

Starbucks also strove to maintain the quality of its growing list of beverages and other products available in the store, which included espressos, lattes, and cappuccinos made to order in a dazzling array of combinations. Careful attention to customer preferences and standardized drink-preparation procedures helped ensure ongoing quality. For example, baristas were expected to brew coffee every hour, keeping a close watch on the behind-the-counter timer.²⁹ And a systematic, disciplined new product development process including careful attention to employee input helped Starbucks innovate new offerings to maintain growth.³⁰

Advertisements for Starbucks featured product quality prominently. Even in 2009, more than twenty years after Howard Schultz acquired the company, promotional campaigns showcased its policy of selecting only the top 3 percent of beans, then roasting them until they popped twice: “If your coffee isn’t perfect . . . you must not be in a Starbucks,” boasted outdoor advertising posters.³¹ According to a major Starbucks campaign tagline, “It’s not just coffee. It’s Starbucks.” See **Exhibit 3** for a sample advertisement. In 2009 consumers voted Starbucks coffee number one in that category in the Zagat Fast-Food Survey; Starbucks immediately promoted the accolade with traditional and digital media campaigns.³²

²⁷ Blumenthal, *Grande Expectations*.

²⁸ Joseph Michelli, *The Starbucks Experience* (New York: McGraw Hill, 2007), 63.

²⁹ Ibid.

³⁰ Isabel Isidro, “Learning from Starbucks: 10 Lessons for Small Businesses,” *PowerHomeBiz.com*, October 5, 2004.

³¹ Claire Miller, “New Starbucks Ads Seek to Recruit Online Fans,” *New York Times*, May 19, 2009.

³² Elaine Wong, “Starbucks Plays Up Zagat Rating,” *Adweek*, June 10, 2009.

Superior Customer Service

In the late 1980s and early 1990s Schultz and his executive team had become highly focused on building a deeply talented and committed work force at Starbucks, recognizing this as requisite for the world-class customer service they saw as crucial to the company's success. For example, baristas often remembered regular customers' favorite drinks, placing their orders as soon as the customer entered the store. The company prided itself on this customer focus: "We're not a coffee company serving people; we're a people company serving coffee."³³

Starbucks promoted customer-focused practices by clearly valuing and extensively training employees, who were known as "partners." "[W]e believed that the best way to meet and exceed the expectations of customers was to hire and train great people," Schultz said.³⁴ This resolution to hire and retain only the best employees drove new Starbucks initiatives in the 1990s such as healthcare coverage for all employees working at least twenty hours weekly and an employee stock option plan called Bean Stock. Starbucks also empowered employees by decentralizing much of its decision making, leaving many key decisions to regional teams that knew their store operations best, and acting on employee feedback (e.g., the Frappuccino emerged from suggestions from Southern California employees).³⁵ These measures helped Starbucks maintain a talented work force and reduce turnover to an estimated 120 percent less than fast-food industry averages.³⁶

Starbucks also took training very seriously. For example, as part of the "coffee passport" program, all new employees received a 104-page training booklet that included information on coffee-growing regions, coffee farming, roasting, and brewing methods, and Starbucks coffee drinks, among other topics; employees also completed verified tastings of core Starbucks coffees semiannually. Over time the training included a strong focus on "soft skills," or how to interact with customers to ensure an enjoyable experience. Baristas were encouraged to start conversations with customers, remember their names, and to fulfill even the most challenging customer requests as part of a "just say yes" policy.³⁷ Much of the Starbucks customer service philosophy was spelled out in the *Green Apron Book*, a portable handbook that encouraged employees to adopt several core "ways of being" including "be welcoming . . . be genuine . . . be involved."³⁸ In 2004 Starbucks rolled out the Coffee Master program, a course training staff to distinguish subtleties among regional coffees; graduates earned a special black apron and business-card insignia.³⁹

Service was measured and enhanced through feedback from the "Customer Snapshot," a mystery shopper program through which anonymous shoppers rated stores on four "Basic Service" criteria: service, cleanliness, product quality, and speed of service.⁴⁰ "Legendary Service" scores comprised ratings on measures of knowledge of and responsiveness to customers' special needs, including regular drink orders and service problems.⁴¹

³³ Blumenthal, *Grande Expectations*, 147.

³⁴ Schultz and Yang, *Pour Your Heart Into It*, 245.

³⁵ Gulati, Huffman, and Neilson, "The Barista Principle."

³⁶ Michelli, *The Starbucks Experience*.

³⁷ *Ibid.*

³⁸ *Ibid.*, viii.

³⁹ Burt Helm, "Saving Starbucks' Soul," *BusinessWeek*, April 9, 2007.

⁴⁰ Michael Gill, *How Starbucks Saved My Life* (New York: Gotham, 2007).

⁴¹ *Ibid.*

One feature that grew out of these service innovation efforts was the stored-value card (SVC), first introduced in November 2001. The prepaid smart cards, which Schultz called “the most significant product introduction since Frappuccino,” made transactions easier for customers, drove trial by new customers (e.g., who had received SVCs as gifts), and were associated with a much higher rate of visits than for non-cardholders.⁴² By 2008 more than 50 million Starbucks SVC cards had been activated.⁴³

Coffeehouse Atmosphere

From the beginning, Schultz and his team sought to ensure that each element of the stores and kiosks provided a warm, comfortable experience for customers. As Jim Donald, head of Starbucks North America and future Starbucks CEO, put it, “We can’t let the coffee down. Day in and day out, we have to consistently execute on the details.”⁴⁴ In fact, by the mid-1990s the “coffee experience” Starbucks provided through its products, service, and atmosphere was viewed as a key element of its value proposition.

Observers deemed Starbucks a “third place,” or setting other than home or work, that offered an ideal location for informal interaction and enjoyment.⁴⁵ In other words, Starbucks provided virtually every kind of group—whether friends, coworkers, couples, or students—with an upscale, modern space to socialize, work, or just enjoy a drink or snack. Though coffeehouses of all stripes had long provided a comfortable space to meet, read, or reflect, Starbucks offered a more predictable and less “funky” experience than many independent and small-chain coffee venues. Constant attention to new, value-added atmospheric components helped Starbucks enhance customers’ experience; for example, T-Mobile HotSpot wireless Internet service was added in August 2002 to enable in-store connectivity.

The End of an Era?

Early in this millennium, based on the company’s rampant growth worldwide—including more than ten consecutive years of greater than 5 percent same-store sales growth (see **Exhibit 4**)—Howard Schultz had said, “I think we’ve demonstrated that we’re close to a recession-proof product.”⁴⁶ By the end of 2005, Starbucks had more than 10,000 stores, and its stock had grown 5,000 percent. The most ardent Starbucks fans visited the stores up to eighteen times monthly.⁴⁷ Having a Starbucks in the vicinity was sometimes even seen as a sign that a locale had arrived: “You are officially a neighborhood when you get a Starbucks,” said a Chicago-area alderwoman.⁴⁸ Researchers had even deemed changes in morning commute patterns—based on

⁴² Youngme Moon and John Quelch, “Starbucks: Delivering Customer Service,” Case #9-504-016 (Harvard Business School, 2003, rev. 2006).

⁴³ Starbucks Investor Relations, <http://investor.starbucks.com/phoenix.zhtml?c=99518&p=irol-financialHighlights> (accessed July 7, 2009).

⁴⁴ Michelli, *The Starbucks Experience*, 48.

⁴⁵ Ibid., 12.

⁴⁶ Jake Batsell, “A Grande Decade for Starbucks,” *Seattle Times*, June 26, 2002.

⁴⁷ Rob Howe, “At Starbucks, the Future is in Plastic,” *Business 2.0*, August 2003.

⁴⁸ Dan Mihalopoulos and Antonio Olivo, “For Some It’s Coffee; For Others It’s Class,” *Chicago Tribune*, July 16, 2004.

new behaviors including regular stops at Starbucks drive-throughs—a result of the “Starbucks effect.”⁴⁹

Based on this type of evidence, in 2006 Starbucks management believed the company could expand to 20,000 stores in the United States and 40,000 worldwide.⁵⁰ Late in that year Starbucks was adding six stores daily, on average, and multiple stores in a given building or block were not uncommon. Part of the company’s motivation for this expansion was to compete with Yum! Brands (owner of KFC, Taco Bell, and other restaurants) and McDonald’s, which held 34,000 and 31,000 worldwide locations, respectively. Executives argued that a higher concentration of Starbucks stores would boost convenience for customers and cause only minimal cannibalization. However, “at some stage there [will be] limits to their expansion,” a market analyst noted.⁵¹

Starbucks hit that limit quickly. Same-store sales in the United States began declining in 2006, and in 2007 a Schultz memo leaked to the media decried “the watering down of the Starbucks experience, and what some might call the commoditization of our brand.”⁵² “I think perhaps we stretched the real estate too far during this economic time,” Schultz also admitted in the memo.⁵³

In January 2008 Schultz returned to his position as Starbucks CEO, taking the post from Jim Donald, who had succeeded Orin Smith. Share prices, which had declined 44 percent in the past year, rose by more than 8 percent with the news.⁵⁴ Immediately Schultz outlined a strategy that included shuttering some U.S. stores and streamlining management. Nonetheless, same-store sales dipped 9 percent in the last quarter of 2008 and 8 percent in the first three months of 2009.⁵⁵ Fourth-quarter earnings in 2008 dropped an alarming 97 percent, from \$159 million in 2007 to \$5 million.⁵⁶ A year after Schultz returned to CEO, Starbucks stock had fallen from \$18 to \$10, and the company had closed 600 stores, with another 300 expected to follow.⁵⁷

One bright spot concerned VIA, the company’s new premium instant coffee. Debuting in Seattle, Chicago, and London in March 2009, VIA was its first entry into the global instant-coffee business, which was estimated at \$17 billion. “We have tapped into something that is very, very large, with a very big prize,” Schultz said.⁵⁸ VIA was set to launch nationally in fall 2009. As an *Advertising Age* editorial put it, “Starbucks may be waking up to reality and embracing its inner Walmart.”⁵⁹ According to a number of Starbucks observers, VIA fit a customer segment that did not want to make a full pot of coffee at home or just wanted a convenient cup at the office, thus

⁴⁹ Katherine Shaver, “Coffee Craving Ties Up A.M. Commute,” *Washington Post*, April 19, 2005.

⁵⁰ Craig Harris, “Perking Up: Starbucks Aiming for Threefold Expansion,” *Seattle Post-Intelligencer*, October 6, 2006.

⁵¹ “Starbucks’ Goal: 40,000 Stores Worldwide,” October 26, 2006, <http://archives.chicagotribune.com/2006/oct/26/food/chi-0610260355oct26> (accessed July 17, 2009).

⁵² Burt Helm, “Saving Starbucks’ Soul,” *BusinessWeek*, April 9, 2007.

⁵³ Elizabeth Gillespie, “Starbucks Replaces CEO with Chairman,” *Chicago Tribune*, January 8, 2008.

⁵⁴ Burt Helm and Jena McGregor, “Howard Schultz’s Grande Challenge,” *BusinessWeek*, January 21, 2008.

⁵⁵ Miller, “New Starbucks Ads Seek to Recruit Online Fans.”

⁵⁶ Emily Bryson York, “Starbucks’ 4Q Profit Down 97%,” *Advertising Age*, November 10, 2008.

⁵⁷ Emily Bryson York, “Should Howard Schultz Be Smiling?” *Advertising Age*, February 16, 2009; Ekin Middleton, “Starbucks Offers Coffee-Breakfast Combos, Cites Economy,” *CNN.com*, February 2, 2009. Note, however, that by 2008 Starbucks stock had risen almost 2,400 percent since it was first listed in 1992; the NASDAQ had increased 269 percent in that same period. Bruce Horowitz, “Starbucks Going Back to Grinding Beans,” *USA Today*, March 18, 2008.

⁵⁸ Emily Bryson York, “Starbucks Reports Same-Store Sales Down 8%,” *Advertising Age*, April 29, 2009.

⁵⁹ Editorial, “Starbucks’ Instant Coffee Is Best Idea It’s Had in a While,” *Advertising Age*, February 23, 2009.

extending the brand. Another positive development was that the Starbucks Perfect Oatmeal had become one of the company's most successful food products.

For fiscal year 2008, Starbucks hit an all-time-high net revenues figure of \$10.4 billion (20 percent of that from international stores). By then the company operated nearly 17,000 stores in 49 countries and employed more than 160,000 (see Exhibits 1 and 2). And though overall sales growth for the year was 10 percent, this figure was less than half that of 2007. More telling, comparable store sales dropped 3 percent for the year. In early 2009 Starbucks announced it would cut 6,700 jobs (6,000 of which were in-store positions) and close 300 stores, 200 of them in the United States.⁶⁰

Multiple factors had created limits to the company's seemingly limitless growth, especially in the United States.

The Global Economic Downturn

Starting in late 2007, the global economy saw a startling increase in foreclosures and unemployment driven by the collapse of the U.S. housing market and a dangerously sluggish credit market. As Schultz noted in the Starbucks 2008 Annual Report, "Consumer confidence was approaching all-time lows, and both Wall Street and Main Street were reeling." He suggested that the new economic environment was a "reset of both economic and social behavior."⁶¹ An early 2009 survey revealed that 60 percent of Americans, across income levels, were cutting back on expensive coffee purchases, with more than 90 percent of respondents citing their motivation as the need to save money.⁶² Looking back, an industry observer noted, "What made us feel good was that we could keep on spending [on Starbucks coffee and other luxuries]. Maybe in our soul we knew something was wrong. But we just kept on doing it because we could."⁶³ By 2009 many Americans were curtailing such spending—some by choice, some out of necessity—as evidenced by slips in Starbucks same-store sales.

Starbucks Offerings and Customer Profiles

Analysts also argued that Starbucks had diluted its value by taking on too many new products and brand extensions. "Why try to be everything to everybody?" asked an *Advertising Age* article, citing the company's goal of becoming the world's largest fast-food brand and its forays into movies, books, and music. "It adds costs, cuts profits, and weakens the brand."⁶⁴ As evidence, several Starbucks extensions had failed around the century's turn, including *Joe* magazine (in partnership with Time, Inc.), a short-lived Internet venture to sell items such as kitchen products, and the infamous Mazagran beverage developed with PepsiCo.⁶⁵ Even the core Starbucks offering, its coffee drinks, especially customized ones, had become more complex (e.g., some

⁶⁰ Mary Schmich, "Starbucks Job Fantasy Comes to Bitter End," *Chicago Tribune*, February 6, 2009; Bruce Horowitz, "Starbucks to Cut Up 6,700 Jobs," *USA Today*, January 29, 2009.

⁶¹ Ekin Middleton, "Starbucks Offers Coffee-Breakfast Combos, Cites Economy," *CNN.com*, February 2, 2009.

⁶² Emily Bryson York, "Consumers Skip Starbucks for Plain Ol' Joe," *Advertising Age*, January 19, 2009.

⁶³ Rex Huppke, "Brother Can You Spare (Buying) a Double Latte?" *Chicago Tribune*, November 17, 2008.

⁶⁴ Laura Ries, "Is Starbucks Diluting Its Business Brew Too Much?" *Advertising Age*, May 2, 2006.

⁶⁵ Andy Serwer, "Hot Starbucks To Go," *Fortune*, January 26, 2004.

required ten or more steps), increasing baristas' workloads; at the same time, due to the economic downturn, Starbucks was wary about increasing the average number of employees at stores.⁶⁶

The Starbucks customer profile had also changed with the new millennium. Given the brand's broad appeal, the average Starbucks customers were younger, less educated, and less sophisticated than before. Newer customers also tended to perceive Starbucks as less exclusive and high-quality than more established customers did.⁶⁷ "All they know is Starbucks, the big company," said Terry Davenport, chief marketing officer of Starbucks.⁶⁸ Thus many of the new customers that had fueled the company's growth in this millennium were more likely to stop visiting the outlets as the economy worsened.

Brewing Competition

Starbucks competed against a mix of regional specialty coffee chains and national fast-food chains. Given the company's position as the biggest premium coffee seller in the world, rivals adopted competitive strategies across dimensions. Regional players such as California's Peet's Coffee and Minneapolis-based Caribou used differentiation strategies such as those based on premium products (e.g., Peet's "roasted to order" coffee) and atmosphere—Caribou's "ski lodge or . . . wilderness cabin" feel, for example.⁶⁹ "We are the coffee shop that is the most non-Starbucks out there," said Caribou CEO Michael Coles in 2005.⁷⁰

Among national-level Starbucks rivals, McDonald's and Dunkin' Donuts posed the largest threats, though even 7-Eleven stores offered premium coffees such as the "Brazilian Bold" blend. McDonald's began offering specialty coffee in late 2006; its McCafé branded line of coffee drinks was first introduced in January 2008 and was expected to add up to \$1 billion to the fast-food giant's revenues.⁷¹ McCafé featured deep overlap with Starbucks, including hot and iced coffee, cappuccinos, lattes, and mochas. In May 2009 McDonald's launched a \$100 million TV, print, radio, billboard, and Web advertising campaign to promote McCafé drinks, the largest McDonald's product introduction since it unveiled breakfast items in the 1970s.⁷² The national advertising campaign was projected to be the largest in the burger giant's history.⁷³ By the end of 2008, specialty coffee was available in about 30 percent of McDonald's 14,000 U.S. outlets. The new drinks fit neatly into the revamped interiors of many McDonald's stores—some included plasma TVs, leather chairs, and Wi-Fi.⁷⁴

Analysts called McCafé drinks "a good quality product," but stopped short of placing them on par with Starbucks beverages; however, they also reported that McDonald's had stolen share from Starbucks in the specialty coffee market.⁷⁵ Starbucks contended that it was not losing customers to McDonald's, but that the coffee retailer's customers were buying fewer coffee

⁶⁶ Moon and Quelch, "Starbucks: Delivering Customer Service."

⁶⁷ Ibid.

⁶⁸ Miller, "New Starbucks Ads Seek to Recruit Online Fans."

⁶⁹ Steve Madigan, "Great Atmosphere, Great Coffee—Caribou Coffee," *EzineArticles.com*, April 10, 2007.

⁷⁰ Mya Frazier, "Starbucks It Isn't—and Purposefully So," *Advertising Age*, March 14, 2005.

⁷¹ Bruce Horowitz, "McDonald's Plans to Offer You a Latte with that Big Mac," *USA Today*, January 7, 2008.

⁷² Miller, "New Starbucks Ads Seek to Recruit Online Fans."

⁷³ Emily Bryson York, "Take Cover! Marketing Blitz for McCafé is on the Way," *Advertising Age*, May 4, 2009.

⁷⁴ Jenn Abelson, "Mickey D's Goes Uptown," *Boston.com*, October 26, 2006.

⁷⁵ Mike Hughlett, "McDonald's Specialty Coffee Rolling Out in Chicago Area," *Chicago Tribune*, December 6, 2008.

drinks, on average, contributing to the same-store sales slips in late 2008 and early 2009.⁷⁶ According to Starbucks management, McDonald's was "trying to commoditize coffee . . . and [arguing that] if coffee's coffee, you might as well buy the cheap stuff."⁷⁷ The company's ads echoed this sentiment: "Beware of a cheaper cup of coffee," read one. "It comes with a price."⁷⁸ But as Starbucks sales continued slipping, McDonald's reported that its global same-store sales increased more than 8 percent in late 2008, suggesting strong demand for its inexpensive food and drink offerings.⁷⁹ Indeed, McDonald's fare, including its coffee, was a longtime favorite among the large and growing U.S. bargain-seeking segments: "I couldn't afford a cup of coffee at Starbucks since I'm on social security," said one senior citizen.⁸⁰

National player Panera Bread had also reformulated its coffee through a two-year process beginning in 2007. The chain launched new light- and dark-roast coffees in winter 2008, immediately enjoying a 10 percent increase in coffee sales.⁸¹

By 2009 Dunkin' Donuts also operated thousands of stores across the United States and, despite a restaurant industry downturn, had opened more than 500 stores the previous year. The chain attributed half its sales to coffee, which included an expanding line of flavored drinks such as Dunkaccino and ad campaigns such as "America Runs on Dunkin'" and "You Kin' Do It." "We've proved our coffee . . . in a national taste test," said a Dunkin' Donuts executive, citing the company's "Dunkin' Beats Starbucks" late 2008 campaign.⁸² Dunkin' Donuts's 2009 ads also pointed out how the company was "supporting" consumers during hard times with discount pricing, including 99-cent lattes and 50-cent iced coffees; Caribou took the same approach by offering "Happy Monday" medium coffees for \$1 (see **Table 1**).

Table 1: What McD's Might Drown Out

	Dunkin' Donuts	Starbucks	7-Eleven	Caribou
Campaign	"You kin' do it"	"It's more than coffee. It's Starbucks"	Recent coffee push touted "Brazilian Bold" blend	"Happy Monday"
Strategy	"Supporting" consumers during the downturn with price breaks, and touting coffee quality through occasional comparative advertising	Adding a drink and sandwich or muffin for \$3.95 to its "value pairings," deepening environmental commitments for building its stores and sourcing its coffee	Raising the profile of its coffee while offering lower prices, such as a recent promotion of coffee and two taquitos for \$1.99	Offering a medium cup of coffee for \$1 on Mondays and a pound for \$8.99; focusing on Rainforest Alliance, fair-trade and organic options
Agency	Hill Holliday, Boston	BBDO, New York	FreshWorks	Colle & McVoy, Minneapolis
Media	TV, Internet, print, radio, outdoor, social	TV, Internet, print, radio, outdoor, social	Radio, outdoor, in-store	Radio, Internet, social

Source: Emily Bryson York, "Java Giants Brace for McCafé," *Advertising Age*, May 4, 2009.

⁷⁶ Miller, "New Starbucks Ads Seek to Recruit Online Fans."

⁷⁷ Ibid.

⁷⁸ Mike Hughlett, "Coffee Wars Reach Full Boil," *Chicago Tribune*, May 9, 2009.

⁷⁹ Brad Stone, "Starbucks Profits Down Sharply on Restructuring Costs," *New York Times*, November 11, 2008.

⁸⁰ Susan Kuczka, "Battle of Giants Over Mall Space," *Chicago Tribune*, October 7, 2005.

⁸¹ Hughlett, "Coffee Wars Reach Full Boil."

⁸² Emily Bryson York, "Java Giants Brace for McCafé," *Advertising Age*, May 4, 2009.

The initial venture by Starbucks into value pricing took the form of \$3.95 “breakfast pairings” of food and coffee or lattes. The company also planned to unveil a less-than-\$2 iced coffee in mid-2009. Deeper research suggested that its price premium had “nearly evaporated . . . with pricing now largely on par with Dunkin’ Donuts.”⁸³ Starbucks had also offered its first Costco tie-in, five \$20 Starbucks gift cards for \$80, during the 2008 holiday season. In addition, Starbucks planned to pay more attention to advertising—the company had famously prided itself on its tiny ad budget—in the face of waning sales, building on a winter 2007 national TV ad campaign and a 2008 Election Day giveaway that had generated strong buzz. As Schultz put it, “The old rules of engagement no longer apply.”⁸⁴

Even the Starbucks message of fair pricing became an arena of competition. A Dunkin’ Donuts marketing executive noted that the chain “might” begin promoting the fair-trade certification of its espresso beans, and a Caribou spokesperson pointed out that about 60 percent of the company’s coffee was Rainforest Alliance–certified (i.e., met certain environmental and worker-condition standards), which “goes so much further than just saying you paid a fair price for it.”⁸⁵

The Push for International Growth

As early as the mid-2000s, Starbucks set its sights on disproportionate growth overseas as U.S. sales slowed. The company’s vision statement, presented at its annual meeting in 2005, made clear its global ambitions (see **Exhibit 5**). At the time, however, international operating margins were estimated at about 8.4 percent, about half those in the United States.⁸⁶

When Howard Schultz returned as CEO in early 2008, he announced plans to ramp up the company’s expansion overseas, including using some capital that had been reserved for new U.S. stores.⁸⁷ Even as Starbucks closed 600 U.S. stores and planned to shutter 300 more, the company made plans to open about 700 stores overseas in 2009; two-thirds were to be licensed cafes in supermarkets, bookstores, and other venues.⁸⁸

Bean There, Done That

By early 2009 Starbucks had nearly 5,500 international stores in 50 countries, comprising about a third of its total locations (see **Exhibit 6**). The retailer’s international business had been profitable since 2004.

Japan was a key geography for Starbucks, with just over 850 stores. The United Kingdom was another focal point, with nearly 700 stores in early 2009. Starbucks opened its first store in Moscow in 2007. Ironically, Starbucks coffee was less expensive than most coffees already

⁸³ A William Blair & Company survey standardized drink sizes to show that some Starbucks coffee varieties were actually cheaper, volume wise, than their Dunkin’ Donuts counterparts; McDonald’s drinks were still less expensive, but the price gap had diminished since 2007. Ekin Middleton, “Starbucks Offers Coffee-Breakfast Combos, Cites Economy,” *CNN.com*, February 2, 2009.

⁸⁴ York, “Starbucks’ 4Q Profit Down 97%.”

⁸⁵ York, “Java Giants Brace for McCafé.”

⁸⁶ “Starbucks Conference to Tout Foreign Growth,” *MSNBC.com*, October 2, 2006.

⁸⁷ Elizabeth Gillespie, “Starbucks Replaces CEO with Chairman,” *Chicago Tribune*, January 8, 2008.

⁸⁸ Brad Stone, “Starbucks Profits Down Sharply on Restructuring Costs,” *New York Times*, November 11, 2008.

available in Russia's capital at the time, but that did not stop Muscovites from complaining.⁸⁹ China remained one of the most promising geographies for expansion; in 2005 Schultz said, "We didn't realize . . . how big and what an opportunity China would be for the company."⁹⁰

To enter a new geography, Starbucks typically selected a partner for a joint venture. For example, the company partnered with Japan-based retailer Sazaby to begin operations in that country. Similarly, it created a joint venture with President Coffee to enter Shanghai and Taiwan. Starbucks selected partners based on several key criteria, including shared values and culture, strategic fit, committed top management, local business leadership, food and beverage knowledge, and capabilities managing licensed and premium brands and concepts.

Starbucks also entered foreign markets by acquisition. For example, to enter the United Kingdom in 1998 the company purchased Seattle Coffee Company, a chain of sixty coffee bars in London, and converted the stores to the Starbucks brand. Regardless of mode of entry, the company strove to adapt to local culture. As Schultz put it, "We remain highly respectful of the culture and traditions of the countries in which we do business. We recognize that our success is not an entitlement."⁹¹

To identify locations for new stores, Starbucks relied on small research teams that combined analyses of pavement traffic and local buzz with real-estate knowledge, recognizing that location-identifying tools used in the United States (e.g., computerized mapping databases) were unlikely to be as useful overseas. As in the United States, Starbucks International relied primarily on its high-profile stores and word of mouth rather than traditional advertising.⁹²

Product mix and innovation, tailored to local markets, were key drivers of the company's success overseas. For example, when same-store sales in Japan sagged in 2002, Starbucks introduced the "Destinations" line of chilled coffee drinks into convenience stores there (Japan's ready-to-drink coffee market was \$14 billion versus \$1 billion in the United States) and bolstered revenues by offering an enhanced in-store food menu with seasonal items. Other product and service tactics for foreign markets included offering Turkish coffee in that geography, using vending machines due to their popularity in Japan, and featuring fresh-squeezed orange juice in Spain.

Despite these customized product tactics in specific markets, Starbucks International offered largely the same value proposition that domestic stores did: an upscale coffeehouse experience featuring high-quality products and exemplary service, at a premium price. For example, in September 2007, when asked how Starbucks justified charging premium prices in a country where the average annual income was about \$1,300, Wang Jinglong, president of Starbucks Greater China said, "We don't offer a simple cup of coffee. It's beyond that and it's the experience. . . . It is a premium price and we know that, but Starbucks last year in China was one of the top 10 luxury brands."⁹³ Thus the Starbucks experience was seen as equally, if not more, important in foreign countries.

Some international tactics went beyond consumer perceptions and experiences. For example, Starbucks highlighted its local sourcing in Thailand as a way of connecting with that market. For

⁸⁹ Zack O'Malley Greenburg, "World's Most Expensive Cups of Coffee," *Forbes*, July 24, 2008.

⁹⁰ Blumenthal, *Grande Expectations*, 80.

⁹¹ "Starbucks Opens First Store in Zurich, Switzerland," *Business Wire*, March 7, 2001.

⁹² Schultz and Yang, *Pour Your Heart Into It*.

⁹³ Craig Harris, "Q&A: Starbucks Exec Talks of High Hopes for Growth in Asia," *Seattle Post-Intelligencer*, September 3, 2007.

the Muan Jai coffee blend, which was sold exclusively in Thailand, Starbucks paid Thai farmers in the country's northern mountainous districts fair-trade prices for their arabica coffee beans.

Uncharted Territory

Despite the company's growing international presence, there were many geographies still free of its green and white logo.

But not all target destinations presented easy accessibility. For example, in 2007 Starbucks suddenly put plans for India-based stores on hold. A company statement informed the Indian government that Starbucks would "postpone . . . entry into India and officially withdraw the application to operate single-brand retail stores" there.⁹⁴ The statement provided no further details on the decision.

Even where Starbucks had already established an international presence, it faced a variety of challenges.

Challenges on Foreign Soil

With further international expansion came new challenges for Starbucks. A particularly common problem involved imitators of the powerhouse brand. See **Exhibit 7** for examples of overseas imitators' stores and logos. Similarly, because the company had failed to trademark its name and brand in Russia, it had to pay an opportunist to secure the rights to these in 2007.

Starbucks was known for pursuing trademark infringement cases aggressively. In 2003 the company sued Shanghai Xingbake Café ("xing" means "star" in Mandarin) for using its name and copying its café design. The Chinese company was ordered to pay Starbucks the equivalent of \$62,000 in damages.⁹⁵

Other challenges concerned perceptions of Starbucks by international consumers and influencers. For example, the company had been criticized for its Beijing store, located at the 600-year-old Forbidden City historic site. The store had opened in 2000 at the invitation of Forbidden City managers. But in 2006 influential Chinese TV personality Rui Chenggang called the Starbucks outlet a "symbol of low-end U.S. food culture and an insult to Chinese civilization," saying it "marred the solemnity of the Forbidden City and undermined Chinese culture."⁹⁶ Thousands called for Starbucks to leave the Forbidden City. The chain departed in July 2007, when managers of the Forbidden City decided to operate all concessions from inside the former imperial palace (now a museum).

Similarly, when Ethiopia attempted to trademark three of its local coffee beans—Sidamo, Harar, and Yirgacheffe—the UK charity Oxfam claimed that Starbucks asked the National Coffee Association (NCA) to block Ethiopia's efforts, which would have hurt Ethiopian farmers.⁹⁷

⁹⁴ "Starbucks Puts India Plan on Hold," *USAToday*, July 25, 2007.

⁹⁵ Chris Noon, "Schultz's Starbucks Wins China Copyright Case," *Forbes*, January 2, 2006.

⁹⁶ Melissa Allison, "Starbucks Closes Forbidden City Store," *Seattle Times*, July 13, 2007.

⁹⁷ "Starbucks in Ethiopian Coffee Row," *BBC News.com*, October 26, 2006, <http://news.bbc.co.uk/2/hi/africa/6086330.stm> (accessed June 15, 2009).

Starbucks denied taking such actions, but the news highlighted yet another challenge the company faced maintaining goodwill in foreign markets.

In 2008 Starbucks announced that it would close 61 Australian stores, or most of its outlets there. According to some observers, the company had failed to match its products to the local market, offering “hot coffee-based smoothies” made from bitter, weak coffee to consumers “raised on a diet of real espresso.”⁹⁸ Starbucks may also have failed to offer the Australian market a truly “organic” experience by blanketing the country with new stores—including one on Lygon Street in Carlton, where Australian coffee was “born”—rather than starting small to stimulate attention and demand. Of note, other, smaller chains such as Hudsons and Gloria Jean’s had better success in Australia by “offering a brand experience that’s comfortable to Australians” (e.g., limited menus with more basic products).⁹⁹

Perhaps the highest hurdle to the company’s success abroad was competition, cited as one of the key factors to blame for sales dips in this millennium in Japan and the UK.¹⁰⁰ McDonald’s McCafés had been established in Australia in the early 1990s and appeared in Europe (first in Ireland) in 2002; by 2009 almost half of Germany’s 1,200 McDonald’s outlets had McCafés, while they appeared in about 20 percent of Italian and Russian outlets. In mid-2009, McDonald’s announced its plan to have 1,200 McCafés in Europe by the end of that year. “We can become the biggest seller of coffee in Europe,” said Jerome Tafani, CFO for McDonald’s Europe.¹⁰¹ (By way of comparison, Starbucks had 1,300 stores in Europe at the time and planned to slow its expansion there.) Additionally, McDonald’s had a cost advantage: opening McCafés in existing restaurants cost about €75,000 on average, far less than the price tag of a new Starbucks store.

The Future of Starbucks

As CEO Howard Schultz and his team charted the future of the retail giant he had founded more than two decades earlier, they had to grapple with a deep and ongoing global economic slump, mounting worldwide competition from major food-service players, and new markets with far different tastes and expectations from the United States and other regions where Starbucks was well established. The executives knew that international expansion was their best bet for driving the high-powered growth Starbucks had delivered for nearly its entire history. Yet they recognized, in part from early failures in geographies such as Australia, that overseas markets might not respond to the three-pronged Starbucks value proposition as well as hoped.

In this context Schultz and other Starbucks executives mapped out their overseas expansion strategy, watched carefully by their employees, shareholders, competitors, industry observers, and a world of consumers who averaged two cups of coffee a day.

⁹⁸ John Mescall, “Starbucks in Australia: Where Did It Go Wrong?” *Unleashed*, August 7, 2008, <http://www.abc.net.au/unleashed/stories/s2326971.htm> (accessed July 17, 2009).

⁹⁹ Ibid.

¹⁰⁰ Blumenthal, *Grande Expectations*.

¹⁰¹ Jenny Wiggins, “McDonald’s Set to Mug Starbucks in Europe,” *Financial Times*, May 26, 2009.

Case Questions

1. Why does Starbucks decide to enter a given market?
2. What opportunities exist in new market(s) for the Starbucks brand?
3. What are the Starbucks brand associations in the United States? Globally? In new market(s)?
4. Who are the main competitors for Starbucks in the United States? Overseas?
5. How does Starbucks pick and manage key alliances with other brands?
6. What makes the Starbucks brand successful today? In the United States? In new market(s)?
7. Can a brand like Starbucks continue to grow successfully? How?
8. How successful has Starbucks been in keeping with its 2005 vision statement?

Exhibit 1: Starbucks Store Counts by Country (period ending March 29, 2009)

Geography	Store Count	Geography	Store Count
<i>Asia-Pacific (licensed)</i>		<i>Americas (licensed)</i>	
Indonesia	72	Argentina	6
Japan	854	Bahamas	8
Malaysia	121	Brazil	19
New Zealand	42	Canada	248
Philippines	155	Mexico	261
China	506	Peru	24
<i>EMEA (licensed)</i>		<i>International (co-operated)</i>	
Austria	12	Australia	23
Bahrain	10	Canada	768
Belgium	2	Chile	30
Bulgaria	2	China	184
Cyprus	9	Germany	142
Czech Republic	9	Ireland	23
Denmark	2	Puerto Rico	22
Egypt	19	Singapore	64
France	48	Thailand	136
Greece	74	United Kingdom	677
Ireland	4	<i>United States (licensed and co-operated)</i>	
Jordan	10	United States	11,446
Kuwait	58		
Lebanon	17		
Oman	7		
Portugal	3		
Qatar	9		
Romania	6		
Russia	12		
Saudi Arabia	70		
Spain	79		
Switzerland	45		
The Netherlands	3		
Turkey	120		
United Kingdom	40		
UAE-Dubai	84		

Source: Starbucks Investor Relations Web site, Financial Highlights, Supplemental Statistics section (accessed July 8, 2009).

Exhibit 2: Starbucks Revenues (\$ in millions)

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Consolidated	103	177	285	465	698	975	1,300	1,700	2,200

	2001	2002	2003	2004	2005	2006	2007	2008
Consolidated	2,600	3,300	4,100	5,300	6,400	7,800	9,400	10,400
United States	2,300	2,800	3,500	4,300	5,100	6,200	7,300	7,900
International	350	461	603	794	1,000	1,300	1,700	2,100
CPG ^a				235	249	305	366	393

^a Consumer packaged goods including whole-bean coffee.

Source: Starbucks Investor Relations Web site, Financial Highlights, Supplemental Statistics section (accessed July 8, 2009).

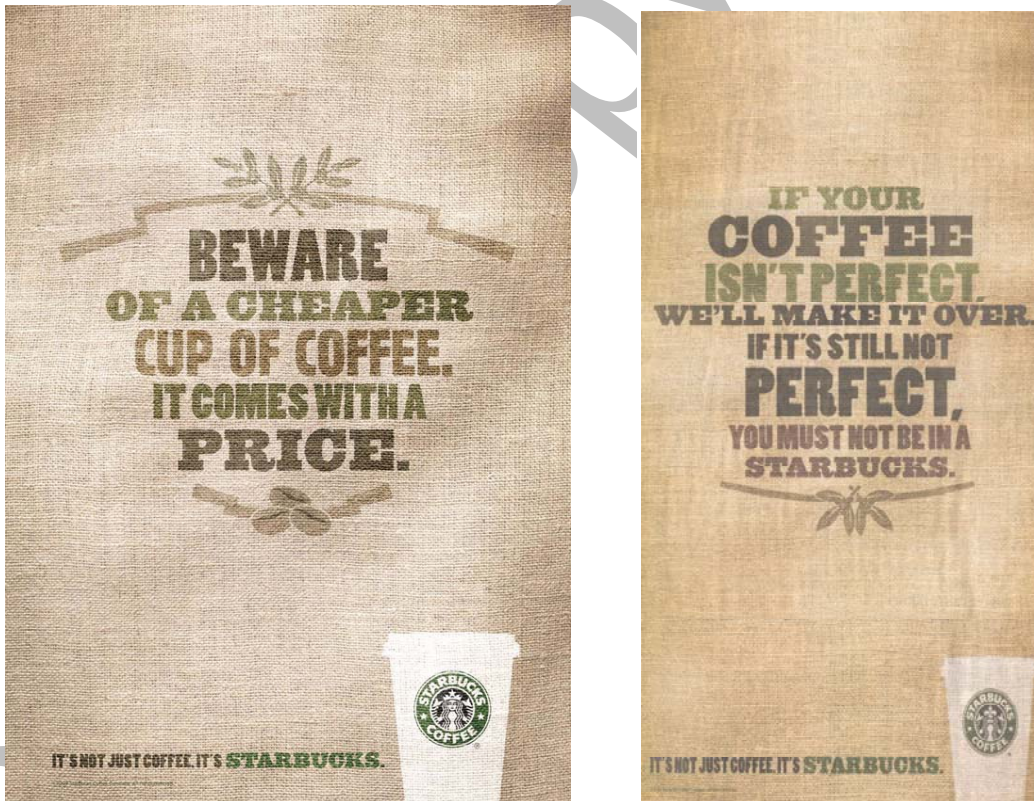
Exhibit 3: Starbucks Print Advertisement, 2009

Exhibit 3 (cont'd)



Source: "Starbucks Ad Campaign Gutsy, But Can It Work?" <http://www.seattlepi.com> (accessed July 8, 2009).

Exhibit 4: Starbucks Same-Store Sales Growth (%)

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Consolidated	9	7	5	5	6	9	5	6	8
United States						9	5	7	9
International						12	3	1	7

	2004	2005	2006	2007	2008
Consolidated	10	8	7	5	-3
United States	11	9	7	4	-5
International	6	6	8	7	2

Source: Starbucks Investor Relations Web site, Financial Highlights, Supplemental Statistics section (accessed July 8, 2009).

Exhibit 5: Starbucks Vision Statement, 2005


Vision

- Be known as one of the world's great companies
- Create one of the world's greatest brands
- Maintain an uncompromising commitment to coffee quality
- Create a great work environment and believe in the power of our people
- Lead with integrity, courage and passion
- Maintain our commitment to our communities and the environment



Source: Starbucks 2005 Annual Shareholders Meeting.

Exhibit 6: Starbucks Self-Identified International Destinations

Starbucks has stores in the following fifty markets:

Argentina	Kuwait
Austria	Lebanon
Bahamas	Malaysia
Bahrain	Mexico
Brazil	New Zealand
Bulgaria	Oman
Canada	Peru
Channel Islands	Philippines
Chile	Poland
China	Portugal
Cyprus	Puerto Rico
Czech Republic	Qatar
Denmark	Romania
Egypt	Russia
England	Saudi Arabia
France	Scotland
Germany	Singapore
Greece	Spain
Hawaii	Switzerland
Hong Kong S.A.R./Macau	Taiwan
Indonesia	Thailand
Ireland	Turkey
Japan	United Arab Emirates
Jordan	United States
Korea	Wales

Exhibit 7: International Imitators of Starbucks