

- c. What would happen if the U.S. government required that flat panel displays sold in the United States had to also be made in the United States? On balance, would this be a good or a bad thing?
- d. What does the example of Vizio tell you about the future of production in an increasingly integrated global economy? What does it tell you about the strategies that enterprises must adopt to thrive in highly competitive global markets?

Research Task globaledge.msu.edu

Globalization

Use the globalEDGE™ site to complete the following exercises:

Exercise 1

Your company has developed a new product that has universal appeal across countries and cultures. In fact, it is expected to achieve high penetration rates in all the countries where it is introduced, regardless of the average income of the local populace. Considering the costs of the product launch, the management team has decided to initially introduce the product only in countries that have a sizable population base. You are required to prepare a preliminary report with the top 10 countries in terms of population size. A member of management has indicated that a resource called the “World Population Data Sheet” may be useful for the report. Since growth opportunities are

another major concern, the average population growth rates should be listed also for management’s consideration.

Exercise 2

You are working for a company that is considering investing in a foreign country. Investing in countries with different traditions is an important element of your company’s long-term strategic goals. As such, management has requested a report regarding the attractiveness of alternative countries based on the potential return of FDI. Accordingly, the ranking of the top 25 countries in terms of FDI attractiveness is a crucial ingredient for your report. A colleague mentioned a potentially useful tool called the “FDI Confidence Index” which is updated periodically. Find this index and provide additional information regarding how the index is constructed.

CLOSING CASE

The Globalization of Starbucks

Thirty years ago, Starbucks was a single store in Seattle’s Pike Place Market selling premium-roasted coffee. Today it is a global roaster and retailer of coffee with some 16,700 stores, 40 percent of which are in 50 countries outside of the United States. Starbucks set out on its current course in the 1980s when the company’s director of marketing, Howard Schultz, came back from a trip to Italy enchanted with the Italian coffeehouse experience. Schultz, who later became CEO, persuaded the company’s owners to experiment with the coffeehouse format—and the Starbucks experience was born. The strategy was to sell the company’s own premium roasted coffee and freshly brewed espresso-style coffee beverages, along with a variety of pastries, coffee accessories, teas, and other products, in a tastefully designed coffeehouse setting. The company focused on selling “a third place experience,” rather than just the coffee. The formula led to spectacular success in the United States, where Starbucks went from obscurity to one of the best-known brands in the country in a decade. Thanks to Starbucks,

coffee stores became places for relaxation, chatting with friends, reading the newspaper, holding business meetings, or (more recently) browsing the web.

In 1995, with 700 stores across the United States, Starbucks began exploring foreign opportunities. The first target market was Japan. The company established a joint venture with a local retailer, Sazaby Inc. Each company held a 50 percent stake in the venture, Starbucks Coffee of Japan. Starbucks initially invested \$10 million in this venture, its first foreign direct investment. The Starbucks format was then licensed to the venture, which was charged with taking over responsibility for growing Starbucks’ presence in Japan.

To make sure the Japanese operations replicated the “Starbucks experience” in North America, Starbucks transferred some employees to the Japanese operation. The licensing agreement required all Japanese store managers and employees to attend training classes similar to those given to U.S. employees. The agreement also required that stores adhere to the design parameters

established in the United States. In 2001, the company introduced a stock option plan for all Japanese employees, making it the first company in Japan to do so. Skeptics doubted that Starbucks would be able to replicate its North American success overseas, but by the end of 2009 Starbucks had some 850 stores and a profitable business in Japan.

After Japan, the company embarked on an aggressive foreign investment program. In 1998, it purchased Seattle Coffee, a British coffee chain with 60 retail stores, for \$84 million. An American couple, originally from Seattle, had started Seattle Coffee with the intention of establishing a Starbucks-like chain in Britain. In the late 1990s, Starbucks opened stores in Taiwan, China, Singapore, Thailand, New Zealand, South Korea, and Malaysia. In Asia, Starbucks' most common strategy was to license its format to a local operator in return for initial licensing fees and royalties on store revenues. As in Japan, Starbucks insisted on an intensive employee-training program and strict specifications regarding the format and layout of the store.

By 2002, Starbucks was pursuing an aggressive expansion in mainland Europe. As its first entry point, Starbucks chose Switzerland. Drawing on its experience in Asia, the company entered into a joint venture with a Swiss company, Bon Appetit Group, Switzerland's largest food service company. Bon Appetit was to hold a majority stake in the venture, and Starbucks would license its format to the Swiss company using a similar agreement to those it had used successfully in Asia. This was followed by a joint venture in other countries.

As it has grown its global footprint, Starbucks has also embraced ethical sourcing policies and environmental responsibility. Now one of the world's largest

buyers of coffee, in 2000 Starbucks started to purchase Fair Trade Certified coffee. The goal was to empower small-scale farmers organized in cooperatives to invest in their farms and communities, to protect the environment, and to develop the business skills necessary to compete in the global marketplace. In short, Starbucks was trying to use its influence to not only change the way people consumed coffee around the world, but also to change the way coffee was produced in a manner that benefited the farmers and the environment. By 2010, some 75 percent of the coffee Starbucks purchased was Fair Trade Certified, and the company has a goal of increasing that to 100 percent by 2015.⁸⁰

Case Discussion Questions

1. Where did the original idea for the Starbucks format come from? What lesson for international business can be drawn from this?
2. What drove Starbucks to start expanding internationally? How is the company creating value for its shareholders by pursuing an international expansion strategy?
3. Why do you think Starbucks decided to enter the Japanese market via a joint venture with a Japanese company? What lesson can you draw from this?
4. Is Starbucks a force for globalization? Explain your answer.
5. When it comes to purchasing coffee beans, Starbucks adheres to a "fair trade" program. What do you think is the difference between fair trade and free trade? How might a fair trade policy benefit Starbucks?

Notes

1. "Offshoring Your Lawyer," *The Economist*, December 19, 2010, p. 132; D. Itzkoff, "A Legal Victory for Ali G and Sacha Baron Cohen," *The New York Times*, April 21, 2009; and D. A. Steiger, "The Rise of Global Legal Sourcing," *Business Law Today*, December 2009, pp. 38–43.
2. Trade statistics from World Trade Organization press release, "Trade Growth to Ease in 2011 but Despite 2010 Record Surge, Crisis Hangover Persists," April 7, 2011; and Foreign Exchange statistics from Bank for International Settlements at www.bis.org/index.htm.
3. Thomas L. Friedman, *The World Is Flat* (New York: Farrar, Straus and Giroux, 2005).
4. Ibid.
5. T. Levitt, "The Globalization of Markets," *Harvard Business Review*, May–June 1983, pp. 92–102.
6. U.S. Department of Commerce, "A Profile of U.S. Exporting Companies, 2000–2001," February 2003; report available at www.census.gov/foreign-trade/aip/index.html#profile.
7. Ibid.
8. C. M. Draffen, "Going Global: Export Market Proves Profitable for Region's Small Businesses," *Newsday*, March 19, 2001, p. C18.
9. B. Benoit and R. Milne, "Germany's Best Kept Secret, How Its Exporters Are Betting the World," *Financial Times*, May 19, 2006, p. 11.
10. See F. T. Knickerbocker, *Oligopolistic Reaction and Multinational Enterprise* (Boston: Harvard Business School Press, 1973); and R. E. Caves, "Japanese Investment in the U.S.: Lessons for the Economic Analysis of Foreign Investment," *The World Economy* 16 (1993), pp. 279–300.