STARBUCKS: AN ENTREPRENEURIAL COFFEE HOUSE EXPERIENCE HOLLOWED OUT BY DIVERSIFICATION AND DIFFERENTIATION

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ABSTRACT

Over three decades Starbucks introduced a wider variety of experiences. It served hot and cold drinks, whole-bean coffee, micro-ground instant coffee, espresso, café latte, full and loose-leaf teas, juices Frappuccino beverages, pastries, and snacks.

Starbucks commanded substantial brand loyalty, market share, and company value. Its growth coincided with the growth of the specialty coffee industry but attracted significant competitors. Rapid expansion into coffee service and coffee away eroded Starbucks supply chain. Relentless versification and product differentiation eroded the earlier vision of a coffee house experience.

The notion of creating a coffee house experience started slipping. To-go orders represented 80% of transactions in 2019. Customers placed one-fifth of orders through the mobile app. Cold beverages, inherently more portable than hot, outsold hot drinks. The communal nature of the cafés eroded, and with-it Starbucks's brand identity.

The chain long described itself as a "third place," between work and home, where customers could lounge for hours. But the pandemic upended that hanging-out model. So too did the rise of mobile app pickup and drive-through orders that drastically reduced customers' time in stores and increased expectations of quick service, putting more pressure on baristas.

Even consumers' evolving drink preferences led to changes. As customized frozen drinks, which required more intricate and labor-intensive preparation, grew in popularity, Starbucks retooled its stores to help its baristas.

Starbucks offered coffee and Frappuccino with almost 50% discounts. Increased demand for the labor-intensive Frappuccino only heightened the stress on the already stressed baristas to meet the demand for these elaborate drinks. Starbucks became a focal point for resurgent unionization movement workers pressed for higher pay and better working conditions.

Keywords: Core Competencies, Diversification, Culture, Trade Agreements, Joint Venture, Localization, Investment Strategies, Vertical Integration.

INTRODUCTION

Starbucks, a multinational chain of coffeehouses and roastery reserves, headquartered in Seattle, Washington became the world's largest coffeehouse chain. Starbucks included 33,833 stores in 80 countries with15,444 located in the United States. Starbucks' U.S.-based stores included 8,900 are company-operated stores (Statista 2021).

Over three decades Starbucks introduced a wider variety of experiences. It served hot and cold drinks, whole-bean coffee, micro-ground instant coffee, espresso, café latte, full and loose-leaf teas, juices Frappuccino beverages, pastries, and snacks.

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Act I (1986 2008) The Beginnings

Starbucks opened its first store in Seattle, Washington, on March 30, 1971. Originally, Starbucks stores sold just coffee beans and not drinks (Farr 2017).

In 1982 Howard Schultz, a nascent entrepreneur, joined Starbucks as manager of retail sales and marketing. When Schulz visited Italy a few years later he discovered coffee was an integral part of the Italian culture. Schultz's enthusiasm about creating a national chain of coffee cafes was not shared by the Starbucks owners who preferred to remain in the coffee bean business. Schultz eventually left the firm and opened coffee bar Il Giornale where he served Starbucks coffee (Kotha 2003).

In 1987, the original owners sold the Starbucks chain to Howard Schultz, who rebranded his Il Giornale coffee outlets as Starbucks and quickly expanded the company (Peiper 2018). While many firms focused on entering all potential markets Starbucks preferred to enter a market and dominate the market before moving on. By clustering stores, they increased foot traffic, reduced delivery costs, and increased awareness. This strategy proved successful as Starbucks expanded (Kotha 2003).

While most coffee cafés purchased roasted beans, Starbucks operated multiple roasting and distribution centers. Roasting represented a critical part of the value chain and remained in house (Kotha 2003).

From the outset Schultz focused on providing a coffee house experience and superior customer service. They focused on well-trained and compensated permanent employees. Full-time and part time employees received stock options, health benefits and retirement benefits. This created a dedicated and reliable workforce with minimal turnover. Initially, Starbucks owned and operated all the restaurants. In later years Starbucks used franchising to airports, hotels, grocers and others but not to individuals. Starbucks used licensing, and joint ventures as well as full ownership to expand internationally (Hill and Jones 2009).

In June of 2000, Schultz stepped down as CEO but continued as Chairman of the Board and Chief Global Strategist He remained involved in business development and international expansion (Frey 2003) (Jones 2008).

International Expansion

In 1987, Starbucks opened its first locations outside of Seattle in Waterfront Station in Vancouver, British Columbia (Daily Telegraph 2011).

In July 1996, under a 50-50 master license, the first Starbucks location opened outside of North America in Tokyo, Japan. In September 2014, due to the failure of their partner to expand rapidly, Starbucks announced the acquisition of the remaining stake in Starbucks Coffee Japan (Baertlein 2014).

After a decade in China, Starbucks opened its 500th store in China (Business Wire 2011). In the largest single acquisition in its history, Starbucks paid US$1.3 billion to acquire the remaining 50 percent share of its East China business from its joint venture partners (Bloomberg News 2017).

Starting in 2017, competition in the Chinese coffee market intensified between Starbucks and Luckin Coffee. For two decades Starbucks was the largest coffeehouse in China. In January 2020, Luckin Coffee overtook Starbucks. Luckin operated 4,500 stores in China compared to Starbucks' 4,200. The 2018 trade war between the U.S. and China led to a resurgence of Luckin Coffee in late-April 2020 (Lidsky 2020).

In January 2012, despite a false start in India, Starbucks created a 50:50 joint venture with Tata Global Beverages called Tata Starbucks. Tata Starbucks owned and operated Starbucks outlets in India as Starbucks Coffee 'A Tata Alliance' (Starbucks 2012).

In 1998, Starbucks entered the United Kingdom with the acquisition of the retail outlets and coffee bean seller, UK-based Seattle Coffee Company. Starbucks re-branded those stores as Starbucks. Recently, Starbucks blamed the collapse in UK profits on slowing economic growth and the impact of Brexit among the factors hitting consumer confidence. Over the past decade Starbucks faced fierce competition as rival chain Costa Coffee grew rapidly to become the UK market leader (Guardian 2017).

In September 2007, Starbucks opened its first store in Russia, ten years after first registering a trademark

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there. After the Russian invasion of Ukraine, on May 21, 2022, Starbucks announced closure of all outlets in Russia.

ACT II (2008-2022): Unprecedented Growth

As of January 2019, Starbucks had become an $80 billion business (CNBC 2019). Starbucks growth coincided with the growth of the specialty coffee industry, but also attracted significant competitors. These included local high end specialty coffee providers, such as Caribou and Tim Hortons, and fast-food providers, such as Dunkin and McDonalds. Rapid expansion into both coffee service and coffee away eroded Starbucks supply chain. Relentless versification and product differentiation had eroded the earlier vision of a coffee house experience.

On January 7, 2008, after an eight-year hiatus, Schultz returned as CEO of Starbucks during the height of the 2008 financial crisis. Starbucks received increased criticism for employee work conditions. From February 2008 to January 2009, Starbucks terminated an estimated 18,400 U.S. jobs and started closing 977 stores worldwide (Allison 2009).

In 2009, Starbucks began beta testing its mobile app for the Starbucks card, a stored value system in which consumers accessed pre-paid funds to purchase products at Starbucks. By December 2011, the number of mobile transactions exceeded 26 million (Starbucks 2011).

Acquisitions

In 2012, Starbucks acquired Teavana, a retail chain specializing in brewed and packaged loose-leaf tea, as well as tea accessories and related products. Under Starbucks, Teavana expanded to 379 retail locations. In 2017, Starbucks closed all Teavana retail stores. Starbucks continued selling loose-leaf teas and tea-related products under the Teavana brand in its stores and online (Reiff 2020).

Starbucks purchased Bay Bread Group, the owner of the La Boulange bakery chain in the San Francisco area in 2012. Starbucks made the acquisition to increase food offerings at its retail stores. Initially, Starbucks intended to expand the chain to 400 locations nationwide. However, Starbucks shifted course and closed all La Boulange locations. As with Teavana, Starbucks continued to sell La Boulange products in its own retail shops (Reiff 2022).

Evolution Fresh manufactured bottled fruit juices as well as vegetable and fruit juice blends. Evolution Fresh sold its products at Starbucks locations as well as other grocery stores and retailers. After opening a handful of locations, Starbucks closed all Evolution Fresh stores in 2017. Starbucks continued to sell Evolution Fresh branded products in its stores (Reiff2022).

New Products

In March 2009, Starbucks introduced a line of instant coffee packets, called VIA "Ready Brew". The first two VIA flavors included Italian Roast and Colombia, which it rolled out in October 2009, across the U.S. and Canada (Jargon 2009).

In November 2012, Starbucks Verismo introduced a line of coffee makers that brewed espresso and regular chocolate from coffee capsules, a type of pre-apportioned single-use container of ground coffee and flavorings utilizing the K-Fee pod system (Wakelin 2012).

In June 2014, Starbucks began offering its own line of carbonated sodas, dubbed "Fizzio." The drinks required a special machine to make (Starbucks 2014). In January 2022, Starbucks launched a line of canned energy drinks, called "Baya." The drink contained caffeine from the coffee bean (Wiener-Bonner 2022).

In December of 2016 Schultz again stepped down as CEO, assuming the position of executive Chairperson. From the 1980’s to his retirement in 2016, a series of coffee wars increased Starbucks from 11 coffee houses in Seattle to 28,000 stores in 77 countries. (Sorkin 2018). In June of 2018 Schultz announced that he would retire from active management of Starbucks (Meyersohn 2018).

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Technology

Schultz ushered in huge changes that steered Starbucks from the original coffee house experience. Starbucks had become a technology leader (Scientifically Speaking 2016). This focus on technology became even more obvious when Schulz chose Kevin Johnson to succeed him as CEO, a choice driven by Johnson's IT expertise and experience (Sokolowsky 2019).

Starbucks used reinforcement learning technology — a type of machine learning in which a system learned to make decisions in complex, unpredictable environments based upon external feedback — to provide a more personalized experience for customers who used the Starbucks® mobile app (Sokolowsky 2019).

Sixteen million active Starbucks® Rewards members received thoughtful recommendations from the app for food and drinks based on local store inventory, popular selections, weather, time of day, community preferences and previous orders (Sokolowsky 2019).

Starbucks partnered with Microsoft to deploy Azure Sphere, to secure the coming wave of connected internet of things that reduced disruptions and securely connected its devices in the cloud (Sokolowsky 2019). Starbucks also innovated ways to trace the journey its coffee make from farm to cup and to connect the people who drink it with the people who grew it. (Sokolowsky 2019).

The Pandemic

On March 20, 2020, due to the COVID-19 pandemic, Starbucks closed all its café-only stores in the United States for two weeks. COVID-19 lockdowns caused Starbucks to suffer a general 10% sales decrease, and a 50% decrease in China with strictly enforced quarantine measures (Sherman 2020).

In June 2020, the company closed four hundred of its locations in the US/Canada region over the subsequent 18 months as it moved from the coffee house concept to "convenience-led" formats with drive-through and curbside pickup. Starbucks planned to open three hundred stores that primarily focused on carryout and pickup orders (CNN 2020).

Act III (2022- 2023): The Gathering Storm

In Midtown Manhattan, on the ground floor of an office building, Starbucks operated a new type of coffee shop. It displayed no menu, just a metal riser that supported drinks waiting to be picked up. Customers passed through a turnstile that scanned their palm and logged into their Amazon account. Customers purchased coffee and food without uttering a word to anybody (Rainey 2022).

Starbucks marketed itself as a completely different Starbucks built on effortless convenience, called Starbucks Pickup with Amazon Go. This signaled a striking shift of Starbucks brand transformation from a warm coffee house experience to a tech-enabled caffeine depot (Rainey 2022).

Starbucks became the third-largest global restaurant chain, after Subway and McDonald's, and it grew faster than either. The company planned to add 2,000 stores, many of them in the explosive China market which since 2020, became the company's second largest market, where it opened a new store every 15 hours (Rainey 2022).

But even before the pandemic, the notion of creating a coffee house experience began slipping. To-go orders represented 80% of transactions in 2019. Customers placed one-fifth of orders through the mobile app. Cold beverages, inherently more portable than hot, outsold hot drinks. The communal nature of the cafés eroded, and with-it Starbucks's brand identity (Rainey 2022).

At the same time, Starbucks's relationship with its employees changed. In the summer of 2021 baristas at Starbucks began to organize. Employees at more than 150 Starbucks in 27 states filed petitions for union votes that mobilized one of the fastest-moving union drives in U.S. history (Rainey 2022).

What happened to Starbucks, the longtime bastion of progressive entrepreneurism, the progenitor of groundbreaking people-first policies, the first company that offered stock to even part-time employees, was in trouble. Nobody expected employees to revolt against a company like this. How did Starbucks reach this point

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and how much further did it move from its original DNA (Rainey 2022)?

Schultz, who returned to become interim CEO in April 2022, indicated an awareness of the issues. Yet Schultz, the architect of rapid diversification and differentiation, did not exactly improve the company's employee relations and the market pressures facing Starbucks remained intense, meaning the extreme tech-driven efficiency measures remained (Rainey 2022).

Employees said Starbucks showed less willingness to adjust processes and procedures to make their jobs easier. Staffing became a point of tension. A long-standing policy at the company required one barista to finish 10 customer orders—take payment, prepare the drinks, cook any food, and hand everything off—in 30 minutes. The push toward mobile ordering and drive thru's made some things more difficult. Starbucks even fueled this behavior by unleashing increasingly more elaborate drinks (Rainey 2022).

By many measures, Starbucks appeared to be an equitable and generous employer. According to the company's latest environmental and social impact report, females represented 69% of its workforce and minorities represented 47%. It boasted a 100 rating on the Human Rights Campaign's Corporate Equity Index, and 100 on the Disability Equality Index. It hired more than 26,000 veterans and was more than a quarter of the way to meeting its goal of hiring 10,000 refugees by 2022 to provide a Third Place of respite for those around the world who seek it (Rainey 2022).

But most of these initiatives represented the past. Since they launched, other companies not only copied them but improved on them (Rainey 2022).

Post Pandemic Problems

Staffing shortages impacted the restaurant industry and Starbucks felt the effects as well. The chain recently announced disrupted service for weeks to come. Shortages of ingredients and menu items plagued Starbucks for much of 2021 (Deminko 2022). Toward the end of 2021, customers complained about shortages of the Frappuccino mix and breakfast sandwiches—basic items that made up a classic Starbucks experience (Deminko 2022).

When mobile orders really began to take off, during the pandemic things became much more difficult for the already overworked Starbucks baristas. For one, the digital system allowed too many orders to come through at once. For another, the mobile app allowed endless drink customization that further delayed the process of drink-making (Deminko 2022). Starbucks workers' unionizing efforts, which took off in 2021, succeeded, despite the company's attempts to stifle them.

Schultz's First Move

Longtime Starbucks leader Howard Schultz — who returned as interim CEO in the Spring of 2022 suspended Starbucks' share buyback program and plowed those billions of dollars into the company instead (Ott and Durbin 2022).

The decision allowed Starbucks to invest more profit into people and stores- the only way to create long-term value for all stakeholders (Ott and Durbin 2022). The pivot in strategy came just three weeks after Starbucks announced that Schultz would be taking over the top role until they named a permanent CEO (Ott and Durbin 2022).

Mr. Schultz agreed that some of Starbucks' current problems appeared self-induced, but others occurred because of a change in consumer behavior, sped up by the pandemic. Many of Starbuck's sales came from cold beverages bought to go. (WSJ 2022). A similar issue faced Starbucks in China from startup to go venture Luckin Coffee. Schultz said "for the future of the company, we needed a domain of experiences in several disciplines that we did not have now. It required a different type of leader" (Wall Street Journal 2022).

What is next?

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Starbucks hired Laxman Narasimhan as its next chief executive, putting him in charge of the world's largest coffee chain as it grappled with a growing unionization movement, rising inflation and losses in China.

Mr. Narasimhan stepped into one of the world's most prominent corporate leadership roles, he took on the responsibility of leading more than 29,000 stores and 383,000 employees(Exhibit I) globally (www.macrotrends.net. 2021). A former senior PepsiCo executive, he most recently led Reckitt Benckiser, the British conglomerate.

Starbucks became a focal point for a resurgent unionization movement over the past year, as workers pressed for higher pay and better working conditions. Since December, Starbucks went from no unions at its 9,000 company-owned stores in the United States to 230, as of September 2022.

Starbucks faced other challenges as well. In its recent earnings report, its profit margins declined under pressure from the rising costs of ingredients and higher wages. It also suffered from lower sales in China, one of its biggest markets outside the United States.

Table 1
STARBUCKS DEVELOPMENT SINCE 2005

Year	Revenue In mil. US$	Net income In mil. US$	Total Assets In mil. US$	Average Price per Share in US$	Employees
2005	6,369	494	3,514	13.4	1,15,000
2006	7,787	564	4,429	17.62	1,45,800
2007	9,412	673	5,344	14.12	1,72,000
2008	10,383	316	5,673	7.61	1,76,000
2009	9,775	391	5,577	7.87	1,42,000
2010	10,707	946	6,386	13.07	1,37,000
2011	11,700	1,246	7,360	18.92	1,49,000
2012	13,277	1,384	8,219	25.63	1,60,000
2013	14,867	8	11,517	33.71	1,82,000
2014	16,448	2,068	10,753	37.78	1,91,000
2015	19,163	2,757	12,416	53.25	2,38,000
2016	21,316	2,818	14,313	56.59	2,54,000
2017	22,387	2,885	14,366	57.27	2,77,000
2018	24,720	4,518	24,156	57.5	2,91,000
2019	26,509	3,599	19,220	81.44	3,46,000
2020	23,518	928	29,375	82.33	3,49,000
2021	29,061	4,199	31,393	112.05	3,83,000

Source: www.macrotrends.net. 2021. "Starbucks Revenue 2006-2021 SBUX

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Even consumers' evolving drink preferences led to changes. As customized frozen drinks, which required more intricate and labor-intensive preparation, grow in popularity, the company retooled its stores with new layouts to help its baristas (Sorkin and Merced 2022).

On April 1, 2023, Laxman Narasimham took over the reins of Starbucks and interim CEO Howard Schultz exited. In the 12 months since Schultz became interim CEO, Starbucks went through a major turnaround highlighted by improved technology, extensive store remodels, the sale of Seattle Coffee to Nestle, store closings, and improved sales. However, improved profitability remained elusive and worker dissatisfaction

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continued (Haddon 2023).

In the quarter ending April 2, 2024, sales at Company operated Starbucks stores jumped 11% globally but below expectations. Work still needs to be done on operations, supply chain issues, and innovations (Weiner-Bronner 2023). Corporate diversification strategies and product differentiation have pushed Starbucks from the original coffee house experience.

After not offering special deals for decades, Starbucks coffee is now being discounted. Starbucks offered coffee and Frappuccino with almost 50% discounts. They assumed this led to increased demand (assuming elastic demand) and increased revenues. However, increased demand for the labor-intensive Frappuccino only heightened the stress on the already stressed baristas and can they increase supply to meet the demand for these elaborate drinks (Haddon 2024 b)?

A bigger long-term issue focused on the new CEO. The transition of leadership from Schultz to Narasimhan did not go well. Despite Schultz's mentoring and Narasimhan's training under Starbuck's veterans, performance declined, and tensions arose between the two. The criticism highlighted the struggles within Starbucks as it grappled with declining performance (Haddon 2024 a).

Case Synopsis

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Learning Objections and Discussion Questions		
Bloom Level	**Learning Objective**	**Discussion Questions**
4 Analyze **5 Evaluate**	L01. Explain the generic business level strategies employed by firms.	1. Describe and discuss the generic business level strategies employed by Starbucks.
4 Analyze **5 Evaluate**	LO2. Analyze the corporate strategies employed by firms.	2. Describe and discuss the corporate strategy employed by Starbucks.
4 Analyze **5 Evaluate**	LO3. Evaluate the global strategies with their advantages and disadvantages employed by multinational enterprises to enter international markets and modes of entry	3. Describe and discuss the global strategy employed by Starbucks.
2 Understand	LO4. Understand where firms in invest in the value chain.	4. Describe and discuss the operations employed by Starbucks to create value.
2 Understand	LO5. Understand the impact of cultural, and trade agreements on the ability to compete globally	5. Describe and discuss the role of customs and culture on Starbucks' success in going global
2 Understand	LO6. Discuss and review globalization including globalization of markets and globalization of production**.**	6. Describe and discuss how Starbucks is illustrative of globalization.

The case learning objectives include understanding globalization and the obstacles multinational enterprises face operating in a global environment.

L01. Explain the generic business level strategies employed by firms.
LO2. Analyze the corporate strategies employed by firms.
LO3. Evaluate the global strategies with their advantages and disadvantages employed by multinational enterprises to enter international markets.
LO4. Discuss the operations firms use to create value.
LO5. Explain the impact of culture, customs and trade agreements on going global.
LO6. Discuss and review globalization including globalization of markets and globalization of production.

Author Statement

The authors developed the case for class discussion rather than to illustrate either effective or ineffective handling of the situation. The authors grant state and nonprofit institutions the right to access and reproduce this manuscript for educational purposes. For all other purposes, all rights are reserved to the authors.

Associated reading or assignments

The case may be supplemented by outside readings from selected periodicals and journals, such as Bloomberg BusinessWeek, Economist, Financial Times, Forbes, and the Wall Street Journal among other business publications.

DISCUSSION QUESTIONS

DQ1. Describe and discuss the generic business level strategy employed by Starbucks. Why?

DQ2. Describe and discuss the corporate strategies used by Starbucks.

DQ3. What Strategy is used by in Starbucks going Global? What entry modes have been used by Starbucks?

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DQ4. Where does Starbucks invest in the value chain to create value and support its business level strategy?

DQ5. How have culture and trade agreements impacted the success or failure of Starbucks globally?

DQ6. Describe how has Starbucks benefitted from globalization?

RESEARCH METHOD

The methods used in researching the case used secondary data with readings from selected periodicals and journals, such as Bloomberg BusinessWeek, Economist, Financial Times, Forbes, and the Wall Street Journal among other business publications.

Teaching with the Case

The case was used to reinforce each of the subject areas and enhance the learning process. The intent was to have the case read by the students prior to each class meeting. The elements of the case were discussed with respect to the subject matter presented during class. Lastly, the next step presented specific questions related to the subject matter as covered in the case. The broad subject areas included:

- Business Level Strategies
- Corporate Strategy
- Global Strategy
- Globalization
- Industry Analysis
- Supply Chain
- Value Creation

Conceptual Analysis

The case learning objectives include understanding opportunities and threats facing multinational enterprises and the strategies they employ to achieve the goals of the firm as they operate in a global environment.

- Generic Business Level Strategies
- Corporate Strategy
- Global Strategy
- Operations create value

The case demonstrates that managing an international business differs from a domestic business. It is designed for an undergraduate or graduate course in international business or strategic management.

Theories, conceptual models, or laws: Generic Business Level Strategy

The competitive decisions involved in creating a business model that will attract and retain customers and continue to do so over time so that a company enjoys growing profitability. To create a successful business model, strategic managers must (1) formulate business-level strategies that will allow a company to attract customers away from other companies in the industry (its competitors) and (2) implement those business-level strategies, which also involves the use of functional-level strategies to increase responsiveness to customers, efficiency, innovation, and quality.

Generic business level strategies:

- Low-cost strategy allows firms to have price flexibility, based building blocks related to efficiency, product reliability and process innovation. Anything that lowers costs and allows price reductions. Firms invest in

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production and supply chain efficiency. Economies of scale are important. With a broad low-cost strategy, the firm sells low-cost products in the budget and premium markets.

- Differentiation or benefit strategy firms add value attributes to the product and charge higher prices, based on building blocks of product excellence, product innovation and customer satisfaction. Markets are highly segmented. With a broad differentiation strategy, the firm sells differentiated products in the budget and premium markets.

CORPORATE STRATEGY

Corporate-level strategies answer the primary questions: What business or businesses should we be in to maximize the long-run profitability and profit growth of the organization. How should we enter and increase our presence in these businesses to gain a competitive advantage?

Corporate-level strategy is used to identify (1) which businesses and industries a company should compete in; (2) which value creation activities it should perform in those businesses; and (3) how it should enter or leave businesses or industries to maximize its long-run profitability. In formulating corporate-level strategy, managers must adopt a long-term perspective and consider how changes taking place in an industry and in its products, technology, customers, and competitors will affect their company's current business model and its future strategies. They then decide how to implement specific corporate-level strategies to redefine their company's business model so that it can achieve a competitive position in the changing industry environment by taking advantage of the opportunities and countering the threats. Thus, the principal goal of corporate-level strategy is to enable the company to sustain or promote its competitive advantage and profitability in its present business and in any new businesses or industries that it enters.

GLOBAL STRATEGY

Companies that compete in the global marketplace typically face two competitive pressures: pressures for cost reductions and pressures to be locally responsive. These competitive pressures place conflicting demands on a company. Responding to pressures for cost reductions requires that a company try to minimize its unit costs. To attain this goal, it may need to base its productive activities at the most favorable low-cost location, wherever in the world that might be. It may also have to offer a standardized product to the global marketplace to realize the cost savings that come from economies of scale and learning effects. On the other hand, responding to pressures to be locally responsive requires that a company differentiate its product offering and marketing strategy from country to country to accommodate the diverse demands arising from national differences in consumer tastes and preferences, business practices, distribution channels, competitive conditions, and government policies. Because differentiation across countries can involve significant duplication and a lack of product standardization, it may raise costs. While some firms face high pressures for cost reductions and low pressures for local responsiveness, and others, face low pressures for cost reductions and high pressures for local responsiveness. Many have high pressures for both cost reductions and local responsiveness.

Companies typically choose among four main strategic postures when competing internationally: a global standardization strategy, a localization strategy, a transnational strategy, and an international strategy. The appropriateness of each strategy varies with the extent of pressures for cost reductions and local responsiveness.

The operations of a firm can be thought of as a value chain composed of a series of distinct value creation activities, including production, marketing, materials management, R&D, human resources, information systems, and the firm infrastructure. All functions of a company—such as production, marketing, product development, service, information systems, materials management, and human resources—have a role in lowering the cost structure and increasing the perceived utility (value) of products through differentiation. The value chain is the activities for transforming inputs into outputs that customers value. The transformation process involves primary activities and support activities that add value to the product. Primary activities have to do with the design, creation, and delivery of the product, its marketing, and its support and after-sales service. In the value chain the primary activities are broken down into four functions: research and development, production, marketing and sales,

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and customer service. The support activities of the value chain provide inputs that allow the primary activities to take place. These activities are broken down into four functions: materials management (or logistics), human resources, information systems, and company infrastructure. Company infrastructure is the company-wide context within which all the other value creation activities take place: the organizational structure, control systems, and company culture. Since top management can exert considerable influence in shaping these aspects of a company, top management should be viewed as part of the infrastructure of a company. Through strong leadership, top management can shape the infrastructure of a company and the performance of all other value-creation activities that take place within it.

GLOBALIZATION

Globalization refers to the trend towards a more integrated global economic system where barriers to cross-border trade and investment are declining, perceived distance is shrinking thanks to advances in transportation and telecommunications, and material cultures are more similar across borders. The globalization of production refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production (such as land, labor, capital, and energy), thereby allowing them to compete more effectively against their rivals. The globalization of markets refers to the merging of historically distinct and separate national markets into one huge global marketplace in which the tastes and preferences of consumers in different nations are beginning to converge upon some global norm. Firms, large and small, not only benefit from the globalization of markets, but they also, by offering the same basic products worldwide, facilitate the trend.

Two macro factors seem to underlie the trend toward greater globalization. First, the decline in barriers to the free flow of goods, services, and capital that has occurred since the end of World War II; and second, technological change. Dramatic technological change in recent decades has brought about advances in communication, information processing, and transportation.

Discussion Questions

DQ$_1$. Describe and discuss the generic business level strategy employed by Why?
DQ$_2$. Describe and discuss the corporate strategies used by.
DQ$_3$. What Strategy is used in Going Global? What entry modes have been used by Walmart?
DQ$_4$. Where does invest in the value chain to create value and support its business level strategy
DQ$_5$. How have culture and trade agreements impacted the success or failure of globally?
DQ$_6$. Describe how has benefitted from globalization?

Possible Answers to Discussion Questions

DQ1. Describe and discuss the generic business level strategies employed by Starbucks.

A firm's strategy is the actions that managers take to attain the goals of the firm.

To increase profitability and profit growth, firms can

- Add value
- Lower costs
- Sell more in existing markets
- Expand in new markets or internationally
- Managers need to keep in mind the complex relationship between profitability and profit growth when making strategic decisions about pricing.

Firm strategy must fit market conditions.

- The operations of the firm must support its position and its strategy
- The organizational architecture of the firm must match the firm's operations and strategy

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- For a firm to attain superior performance and earn a high return on capital, -profitability-its strategy must make sense given market conditions
- If market conditions shift, so must the firm's strategy, operations, and organization
- Firms that operate internationally can:
- Expand the market for their domestic product offerings by selling those products in international markets
- Earn a greater return by leveraging any valuable skills developed in foreign operations and transferring them to other entities within the firm's global network of operations

Core competencies

- Skills a firm's competitors cannot match
- Reduce the costs of value creation
- Yield a competitive advantage
- Create value to charge premium pricing

Generic business level strategies:

- Low-cost strategy allows firms to have price flexibility, based building blocks related to efficiency, product reliability and process innovation. Anything that lowers costs and allows price reductions. Firms invest in production and supply chain efficiency. Economies of scale are important. With a broad low-cost strategy, the firm sells low-cost products in budget and premium markets.
- Differentiation or benefit strategy firms add value attributes to the product and charge higher prices, based on building blocks of product excellence, product innovation and customer satisfaction. Markets are highly segmented. With a broad differentiation strategy, the firm sells differentiated products in the budget and premium markets.

Within the U.S. Starbucks successfully grew from a small urban coffee house chain to the world's largest coffee house chain. They created value by systematically providing premium coffee products and a unique experience.

Starbucks followed a differentiation strategy.

DQ$_2$. Describe and discuss the corporate strategy employed by Starbucks.

Corporate strategy is used to identify which industries a firm should compete in to maximize its long-run profitability. For many companies, profitable growth and expansion often entail finding ways to compete successfully within related industries with some commonality and share segments of the value chain. This is important in fast-growing and changing industries in which demands on a company's resources and capabilities are likely to be substantial, but where the long-term profits from establishing a competitive advantage are also likely to be substantial. A second advantage of staying within related industries is that a company stays focused on what it knows and does best consistent with its core competencies.

One corporate strategy that has been widely used to help managers strengthen their company's business model is horizontal integration. Horizontal integration is the process of acquiring or merging with industry competitors to achieve the competitive advantages that arise from a large size and scope of operations. An acquisition is when one company uses its capital resources, such as stock, debt, or cash, to purchase another company, and a merger is an agreement between equals to pool their operations and create a new entity.

In pursuing horizontal integration, managers decide to invest their company's capital resources to purchase the assets of industry competitors to increase profitability. Profitability increases when horizontal integration (1) lowers the cost structure, (2) increases product differentiation, (3) replicates the business model, (4) reduces rivalry within the industry, and (5) increases bargaining power over suppliers and buyers.

Many companies that use horizontal integration to strengthen their business model and improve their competitive position also use the corporate strategy of vertical integration for the same purpose. A firm pursuing vertical integration is entering new industries to support its "core" industry, the one that is the primary source of its

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competitive advantage and profitability. The firm is entering industries that add value to its core products because this increases product differentiation and/or lowers its cost structure, thus increasing its profitability.

A company pursuing a strategy of vertical integration expands its operations either backward into an industry that produces inputs for the company's products (backward vertical integration) or forward into an industry that uses, distributes, or sells the company's products (forward vertical integration). To enter an industry, a firm may establish its own operations and build the value chain needed to compete effectively or it may acquire a company already in the industry.

For a company based in the final assembly stage, backward integration means moving into component parts manufacturing and raw materials production. Forward integration means moving into distribution and sales (retail).

A firm pursues vertical integration to strengthen its original or core business and to improve its competitive position. Vertical integration increases product differentiation, lowers costs, or reduces industry competition when it (1) facilitates investments in efficiency-enhancing specialized assets, (2) protects product quality, and (3) results in improved scheduling.

A specialized asset is one that is designed to perform a specific task and whose value is significantly reduced in its next-best use. Companies invest in specialized assets because these assets allow them to lower their cost structure or to better differentiate their products, which facilitates premium pricing. A company might invest in specialized equipment to lower manufacturing costs. By entering industries at other stages of the value-added chain, a company can often enhance the quality of the products in its core business and so strengthen its differentiation advantage.

Diversification is related in industries that have some commonality and share segments of the value chain. Diversification is unrelated in industries with no commonality or shared parts of the value chain. Starbucks employed horizontal integration.In 1998, Starbucks entered the United Kingdom market with the US$83 million acquisition of the then 56-outlet, UK-based Seattle Coffee Company, re-branding all those stores as Starbucks.

In September 2006, rival Diedrich Coffee announced that it would sell most of its company-owned retail stores to Starbucks, including most locations of Oregon-based Coffee People, escalating regional coffee wars (Hirsch 2006). Starbucks used vertical integration. While most coffee cafés purchased roasted beans, Starbucks operated multiple roasting and distribution centers. To Starbucks roasting was a critical part of the value chain and should remain in house (Kotha 2003).

Starbucks engaged in related diversification.

Acquisitions and Partnerships Starbucks launched a line of packaged and prepared teas in response to growing demand for teahouses and packaged tea. As the tea line became exceedingly popular, in January of 1999 Starbucks acquired Tazo Tea, a Portland Oregon based tea company. Tazo was sold through Starbucks stores and in 2012 Starbucks opened its First Tazo branded tea shop, it closed the shop a year later. In 2017 Starbucks sold Tazo Tea to Unilever which owns Lipton Tea and PG Tips brands (Puget Sound Business Journal 2017).

Teavana was a retail chain specializing in brewed and packaged loose-leaf tea, as well as tea accessories and related products. The first Teavana teahouse opened in 1997. By the time Starbucks acquired it in 2012, the fast-growing retail chain had stores in hundreds of locations, all located in malls.7 Under Starbucks, Teavana had expanded to 379 retail locations by 2017, when Starbucks announced it would shut down all Teavana retail stores. Instead, Starbucks sells loose-leaf teas and tea-related products under the Teavana brand in its stores and online (Reiff 2020).

La Boulange was a bakery chain in the San Francisco area at the time of its acquisition by Starbucks in 2012. Starbucks purchased Bay Bread Group, the owner of the bakery chain, in an apparent attempt to increase its food offerings at its own retail stores. Starbucks initially announced plans to expand the chain to roughly 400 locations nationwide. However, Starbucks later shifted course and moved to close all independent La Boulange locations. As with Teavana, Starbucks continues to sell La Boulange products in its own retail shops (Reiff 2022).

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Evolution Fresh is a manufacturer of bottled fruit juices, and vegetable and fruit juice blends. Evolution Fresh products are sold at Starbucks locations and other grocery stores and retailers. After opening only, a handful of locations, Starbucks decided to close Evolution Fresh stores in 2017. The company still carries Evolution Fresh branded products in its stores (Reiff2022).

Starbucks engaged in unrelated diversification.

Hear Music began as a music catalog company in 1990, adding a few retail locations in the San Francisco Bay Area. Hear Music was purchased by Starbucks in 1999 (Kornhaber 2015). In 2002, it produced a Starbucks opera album, featuring artists such as Luciano Pavarotti, followed in March 2007 by the hit CD Memory Almost Full by Paul McCartney, making McCartney the first artist signed to the new Hear Music label sold in Starbucks outlets (BBC News 2007) In 2006, the company created Starbucks Entertainment, one of the producers of the 2006 film Akeelah and the Bee (La Monica 2006).

DQ3. Describe and discuss the global strategy employed by Starbucks.

The success of many multinational companies is based not only on the goods or services that they sell in foreign nations but also on the distinctive competencies (unique skills) that underlie the production and marketing of those goods or services

In addition to growing profits more rapidly, by expanding its sales volume through international expansion, a company can realize cost savings from economies of scale, thereby boosting profitability. Such scale economies come from several sources. First, by spreading the fixed costs associated with developing a product and setting up production facilities over its global sales volume, a company can lower its average unit cost. Second, by serving a global market, a company can potentially utilize its production facilities more intensively, which leads to higher productivity, lower costs, and greater profitability. Third, as global sales increase the size of the enterprise, so its bargaining power with suppliers increases, which may allow it to bargain down the cost of key inputs and boost profitability that way. In addition, they may be able to realize further cost savings from learning effects.

Countries differ from each other in several dimensions, including differences in the cost and quality of factors of production. These differences imply that some locations are more suited than others for producing certain goods and services. Location economies are the economic benefits that arise from performing a value creation activity in the optimal location for that activity, wherever in the world that might be (transportation costs and trade barriers permitting). Locating a value creation activity in the optimal location for that activity can have one of two effects: (1) it can lower the costs of value creation, helping the company achieve a low-cost position; or (2) it can enable a company to differentiate its product offering, which gives it the option of charging a premium price or keeping price low and using differentiation as a means of increasing sales volume. Efforts to realize location economies are consistent with business-level strategies of low cost and differentiation.

Transportation costs and trade barriers complicate this picture. Transportation costs and trade barriers also must be considered in location decisions. Another caveat concerns the importance of assessing political and economic risks when making location decisions. Even if a country looks very attractive as a production location when measured against cost or differentiation criteria, if its government is unstable or totalitarian, companies are usually well advised not to base production there. Similarly, if a particular national government appears to be pursuing inappropriate social or economic policies, this might be another reason for not basing production in that location, even if other factors look favorable.

Companies that compete in the global marketplace typically face two competitive pressures: pressures for cost reductions and pressures to be locally responsive. These competitive pressures place conflicting demands on a company. Responding to pressures for cost reductions requires that a company try to minimize its unit costs. To attain this goal, it may need to base its productive activities at the most favorable low-cost location, wherever in the world that might be. It may also have to offer a standardized product to the global marketplace to realize the cost savings that come from economies of scale and learning effects. On the other hand, responding to pressures to be

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locally responsive requires that a company differentiate its product offering and marketing strategy from country to country to accommodate the diverse demands arising from national differences in consumer tastes and preferences, business practices, distribution channels, competitive conditions, and government policies. Because differentiation across countries can involve significant duplication and a lack of product standardization, it may raise costs. While some firms face high pressures for cost reductions and low pressures for local responsiveness, and others, face low pressures for cost reductions and high pressures for local responsiveness. Many companies face high pressures for both cost reductions and local responsiveness.

Companies that pursue a global standardization strategy focus on increasing profitability by reaping the cost reductions that come from economies of scale and location economies. Their business model is based on a low-cost strategy on a global scale. Production, marketing, and R&D activities of companies pursuing a global strategy are concentrated in a few favorable locations. These companies try not to customize their product offering and marketing strategy to local conditions because customization, which involves shorter production runs and the duplication of functions, can raise costs.

When a company embarks on a global standardization strategy, it locates its manufacturing and other value chain activities at the global location that will allow it to increase efficiency, quality, and innovation. It has to coordinate and integrate its global value chain activities.

A localization strategy focuses on increasing profitability by customizing the company’s goods or services so that they have good match to tastes and preferences in different national markets. Localization is appropriate when there are substantial differences across nations in consumer tastes and preferences and where cost pressures are not too intense. By customizing the product offering to local demands, the company increases the value of that product in the local market. On the downside, because it involves some duplication of functions and smaller production runs, customization limits the ability of the company to capture the cost reductions associated with mass-producing a standardized product for global consumption.

A global standardization strategy makes most sense when cost pressures are intense and demands for local responsiveness limited. Conversely, a localization strategy makes most sense when demands for local responsiveness are high, but cost pressures are moderate or low. When the company simultaneously faces both strong cost pressures and strong pressures for local responsiveness, firms pursue a transnational strategy. Conditions are so intense that, to survive, companies must do all they can to respond to pressures for both cost reductions and local responsiveness. They must try to realize location economies and economies of scale from global volume, transfer distinctive competencies and skills within the company, and simultaneously pay attention to pressures for local responsiveness.

Differentiating the product to respond to local demands in different geographic markets raises costs, which runs counter to the goal of reducing costs.

Sometimes it is possible to identify multinational companies that find themselves in the unfortunate position of facing low-cost pressures and low pressures for local responsiveness. Typically, these enterprises are selling a product that serves universal needs, but because they do not face significant competitors, they are not confronted with pressures to reduce their cost structure. They tend to centralize product development functions such as R&D at home. However, they also tend to establish manufacturing and marketing functions in each major country or geographic region in which they do business.

Starbucks makes minimal adjustments in their coffee products but does make adjustments in food products and store design to meet satisfy local preferences when necessary. Depending on the location Starbucks employs and international or localization strategy. They are selling premium coffee products and a unique “third place “experience.

LOCALIZATION STRATEGY

A localization strategy focuses on increasing profitability by customizing the firm’s goods or services so that they provide a good match to tastes and preferences in different national markets. Localization is most

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appropriate when there are substantial differences across nations in consumer tastes and preferences, and where cost pressures are not too intense. The localization strategy does not yield economies of scale. It is not sustainable long term because new competitors enter the market and create cost pressures. Firms must migrate to a transnational strategy.

- Localization Strategy
- Pressures for local responsiveness arise from differences in consumer tastes and preferences, differences in traditional practices and infrastructure, differences in distribution channels, and differences from host government demands.

Pressures for local responsiveness arise from

- Differences in consumer tastes & preferences
- Differences in traditional practices & infrastructure
- Differences in distribution channels
- Host county government demands

GLOBAL STANDARDIZATION STRATEGY

Firms that pursue a global standardization strategy focus on increasing profitability and profit growth by reaping the cost reductions that come from economies of scale, learning effects, and location economies. Their strategic goal is to pursue a low-cost strategy on a global scale. This strategy makes sense when there are strong pressures for cost reductions and demands for local responsiveness are minimal.

A global standardization strategy focuses on increasing profitability and profit growth by reaping the cost reductions that come from economies of scale, learning effects, and location economies

INTERNATIONAL STRATEGY

- When there are low-cost pressures and low pressures for local responsiveness, an international strategy is appropriate. An international strategy involves taking products first produced for the domestic market and then selling them internationally with only minimal local customization. The international strategy does not yield economies of scale. It is not sustainable long term because new competitors enter the market and create cost pressures. Firms must migrate to a global standardization strategy.
- International Strategy
- Involves taking products first produced for the domestic market and then selling them internationally with only minimal local customization
- Makes sense when there are low cost pressures and low pressures for local responsiveness

TRANSNATIONAL STRATEGY

- Firms pursuing a transnational strategy are trying to simultaneously achieve low costs through location economies, economies of scale, and learning effects; differentiate their product offerings across geographic markets to account for local differences; and foster a multidirectional flow of skills between different subsidiaries in the firm’s global network of operations. A transnational strategy makes sense when cost pressures are intense, and simultaneously, so are pressures for local responsiveness
- Transnational Strategy
- Tries to simultaneously:
- Achieve low costs through location economies, economies of scale, and learning effects
- Differentiate the product offering across geographic markets to account for local differences
- Foster a multidirectional flow of skills between different subsidiaries
- Makes sense when there are both high-cost pressures and high pressures for local responsiveness
- Starbucks sells premium coffees and an experience. This does not vary by location. Starbucks uses an international strategy.
- Starbucks was a multinational chain of coffeehouses and roastery reserves headquartered in Seattle, Washington. It was the world's largest coffeehouse chain.

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- As of November 2021, the company had 33,833 stores in 80 countries, 15,444 of which were located in the United States. Out of Starbucks' U.S.-based stores, over 8,900 are company-operated, while the remainder are licensed (Statista 2021).

In going global Starbucks uses multiple entry modes: wholly owned outlets, licensed ventures, and joint ventures.

In expanding Starbucks initially owned and operated all the restaurants. This created slower growth but more control. In later years Starbucks used franchising (to an entity: airport, hotels etc), licensing, and joint ventures as well as full ownership (Hill and Jones 2009).

Through an astute use of greenfield investments, acquisitions, licensing and joint ventures Starbucks entered foreign markets, developed a local product mix, and acquired or created an established brand identity.

DQ4. Where does Starbucks invest in the value chain to create value and support its business level strategy?

All functions of a company—such as production, marketing, product development, service, information systems, materials management, and human resources—have a role in lowering the cost structure and increasing the perceived utility (value) of products through differentiation. The value chain is the activities for transforming inputs into outputs that customers value. The transformation process involves primary activities and support activities that add value to the product.

Primary activities have to do with the design, creation, and delivery of the product, its marketing, and its support and after-sales service. In the value chain the primary activities are broken down into four functions: research and development, production, marketing and sales, and customer service.

Research and development are concerned with the design of products and production processes. Although we think of R&D as being associated with the design of physical products and production processes in manufacturing enterprises, many service companies also undertake R&D. By creating superior product design, R&D can increase the functionality of products, which makes them more attractive to customers, thereby adding value. Alternatively, the work of R&D may result in more efficient production processes, thereby lowering production costs. Either way, the R&D function can help to lower costs or raise the value of a product and permit a company to charge higher prices. It is important to emphasize that R&D is not just about enhancing the features and functions of a product; it is also about the product’s design, which can create an impression of superior value in the minds of consumers.

Production is concerned with the creation of a good or service. For physical products, when we talk about production, we generally mean manufacturing. For services, “production” typically takes place when the service is delivered to the customer. By performing its activities efficiently, the production function of a company helps to lower its cost structure. The production function can perform its activities in a way that is consistent with high product quality, which leads to differentiation (and higher value) and lower costs.

There are several ways in which the marketing and sales functions of a company can help to create value. Through brand positioning and advertising, the marketing function can increase the value that customers perceive to be contained in a company’s product (and thus the utility they attribute to the product). These create a favorable impression of the company’s product in the minds of customers, they increase value. Marketing and sales also create value by discovering customer needs and communicating them back to the R&D function of the company, which can then design products that better match those needs.

The role of the service function of an enterprise is to provide after-sales service and support. This function can create superior utility by solving customer problems and supporting customers after they have purchased the product.

The support activities of the value chain provide inputs that allow the primary activities to take place. These activities are broken down into four functions: materials management (or logistics), human resources, information systems, and company infrastructure.

The materials management (or logistics) function controls the transmission of physical materials through

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the value chain, from procurement through production and into distribution. The efficiency with which this is carried out can significantly lower costs, thereby creating more value.

The human resource function helps an enterprise create more value. It ensures the firm has the right mix of skilled people to perform its value creation activities effectively. Human resource ensures that people are trained, motivated, and compensated to perform their value creation tasks. If the human resources are functioning well, employee productivity rises (which lowers costs) and customer service improves (which raises value), thereby enabling the company to create more value.

Information systems are largely electronic systems for managing inventory, tracking sales, pricing products, selling products, dealing with customer service inquiries, and so on. Information systems, when coupled with the communications features of the Internet improve the efficiency and effectiveness with which a company manages its other value creation activities.

Company infrastructure is the company-wide context within which all the other value creation activities take place: the organizational structure, control systems, and company culture. Since top management can exert considerable influence in shaping these aspects of a company, top management should be viewed as part of the infrastructure of a company. Through strong leadership, top management can shape the infrastructure of a company and the performance of all other value-creation activities that take place within it.

Firms use core competencies, cost reduction and differentiation strategies focusing on operations and organizational architecture to take advantage of location economies and experience curve effects (learning effects & economies of scale) while taking into account economic, political, and cultural conditions as well as legal systems and exchange rates to maximize profitability and profit growth while executing a global strategy to achieve the goals of the firm

Firms use core competencies, cost reduction and differentiation strategies focusing on operations and organizational architecture to take advantage of location economies and experience curve effects (learning effects & economies of scale) while taking into account economic, political, and cultural conditions as well as legal systems and exchange rates to maximize profitability and profit growth while executing a global strategy to achieve the goals of the firm

Primary Activities

- The primary activities of a firm are creating the product, marketing and delivering the product to buyers, and providing support and after-sale service to the buyers of the product.
- Support Activities
- Support activities provide the inputs that allow the primary activities of production and marketing to occur. The logistics function controls the transmission of physical materials through the value chain—from procurement through production and into distribution. The efficiency with which this is carried out can significantly reduce the cost of creating value. This was a major issue in 2021.
- Organization: The Implementation of Strategy

The strategy of a firm is implemented through its organization.

Firm strategy must fit market conditions

- The operations of the firm must support its position and its strategy
- The organizational architecture of the firm must match the firm's operations and strategy
- If market conditions shift, so must the firm's strategy, operations, and organization
- In Sum: Strategic Fit
- For a firm to attain superior performance and earn a high return on capital, -profitability-its strategy must make sense given market conditions (see Figure 12.6 in the text).
- If market conditions shift, so must the firm's strategy, operations, and organization
- Starbucks invests in their employees, and technology.

From the outset Schultz focused on providing superior customer service. The key was well trained and compensated permanent employees. Full-time and part time employees received stock options, health benefits and

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retirement benefits. The idea was to create a dedicated and reliable work force with minimal turnover. In expanding Starbucks initially owned and operated all of the restaurants. This created slower growth but more control. In later years Starbucks used franchising (to an entity: airport, hotels etc), licensing, and joint ventures as well as full ownership (Hill and Jones 2009).

Walk into a Starbucks store anywhere in the world and you'll encounter a similar sight: coffee beans grinding, espresso shots being pulled and customers talking to baristas while their coffee order is hand-crafted.

The process may look like a simple everyday scene, but it is carefully orchestrated to serve Starbucks' more than 100 million weekly customers. With the help of Microsoft, Starbucks was creating an even more personal, seamless customer experience in its stores by implementing advanced technologies, ranging from cloud computing to blockchain (Sokolowsky 2019).

Within the app, customers receive tailor-made order suggestions generated via a reinforcement learning platform that is built and hosted in Microsoft Azure. Through this technology and the work of Starbucks data scientists, 16 million active Starbucks® Rewards members now receive thoughtful recommendations from the app for food and drinks based on local store inventory, popular selections, weather, time of day, community preferences and previous orders (Sokolowsky 2019).

Starbucks is also innovating ways to trace the journey that its coffee makes from farm to cup — and to connect the people who drink it with the people who grow it (Sokolowsky 2019).

The company is developing a feature for its mobile app that shows customers information about where their packaged coffee comes from, from where it was grown and what Starbucks is doing to support farmers in those locations, to where and when it was roasted, tasting notes and more (Sokolowsky 2019).

Starbucks invests in specialized assets, by roasting beans in house rather than outsourcing the roasting. While most coffee cafés purchased roasted beans, Starbucks operated multiple roasting and distribution centers (Kotha 2003).

DQ$_5$. How have culture and trade agreements impacted the success or failure of Starbucks globally?

Culture may not match one to one with a nation's boundary but may constitute a part of a nation or extend across parts of several nations. Culture is influenced by religion, political philosophy, economic philosophy, education, language, and social structure. Firm success or failure is dependent on recognizing and responding to cultural differences as well as pressures to be locally responsive.

Pressures for local responsiveness arise from differences in consumer tastes and preferences, differences in traditional practices and infrastructure, differences in distribution channels, differences in level of economic development and from host government demands.

Recognition of local regulations involving trade and foreign direct investment as well as regional trade agreements play a significant role in the success or failure of a foreign entry decision. The global acceleration of regional economic integration is equally important. Regional economic integration is an agreement or agreements among countries in a geographic region to reduce and eventually remove tariff and non-tariff barriers to the free flow of goods, services and factors of production between them.

The UK exit from the EU adversely impacted UK profits.

In 1998, Starbucks entered the United Kingdom market with the US$83 million acquisition of the then 56-outlet, UK-based Seattle Coffee Company, re-branding all those stores as Starbucks. Starbucks has blamed a collapse in UK profits on the "slowing economic growth" and the "impact of Brexit" as among the factors hitting consumer confidence. Over the past decade Starbucks has faced fierce competition as rival chain Costa Coffee grew rapidly to become the market leader (Guardian 2017). In 2022 Starbucks asked its adviser to assess acquisition interest for its UK operations (Business Standard 2022).

Culture, custom and conflict impacted Starbucks in China, India and Russia.

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In the largest single acquisition in company history, Starbucks announced it was spending roughly $1.3 billion in cash consideration to acquire the remaining 50 percent share of its East China business from long-term joint venture partners Uni-President Enterprises (UPEC) and President Chain Store Corporation (Bloomberg News 2017).

Since 2017, competition over the Chinese coffee market has intensified between Starbucks and Luckin Coffee. From the early 1990s to the late 2010s, Starbucks was the largest coffeehouse in China. In August 2018, they signed a distribution deal with e-commerce group Alibaba to increase their online retail presence in China. In January 2020, Luckin Coffee overtook Starbucks. Luckin had 4,500 stores in China while Starbucks had 4,200. The 2018 trade war between the U.S. and China, with the two companies serving as respective proxies, led to a resurgence of Luckin Coffee in China during late-April 2020. These consumers were boosting Luckin Coffee's market share as a rejection of American-led companies, specifically Starbucks (Lidsky 2020) .

In January 2012, despite a false start in 2007, Starbucks created a 50:50 joint venture with Tata Global Beverages called Tata Starbucks. Tata Starbucks owned and operated Starbucks outlets in India as Starbucks Coffee "A Tata Alliance' (Starbucks 2012).

In September 2007, the company opened its first store in Russia, ten years after first registering a trademark there.[146] After the Russian invasion of Ukraine, on 21 May 2022, Starbucks announced closure of all outlets in Russia, and in July it was revealed an acquisition of Starbucks' Russian operating company and all its 130 stores (Durbin 2022).

DQ$_6$. Describe how Starbucks has benefitted from globalization.

The past half-century has seen a dramatic lowering of barriers to international trade and investment. Similarly, in nation after nation, regulations prohibiting foreign companies from entering domestic markets and establishing production facilities, or acquiring domestic companies, have been removed. As a result of these two developments, there has been a surge in both the volume of international trade and the value of foreign direct investment. These two trends have led to the globalization of production and the globalization of markets.

The globalization of production has been increasing as companies take advantage of lower barriers to international trade and investment to disperse important parts of their production processes around the globe. Doing so enables them to take advantage of national differences in the cost and quality of factors of production such as labor, energy, land, and capital, which allow them to lower their cost structures and boost profits.

As for the globalization of markets, it has been argued that the world's economic system is moving from one in which national markets are distinct entities, isolated from each other by trade barriers and barriers of distance, time, and culture, toward a system in which national markets are merging into one huge global marketplace. Increasingly, customers around the world demand and use the same basic product offerings.

The trend toward the globalization of production and markets has several important implications for competition within an industry. First, industry boundaries do not stop at national borders. Because many industries are becoming global in scope, actual and potential competitors exist not only in a company's home market but also in other national markets. Managers who analyze only their home market can be caught unprepared by the entry of efficient foreign competitors. The globalization of markets and production implies that companies around the globe are finding their home markets under attack from foreign competitors.

Globalization refers to the trend towards a more integrated global economic system where barriers to cross-border trade and investment are declining, perceived distance is shrinking thanks to advances in transportation and telecommunications, and material cultures are more similar across borders.

The globalization of production refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production (such as land, labor, capital, and energy), thereby allowing them to compete more effectively against their rivals.

The globalization of markets refers to the merging of historically distinct and separate national markets into one huge global marketplace in which the tastes and preferences of consumers in different nations are

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beginning to converge upon some global norm. Firms, large and small, not only benefit from the globalization of markets, but they also, by offering the same basic products worldwide, facilitate the trend.

Two macro factors seem to underlie the trend toward greater globalization. First, the decline in barriers to the free flow of goods, services, and capital that has occurred since the end of World War II; and second, technological change. Dramatic technological change in recent decades has brought about advances in communication, information processing, and transportation.

International trade occurs when a firm exports goods or services to consumers in another country. Foreign direct investment (FDI) occurs when a firm invests resources in business activities outside its home country. After WWII, the industrialized countries of the West started a process of removing barriers to the free flow of goods, services, and capital between nations. This removal of barriers to trade has taken place in conjunction with increased international trade, world output, and foreign direct investment.

While the lowering of trade barriers made globalization of markets and production a theoretical possibility, technological change made it a tangible reality.

Since the end of World War II, there have been major advances in communications and information processing.

In addition to these developments, several major innovations in transportation technology have occurred since World War II. In economic terms, the most important are probably the development of commercial jet aircraft and super freighters and the introduction of containerization, which greatly simplifies transshipment from one mode of transport to another.

Due to technological innovations, the real costs of information processing and communication have fallen dramatically over the past two decades. These developments make it possible for a firm to create and then manage a globally dispersed production system, further facilitating the globalization of production. A worldwide communications network has become essential for many international businesses.

Globalization referred to the trend towards a more integrated global economic system.

In the world economy today, we see:

- Fewer self-contained national economies with high barriers to cross-border trade and investment
- A more integrated global economic system with lower barriers to trade and investment.is a global company. It had become a force to be reckoned with on the global stage.

Starbucks was transformed from serving urban Seattle to serving the global market. Globalization of markets and globalization of production were possible with declining barriers to trade and investment.

Greenfield investments and joint ventures allowed Starbucks to enter foreign markets and to better serve those markets. Starbucks based on its own organizational capabilities and resources was able to gain a competitive advantage on many competitors.

Through an astute use of greenfield investments acquisitions and joint ventures Starbucks entered foreign markets, developed a differentiated product portfolio, and acquired established brand identity.

As of November 2021, Starbucks had 33,833 locations spanning 80 countries and territories on six continents (Statista 2022)

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