Brand Hypocrisy at Starbucks

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Efforts by the Ethiopian coffee sector to trademark Ethiopia's most valuable coffee brands have come to a screeching halt, courtesy of The Starbucks Corporation. The coffee sector is pursuing trademarks in all major international markets on *Sidamo* , *Yirgecheffe* , and *Harrar* so that they can then apply sound marketing techniques to increase the commercial value of these brands. The goal is to significantly raise the incomes of many of the 15 million Ethiopians who are dependent on the coffee trade. Given that Ethiopia ranks amongst the poorest countries in the world—some 80% of its citizens live on less than $2 a day—this innovative and self-reliant effort to enhance the value of Ethiopia's commerce should be receiving unanimous cheers worldwide.

Instead, Starbucks has worked with its industry lobbyists to pressure the US Patent and Trademark Office to turn down Ethiopia's trademark applications. As a result, the Office has refused to approve two of the three trademarks. And Starbucks has snubbed all attempts by Ethiopian officials to broker an acceptable agreement. Now that Oxfam has taken up Ethiopia's cause in a new media campaign, generating some 70,000 complaints so far, Starbucks has launched a media counter-offensive, publicly scolding Ethiopia's efforts. Even *The Economist* , that avowed champion of commerce, has taken Starbucks side to help squash this incipient effort to generate economic value. What gives?

In my view, these actions by Starbucks management are not only deeply hypocritical. Ironically, they also pose a serious threat to Starbucks' brand equity. To unpack why this is so, we need first to understand the key role played by these Ethiopian brands in Starbucks' extraordinary success.

Starbucks Relies on Ethiopian Coffee Brands

What distinguishes Starbucks products from the many thousands of other coffee products on the market is powerful brand symbolism. Through its coffees, packaging, store design, baristas, Italian-icized lexicon, and music, Starbucks promotes a very accessible highbrow worldview that has had wide appeal amongst its college-educated "creative class" target. Starbucks invites customers to join its "cosmopolitan connoisseur" culture, which can be yours simply by grabbing a latte at your nearby Starbucks.

One of the most important techniques Starbucks uses to develop this cosmopolitan connoisseur symbolism is the promotion of its coffees as artisanal products. All Starbucks coffees are named, packaged, and promoted to imbue them with the aura of traditional local craft, exotic coffees produced by peoples far removed from modern life in the North. The leading coffee brands from Ethiopia— *Sidamo* , *Harrar* , and *Yirgacheffe* —have played a starring role in allowing Starbucks to claim these artisanal and exotic qualities.

Starbucks markets coffees in a manner very similar to the marketing of fine wines: writing flowery prose about terrior characteristics and idiosyncratic artisanal processes steeped in local traditions. From the Starbucks Website:

From the birthplace of coffee, Sidamo is highly prized by coffee buyers from around the world. It features a fleeting, floral aroma with a bright yet soft finish and, like the best Sidamo coffees, a wonderful hint of lemon.

Each coffee is presented as a product of artistry and tradition, alive with “native” folk culture far removed from the lifeways of Starbucks customers. Starbucks trades on the fact that Ethiopian producers are not commercially minded multinationals, but, rather, simple peasants who exist outside the capitalist marketplace:

Typically, Ethiopian coffee is grown in small, backyard gardens and sold at daily auctions.

Ethiopian coffee growers serve as particularly effective symbolic material for Starbucks. As the birthplace of coffee, Ethiopia offers the most authentic coffee experience in a marketplace dominated by mass-marketed brands. African imagery—photos of farmers, landscapes, folk design—provides access to exotic culture, also highly prized by well-educated consumers. Finally, as a continent in dire economic straits and facing extraordinary humanitarian problems, the idea of supporting coffee producers through trade by buying an expensive local product has tremendous appeal, tapping into the ethical symbolism that Starbuck's customers find increasingly appealing to assuage their concerns about global inequalities.

As Starbucks' revenues increasingly depend upon sweet blended drinks that have little to do with coffee, much less the cosmopolitan connoisseur worldview, Ethiopian coffee brands play an even more vital role in maintaining the imagery that makes the Starbucks brand so valuable. The more syrupy drinks and sugary cakes Starbucks sells, the more it needs to aggressively promote its “roots” in the artisanal, decommercialized world of African coffees to act as a counterbalance to its fast food-like offerings.

Starbucks strategy of late has been to upsell these exotic coffees, turning them into a small but immensely profitable niche. Starbucks has launched the *Black Apron Exclusives* ™ line, with luxurious packaging and a tagline that boasts of coffee that is “Rare, Exotic, Cherished.” *Sidamo* and *Harrar* feature prominently in this line. In the US, Starbucks has retailed these coffees for $24-26/lb, instead of the $10-13/lb for the standard whole bean coffees, a doubling of their prior price, executed simply by positioning them as even more special, exotic, and scarce.

The *Black Apron Exclusives* line is not only a profitable niche. Its primary role is to provide a halo for the entire Starbucks brand. While few customers are willing to shell out for these extremely expensive coffees, the range is placed front and center in the stores on display so that all Starbucks customers, even those ordering a *Bananas & Crème Frappuccino ® Blended Crème* , can feel good about the fact that they are still participating in the rarified cosmopolitan connoisseur culture.

Ethiopian Coffees as Ingredient Brands

Starbucks strategy is to use *Sidamo, Yirgacheffe* , and *Harrar* —along with other prestigious coffees from Africa, Indonesia, and Central America—to serve as what marketers call ingredient brands. Ingredient brands are brands that are used as one component "ingredient" of another branded product or service. *Gore* waterproof fabric and *Intel* computer chips are classic examples. Consumers view the ingredient's inclusion as a distinctive and valuable addition to the offer. The ingredient is revealed to end-consumers through some sort of distinctive mark (name, logo, etc.) so that the inclusion of the ingredient increases the perceived value of the offering.

The consistent promotion of *Sidamo, Yirgacheffe* , and *Harrar* by a wide variety of specialty coffee marketers as amongst the best, most distinctive, and most authentic coffees in the world, using the mode of artisanal branding described above, has—as an unintended consequence—built these coffees into powerful and valuable ingredient brands. But, while consumers widely perceive these coffees as valuable brands, two of the three have not been recognized in the United States as legal commercial entities. Therein lies the rub. Despite the fact that consumers value these coffees, Ethiopian producers cannot capture any of this value because their coffee brands do not have legal standing as a trademark.

Starbucks Market Power Means Starving Farmers

If coffee traded as free marketers predict, one would expect that as the perceived value of Ethiopian coffee brands increased, so too would the incomes of Ethiopian farmers. Unfortunately, few markets actually operate in such a well-lubricated manner. And the specialty coffee market in particular works according to principles nearly antithetic to this ideal.

Even though the perceived value of Ethiopian coffees has increased tremendously, none of this value is getting passed back to the producers. Despite the fact that they are producing some of the most valued coffee in the world, Ethiopian farmers are struggling to stay alive, many living below subsistence levels, nowhere close to the heart-warming photos of industrious happy peasants often found in Starbucks marketing. In fact, the commodity price is so low that many farmers are trading out coffee production to grow khat—the slightly narcotic drug of choice in East Africa. Those farmers who stay in the market have no incentive to grow good coffee, and no ability to invest in their crops.

Rather than free markets, what we have is market failure.

The specialty coffee market is failing simply because a handful of companies like Starbucks have extraordinary market power and are able to use this power to control the value chain. Starbucks is able to play off the millions of small producers around the world and so are able to set the terms of trade. By comparison, in Ethiopia, specialty beans are produced by an estimated 600,000 small growers with little knowledge of commodities markets, no capital reserves, and no ability to act cohesively as a group to sell their coffee. As a result prices are set for them at niggardly world commodity levels and they have no choice but to take it.

Because Ethiopian brands are traded under the Starbucks trademark, Starbucks controls the transaction with customers and reaps the economic benefits. On the *Black Apron* line, Starbucks earns $24.00/lb. or more, with gross margins that likely exceed $20.00. Back in Ethiopia, the farmers who supplied their premier land, distinctive plants, cultivation techniques, and hard labor earned less than a dollar. It should not be a surprise that Ethiopians are looking for a means to gain more leverage in the market so that their farmers can earn more for their coffee.

Why Ethiopia Needs Trademarks

In the United States, Ethiopia has two options to turn its regions into legal entities: trademarks and certification marks. The Ethiopian Intellectual Property Office views the trademark as a far more effective vehicle to gain commercial leverage for two simple reasons. First, the trademark will give the coffee sector a commercial asset that it can control in the marketplace. With the trademark, American coffee retailers will be required to obtain a licensing agreement to sell Ethiopian coffees, and so Ethiopian producers would have the power to set the terms of trade. The coffee sector would be able to manage their coffee brands as a business rather than letting them be managed by the whims of the global commodity exchange. Only if trademarks are granted can Ethiopia counter the market power of Starbucks. With a certification mark, Starbucks and other Western coffee marketers would still have full control over Ethiopian coffee brands.

Second, certification schemes are not only toothless, they are also impossible to enforce. Certification requires that the government oversee producers and distributors to guarantee that the coffees sold belong to a particular style or region. An estimated 600,000 farmers spread throughout Ethiopia in remote areas now grow specialty coffees. And distribution is done informally, by hauling bags on foot for many kilometers. It is simply not possible to oversee these producers; and even if it were, it would require an onerous surcharge on farmers who are already often living below subsistence level.

With trademarks in hand, Ethiopian producers can collaborate to effectively manage their brands, working with trusted distributors and retailers to manage coffee quality, pricing, and marketing. Trademarks would allow *Sidamo* , *Harrar* , and *Yirgacheffe* to be managed by their rightful owners rather than by the players in the market with the most power.

The case is straightforward. The Ethiopian coffee sector wants to participate in the marketplace on an equal footing with companies in the North. They want to own their brands, rather than hand over the value to Starbucks and others. With ownership in hand, Ethiopian producers would finally have a real chance to significantly increase the earnings of millions who are now desperately poor.

Starbucks Position

Starbucks and its lobbying groups have now gone public in their fight against the Ethiopian trademarks. Starbucks offers two challenges. First the company claims that the Ethiopian brands cannot be trademarked because they are actually generic terms for coffee rather than distinctive and valued marks. Such a claim is easily refuted. Starbucks own ingredient branding strategy demonstrates that Starbucks management does not believe its own rhetoric. Second, Starbucks is trying to persuade the public that the trademarks are against the interests of Ethiopian farmers. Starbucks argues that. “ *the trademark application is not based upon sound economic advice and that the proposal as it stands would hurt Ethiopian coffee farmers economically.”* No argument detailing this claim is offered.

Recently *The Economist* has jumped into the fray to coach its business audience on the wisdom of Starbucks rhetoric. An editorial published on November 7 parrots Starbucks views with none of the economic rigor that the magazine champions. Though, what the article lacked in analysis, it made up for in colonial finger wagging: “The Ethiopian government, one of the most economically illiterate in the modern world, would do well to take Starbucks's advice.”

This is a disingenuous, hypocritical, and patronizing claim. Starbucks opposes Ethiopia's efforts in order to shore up its market power, not out of paternal concern for the plight of Africa. Starbucks is worried about losing economic control of ingredient brands that their customers increasingly value. Starbucks has previously treated the Ethiopian coffee brands as its own property simply because they could. Now that Ethiopia is asserting its right to control its intellectual property, Starbucks can defend its position only by making a nonsensical argument: the coffee brands that Starbucks believes to be of such great value that it has used them for decades to promote its most esteemed coffees are of no economic value to Ethiopia! Rather than fess up to the company's true motives, Starbucks claims to be acting in the interests of Ethiopian farmers by refusing to grant them commercial ownership of their local coffee brands!

While in the current political climate, perhaps such Orwellian logic should not be surprising, it is a shock to find this kind of rhetoric coming from a company that takes great pride in its ethical sourcing policies. Starbucks' assertion that it has the right to decide how Ethiopians should transact their business interests—superceding the views of Ethiopian farmers, coffee co-ops, and exporters—is offensive and an abuse of market power. If managed well, the trademarking scheme will no doubt serve Ethiopian farmers very well. If managed poorly, it won't. This is how capitalist markets work. It's not for Starbucks to say that Ethiopia should not participate in the marketplace with the same legal rights that have allowed Starbucks to prosper so.

Brand Stewardship at Starbucks: Win the Battle, Lose the Brand?

In their rash attempt to shut down Ethiopia's applications, CEO Jim Donald and his senior management team have placed the Starbucks brand in significant peril. Because Starbucks markets to educated middle-class consumers, increasingly attuned to ethical issues in the marketplace, the company has no choice but to pursue highly visible activities that burnish the Starbucks brand as “progressive” and “ethical.” Customers are comforted by the fact that Starbucks is now selling Estima™ Fair trade coffee and Ethos™ ethical water. Starbucks works hard to cultivate an image as a progressive business partner, promoting sustainable coffee production especially amongst the poorest coffee growers.

Once the word is out, Starbucks customers will be shocked by the disconnect between their current perceptions of Starbucks ethics and the company's actions against Ethiopia . It is not an exaggeration to compare this case to Nike's purposeful ignorance to deal with the sweatshops producing their shoes. Just as consumers were disgusted by the fact that Air Jordans sold for $120 while Asian laborers produced the shoes in what amounted to slave labor conditions, they will be equally disturbed by the fact that Starbucks is happy to sell coffee for $26/lb while refusing to allow the coffee's producers a shot at climbing out of desperate poverty. Ironically, Starbucks' anti-development stance is likely to cause significant damage to their brand, imposing a far greater hit on profits than any increase in commodity prices the company might encounter were they to support Ethiopia's cause.

Development Starbucks Style: Keeping Africa Capitalism-Free?

Starbucks management is reacting in such an aggressive and rash way because they're scared to death that if Ethiopia wins its trademarks, the company's seemingly impenetrable hold on the specialty coffee value chain will start to fall apart. Foreseeing a domino effect worthy of cold war paranoia, Starbucks no doubt worries that Ethiopian trademarks will beget similar efforts from Kenya , Indonesia , Costa Rica and the like. Down the road, specialty coffee producers might garner enough market leverage to demand 20% or 30% of the value created, rather than the 6-10% they earn today. These increased earnings will come out of Starbucks pocket.

While such battles for market power are a commonplace occurrence, this time much more is at stake than the redistribution of profits. Ethiopia's trademark strategy is one of the most promising developments in the push to improve Africa's commercial leverage in global markets. Political elites around the world have been stumping to improve African trade, and the rhetoric is having an impact. But this advocacy has so far been myopic—focusing on trade barriers for commodities.

If the North really wants to help develop Africa, then we need to talk not only about opening up trade, but about building valued-added businesses that are owned by Africans so that Africans can capture profits from Northern markets. To raise African economic standards requires moving African products up the value chain—from the low-margin commodity markets now controlled by the North to branded offerings that demand good prices in export markets. Ethiopians cannot dig themselves out of poverty unless they are allowed to participate meaningfully in the value chain. Cultivating markets for their own branded goods is one exciting path toward that end. Let's hope that Starbucks allows them to do so.

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The views expressed in this paper are those of Professor Holt, and not those of either the Saïd Business School or The University of Oxford.

