STRATEGIC BUSINESS MANAGEMENT:

A LOOK AT STARBUCKS COFFEE

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TASK 1

INTRODUCTION:

The aims and scope of this study is to make a systematic, comprehensive, and clear analysis on the success of Starbucks Corporation. This business analysis aims to identify key information concerning strategic business issues implemented by Starbucks, to analyze and evaluate this information, and to make a research on the gathered information.

In doing so, this paper will be able to present with clarity the business strategies, corporate actions, and strategic programs and plans that made Starbucks the biggest icon in the billion dollar coffee specialty industry. How did Starbuck reach its present unparalleled success envied by rival companies, and what was the attitude adopted by its CEO that guided and molded Starbucks' business operations in its early years when espresso bars were not yet a familiar venture in the United States and the rest of the world? These are just some of the central questions that will be tackled by this paper in the succeeding sections.

Starbucks: Short history

Before Starbucks became a phenomenal success in the coffee specialty industry, it was merely a retail store in Pikes Place, Seattle engaged in selling roasted and ground beans to coffee aficionados over thirty years ago. The first Starbucks was started by three academics who shared mutual interest in quality coffee— English professor Jerry Baldwin, history mentor Zev Siegel, and writer Gordon Bowker. The retail and roaster business, which was first opened in Pikes Place Market in Seattle, was registered as Starbucks Coffee, Tea, and Spice (Thompson, Hawk & Shah 2004, p.C2). To start the operation of the coffee roasting and retail business, the three partners each put in $1,350 dollars and loaned another $5,000 from a bank. By word of mouth and with the help of good newspaper publicities, Starbucks was quickly embraced by the people in Seattle, and during its early years of operations, four stores were added in the Seattle area which all marked initial success (Thompson, Hawk & Shah 2004, p.C4).

Things changed when Howard Schultz, vice president and general manager of a Swedish maker of classy kitchen utensils, visited Starbucks to find out why Starbucks was one of the biggest sellers of his company's products (Thompson, Hawk & Shah 2004, p.C4). Instantly, Schultz became interested in the coffee business and even gave up his high-paying position just to work for Starbucks. Schultz immediately knew that there was something more to Starbucks than just selling roasted coffee beans, so he presented his unique and cutting edge business idea to the owners only to be frustrated by their strong resistance. They were not able to see the promise in the business plan of Schultz. The three owners argued that they had no interest in expanding and in trying coffee beverage and restaurant business because it would only destroy the reputation of the company.

His intention to get the three owners into trying espresso bar became more intense when he went to Milan Italy to attend a business conference, where he saw the potential promise in coffee specialty business (Thompson, Hawk & Shah 2004, p.C5). Schultz's efforts to convince the Starbucks owners into accepting his business plans still failed so he decided to resign in 1985 to start *Il Giornale*, a business that offered fresh brewed coffee by the cup. Due to lack of capital, Schultz had to turn to the public for potential *Il Giornale* investors. But most invited potential investors were not convinced that Schultz's plan was able to produce feasible business results. Finally, *Il Giornale* started operation in April after raising $1.65 million.

By 1987 seven stores were opened, and Schultz envisioned expanding the business by opening 50 stores in five years. By the same year, *Il Giornale* acquired Starbucks and the combined company was named Starbucks Corporation (Thompson, Hawk & Shah 2004, p.C9). But Starbucks Corp. did not start with a bang as it posted losses in 1987, 1988, and 1999, but the losses was predicted in the business plan made by Schultz. Due to its continuous popularity, consistent business plan, Schultz's leadership style, and effective strategic approaches, Starbucks expanded into 162 locations in 1992, more than the 125-store objective in 1987. Having pioneered and seen the opportunities in coffee beverage industry, Starbucks posted increase in earnings for the following years, except in 2001, and became the biggest name in the coffee-making industry.

Starbucks: Indicators of Strategy

It is essential to identify and evaluate the indicators that formed part of the strategic plan of Starbucks. The following are the strategic indicators taken or not taken by Starbucks, and their corresponding analysis:

Gain Sales and market share: One of the challenges that Howard Schultz and his trusted pool of competent managers encountered during the early years of Starbucks operations was— how to make people buy a three dollar espresso? This was actually one of the questions raised by the first batch of investors Schultz invited to invest in his business proposal, and out of the 242 people invited to listen to his presentation, only 25 decided to take the risk (Thompson, Hawk & Shah 2004, p.C8). Most of the potential investors described the $3 per cup as a "yuppie fad" and a commodity business, and thought that there was no assurance that most Americans were ready to embrace the coffee culture at an excessive price (Thompson, Hawk & Shah 2004, p.C8). Indeed, the But Schultz still believed that coffee aficionados would still patronize their products so long as they maintain quality service and offer coffee that satisfies the taste and indulgence of the costumer.

One of the strategies taken to please the consumers was the adoption of the theme "Just say yes", which was aimed at satisfying and complying with the costumers' requests (Thompson, Hawk & Shah 2004, p.C16). Another strategy is the refusal of Schultz to go for franchising since the company seeks to maintain full control over Starbucks operations in order to keep the quality of their coffee products and services and to preserve the culture and characteristics of the company. Two other strategies are part of Starbucks' six mission statement, which are addressed to consumers: (a) apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee, and (b) develop enthusiastically satisfied customers all of the time (Starbucks, 2008). Out of billion dollar coffee beverage industry, only one percent was cornered by Starbucks. This statistics did not discourage Schultz and his management team, as it even heartened them to strive harder because of the fact that there are still unconquered territories in the realm of coffee-making business.

Respond to changing market conditions and other external circumstances: This is one factor that Schultz and his company managers were best prepared for. Being one of the firsts to foray into coffee beverage business in the United States, Starbucks had to identify the market conditions and to thoroughly respond to the same. The best strategy Starbucks had taken in responding to market conditions and other external circumstances was to get the right people to manage crucial jobs. A competent management team was the first thing in Schultz's mind during the early years of Starbucks operations (Thompson, Hawk & Shah 2004, p.C11). Schultz saw the need to tap competent and experienced people to work on the day-to-day operations of

Starbucks. Starbucks encountered some of the perils inherent to business expansion when it started its operations in the State of Chicago where it opened four stores within one year (Thompson, Hawk & Shah 2004, p.C10). Some of the problems encountered were the Chicagoans were not really hooked on dark-roasted coffee beans offered by Starbucks, higher rents compared to those applied in other states, and higher labor costs. After three years and after posting losses, sales improved in 1990 as a result of the hiring of experienced store managers and an increased mass of coffee-goers. Starbucks focused on training its people in order to better respond to shifting market conditions and other external circumstances. It hired competent managers who were knowledgeable about the nature of their work and who were able to produce good results in their respective area of responsibility.

The second in Schultz mind when he addressed the anxious investors during the early years of Starbucks operations was to acquire hi-tech roasting facilities and to incorporate Information Technology into the sales operations of company stores. Schultz deemed it necessarily urgent to address this particular concern if the investors wanted to make Starbucks the biggest coffee beverage company not only in the Unites States but also in the world. Schultz battle did not start in the market; it started in the company's board room wherein he had to convince most of his apprehensive board of directors. It was here Schultz applied his effective leadership skills that brought Starbucks to its present status.

Enter new geographic or product markets. From the very first day Schultz joined Starbucks as an employee, he already knew what he was going to do and how to go about his business plans. Taking a risky road less traveled was quite a daring endeavor for most investors, but for Schultz what he did was "we dreamed from day one and we dreamed big" (Thompson, Hawk & Shah 2004, p.C2). From the first day he and his handful of anxious investors put up *Il*

Giornale, Schultz already knew the risky path he was going to take, and he knew deep inside he was going to succeed. His eyes were focused on expansion which he pursued vigorously notwithstanding the anxiety of most of his investors. Schultz had to convince his investors about the feasibility of his plan to expand Starbucks' geographic and demographic operations. As already mentioned, the challenge indeed, started in the boardroom wherein he had to face the resistance of the board of directors and investors. Starbucks pursued its expansion target from 1987 to 1992 after spreading a total of 162 stores throughout United States but incurred losses—$330,000 in 1987, $764 million in 1988, and $1.2 million in 1989. However, these losses were foreseen by Schultz who also believed that the only way to get out of the mess was to continue expanding its geographical operations. The best way to deflect losses was to raise more investments, and, by the next three years from 1988 to 1991, Starbucks raised a total of $32.4 million (Thompson, Hawk & Shah 2004, p.C10).

Since 1996, Starbucks began to offer Frappuccino products as an alternative to its coffee-based offerings (McDowell & Cuneo 1996, p.1-2). New products also included Starbucks ice cream, a bottled version of Frappuccino after a joint-venture with PepsiCola, Double Black Stout, a coffee-laced beer, roasted coffee beans, Starbucks CDs, etc. Starbucks strategy comprised of preserving its brand integrity and engaging in PR campaign. To boost its PR campaign, Starbucks had to improve its fringe and health benefits package offered to employees and improve their standing within their workplace via the offering of employee stock option plan and stock purchase plan that enabled its workers to be company partners. It also engaged in community and environmental programs, which is part of its mission statement. All of these helped Starbucks build a great image and established a strong brand name, which are its best PR strategy. Starbucks opted to adopt grass-roots marketing campaign that focused on establishing its brand at a nation-wide scale (McDowell & Cuneo 1996, p.1-2). This way the company does not have to spend too much money on advertising, as Competitive Media Reporting reported Starbucks only spent less than $3 million on media advertisements.

Merge with or acquire rival companies: Schultz's business plan found its right track after *Il Giornale* acquired Starbucks Coffee, Tea, and Spice. To acquire Starbucks Schultz had to invite more investors, and by August 1987, Schultz completed the acquisition after raising a total amount of $3.8 million. Shultz was interested in getting Starbucks Coffee, Tea, and Spice because of its name, roasting and grinding facilities, and its cult-like market. It cannot be denied that the first Starbucks had established a wide market base; the only problem was that its original owners failed to see more opportunities in coffee business, which according to Schultz was not confined to selling coffee beans alone. This was the reason why Schultz was resolute in acquiring the company, its name, its secrets in roasting and brewing coffee, and its facilities.

To better enhance its strategic selling capability and to keep abreast of the pace of technological development, Starbucks established partnership with T-Mobile to convey Wi-Fi access into its 1,200 plus stores. This added glamour to the already established name of the company that aims to put up thousands of stores in the succeeding years. In 2005, Starbucks cashed out $70 million to purchase Seattle's Best Coffee and *Torrefazione* from the scandal-stricken AFC Enterprises (Bolt 2005). The acquisition was in line with the Starbucks plan to have flanking brands and to enter into markets that are not fit for Starbucks and to keep off rival coffee companies (Bolt 2005).

Starbucks did not just take over its rival in the business for the purposes of shutting out their operations. Although there were some cases wherein the company had to cease the operations of its subsidiary Seattle's Best Coffee in Great Britain in order to give way for the opening of new Starbucks locations, other subsidiaries remained as their strategic function was to operate in locations that do not have Starbucks stores. This is one of its strategic techniques utilized by Starbucks in combating risks of competition and other external threats.

Form strategic alliances and corroborative partnerships: In its efforts to create alternative products, Starbucks entered into business ventures and partnerships with several companies like Dreyer's Grand for a branded Starbucks ice cream, PepsiCola for a bottled frappuccino, Redhook Ale Brewery for Double Black Stout (McDowell & Cuneo 1996, p.1-2). Establishing corroborative alliances and partnerships boosted Starbucks' strategic position in both America and the world. A new potent subsidiary called Starbucks Coffee International came to picture to fulfill the company's dream of dominating the global market.

Unlike Starbucks stores in the United States, most stores abroad operated and managed through company's licensees. But before the company could grant any local company a license, several requisites must be met first: licensees' strong selling and restaurant experience and their commitment to efficient costumer service, they must possess corporate values and culture similar with Starbucks, including competent and talented workforce and brand-building capabilities (Thompson, Hawk & Shah 2004, p.C19). This business strategy aims to protect Starbucks' image abroad and to ensure that licensees' are capable of delivering the kind quality of service as that being practiced in company stores in America. The company also forged partnership with Barnes and Noble, the biggest bookstore in the U.S., to operate Starbucks stores within the bookstores' premises.

In 1994, Starbucks also got a contract to operate at all Sheraton hotels in order to offer fresh-brewed coffee to moneyed hotel guests. The following year Starbucks began serving coffees to plane passengers of United Airlines, and opened new stores in Japan after securing a joint venture. Specialty coffees were offered to Westin Hotels' guests in 1996, while bottled frappuccino also took supermarkets by storm after the company inked a joint venture with Pepsi Cola. The following year Starbucks entered Canadian airlines to serve plane passengers fresh-brewed coffee. During the same year, packaged Starbucks coffee hit America's major supermarkets after joining forces with Kraft Foods. In 1999, over 100 stores began operating in Alebrtson's supermarkets targeting shoppers and consumers. All of these corroborative ventures and partnership aimed to expand the market base of Starbucks, from usual city cult-like followers to people in and nearby universities to hotel guests to place passengers to all people of different races and cultures, etc.

Pursue new market opportunities and defend against corporate threats: Starbucks did not stick to coffee alone; some items included in its business menu are pastries, Tazo tea, frappuccino, bottled Frappuccino drinks, Superpremium ice creams, Starbucks DoubleShot espresso drinks, etc. This kind of strategy is perhaps one of the secrets why Starbucks is now the most profitable specialty coffee company in the world, cornering at least seven percent of the coffee-goer market in the Unites States and one percent worldwide (Thompson, Hawk & Shah 2004, p.C19). Having seen that coffee is the second most consumed commodity in the world, water being the first, Schultz believes that there were still lots of spaces to fill ((Thompson, Hawk & Shah 2004, p.C19).

Apart from selling its usual lines of offering, Starbucks also started selling discs of musical albums for both coffee and music lovers. Wireless Internet access began to attract more coffee-goers in 2001 and this prompted the company management to turn more of its stores into Wi-Fi zones. Hoping to get a substantial chunk of the $8 billion market for instant coffee beverages, Starbucks entered into a joint venture with Pepsi Cola for the mass production of its new product Mazagran that became a hit in West Coast market. The entry of Frappuccino also boosted Starbucks' selling capability and widened its market base as young people began to fill its stores both in the U.S. and abroad. The number of licenses also added more profit to the company since royalties and license fees raked in about $150 million in fiscal 2003. An electronic store was also put up via American Online targeting Internet visitors, and this division generated a total sale of $21.2 million in 1997 (Thompson, Hawk & Shah 2004, p.C29).

The company also saw a sheer opportunity to take advantage of the then booming Internet market. Starbucks' investments in the Internet market are the following (Thompson, Hawk & Shah 2004, p.C30):

a. Cooking.com— an e-tailer of kitchen equipment.

b. Living.com— a website that engages in selling furniture and home products.

c. Kozmo.com— an online site that specializes in the quick and realible deliver of various products.

d. Talk City, Inc.- a networking site for online chatters, etc.

One way of protecting the corporate interest of Starbucks was to acquire rival companies. Starbucks entered Great Britain by converting all Seattle's Best Coffee into company stores, an effective strategy to rival existing coffee bars. All its subsidiary coffee company's had but one major purpose— to do business in some locations that are not strategically suitable for Starbucks. One effective strategy to protect its business interest was the opening of a number of locations in some states even if it means competition with other company stores.

Manage research and development, production, sales, and marketing: Research and development plays a crucial role in maintaining the good quality of all Starbucks products. In fact, the company has created a four-pronged design that is being applied to all stores, both company-owned and international stores. These four stages involve coffee making— from growing to roasting to brewing and to aroma (Thompson, Hawk & Shah 2004, p.C22). Stores formats were carefully studied and experiment for years— from customized architectural design of all stores to designation of special seating locations to the formalization of company logo, mission statement, etc. to store ambiance and to meticulous selection of store locations. These vital matters all underwent thorough and careful research since the company's guiding principle was "Everything matters" (Thompson, Hawk & Shah 2004, p.C24). In his commitment to make Starbucks "stores of the future," Schultz convinced the board of directors to invest a whooping amount of $1.3 billion in Information Technology equipment and facilities. IT plays a crucial role in the company's roasting operations. Only trained and highly competent staff were allowed to do the roasting operation which entails a very systematic and scientific process, as the work also involves all senses so to come up with the perfectly roasted coffee beans. A purchasing team was also set up to visit and inspect a number of coffee-producing countries like Sumatra, Indonesia, Antigua, Columbia, New Guinea, Costa Rica, among others (Thompson, Hawk & Shah 2004, p.C27).

In order to improve its marketing campaign, Starbucks made use of mail order sales that proved to be successful in its early years of application. As mentioned above, these catalog sales posted more than 20 million dollar sales via Internet. Starbucks did not invest much on advertising, as it believed that there were more effective means of communicating the company's products, services, goals, and missions to the public. It concentrated on providing more benefits for its employees, who then became partners after the creation of stock purchase plan for employees that enabled them to buy stocks through portions of their monthly salaries. This strategic effort produced two good results. First, having been made company partners employees became more loyal to the company and more efficient in their work. Second, it has a good marketing impact on the public, the media, government, and other social sectors. As a result, Starbucks was given numerous awards and citations like the 1996 Corporate Conscience Award for International Human Rights from Council on Economic Priorities, Best Companies to Work for in America for People with Disabilities in 1997 given by We magazine, the 2000 Great Global Brands of the 21st Century, the 2001 award for Schultz for being one of the "Top 25 Best Managers" by Business Week, the 2002 "100 Best Corporate Citizens" by Business Ethics Magazine, the "Super Brand List" award by Brandweek, and the "Ten Most Admired Companies in America" by Fortune survey. No amount of aggressive advertising campaign could rival this kind of effective marketing strategy. To further boost its marketing technique, Starbucks also engaged in social and environmental causes like CARE foundation. This is in line with the company's statement that "giving back to our communities is the way we do business" (Thompson, Hawk & Shah 2004, p.C29).

Competitive capabilities and weaknesses: One good quality of a business leader is his ability to pay attention to what the consumers want, and this was undeniably possessed by Schultz. Indeed, this kind of leadership ability set Schultz apart from the former owners of Starbucks who stubbornly closed their eyes to the reality that there was much more to coffee business than roasting, grinding, and selling coffee beans to costumers (Thompson, Hawk & Shah 2004, p.C6). During the early years of *Il Giornale,* several blunders were immediately corrected in order to comply with what the costumers wanted. These blunders included stand-up services as there were no chairs in the bar, the pure Italian motif of the store, costumers had difficulty reading and memorizing product names, etc. Schultz quickly responded to these concerns, and this led to an increase in the number of costumers during the company's first six-month operation in 1986.

In terms of competitive capabilities, Schultz convinced the board of directors not to worry about the losses and proposed three-pronged means to counter them. He warned that the company would continue to incur losses if the following concerns remained unheeded: (1) invite competent people and efficient management team, (2) acquire new facilities and equipment, and (3) integrate IT into the company's operations (Thompson, Hawk & Shah 2004, p.C11). But Schultz knew that the effort would not stop there, as there was a need to make Starbucks the best place to work. Again, Schultz had to convince the board into providing the employees an expanded health benefits. The directors were anxious as the program might aggravate the company's unhealthy financial status. In the end, Schultz prevailed and this resulted in the inclusion of part timers who worked at least 20 hours per week in the health benefits coverage. Apart from this, the company also offered stock option plan and stock purchase plan that gave the employees the opportunity to be partners, this is because Schultz believed that with these employees' benefits in place the latter would become more loyal to the company and would act as partners or owners of the company. The company also ensured that before anyone could be hired, he/she must undergo weeks of rigorous and systematic training in order to be familiarized with the company's products, operations, goals, and missions. All baristas had to undergo 24-hour training which included all information about coffee, preparation, costumer services, and selling skills. In order to be hired, applicants must perfect the art of brewing coffee, which was the most significant area of the training. A different training was allotted to management trainees who had to undergo 8 to 12 weeks of hands-on training covering deeper knowledge about operations and other management aspects (Thompson, Hawk & Shah 2004, p.C19).

Diversify products and enter new lines of business. One of the best strengths of Starbucks was its ability to diversify its product offering so to widen its market base and improve its selling capabilities. From being a seller and roaster of carefully processed quality coffee beans, Starbucks adopted strategic techniques and established tactical partnership ventures in order to expand the extent of its operation. As a result, Starbucks started selling iced coffee, Frappuccino, which became its bestseller since the day it was introduced in the market, pastries, kitchen products as well as kitchen wares and equipment, CDs, etc. Its strategic partnership with other multinational corporations like PepsiCo, Kraft, Redhook Ale Brewery, among others, resulted in more profits and wider market base without compromising its principles, which is to "establish Starbucks as the premier purveyor of the finest coffee in the world" (Starbuck, 1998). Also, its corporate alliances with Albertson's, United Airlines, Sheraton and Westin Hotels, among others, brought Starbucks from the busiest corners of trendy financial hubs to strategic places like giant supermarkets, malls, hotels, and airports where most people could afford to buy Starbucks' products. This gave Starbucks the advantage to corner markets and strategic business establishments like airports, universities, supermarkets, among many others.

People in Starbucks carefully study new product offering before they offered it to their costumers. Items in their lunch menu also expanded with the inclusion of packaged sandwiches and salads. In the United States, hundreds of company locations began offering breakfast sandwiches and salads, this decision further expanded Starbucks' line of business from coffee beverages to cold coffee drinks and Frappuccino to warm lunch sandwiches. Such a strategic decision did not just threatened Starbucks' direct competitors but also indirect competitor-fast-food chains like Dunkin Donuts and McDonalds. In return, McDonalds, Dunkin Donuts, and other indirect competitors began offering their patrons breakfast sandwiches and coffee. The world's biggest food-chain McDonalds also expanded its McCoffee to rival Starbucks in the coffee-beverage industry.

A more intense competition posed by multi-national fast-food chains that started diversifying their product lines was now giving Starbucks a run for their money. Diversification of products is a permissive cause for open competition by affected companies. McDonalds might have felt threatened when Starbucks gradually entered its line of business by offering sandwiches and salads and decided to diversify its products by also opening a coffee line that would rival Starbucks. Now, Starbucks has to protect its business interest against threats caused by a more intense competition waged by both direct and indirect competitors.

TASK 2

STARBUCKS: STRATEGY FOR DEVELOPMENT IN 2004

There were a series of strategic undertakings made by Starbucks that paved the way for its expansion goal. By the advent of the new millennium, Starbucks manifested its intention to join the dotcom business by forging strategic alliances and by investing in online business (Starbucks 2008).

Starbucks speedy yet measured rise to the top can be attributed to the effective management decisions and proficient strategic actions made by Schultz and his trusted lieutenants. On the first day *Il Giornale* acquired Starbucks to become the biggest coffee beverage company in the world, Schultz, who was pressured by worried investors, knew the company had to institute three-pronged strategic actions in order to resolve the mess caused by losses incurred from three years of operations. As already mentioned above, these three actions addressed the following areas: personnel and management, facilities, and information technology. But having acquired new roasting and grinding facilities and integrated IT into its operation were not enough, as the company had to make Starbucks the best place to work, and this was addressed by adopting several benefits programs that heightened the morale of partners, and this business strategy aimed to raise the quality of work among employees to provide strong support to the company's expansion target.

Expansion did not just mean demographic extension, but also expansion by means of entering into business alliances and partnership that stretched and protected the interest of the company. The experience of Starbucks gave the business community two lessons to ponder. The first is simple expansion, which means growth in terms of increasing the number of locations and opening of branches abroad either by license or company-managed operations. The second is complex expansion, which refers to development through business alliances, partnerships, and ventures. Complex expansion involves several aspects, such as opening of more locations, diversification of products, and entering new product lines. In the case of Starbucks, while the number of locations increased, several developments in terms of product offering, new product lines, and alliances were strategically put in place. This approach gave Starbucks an advantage over its unsuspecting competitors as it sought to protect its interests against threats caused by competition and to grease its way for future opportunities.

As a result, Starbucks acquired some of its direct competitors like Seattle's Best Coffee and *Torrefazione*, which really helped in shutting off other competitors in the coffee business. Starbucks clearly demonstrated its ability to resist competition and to combat external threats through its unique strategic business plan. Thus, Starbucks seeks to tell one good lesson to the business community— business is not always by the book. This supposition is proved by one situation when Starbucks was still a big dream— Howard Schultz, the CEO who admitted having only a limited knowledge about his gargantuan task but relied on his own ability and rational decision, was surrounded by a group of apprehensive business people and investors.

STARBUCKS: TWO OPERATIONAL COMPETENCIES

A. Adoption of benefits and programs for employees:

Howard Schultz already knew what to do when Starbucks Corp. was finally put in place. One big plan in his mind was a set of programs and benefits intended for Starbucks employees. Schultz's humble family background had great influence on his crucial decisions. The experiences of his father who died on cancer in 1988 had an impact on Schultz's professional life. His father lived his whole life working as a factory worker and taxi driver just to make both ends meet for his family, while his mother was a plain housewife. His father was never granted any benefit as an employee which he could have used when the time come that he was unable to work. When he died, he left no pension plan for his family. This greatly influenced Schultz's decision. So in 1988, he convinced Starbucks directors to offer full health benefits to full- and part-time employees. The suggestion received so much resistance from the investors as Starbucks was still struggling to pursue its ambition at that time and as it also incurred losses in 1987

Unfazed by the investors' strong resistance, Schultz explained that the employees would be encouraged to work harder if they were given full health benefits. The investors, however, refused to provide health benefits for the part-timers as it was also disallowed by the former Starbucks owners. Schultz argued that majority of the company's employees were part-timers who were mostly college students, and that they were required to work in a schedule that would make them prone to any kinds of illnesses. In the end, Schultz's plea was finally granted, and by end 1999, there was a total of 33 company stores (Starbucks, 2008).

Apart from the health benefits, Starbucks became the first privately owned company to proffer a stock option program, giving both full-time and part-time employees the opportunity to buy Starbucks stocks. This was followed by the offering of stock purchase plan that gave the employees the chance to be company partners. This strategy, which was one of the firsts in trade history, translated to several positive outcomes.

First, it won the trust, confidence, and loyalty of the employees. The company's programs for its employees had a psychological impact on their behavior, decisions, and performance. Schultz believed that if the employees felt that they are being taken cared by their employers, they will have more loyalty and more concerned with, and cooperative of, the goals of the company.

Second, stock option and repurchase plans had a positive impact on the financial standing of the company. If employees were encouraged to buy stocks through portions of their monthly salary, the company will not have difficulty settling financial matters and there is no need to offer stocks to the public. This also introduced the concept of co-determination wherein both the management and the employees participate in decision-making processes and other vital matters pertaining to the interest of the company as well as the interest of both the management and partners.

B. Enter business alliances and new product lines

This business strategy targets one thing— expansion. As mentioned above, this concept can be theorized as a complex expansion, which involves the establishment of tactical partnership ventures and adoption of new product offering. This is in contrast with simple expansion which refers to the increase and extension of company locations. For the purpose of this study, the term complex expansion was utilized to best illustrate the success behind the interlinked calculated business actions applied by Starbucks, which is now the focus of various studies and business researches.

As Starbucks spread its locations throughout strategic locations in the United States, efforts were also made to see the feasibility of entering into business alliances and partnership and new product lines that would strong support to the company's goal of expansion. As mentioned above, Starbucks invaded various markets like airports, universities, supermarkets, etc. and even tried to go beyond its customary business line when it joined forces with PepsiCo and Kraft to offer a prepackaged coffee and Frappuccino products. This venture added more source of income to the company's purse. Diversification was the name of the game, as Starbucks also offered warm breakfast lunch, salad, and sandwiches, although this action drew resistance from its indirect competitors like McDonalds and Dunkin Donuts.

This business technique drew both positive and negative results. Innovation is one of its positive outcomes. The company's innovative actions led to a wider market base, more market opportunities, and a stronger position in the realm of business. The entry of Frappuccino negated the belief that Starbucks is just for the yuppie adults. When Frappuccino hit the counter, young costumers began to taste the 'Starbucks culture' giving all its competitors a run for their money. This also resulted in taking its direction towards the international market. In 2003 stores in Latin American countries such as Peru and Chile were opened, and this was followed by an unprecedented spread of Starbucks culture in other countries like Turkey, France, Spain, among others in the succeeding years (Sowa 2004).

This innovative pace successfully maintained by the java retailer kept its patrons and made them more loyal to the company and more interested in its products offering. This business strategy also greased its international invasion which turned out to be a phenomenal success. According to Starbucks International president Martin Coles, the tactical method of the company was to weigh unprecedented growth with the "long term retail potential of existing countries", while going into various "promising new markets" (Business Wire 2006).

This explains the company's intense interest in putting up more locations and in extending its product menu. For the Starbucks management, the two must go altogether so to meet its long-term plan of establishing 20,000 stores worldwide (Business Wire 2006). On the other hand, the potential weakness of this strategy is that it gained resistance from its well-established indirect competitors like McDonalds that also entered the coffee-beverage business, which now gave Starbucks planners a challenging task to untangle.

TASK 3

Since day one, Schultz already envisioned Starbucks to be the strongest brand in the coffee-beverage market all over the world. To achieve this dream, he adopted, with the help of this esteemed and competent management team, various strategic business plans that were designed to buoy the company's long term goals. Profits and business development are the driving factors that encourage every businessman to vigorously seek expansion. But there were a number of nagging matters surrounding the issue of expansion that bothered Schultz and his team. There are many advantages as well linked to international expansion, one of which is the opportunity to establish brand recognition and to enhance the company's business interests at home (Gee 2004).

For Schultz, there are only two means of achieving expansion— either by licenses or by company-operated stores. There are various rational and strategic reasons why the word franchising is “almost a forbidden word to Starbucks” (Starbucks Insider 2008).

Keeping Starbucks culture within:

Howard Schultz never had the intention to franchise Starbucks. To Schultz, franchising is a big corporate sin, as it is tantamount to throwing away its control over the operation, the quality of products and services, and the culture that it seeks to spread all over the world.
Quality of products and services: The company management is very particular with the products that it serves to its valued patrons. There are numerous calculated stages that must be followed before a single cup of coffee reaches a particular costumer. It starts with the purchase of coffee beans wherein a well-trained purchasing team was designated to established connection with coffee farmers from coffee-producing countries. The team guarantees the quality of the coffee beans to be transported to the company’s roasting and grinding site. The process of roasting and grinding also undergo a very scrupulous and systematic process to make sure that the finish product is of first class. Consistency, competence, and expertise define the laborious and meticulous process, starting from the purchase stage up to the selling stage. In other words, the company has full control over this series of crucial stages.

Maintenance of culture and standards. Starbucks is also very particular with its culture and company standards. This is the reason why stores in the United States are company-owned, in order to maintain the culture that made Starbucks the biggest and most respected coffee brand in the world. This factor is both abstract and concrete, as it refers to the company’s ethical standards, business practices, corporate goals and missions, among others. Unlike the first (maintenance of the quality of products), this admits different interpretations which may be altered or modified by the franchisee. One explanation why stores in the U.S. are company-operated is that they are concentrated in one geographical unit, thus, both financial and monitoring aspects are not that difficult to comply with. In its expansion in the U.S. Starbucks only relied on investment, income, and other subsidiary means of revenue, which means this approach, cannot be possibly applied abroad as there would be constraints and other negative factors in terms of investment, control, legalities, etc.

Another explanation is financial constraint as already explained above. It would be impossible and impractical to raise a very huge sum of money in order to put up thousands of stores worldwide that would be fully owned and operated by the company. The success of the coffee retail company at home will serve as a testimony to consumers abroad that it is a well-tested and quality brand.

Starbucks Coffee International: The super-subsidiary

Stores outside America are either company-owned or licensed. The creation of this super subsidiary buoyed and improved the image of Starbucks worldwide as "the purveyor of the finest coffee in the world" (Starbuck, 1998).

As already mentioned, Starbucks Coffee International introduced a new concept that seeks to protect the interest of the company and to draw a line governing licenses. Even if stores abroad are not really owned by Starbucks, the company adopted strategic methods which guarantee that such stores still comply with the company standards, quality of services, maintenance of business culture, and business practice. There are factors that an applicant must meet before he can be given a license such as the following: strong selling and restaurant experience, dedication to proficient consumer service, wiliness to comply with the long standing corporate values and culture, competent workforce, and brand-building capabilities (Thompson, Hawk & Shah 2004, p.C19).

Subsidiaries are also required to comply with the following Starbucks' mission statement (Starbucks website 2008):

- Provide a great work environment and treat each other with respect and dignity.
- Embrace diversity as an essential component in the way we do business.
- Apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee.
- Develop enthusiastically satisfied customers all of the time.
- Contribute positively to our communities and our environment.
- Recognize that profitability is essential to our future success.

Thus, the system is between Starbucks Corp. and a foreign company that has successfully met the aforementioned requisites. There are, however, other external reasons why locations abroad may be licensed via the establishment of business partnership. These external factors are the following:

Legal constraint: The framework of the law being applied in the United States is not similar with those applied in other countries. There are other countries that limit foreign ownership like the one applied in the Philippines wherein 60 percent of the business must be owned by Filipinos. This legal constraint is also present in most communist and authoritarian states like China, which is now the most promising market for investors.

Investment constraint: It would be a big gamble as well as not strategically sound and effective for the parent company to invest much of its money and resources in all stores abroad. Starbucks considered licensing as one of its investments for future opportunities.

Operational constraint: Further, had it owned and operated all stores abroad, it would be impractical and impossible for Starbucks to monitor their operations. To do so, it had to personally supervise hiring processes, one aspect that requires great attention. Thus, stores abroad are best left to foreign businessmen who are willing to spread the Starbucks culture and to comply with the conditions set in the license contract.

Political constraint: This is one factor that affects businesses around the globe. Political conflicts are a commonplace in some nation-states, and they hamper not only growth in their respective domestic economy but also the welfare and interest of foreign investors. This is one reason why Starbucks pulled out its stores in Israel due to the ongoing war conflict of the country with Palestine.

Volatile global market: This is one of the reasons why Starbucks had a hard time establishing its international operations. Having fixed all problems affecting its domestic operations, business experts made a suggestion that Starbucks had to set its eyes on economic indicators in the global market and guard its company operations abroad by being keen on the volatility of the international business environment (Starbucks International Operation 2006, p.1)

Starbucks started operating in Japan in 1996, but it took years before it was able to stabilize its operations there. This spawned the opening of thousands of stores in various countries, but the company experienced a jittery start which was attributed to the volatile global market environment (Starbucks International Operation 2006, p.1).

China had become the biggest target of the company at the start of the new millennium. In 2002, its first stores opened in Southern China, and by year end, a total of 5,886 locations were in place worldwide (Starbucks 2008).

The concept of Replication:

The theory of replication (Winter & Szulanski 2000), which involves the "creation and operation" of a massive number of related business undertakings that convey a particular product offering or services, is what is known as the "McDonald approach." This concept was given only a scant attention by experts in the field of business. This is very similar to the licensing practice being applied by Starbucks, which seeks to replicate not only its products and services but also its business culture and practices with foreign subsidiary partners.

According to Winter and Szulanski, "traditional replicators offer such point of presence, but to capitalize on these rapidly expanding global opportunities they must achieve unprecedented growth rates." This is true in the case of Starbucks Coffee International that achieved tremendous success in establishing its products in the global market and in maintaining loyal patrons.

Competition in the global market

Today, the competition is set in the global market wherein indirect competitors are now engaged in diversified activities. One of them is McDonalds that recently created a line that seeks to rival Starbucks. Perhaps, McDonalds' planners also saw the opportunity in the coffee-beverage business since Starbucks, being the most established brand in the coffee market, cornered only one percent of the $80-billion industry.

There were some assertions that Starbucks achievement is attributable to its successful operations in the United States and that its international operations were not doing well (Starbucks International Operations 2006, p.1). The volatile global economic situation was pointed as one of the reasons why Starbucks had some trouble fixing its international operations. One case was the boycott in 2002 by Arab students of American products to express their indignation over the U.S. government's support to Israel (Starbucks International Operations 2006, p.2).

Today the biggest battlefield is set in China, where almost all global investors are interested in the empire's attractive population. However, several problems where spotted by Starbucks' personnel in China in 2006 wherein they found out that the Chinese were not that brand conscious and that they are not heavy coffee drinkers (Adamy 2006). In 2007, mass protests forced Starbucks to close its store in Beijing's Forbidden City for "tarnishing the historical site" (BBC News 2007).

The main problem is cultural since the Chinese people are tea-drinkers. Another problem is the threat posed by McDonald's McCoffee, which also expressed its intention to operate worldwide, considering that the world's biggest fast-food chain has 14,000 locations worldwide, while Starbucks has a total of 15,756 by year-end 2007.

Despite some troubles, Starbucks is unstoppable in its plan to open 40,000 locations worldwide— 20,000 in the United States and 20,000 across the rest of the globe— as the biggest coffee chain saw an opportunity to expand its operations China, India, Egypt, Russia, and Brazil (Newsratings.com 2006).

In 2007, the company's quarterly revenue was pegged at $2.44 billion, a bit higher than the $2 billion output in 2006 (Gillespie 2007). After serving as Starbucks Chairman since 2001, Schultz returned to his position as CEO to fix some problems like the company's weak shareholder value (Pressroom 2008). Schultz vowed to recommit the management to what made Starbucks a strong global brand— "ethically sourcing and roasting the highest quality coffee in the world; the relentless focus on the customer; the trust we have built with our people, and the entrepreneurial risk-taking, innovation and creativity that are the hallmarks of our success" (Pressroom 2008). The following are the new CEO's corporate long-term agenda:

a.) refocus on costumer experience in the stores;

b.) close underperforming stores to focus on "its store-level unit economics";

c.) reinstate costumers' connection with "Starbucks coffee, brand, people and stores";

d.) re-align "Starbucks organization and streamline the management to better support customer-focused initiatives and reallocating resources to key value drivers;"

e.) speed up growth and augment the productivity of the company outside the U.S.

Schultz believes that the aforementioned set of objectives will help renovate Starbucks and propel the company's continuing success (Pressroom 2008). Thus, he said: "We know that we can improve our performance by getting back to the essence of what drove Starbucks past success – our passion for the business and a complete focus on the customer and our relationship with our people. In doing so, we will rely on the continued efforts and dedication of our partners all around the world, who have and will continue to contribute so much to the Starbucks success story" (Pressroom 2008).

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APPENDICES:

Simple Expansion: This refers to the expansion per se, that is, the costmary increase in the number of stores, locations, or branches of a particular firm or business. In the case of Starbucks Coffee, simple expansion took place when its number of stores expanded in the United States and across the rest of the world.

Complex Extension: This involves the interlink growth of the company in terms of increase in the number of stores or locations and the diversification of products and services, including the increase in the number of corporate alliances and business partners.

Theory of Replication: This is sometimes called the "McDonald approach. It refers to the "creation and operation" of a massive number of related business undertakings that convey a particular product offering or services,