


ASE 7

STARBUCKS COFFEE: EXPANSION IN ASIA
HISTORY

Starbucks Coffee Company was founded in 1971 by three coffee aficionados. Starbucks, named after the coffee-loving first mate in *Moby Dick*, opened its first store in Seattle's Pike Place Public Market. During this time, most coffee was purchased in a can directly from supermarket shelves. Starbucks' concept of selling fresh-roasted whole beans in a specialty store was a revolutionary idea.

In 1987, Howard Schultz, a former Starbucks employee, acquired the company. When Schultz first joined Starbucks in the early 1980s as director of retail operations, Starbucks was a local, highly respected roaster and retailer of whole bean and ground coffees. A business trip to Milan's famous coffee shops in 1983 opened Schultz's eyes to the rich tradition of the espresso beverage. Schultz recalls, "What I saw was the unique relationship that the Italian people had with the ubiquitous coffee bars around Italy. People used the local coffee bar as the third place from home and work. What I wanted to try and do was re-create that in North America." Inspired by the Italian espresso bars, Schultz convinced executives to have Starbucks' stores serve coffee by the cup. And the rest is history! The company has seen phenomenal growth from 17 coffee outlets in Seattle almost 35 years back to 9000 shops in around 28 countries worldwide.

Starbucks went public in 1993 and has done extremely well in turning an everyday beverage into a premium product. The green and white mermaid logo is widely recognized; the brand is defined not only by its products, but also by attitude. *Business Week's* most recent survey (2004) of the top global brands reported Starbucks as one of the fastest growing brands with a cult following. It is all about the Starbucks experience, the atmosphere, and the place that is a refuge for most people to get away from everyday stresses. The average customer visits a Starbucks 18 times in a month, and about 10 percent of all customers visit twice a day. Starbucks has created an affinity with customers that is almost cult-like. Today, Starbucks is the leading roaster and retailer of specialty coffee in North America, with more than 1000 retail stores in 35 markets.

MISSION STATEMENT

Starbucks' corporate mission statement is as follows: "Establish Starbucks as the premier purveyor of the finest coffee in the world, while maintaining our uncompromising principles as we grow. The following guiding principles will help us measure the appropriateness of our decisions:

1. Provide a great work environment and treat each other with respect and dignity.

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2. Apply the highest standards of excellence to the purchasing, roasting, and fresh delivery of our coffee.
3. Develop enthusiastically satisfied customers all of the time.
4. Contribute positively to our communities and our environment.
5. Recognize that profitability is essential to our future success.
6. Embrace diversity as an essential component in the way we do business.

Starbucks' corporate objective is to become the most recognized and respected brand of coffee in the world. To achieve this goal, Starbucks plans to continue to expand its retail operations rapidly in two ways: first, to increase its market share in existing markets, and second, to open stores in new markets. In 2004 alone, Starbucks opened 4 stores a day on average. Starbucks' retail objective is to become a leading retailer and coffee brand in each of its target markets by selling first-quality coffees and related products. In addition, Starbucks provides a superior level of customer service, thereby building a high degree of customer loyalty.

SALES AND PROFITS

Starbucks' net earnings in 2004 were \$391.7 million, which is a significant increase from the \$181.2 million earnings three years earlier. Furthermore, its revenues grew more than 12 times from \$103.2 million in 1992 to \$1.3 billion in 1998. The increase in revenues and sales was a direct result of the numerous new stores that were opened. During this period, Starbucks stores grew 508 percent from 165 stores to over 1400. By the third quarter of the year 2004, sales had increased 30 percent over those of the previous year to \$5.34 billion. The company's stock saw a rise of over 2200 percent in the last decade (see Exhibit 1).

COMMITMENT TO COFFEE

Starbucks is committed to selling only the finest whole-bean coffees and coffee beverages. Currently the fifth largest purchaser of coffee, Starbucks roasts more than 30 varieties of the world's finest Arabica coffee beans; therefore, the company goes to extreme lengths to buy the very finest Arabica coffee beans available on the world market, regardless of price. Arabica beans have a very refined flavor and contain about 1 percent caffeine by weight. These beans account for 75 percent of the world production and are sought by specialty roasters.

To ensure compliance with its rigorous standards, Starbucks is vertically integrated, controlling its coffee sourcing, roasting, and distribution through its company-operated retail stores. It purchases green coffee beans for its many blends and varieties from coffee-producing regions throughout the world and custom roasts them to its exacting standards. Currently, there are three roasting plants in the United States. Roasts that do not meet the company's rigorous specifications, or

beans that remain in bins more than a week, are all donated to charity. Starbucks sells the fresh beans, along with richly brewed coffees and Italian-style espresso beverages, primarily through its company-operated and licensed stores.

EXHIBIT 1

NET REVENUES AND NET EARNINGS (IN \$MILLIONS)

| Year | Net Revenues (in \$million) | Net Earnings (in \$million) |
|------|--------------------------------|--------------------------------|
| 1992 | 103.2 | 4.5 |
| 1993 | 176.5 | 8.3 |
| 1994 | 284.9 | 10.2 |
| 1995 | 465.2 | 26.1 |
| 1996 | 696.5 | 42.1 |
| 1997 | 966.9 | 57.4 |
| 1998 | 1,300.0 | 68.4 |
| 1999 | 1,686.8 | 101.6 |
| 2000 | 2,177.6 | 94.5 |
| 2001 | 2,648.9 | 181.2 |
| 2002 | 3,288.9 | 215.0 |
| 2003 | 4,075.5 | 268.3 |
| 2004 | 5,294.2 | 391.7 |

COMMITMENT TO THE COMMUNITY

Despite becoming extremely profitable, Starbucks has not lost sight of being socially responsible. Starbucks has contributed to CARE, a nonprofit charity organization for the needy in coffee-growing countries, since 1991. As North America's leading corporate sponsor, Starbucks has helped establish health and literacy programs in Guatemala, Indonesia, Kenya, and Ethiopia. This long-term charity program has helped improve living conditions in the coffee-producing countries from which Starbucks buys. It is the company's way of providing assistance to those developing nations with which it does business. In addition, in 1996, Starbucks established a Code of Conduct policy, which is the first step in a long-term commitment to improving social conditions in the world's coffee-growing nations. In 2001, the company joined an organization, TransFair, that works for the rights of farmers. The efforts of the organization are oriented toward ensuring that coffee farmers get a significant part of the amount (\$1.26 a pound) paid by coffee roasters for coffee beans. Also, in 2002, the company purchased 150,000 pounds of coffee beans from a fair-trade Consortium of Coffee Cooperatives of Guanacaste and Montes de Oro in Costa Rica (COOCAFE). In 2005, the company purchased 250,000 by 2005 and \$1 million by 2006 to water projects in emerging countries. The company also announced that it plans to purchase 5 percent of its total energy in North America in the form of renewable wind energy amid environmental concerns.

CURRENT SITUATION

Coffee consumption in the United States has climbed to its highest level in nearly a decade. In 1989, there were only 200 specialty coffee stores. Today, there are more than 9,000 stores in 35 countries. The entire coffee market is estimated to be a \$30 billion industry. There are estimated to be about 33

million people who stop by Starbucks every week. The entire coffee market is estimated to be a \$30 billion industry.

In keeping with its corporate mission, Starbucks is expanding its retail outlets at an incredible rate. Most recently, Starbucks has entered several new markets, including Toronto, Rhode Island, North Carolina, and Tokyo.

In addition to retail operations expansion, the company plans to selectively pursue other opportunities to leverage and grow the Starbucks brand through the introduction of new products and the development of new distribution channels (see Exhibit 2). Joint ventures with companies like Dreyer's Grand Ice Cream, Inc., Pepsi-Cola, and Capitol Records have enabled Starbucks to introduce new product lines into the market. In 1994, the company entered a joint-venture agreement with Pepsi-Cola to develop ready-to-drink coffee products. By the spring of 1996, the company launched a new bottled coffee drink called Frappuccino™, a low-fat, creamy blend of Starbucks brewed coffee and milk. On October 31, 1995, a long-term joint venture with Dreyer's Grand Ice Cream was announced. The joint venture yielded a premium line of coffee ice creams distributed to leading grocery stores nationwide. This line has become the number-one selling superpremium coffee-flavored ice cream in the nation. Finally, joint ventures with record companies such as Capitol Records have enabled Starbucks to sell customized music CDs in its stores.

Starbucks is also trying to combine coffee with music to give its customers a complete livingroom experience. After getting into music production and sales, the company's special "Hear Music" stores enable consumers to download and burn CDs from Starbucks's library that includes 150,000 songs. Starbucks charges consumers \$2 to use the music facility, \$8.99 to purchase the first seven songs, and 99 cents per song thereafter. However, this novel move has not met the companies' expectations in the 45 test stores in the U.S. pushing forth into music, the company launched a music channel on satellite radio in 2004.

Starbucks' specialty sales and marketing team has continued to develop new channels of distribution as the company is growing. In 1991, the company began selling coffee in department stores and other places frequented by consumers, such as Nordstrom and Barnes and Noble. Its plan to become a nationally known brand is being pushed forward by a recent deal with United Airlines, which gives Starbucks exclusive access to 75 million domestic and international travelers. However, the company's goal of expansion does not stop at airports. For two years, Starbucks has been the only coffee brand served in ITT Sheraton Corporate Hotels. In 1996, it also became the coffee of choice in Westin Hotels & Resorts. More recently, it formed an alliance with U.S. Office Products to sell Starbucks coffee to offices throughout the United States. This alliance is a tremendous opportunity for Starbucks to serve the workplace environment and overall strengthen its customers' relationship with the Starbucks brand. In 2001, the company began offering high-speed Internet access at some of its stores to lure more customers. It also introduced the Starbucks card, which now has over 4 million activations. Finally, Starbucks wants to grow its direct response and specialty sales operations. Starbucks' direct response group launched a new America Online Caffe Starbucks store to sell its products via the Internet.

EXHIBIT 2

STARBUCKS BUSINESS VENTURES

| | |
|----------------|---|
| March 1995 | Released Blue Note Blend coffee and CD jointly with Capitol Records. |
| September 1995 | First Starbucks retail store opened within an existing and newly opened state-of-the-art Star Markets. |
| October 1995 | Signed an agreement with SAZABY Inc., a Japanese retailer and restaurateur, to form a joint-venture partnership to develop Starbucks retail stores in Japan. The joint venture was called Starbucks Coffee Japan, Ltd. The first store opened in Tokyo in the summer of 1996 and marked Starbucks' first retail expansion outside of North America. |
| October 1995 | A long-term joint venture with Dreyer's Grand Ice Cream was formed to market a premium line of coffee ice creams. Nationwide distribution to leading grocery stores occurred in the spring of 1996. |
| November 1995 | Formed a strategic alliance with United Airlines to become the exclusive coffee supplier on every United flight. |
| January 1996 | The North American Coffee Partnership was formed between Pepsi-Cola and Starbucks New Venture Company, a wholly-owned subsidiary of Starbucks. The partnership announced its plan to market a bottled version of Starbucks' Frappuccino™ beverage. |
| February 1996 | Formed an agreement with Aramark Corp. to put licensed operations at various locations marked by Aramark. The first licensed location opened in the end of 1996. |
| September 1996 | Introduced Double Black Stout™, a new dark roasted malt beer with the aromatic and flavorful addition of coffee with the Redhook Ale Brewery. |
| October 1996 | Formed an agreement with U.S. Office Products Company, a nationwide office products supplier to corporate, commercial, and industrial customers. The alliance will allow Starbucks to distribute its fresh-roasted coffee and related products to the workplace through U.S. Office Products' extensive North American channels. |
| 1998 | Formed a joint venture with Intel Corporation. The venture will help push Starbucks into the market of cybercafes. |
| 1998 | Formed an alliance with eight companies to enable the gift of over 320,000 new books for children through the All Books for Children Holiday Book Buy. |
| 1998 | Acquired Seattle Coffee Company, UK's leading specialty coffee company. |
| 1998 | Formed a joint venture with Mack Johnson's Johnson Development Corporation to develop Starbucks locations in underserved, inner-city urban neighborhoods. |
| 1998 | Formed long-term licensing agreement with Kraft Foods to accelerate growth of the Starbucks brand into the grocery channel across the United States. |
| 1999 | Acquired Portland, Oregon's Tazo Tea company and "Hear Music." Formed alliance with Conservation International for environmental friendly coffee-growing procedures. |
| 2000 | Orin Smith became President and CEO. Formed licensing pact with TransFair USA for sale of Fair Trade Certified coffee. |
| 2001 | Introduced Starbucks card. |
| 2004 | Introduced in-store CD burning, formed licensing agreement to distribute Tazo Tea in U.S. grocery stores. |
| 2004 | Formed strategic alliance with satellite radio, introduced new coffee beverage varieties. |

Although profits for Starbucks have increased significantly over the years, the company still has cause to be worried. Overall sales are still growing quickly, but the rate of growth is slowing at existing stores. Annual sales growth at stores has slid from 19 percent in 1993 to 7 percent in 1996. The biggest cause of sluggish sales growth is attributed to store cannibalization. Starbucks has been known to open stores within one block of each other in hopes of saturating the market. In addition, growth has also been hurt by poor merchandising efforts, which have left many products—like mugs and coffee makers—on display for years.

INTERNATIONAL EXPANSION

With a stable business in North America, Starbucks plans to expand abroad extensively. Starbucks' international strategy is to utilize two expansion strategies—licensing and joint-venture partnerships. The success of expanding into foreign markets is dependent on Starbucks' ability to find the right

local partners to negotiate local regulations and other country-specific issues.

Currently, Starbucks exists in an increasing number of foreign countries (Exhibit 3) in Asia. The company felt that Asia offered more potential than Europe. According to one executive, "The region is full of emerging markets. Consumers' disposable income is increasing as their countries' economies grow, and most of all, people are open to Western lifestyles." Finally, coffee consumption growth rates in Southeast Asia are estimated to increase between 20 percent to 30 percent a year. With this in mind, Starbucks has plans to invest \$10 million in developing its Asian operations and up to \$20 million with its joint-venture partners in Asia.

Starbucks does not yet have a roasting plant in Asia. Instead, one shipment of coffee beans arrives in Asia every other week to supply the company's shops in Singapore and Japan.

EXHIBIT 3
STARBUCKS INTERNATIONAL EXPANSION

| <i>Year of Entry/ Establishment</i> | <i>Countries/Regions</i> |
|---|--|
| 1996 | Hawaii, Japan, Singapore |
| 1997 | Philippines |
| 1998 | United Kingdom, Taiwan, Thailand, Malaysia, New Zealand |
| 2000 | United Arab Emirates, Shanghai, Hong Kong, Australia, Qatar, Bahrain |
| 2001 | Switzerland, Austria |
| 2002 | Oman, Germany, Spain, Mexico, Puerto Rico, South China, Macau, Shenzhen, Greece, Indonesia |
| 2003 | Turkey, Peru, Chile, Cyprus |
| 2004 | France |
| 2005 | Jordan |

JAPAN

On October 25, 1995, Starbucks Coffee International signed a joint-venture agreement with SAZABY Inc., a Japanese retailer and restaurateur, to develop Starbucks retail stores in Japan. The joint-venture partnership is called Starbucks Coffee Japan, Ltd. This alliance has proven to be a strong one because it combines two major lifestyle companies that provide the Japanese consumer a new and unique specialty coffee experience. Under this partnership, Starbucks opened its flagship Tokyo store in the upscale Ginza shopping district in 1996, its first retail store expansion outside of North America and Europe.

Japan is an essential part of Starbucks' international expansion plan because the nation is the third largest coffee-consuming country in the world, behind the United States and Germany. Japan is also an ideal country because it has the largest economy in the Pacific Rim.

Demand for coffee blends in Japan has doubled in the past five years, and specialty blends are the fastest growing segment of the industry. One industry analyst said, "The Japanese have taken to coffee like a baby to milk." Gourmet coffee accounts for 2.5 percent of the 1.2 billion pounds of coffee bought by Japan each year. The average per capita consumption among gourmet drinkers in 1997 was 1.5 cups a day, up from more than a half cup in 1990. The company picked Japan for its first big overseas venture not only because it is the third-largest coffee-consuming country in the world, but also because the quality of its coffee products provides a major opportunity for Starbucks' specialty drinks. Japanese vending machines, for instance, dispense \$1 billion worth of cold, canned coffee drinks. A similar bottled beverage jointly produced by Starbucks and Pepsi is in the process.

Starbucks increased the number of its outlets to over 530 by mid-2005, the highest number of stores in any country outside its home market, and it expects to open more stores in Japan. The stores offer the same menu as it does in its U.S. stores, although portions are smaller. The names of items, such as "tall" and "grande" are also the same as those used in the United States. All of the stores will also feature the company's trademark decor and logo. In addition, Japanese customers can purchase Starbucks coffee beans, packaged food, and coffee-making equipment, as well as fresh pastries and sandwiches.

Starbucks' Japanese sales were 25 percent above the originally expected sales figures a few years back. However, as of Fall 2002, same-store sales growth had fallen. From 1999 to 2004, net profits stood at 6 million in Japan.

On opening day in 1995 the Japanese crowded into Starbucks, and as many as 200 customers formed lines around the block to get a taste of Starbucks high-quality coffee. Starbucks hopes to cultivate the same kind of coffee craze in Japan as the one it has created in North America. However, profits from the Japanese venture will not be visible for several years. Operating costs in Japan, such as rent and labor, are extremely high, and Starbucks will also have to pay for coffee shipment from its roasting facility in Kent to Japan. Retail space in downtown Tokyo is also more than double that of Seattle's rent.

Starbucks plans eventually to open a roasting plant in Japan to help keep costs down. However, this plan is contingent on the success of the stores in Japan.

SINGAPORE
Economic Background

According to the U.S. Department of State in 1990, Singapore, otherwise known as the Lion State, has an annual growth rate (1998—in real terms) of 11 percent. The country's per capita income is \$8782, which is the third highest in Asia after Japan and Brunei. However, Singapore relies heavily on industry, with the industrial sector (including food and beverages) making up about 17 percent of Singapore's real GDP. It imports about \$44 billion in crude oil, machinery, manufactured goods, and foodstuff from the United States, European Community, Malaysia, and Japan. In addition, Singapore is constantly looking for new products and new markets to drive its export-led economy. It is attempting to become a complete business center, offering multinationals a manufacturing base, a developed financial infrastructure, and excellent communications to service region and world markets.

However, the late 1990s was not a very good period for Singapore, for the country was affected to some extent by the Asian financial crisis. The economy grew at an annual rate of 8.7 percent from 1990 to 1996 but has since slowed down significantly. The main sector that was hurt by this slow growth was the manufacturing industry, which grew by less than 3 percent, down from 10 percent in 1995. In addition,

the commerce sector grew by less than 4 percent, down from 9 percent in 1995. Analysts claim that weak economic growth, global competition, and a very slow tourist season made Singapore's retail industry very sluggish. The restaurants and hotels also recorded weak growth.

LIVING IN SINGAPORE

Singapore has one of the best living conditions in Asia. In 1999, its per capita GNP was US\$27,480. Furthermore, Singapore is known for its diversity. There are 3.4 million Singaporeans: ethnic Chinese, Malays, and Indians make 77 percent, 14 percent, and 7 percent of the population, respectively. The most practiced religions are Buddhism/Taoism (53.9 percent), Islam (14.9 percent), Christianity (12.9 percent) and Hinduism (3.3 percent). The main languages are Malay, Chinese (Mandarin), Tamil, and English. English is the language of administration, whereas Malay is the national language.

With a moderately high cost of living, Singaporeans are able to indulge in luxury goods. Much of Singapore's entertainment is influenced by Western culture. For instance, many theaters show Broadway musicals such as *Les Misérables* and feature pop concert artists like Michael Jackson. Television programs are in English, Chinese, Malay, and Tamil. In 1992, pay TV channels such as CNN, Movievision, HBO, and Chinese Variety were introduced.

Singaporeans are known to indulge themselves with food. "So discriminating have the Singaporeans become on the subject of quality and price that eating has become a national obsession." Singapore has an array of restaurants, coffeehouses, fast-food outlets, and food centers that are easily accessible and offer a variety of foods at affordable prices. Most of these food places are not air-conditioned except for those located in shopping complexes. However, eating in an air-conditioned restaurant, regardless of income level, is an affordable luxury. "The average lunch or high tea buffet spread offering a wide variety of dishes is available at many hotel coffee houses and restaurants, and it costs about \$15 (Singaporean currency) or more per person. Most restaurants and coffeehouses impose a 10 percent service charge, but tipping is not encouraged."

SINGAPORE'S LOVE AFFAIR WITH COFFEE

According to Singaporean social commentator Francis Yim, "Coffeehouses are a sign that Singaporeans have achieved the status of a developed nation and we are breaking new ground in the area of becoming a cultured society." In the past during the construction of Singapore, Singaporeans did not have the time to enjoy their cup of java. Regardless of their religion and beliefs, Singaporeans went to coffeehouses in the evenings for their meals and drank coffee in order to keep themselves awake. Now coffee is viewed as a beverage instead of a drink. People want to take the time to savor their coffee. It is not just a drink but a personality altogether. The various flavors that coffeehouses offer reflect the different moods as well as taste.

The first Starbucks coffee outlet in Singapore opened on December 14, 1996, in Liat Towers, with the help of BonStar Pte. Ltd., a subsidiary of Bonvests Holding Ltd., a Singaporean company with food services and real estate interests. The store in Liat Towers is located in Singapore's main shopping district on Orchard Road, which is a very trendy shopping center including the French department store, Gallery Lafayette,

and Planet Hollywood. There are plans to open 10 to 12 more Starbucks in Singapore within the next year. Currently, the licensing agreement with Starbucks only covers Singapore, but Bonvests hopes to expand the franchises into other Asian markets. Starbucks' venture into Singapore is its first expansion into Southeast Asia. Bonvests Holdings anticipates that the Starbucks retail stores will generate at least \$40 million in sales over the next five to six years.

Bonvests is an ideal partner for several reasons. Bonvests has acquired expertise in running food businesses, such as the local Burger King chain. They also know and understand the local consumer market, government regulations, and the local real estate market.

Starbucks chose Singapore for its entry in the Southeast Asian market because of the highly "Westernized" ideas and lifestyles it had adopted. Some have described Starbucks as another American icon, like McDonald's. Some even say that Starbucks has created an American coffee cult. Slowly, but surely, gourmet coffee bars have been penetrating into the food scene in Singapore. It is estimated that Singaporeans drink more than 10,000 gourmet cups a day. In addition, the market in Singapore has tremendous growth potential. According to Bruce Rolph, head of research at Saloman Brothers Singapore Pte. Ltd., "People should increasingly focus on Singapore not as a mature market with low earnings and growth potential, but as a uniquely positioned beachhead to get leverage over what's happening in Asia." Finally, the Singaporean market still has no clear leader in the specialty coffee industry. This means that Starbucks still has a good chance to become one of the top contenders in this market.

Despite the opportunities that exist for Starbucks in Singapore, Starbucks still must overcome certain obstacles to be successful. Competition is fierce, with 14 players and 38 stores between them (see Exhibit 4). With Starbucks entry into the Asian market, bigger retail stores, like Suntec Dome Holdings, are already gearing up for a coffee battle. However, smaller companies like Burke's Cafe and Spinelli are welcoming Starbucks' entry. Their strategy is to open an outlet right next to Starbucks to attract the customers that overflow from Starbucks.

One of Starbucks' biggest competitors, Suntec Dome Holdings, has already established itself in Singapore. It already has good name recognition with Suntec Walk, Suntec City, Dome Cafe, and so on. Suntec is distinctive from the other retail coffee stores in that it is seen more as a restaurant than as a coffee chain. It targets a broader market segment with a lower budget range. They are also backed by major supporters with the capital to counter Starbucks' expansion strategy. In addition to Singapore, Suntec Dome Holdings has plans to expand to other markets such as Malaysia, Indonesia, Thailand, Hong Kong, and China. Spinelli, a smaller competitor, also plans to expand into the region. With these expansion plans having been completed by the year 2000, Spinelli is potentially a major threat to Starbucks.

More well-known coffee spots to Singaporeans are Coffee Connection and Coffee Club, which are also direct competitors of Starbucks. The customers that go to Coffee Connection and Coffee Club like the atmosphere and the service they receive there. As reflected here, Singapore has seen a proliferation of gourmet coffee outlets in the past few years; therefore, the market is slowly becoming overcrowded.

EXHIBIT 4**COMPETITOR PROFILES**

SPINELLI

Spinelli Coffee Company, long regarded by many as San Francisco's best coffee retailer, has been licensed by Equinox for expansion into Southeast Asia. Equinox is a joint venture between Golden Harvest, a Hong Kong film company, and Singapore Technologies Industrial Corporation, a Singapore Conglomerate. Seven outlets were opened in Singapore's central business district by the fall of 1997, with up to 40 locations targeted for the region by the year 2000. In addition, Spinelli is also in the process of setting up roasting factories to supply the Asian market. Spinelli brings to Asia years of experience in sourcing, producing, and selling premium coffee drinks and whole bean coffee.

SUNTEC DOME HOLDINGS

Dome Café is a cafe modeled on European lines and was discovered by a Singaporean lawyer. It is best known for its distinctive sidewalk and atrium cafes, where the food menu is longer than the coffee list. They serve light snacks and full meals all day, from sandwiches made with foccacia (a flat, Italian bread) to exotic entrees like duck and pumpkin risotto. Suntec Dome Holdings was formed in 1996 when Suntec Investment, an investment vehicle for a group of Hong Kong tycoons, bought 51 percent stakes in the Dome Chain. Ronald Lee and Sebastian Ong, founders of Dome, imported the European-style Dome concept from Australia. They are expecting to increase the number of outlets from 7 to 17 within three years; an estimated \$7 million is expected to be allocated for the expansion of outlets. Plans to build more roasting plants to distribute Dome's coffee in Asia are to follow, though roasting factories in Singapore and Australia exist already. Their growth strategy is to expand into several Asian countries, with six outlets within two years in Malaysia and plans for further expansion into Indonesia, Thailand, Hong Kong, and China are in the development stage.

COFFEE CLUB

Established coffee trading company Hiang Kie, now 60 years old, sniffed out the gourmet coffee trend and whipped up its first outlet in Holland Village in 1991. There are 37 variations, from the humble Kopi Baba to the spicy, vintage tones of Aged Kalossi Coffee. The best attraction is the Iced Mocha Vanilla—Macciato coffee and milk topped with vanilla ice cream and a drizzle of chocolate syrup. In addition, they serve light meals of cakes, salads, sandwiches, and home-made ice cream.

COFFEE CONNECTION

Coffee Connection is the latest, trendier incarnation of Suzuki Coffee House, started in the 1980s by Sarika Coffee to showcase its Suzuki Coffee Powder. So far it is the mothership of coffee bars, with 69 different drinks ranging from cool coffee jelly to Blue Mountain Chaser. The best attraction is the Cappuccino Italiano—espresso infused with hot milk, topped with a frothy milk cap and dusted lightly with chocolate powder. They also serve ice cream, pasta, pizza, and foccacia sandwiches.

BURKE'S COFFEE

Burke's Coffee started from four Singaporean students who studied in Seattle, liked the espresso bars, and brought back the concept. Burke's Coffee is a Seattle-style cafe, bringing the lifestyle of the Pacific Northwest to Singapore. Burke has made a name for itself as a friendly and inviting place in the midst of the hustle and bustle of downtown Singapore. The store has established a loyal customer base of young professionals who visit the store frequently. Burke's serves sandwiches, soups, and desserts. There are seven basic coffee drinks, plus 12 Italian syrups that you can add on request. The best attractions are the Mocha Freeze and Hazelnut Latte.

Starbucks will need to turn some heads and create the brand equity it needs to stay in competition with its competitors. However, it does have an advantage entering this market. Starbucks packages a coffee-drinking experience that the Singaporeans want, both trendy and American. As mentioned earlier, Singaporeans love American products, and hopefully, that will translate into major dollars for Starbucks in Singapore.

Starbucks faces a challenge in Singapore amid a prolonged and still-depending crisis in the retail industry. Major retailers, like Kmart and France's Galeries Lafayette, have recently left Singapore after much failure.

CHINA

It is probably a little easier to accelerate the sale of one's products in a market where demand already exists as compared with a market that has a large number of potential

consumers and an emerging economy but low demand for the product. This is the case with China, which is predominantly tea-consuming and one of the smallest coffee markets in the world.

Thus, when Starbucks inaugurated its first outlet in the World Trade Center in Beijing, China, in January 1999, it needed to proceed at a slower than accustomed pace. The company now sells coffee through around 165 outlets that are mostly concentrated in Beijing, Shanghai, and Hong Kong. The company has collaborated with different partners for its operations in China. In Shanghai and Hangzhou, Starbucks has partnered with a unit of the President Group. The President Group is Starbucks' partner in Taiwan, where it runs around 80 coffee stores. In North China, the company has partnered with H&Q Asia Pacific and Beijing Mei Da Coffee.

A replication of its stores concept worldwide, Starbucks in China caters mainly to urban working people, and thus its

outlets are located in commercial areas. As for advertising for the Chinese market, Starbucks depends less on domestic advertising and more on promotion through coupons and visits, which draw first-time consumers. Hence, although it faces a challenging task, the company is determined to carve a niche for itself in China's beverage market. In 2005, the company announced that in the long term, it expects the Chinese market to be its second largest in the U.S.

INDONESIA

In 2002, Starbucks launched its first coffee store in Jakarta, Indonesia, after signing a licensing agreement with PT Sari Coffee Indonesia. It is housed on the ground floor of the Plaza Indonesia, an upscale fashion shopping center, and boasts of the familiar Starbucks atmosphere of coffee, conversation, and more. The company plans to expand its operations in Indonesia based on the response it gets to its first store.

CASE 8 GAP INC.



Since it started in 1969, Gap Inc. has been consistently growing and expanding. With more than 3000 stores in the United States, Canada, the United Kingdom, France, and Japan, Gap Inc. is currently the second largest-selling brand in the world and is ranked second among all U.S. retailers in sales.

A HISTORY OF GAP INC.

Gap Inc. was established in August 1969 by Donald G. Fisher, a real estate developer educated at the University of California–Berkeley. Fisher conceived the idea when he went to a department store to exchange a pair of Levi's and was unable to because the jeans department was so disorganized. Backed by a \$63,000 family investment and a \$112,000 bank loan guaranteed by his father-in-law, Donald Fisher introduced the first Gap store in San Francisco. His original idea was to focus on the mid-teen market with three types of goods: records, cassette tapes, and Levi's jeans. Unlike the local department stores, which stocked only a limited number of styles and sizes of Levi's jeans, the Gap store carried every size and style available. Furthermore, they were neatly arranged and easy to find. Donald Fisher and his wife had a discussion about the "generation gap" in 1969, and from that discussion came the name Gap Inc., under which the company was incorporated in California in July 1969. Gap Inc. was reincorporated in 1988 under the laws of Delaware.

GROWTH AND EXPANSION

Although the original targeted customers were primarily young people, the convenience of a neatly organized jeans store with Levi's products attracted customers of all ages. In less than one year, Gap's business took off, and a second Gap was opened in San Jose. In less than two years, there were six Gap stores in California. By 1972, Gap Inc. had 25 stores in six states. In 1973, Gap Inc. ventured into the East Coast market, opening 12 stores in New York, New Jersey, and Pennsylvania. In 1974, Gap expanded into Washington, Minnesota, Missouri, Oklahoma, Maryland, Virginia, Georgia, Arizona, Texas, and Illinois, with a total of 90 stores. In 1976, Gap Inc. went public with its stocks, offering 1.2 million shares on the New York and Pacific stock exchanges, selling at 75 cents a share.

This case was prepared by Masaaki Kotabe and updated by Sonia Ketkar for class discussion rather than to illustrate either effective or ineffective management of a situation described (2006).

In 1979, Gap Inc. opened a modern distribution facility in Denver, Colorado. By 1981, Gap Inc. had opened 500 stores nationwide. In 1983, Gap Inc. purchased Banana Republic, a travel clothing company that sold mainly through catalogs. By 1985, there were 613 Gap stores and 35 Banana Republics. The first GapKids store was introduced in 1987; then in 1988, the Old Navy Clothing Company was first introduced. In the same year, Gap opened two factory outlets selling merchandise at discount prices. In 1990, GapKids formed a separate department for baby clothing called BabyGap. In 1992, Gap stores also formed a separate department called Gap Shoes. The year 1993 was marked by the opening of Gap warehouse or outlet stores as well as an entry into the French market. Old Navy was started in 1994, and the following years witnessed the introduction of online Gap Maternity and the launch of the e-businesses of Gap, Banana Republic, and Old Navy.

As of 2005, the company operated:

- 3,010 stores in the United States, Canada, United Kingdom, and Japan.
- 462 Banana Republic stores, including 18 in Canada.
- 907 Old Navy stores.
- the total number of stores in:

| | |
|----------------|-----|
| United Kingdom | 134 |
| Canada | 173 |
| France | 33 |
| Japan | 84 |

SELLING PRIVATE STORE BRAND PRODUCT

Within three months of opening the Gap, Fisher realized that the real business was in selling Levi's jeans, so he dropped the records and cassette tapes from his inventory. Until the end of 1973, Gap advertised and carried only Levi's brand products. In 1974, Gap introduced its first private-label clothing into the merchandising mix. When price maintenance crumbled because of a Federal Trade Commission directive in 1976, Levi's products began to sell at discount, and Fisher was convinced that Gap's competitive advantage could not rely solely on the low prices of Levi's products. Since then, he has focused on reducing Gap's reliance on sales of Levi's products. As a result, Levi's products began to decrease as a percentage of Gap's total sales. By 1987, Levi's made up less than 50 percent of Gap's total sales. By 1985, Levi's sales dropped to 21