



International University in Geneva – IUG  
Business Policy (MBA)  
Winter – 2005/2006

## **Starbucks** BRAZIL



Prepared by:

Aminata Ouattara  
Daniele Albagli  
Melissa Butz  
Matvey Kostromichev

## Index

<b>Executive Summary</b> .....	<b>3</b>
<b>1) <u>Introduction</u></b> .....	<b>5</b>
1.1) Mission.....	6
1.2) Objectives.....	6
<b>2) <u>Strategic Position</u></b> .....	<b>7</b>
2.1) Pestel Analysis.....	7
2.2) External Environment Analysis.....	11
2.2.1) Porter Five Forces Analysis.....	11
2.2.2) SWOT Analysis.....	12
2.3) Internal Environment Analysis.....	13
2.3.1) SWOT Analysis.....	13
2.4) Capabilities.....	15
<b>3) <u>Strategic Choices</u></b> .....	<b>16</b>
3.1) Business Strategy.....	16
3.2) Suitability.....	17
3.3) Acceptability.....	18
3.4) Feasibility.....	18
3.5) Corporate Strategy.....	19
<b>4) <u>Strategic Implementation</u></b> .....	<b>20</b>
4.1) Marketing Strategy.....	20
4.1.1) External Strategy.....	21
4.1.2) Internal Strategy.....	23
4.1.3) Interactive Marketing.....	24
4.2) Operations Strategy.....	24
4.3) Performance Targets Process.....	28
4.4) The Relationship with the Corporate Parent.....	29
<b>5) <u>Conclusion</u></b> .....	<b>30</b>
<b>6) <u>References</u></b> .....	<b>31</b>

## Executive Summary

Nowadays, more and more people want to drink quality coffee in a nice, relaxing atmosphere where they can meet with friends, hold business meetings, read the paper, or even check their email. This concept began in the United States and has been spread throughout the world. In Brazil, this “new trend” has been taking force and the demand for good products and quality services has increased in the main cities. Traditional cafés were reorganized in order to adjust their operations and achieve the customers’ needs.

Although we know that the Brazilian consumers have been receptive to the fast food industries as a new type of service, the cafeteria market has not been explored, which leaves room for Starbucks to be equally welcomed. According to the research, the Brazil coffee consumption rate is nearing that of the United States, which indicates that it is ready for this new market. Starbucks Corporation currently has 10,500 stores in North America, Europe, and Asia, but none in South America. As Brazil is one of the main producers of coffee in the world, as well as a promising emerging market, Starbucks has two of the main ingredients that they need in order to be profitable.

The objectives of Starbucks Corporation will be to open a store in Brazil following the strategy of a global expansion which facilitates their international growth. In the fiscal year 2005, Starbucks Corporation reported a 20% increase in net revenues from \$5.3 billion to \$6.4. This fantastic success, which includes about five new Starbucks openings per day worldwide, proves that Starbucks is more than selling coffee. The Starbucks experience, which is its competitive advantage, should continue to consolidate this worldwide momentum and allow it to achieve its long term goal of opening 30,000 stores worldwide, with half of them outside the US.

Sao Paulo will be chosen as the location for the first Starbucks store, as it is the city with the most consumption of specialty coffees. The idea is to expand by increasing the number of stores based on the success of the flagship store in Sao Paulo. Within the first five years, Starbucks wants to be recognized as the greatest coffee chain in comparison to local competitors.

As Starbucks possesses many different added values, the strategy is added value differentiation in relation to the competitors. Starbucks Corporation will provide the new retail store in Sao Paulo, Brazil, with all of its support in order to uphold the same high standards customers have come to expect from all Starbucks stores.

## 1- Introduction

Starbucks was born in 1971, in Seattle, Washington, with the objective of selling only packaged coffee. In 1983, Howard Schultz, who is the current CEO of the company, traveled to Italy and noticed the popularity of the Italian concept of cafes and visualized this concept as a new potential business. He applied this idea to the United States in 1985 as he created a café called Il Giornale, which used the coffee grains supplied by Starbucks. In 1987, together with local investors, Schultz bought Starbucks and established the Starbucks Corporation. The expansion quickly spread, and by end of fiscal year 2005, Starbucks reported a total of 10,500 retail stores in 37 countries among which were the United States, Japan, Germany, Spain, United Kingdom, Canada, Singapore, Taiwan, Malaysia, China, and Korea.



Figure 1: The first Starbucks' store in Seattle, Washington

## **1.1 – Mission**

The current mission of Starbucks is:

- 1) To create an agreeable working environment and to treat others with dignity and respect.
- 2) To consider the diversity as a fundamental component of our way of working.
- 3) To apply the highest standards of quality in terms of purchasing, producing, and delivering of our coffees.
- 4) To develop continuously and with enthusiasm the satisfaction of our clients.
- 5) To bring a positive contribution to our society and to our environment.
- 6) To know that our profitability is essential to our future success.

In addition, our mission for Starbucks Brazil is to establish ourselves as the main coffee house for Brazilians of all socioeconomic backgrounds and, at the same time, maintain the principles mentioned above.

## **1.2 Objectives**

Following the global strategy, which creates a standardized global expansion procedure to facilitate Starbucks' continued international growth, Starbucks Corporation is analyzing the possibility to open a store in Brazil. Together with Russia, India and China, Brazil is one of the countries in the new emerging market economy (BRIC countries).

The goal of Starbucks Brazil is to be recognized as the greatest coffee chain in Brazil. Our objective is to reach this goal within 5 years and become the benchmark of the market for the current local competitors such as Café do Ponto and Fran's café. The idea is to initially open only one retail store in the city with the most consumption of specialty coffees, Sao Paulo, then expand by increasing the number of retail stores in Brazil, based on the success of the initial store in Sao Paulo. To achieve this strategy, we will bring the Starbucks' experience as the Third Place between home and the office to the 176,596,256 potential Brazilian consumers; we will champion business practices that will benefit the communities around Starbucks Brazil, and we will share our experience and commitment for corporate

social responsibility. In the longer term, our presence will create the space for new business opportunities with potential Brazilian suppliers of specialty coffees beans who could be contacted for the Starbucks Corporation's blending programs, but not for the local Starbucks chains in Brazil...at least not in the first phase.

As mentioned earlier, the actions we will take in terms of marketing will be crucial for the success of the business plan. As we intend to open a company-operated retail coffeehouse, Starbucks Corporation will provide support for the new store, such as the layout of the project, as well all of the details of the logistics, marketing, customer service and support functions.

## **2- Strategic Positioning**

### **2.1 Pestel Analysis**

In order to analyze the Brazilian environment, and to be sure that it is a potential country for future investments, we must look at the following key factors: politics, economics, social, technological, environment and legal.

#### 1) Politics

- The government is inclined to help local entrepreneurs with their small and medium sized businesses. Therefore, this stimulation will increase the customers' purchasing power. This purchasing power will prove to be an important factor in the future success of Starbucks Brazil.
- Also, as Brazil's political situation is continually improving, there are more and more foreign companies wishing to invest there.
- The Brazilian government is encouraging foreign investors to open coffee businesses as a way to increase consumption and to raise demand for its coffee beans.

## 2) Economics

- Together with Russia, India and China, Brazil is one of the countries in the new emerging market economy (BRIC countries).
- Brazil has an average annual growth rate of 2.4% since 1980.

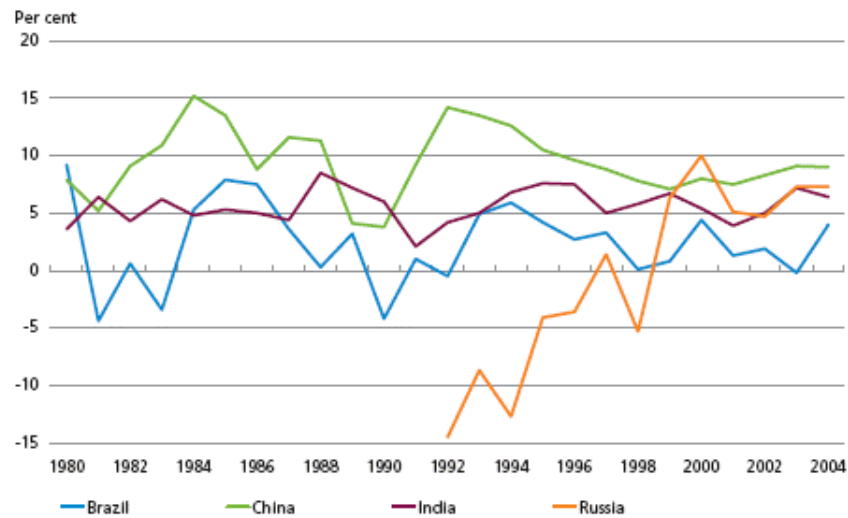


Figure 2: BRIC countries economic growth, 1980-2004

Source: International Monetary Fund, World Economic Outlook Database, September 2004.

- Current fiscal and monetary policies are designed to stabilize the public debt levels, maintain the current account surplus and meet inflation targets. The ability of Brazil to control inflation has resulted in renewed confidence in the Brazilian economy and financial markets.
- With the Brazilian economy booming, and Western markets completely saturated, it is a good opportunity to expand to this promising market.



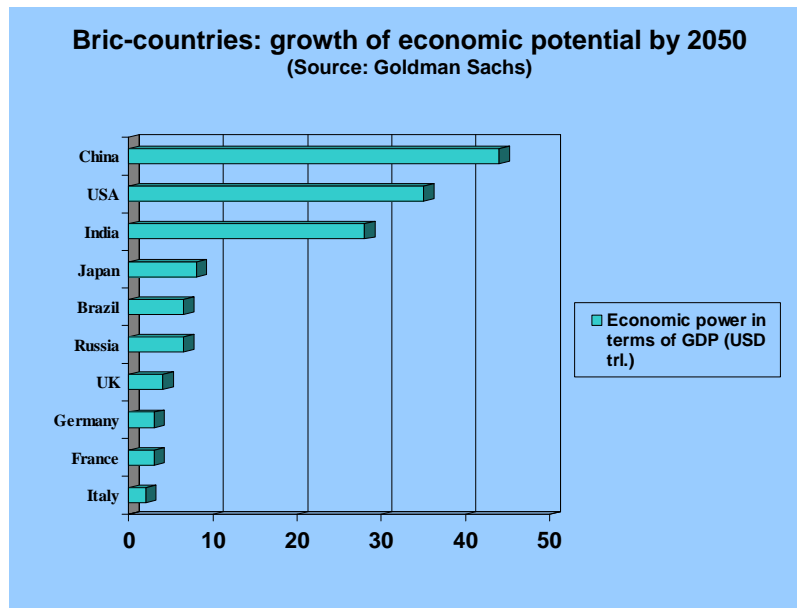


Figure 3: Growth of economic potential by 2050  
Source: Goldman Sachs

- The Brazilian coffee consumption rate rose 3.96% within the last 12 months, as opposed to a 1.5% increase worldwide.

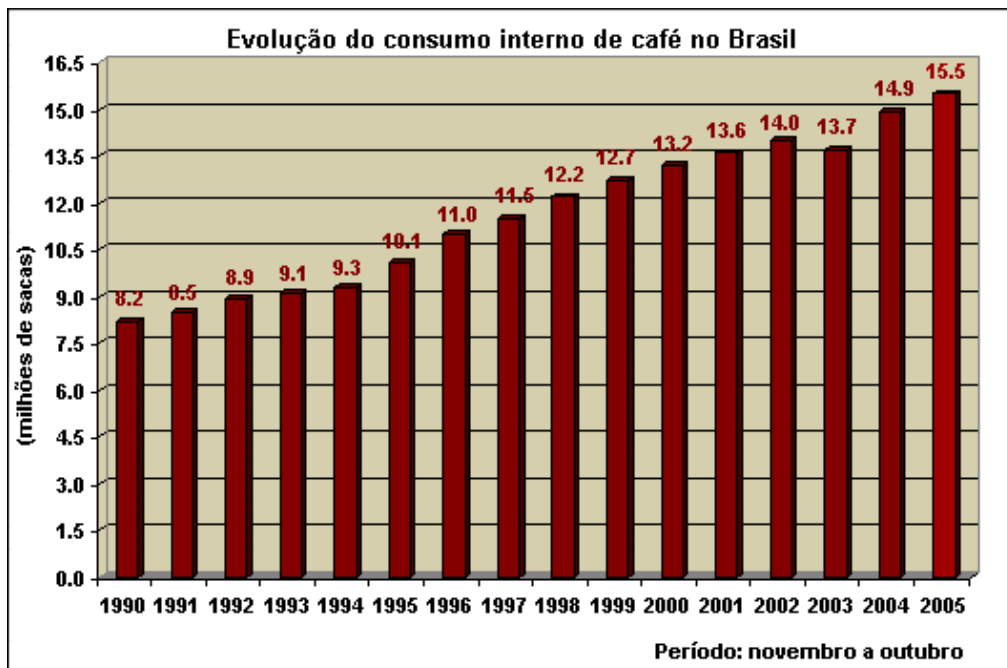


Figure 4: Internal consumption of coffee in Brazil  
Source: [www.abic.com.br](http://www.abic.com.br)

- Brazil is the second-biggest coffee consumer, following the U.S.
- Brazil has high importation taxes, which could affect raw material imports.

### 3) Social

- 93% of the Brazilian population is regular coffee consumers (source: [www.abic.com.br](http://www.abic.com.br)).
- In Sao Paulo, the level of education tends to be much higher than in other regions of Brazil.
- Income distribution is extremely uneven, ranging from the very rich cities like Sao Paulo, Rio de Janeiro, and Brasilia to the poorer regions like in the north of Brazil.
- Brazilians and Americans have a similar attitude to work, often engaged in long hours in order to support family.
- Consumerism is high, and there is a demand for higher quality products.
- Coffee consumers are less likely to stay for long periods of time in cafes, therefore increasing turnover.

### 4) Technological

- Most of the technology is imported, therefore obliging Starbucks to bring in machines from the U.S.

### 5) Environmental

- Water must be filtered since the sources are polluted and not drinkable.
- Currently, there are no problems with shortage of energies.

### 6) Legal

- Employees are protected by employment laws ensuring proper work hours, benefits, and sanitary conditions.
- There are regular audits in order to monitor the quality of the supply chain.

With this analysis, we see that there is a favorable environment for future investment in the coffee industry. According to Ivey Management Services, "The renewed stability in the economy has resulted

in Brazil becoming the major destination for foreign direct investment from the United States". The growth in consumption of coffee of higher quality is a virtue at this point in time. The likely growth in the economy will speed up the implementation of Starbucks Brazil.

## **2.2 External Environment Analysis**

### **2.2.1 Porter five forces analysis**

- **Customers:** Customers look for not only quality coffee but also a relaxing environment where they can enjoy their time away from work and home. They also like to carry out their business meetings as it provides a comfortable ambience. Lastly, the diversity of the coffee flavors are more appreciated by the customers each time they go. Since they can switch the supplier easily (with no cost and risk) and still meet their needs they have a high bargaining power.
- **Competitors:** Despite the diversity of coffee houses in Brazil, such as Café do Ponto and Frans' Café, none of them provide the variety of flavors and the quality that the Starbucks does. Moreover, Starbucks offers its customers a differentiated environment by carrying many newspapers, magazines, and now WiFi internet connections. While Starbucks might lose some of the market due to the competitors' lower prices, it might regain some of it with its excellent customer service due to the extensive training of the employees.
- **Suppliers:** There is only one local supplier, Brazil Ipanema Bourbon, and the rest of the coffee grains will be imported, for the moment. Also, any and all equipment will be imported and will be kept at Starbucks standard.
- **New entrants:** The threat of entrants is high because the general investment needed to be a new player in the coffee store market is low and, in the long run, the product differentiation can be imitated by competitors easily. As far as we can tell, vending machines offering coffee, cappuccino and hot chocolate might be used more and more. Also, tea rooms and internet

cafes are popular. However, Starbucks has an advantage in being known worldwide with a strong market in this segmentation as well as a diversity of products and quality service.

- Substitutes: Starbucks can suffer from a reduction in its demand for coffee during the summer season due to the many fruit juices as an additional alternative to refreshments. As Brazil is a very warm country, coffee might not always be the first choice of beverage. However, Starbucks has in its portfolio a cold line of drinks, the Frappuccino, as a complement for their products and can still be competitive. As of now, we only see various teas and instant coffees and cappuccinos, as well as many fruit juices, as threats of substitute.

In summary, Porter's model illustrates the immense potential that Starbucks Brazil has of success due to the differentiation strategy. We see that the combination of low or medium quality coffees and mediocre customer service is typical of the competitors, but not of Starbucks. The agreeable ambience, great service, and high quality coffees we see in Starbucks all over the world will serve as the model for Starbucks Brazil.

### **2.2.2 SWOT Analysis**

#### **Threats:**

- The majority of the Brazilian consumers do not have a culture of putting value to the quality of the coffee. They care more about the price.
- At first glance, the price appears as a threat since it is higher than the competitors' prices. However, the pricing will be in proportion to the average income in Sao Paulo.
- Competitors have a lower price for their products which could cause "price wars".
- Competition of established local coffee chains who already have their regular customers.
- The man power is not qualified. Starbucks will have to spend money in training its employees, therefore increasing costs.
- Substitute products such as teas, fruit juices, etc.

### **Opportunities:**

- In the major cities like Sao Paulo, a trend is developing for quality coffee consumption, which is associated with elite or cultured life style.
- The size of the Brazilian consumers market looking for quality products and good services is growing.
- Brazil has a potential for producing more quality coffee than it is currently doing.
- The government plays a major role in the creation of job opportunities, therefore increasing the availability of their workforce.

In summary, we can say that the service industry in Brazil is changing from a business-only industry to an industry that also takes into account the quality as a value for the Brazilian consumer. Although we know that the Brazilian consumers have been receptive to the fast food industries as a new type of service, the cafeteria market has not been explored, which leaves room for Starbucks to be equally welcomed.

## **2.3 Internal Environment Analysis**

### **2.3.1 SWOT Analysis**

#### **Strengths:**

- Differentiated product: The Starbucks offers not only coffee but also a range of products that its competitors do not offer.
- Brand Recognition and Global Dominance: Starbucks Company is known by most around the world. Moreover, the Starbucks brand has a good impact in the market and brings customer loyalty.
- Low turnover rate: Starbucks is always training its employees and providing them an excellent environment to work. It keeps a good relationship with employees, suppliers, shareholders, and customers.

- Customer Service excellence: Starbucks wants to reach maximum customer satisfaction. Therefore, it is often making research on the customers' needs to improve its services.
- Starbucks own all of their stores and do not franchise. As the company goes out of its way to gain prime locations, they often lobby local governments to change zoning regulations in order to get the location they want. An individual who wants to franchise is unable to do this.
- Visionary leader: Although coffee is the core business, Starbucks constantly develops ways to attract new customers, making use of an extensive research team.

**Weakness:**

- Starbucks has the most expensive coffee in the market. Therefore, it needs to offer "simple coffee" for its customers in order to keep their loyalty.
- There is only one local supplier, Brazil Ipanema Bourbon, and the rest of the coffee grains will be imported.
- Price of raw materials and seasonal demand for coffee make the price of coffee unstable for coffee drinkers. In the summer, the demand for coffee tends to be lower than it is in the winter, and a bad crop can also decrease the supply of coffee beans, thus increasing the price. Furthermore, other complimentary item prices affect coffee sales, like sugar and dairy products. When the price of these compliments increases, so does the price of a regular cup of coffee sold at Starbucks.
- Since Brazil customers have a culture of smoking at the same time they enjoy a cup of coffee, Starbucks might lose customers because they are not allowed to smoke inside its stores.

## **2.4 Capabilities**

Starbucks is continuously improving its services and products to achieve maximum customer satisfaction. It knows what its customers really expect from its coffee store and, in the case of Brazil, the customers' needs have been changing from a price market to a quality market. The customers are demanding not only a quality coffee, but also a place to relax and enjoy the time. Starbucks is able to deliver this to their customers since they have all the resources and competencies to do it.

The key success factors for Starbucks are: brand recognition, global dominance, customer service excellence, financial resources and innovative business strategy.

Starbucks has been ranked among the "10 Most Powerful Global Brands" by Brandchannel.com and the "Most Trusted Brands" in 2003 by Week Magazine which shows that the company has a strong brand in the market and when someone mentions Starbucks, everybody knows that it refers to coffee with quality.

Starbucks' record in customer service contributed to the award of "Best Coffee House in Oman" from 2002 to 2004, and in Dubai in 2003 and 2004 it was awarded the "Service excellence Scheme Award".

Starbucks Corporation reported an increase in net revenues of 23% at the end of 2005 compared to 2004. In 2005, it opened 735 new company-operated retail stores which contributed highly to its already major financial resources.

With its innovative business strategy, Starbucks not only attracts as many customers as possible through our core competencies in market knowledge (always offering new products), but also recognizes the involvement of our employees (or partners) as "people who share in the mutual success and reward of our enterprise", as well as make commitments with the communities where we do business.

### **3- Strategic Choices**

#### **3.1 Business Strategy**

What Starbucks intends to do is develop a market in Sao Paulo, Brazil for their specialty coffees. At the moment, the environment is stable and encouraging to foreign investors. Also, as we know that coffee consumption is high in Brazil, it is believed that the customers will appreciate the added value that Starbucks brings to the coffee-drinking experience. With highly trained coffee specialists, Starbucks offers quality service with their quality coffees. Therefore, our business approach can be described as added value differentiation. As Starbucks keeps the same standards in all of their chains worldwide, each new store that is launched goes through the same procedures. This means that no matter where you are in the world, you can always expect the same quality products and services. There may be other competitors, and big ones at that, but Starbucks' products are unique and different to the regular coffee one finds in Brazil. Not only does Starbucks offer filtered coffees, espressos, and lattes, but also a variety of other 'gourmet' coffees. Drinks such as the Caramel Macchiato and White Chocolate Mocha, as well as the popular Frappuccinos (cold drinks), help to differentiate Starbucks from other coffee houses. There is an ongoing effort in product development and improvement, as one sees around Christmas and the summer season. For example, at Christmas there are promotional drinks such as the Crème Brulee Latte and Chocolate Praline Mocha, which puts the consumers in the right mood during the festive season with the aromatic flavors. In the summer, there are promotional Frappuccinos, such as the Mocha Coconut Frappuccino and the Frappuccino Light (less calories), which tend to draw many customers to cool off at Starbucks. All of these gourmet drinks are complimented with high quality pastries, such as muffins, cakes, brownies, cookies, and donuts. For customers who try to be more health conscious, there are a variety of whole wheat sandwiches, fruit cups, fruit and yogurt cups, and even 'light' muffins. Starbucks tries to appeal to wide variety of customer needs, and has a huge success in their approach.



The strategy of Starbucks Brazil will grow in proportion to the number of stores that are opened. The pace at which new stores will open depends on the success of the initial Starbucks in Sao Paulo. Our goal is to be recognized as the greatest seller of top quality coffees in Brazil within the next five years, as compared to our top competitors. Marketing will play an enormous role in determining the success of this business plan, and will be discussed later.

As the direction of Starbucks is steered towards market development, it has already been determined that there were little to no opportunities found within existing markets, therefore allowing Starbucks to present their existing products in new markets. As already discussed, it is believed that Starbucks has products that customers are looking for in Sao Paulo, Brazil. As there are approximately 10,500 Starbucks in the world, the corporation is not a rookie when it comes to adapting its products to a new market. Research will be carried out in order to determine the best way to adapt to this new market. There are very few additional resources needed, and no need for organizational changes, as this company has extensive experience in penetrating new markets.

In establishing a method, in this case *internal development*, for market development, one must first analyze or assess the chances of success. To do this, we will look at suitability, acceptability, and feasibility.

### **3.2 Suitability**

Internal development is the best way for Starbucks to enter a new market. As it handles its' affairs on its own, Starbucks is more than capable of taking care of its' needs. Everything from the coffee grains to the coffee machines, from the pastries to the CDs and gift items, are handled by the Starbucks Corporation. Market knowledge is a core competency, as Starbucks is number two in the world for the most chains opened, behind McDonalds. There are few Starbucks that are closed due to lack of success, which is a testimony to the marketing professionals. They know exactly where to open a store, making sure that there is a lot of traffic around it. Starbucks goes out of its way to gain prime locations.

As we mentioned before, the company will even lobby local government to change zoning regulations. In Sao Paulo, the store will be situated in a rich location where there are many businesses, as well as shoppers, therefore increasing the chance for success. Our expectations fall in line with those of other markets that we have penetrated: to be recognized as a high quality coffee house, and *the* coffee house that customers prefer.

### **3.3 Acceptability**

There is little to no risk involved with the method of internal development. Starbucks Corporation has been grabbing new markets for over twenty years, and seems to have a system put in place to ensure that all is done to achieve maximum success. In fact, very little will be changed, even for the stakeholders since this expansion falls into the long term plan of Starbucks Corporation to enter 1800 new markets in 2006.

### **3.4 Feasibility**

Funds are not an issue as Starbucks has the money to invest in new markets. We have the core competencies, people, and skills to be triumphant in Sao Paulo, Brazil. Since Starbucks has a cushion in which to set its own prices, it has more ability to absorb any negative effects, and keeps a monopolistic control over its market which allows more flexibility in dealing with the negative costs of doing business.

In conclusion, it is believed that the method of internal development is the best way to move forward with market development. In comparison with the other methods, merger acquisition and strategic alliance, internal development fits Starbucks strategy better. At later stages during the expansion in the Brazilian market, Starbucks can plan signing joint ventures and licenses with carefully selected partners who fulfill specific sets of conditions (such as store design and construction expertise, supply chain management expertise, or commitment to learning at all levels of organization..). Starbucks currently

has alliances with coffee farmers in all corners of the world, and own exclusive rights to those crops. At the moment, there is only one alliance in Brazil, and that is for the coffee crop called Brazil Ipanema. Otherwise, all other coffee grains are grown in other countries and are then packaged and shipped to Starbucks retail stores worldwide.

### **3.5 Corporate Strategy**

Starbucks Corporation provides comprehensive support to all of its stores, especially the ones opening up in new markets. In order to keep the standards consistent in every location, the corporation prides itself on being very efficient while maintaining these standards. They also offer their expertise of the coffee business by passing on their 'know-how' to the regional businesses, in order to help them in their success. People may believe that the 'corporate parent' knows very little about the coffee, and more about the financial side of the business. But at Starbucks, everyone from the CEO down to the Baristas (store employees) possesses the coffee knowledge that leads to the success of the company.

Investment and competence building is also a strength for this corporation. It could be said that without the 'corporate parent', many of the foreign investments would never have taken place since they can be very expensive. Through these investments, Starbucks is able to develop and strengthen their competencies further by establishing itself as the world leader in premium coffees. As the CEO of Starbucks, Howard Schultz, stated in the Financial Times on December 15<sup>th</sup>, 2005, "Perhaps we have the opportunity to be a different type of global company, a global brand that can build a different model, a company that is a global business, that makes a profit, but at the same time demonstrates a social conscience and gives back to the local market." In fact, Mr. Schultz is a good example of a visionary leader, which is another quality that Starbucks Corporation owns and flaunts. It has seen, and profited from, the future of its stores in diverse businesses, such as CDs, food, candy, mugs, and tumblers. There is always a vision to improve and enhance the Starbucks experience for current and potential customers. For example, there is now WiFi internet connection available for laptop users, as well as

music 'stations' where customers can listen, with headphones, to music of their choice while enjoying their coffee and food. They are not always available in every store, but will be soon. The corporation knows that in order to be on top they must look forward and anticipate the customers' needs.

Therefore, as Starbucks Corporation possesses many added values, such as strategic guidance to the business, investment and competence building, and standards and performance assessments, it can be said that the 'corporate parent' is a strength for the corporation as a whole. In Sao Paulo, the strategic business unit strengths and market attractiveness is high for both, leaving room for investment and growth.

In Joe Carter's opinion, "Starbucks maintains a corporate governance structure that allows for greater control in implementing its overall strategy. By controlling a dominant share of the market they are able to charge "luxury" prices for what once was a common product. It is therefore essential for them to not only control the chain of distribution but to maintain a control over the market itself".

#### **4- Strategic Implementation**

To ensure the success of Starbucks Brazil, three issues will have to be carefully designed and their interrelations will have to work in harmony: the marketing strategy, the operation structure and processes and the relationship with Starbucks Coffee Corporation in view of adding value to the business in the Brazilian market.

##### **4.1 Marketing strategy**

The objective of Starbucks Coffee Corporation is to enter the Brazilian coffee shop market given the business opportunity with 93% of Brazilians being regular coffee consumers. We believe that with our global expertise in trading of specialty coffee, coupled with our experience in customer service and know-how in setting business in new markets, our objective will be met.

#### 4.1.1 The external strategy

As stated in the Porter 5 forces, Starbucks will choose a strategy of added value differentiation in the Brazilian market, which will be the key in guaranteeing market advantage over its competitors. However, the standards are the same in all of their chains worldwide, which indicates that the customers will enjoy the same high quality products and services no matter where they are in the world.

#### Segmentation

In this project, we will target Brazilians of all social conditions living in Sao Paulo, but more specifically the business people and the shoppers around the Starbucks coffeehouse to whom we wish to offer the Starbucks Experience. *“You get more than the finest coffee when you visit a Starbucks – you get great people, first rate music and a comfortable and upbeat meeting place”* Howard Schultz, Starbucks’ CEO.

#### Positioning

In order to create an agreeable meeting point, and to be the customers’ reference place for enjoying quality coffee and music, as well as to make our day-to-day business practices a fantastic experience for customers and the community, we will base our strategic positioning on Starbucks’ already unbeaten following variables:

- **Products:** Starbucks Corporation has a line of food, music, beverage and related articles, which will be introduced in the Brazilian market. Starbucks brand is known for the quality of its products and its expertise in coffee processing. Customers will benefit from a selection of 32 specialty coffees, of regional blends from around the world to single origin. In addition to traveling all over the world to carefully select its coffee beans, Starbucks has also developed expertise in processing coffee, developed knowledge in hand-crafting unique espressos and hot and cold

beverages, fresh pastries and quality merchandises. This is an entire culture which customers will be invited to share. They will enter the enriching world of new coffees, share the experience of choosing coffees for its range of flavors (being mild, smooth or bold), its place of origin, its key tone (earthy tone, nutty tone...), as well as enjoy coffee and dairies as both a summer and winter experience.

- **Price:** Starbucks' coffee price will be higher than the Brazilian competitors' prices. However, we believe that customers will be ready to pay the difference with their recognition of the higher quality of products, as well as their perception that our services are meeting their expectations (policy of under-promise and over-delivery). In addition to the above, customers will also feel part of our global strategy of corporate social responsibility toward community and coffee farmers.
  
- **Place or layout:** Starbucks' coffeehouse in Sao Paulo will open in a carefully selected place. We will choose a location central to business customers and shoppers. We believe that the place will have to respect the community where it will be located, and also participate in improving the area by respecting Starbucks Corporation standards in terms of real estate policy, layout (for a relaxing and pleasant atmosphere), decorations (specific types of illuminations, sofas and specific colors...).
  
- **Promotion:** In line with Starbucks Corporation corporate social responsibility policy, we will also initiate actions towards a positive impact in the community. We will have transparent relation with the community and the press, and will initiate a system of evaluation and reporting of our involvement towards the community, involving our customers in the process. We will be involved with municipalities in cultural and environmental events which will be relayed inside the Starbucks Sao Paulo coffee shop, making the shop a part of the day to day reality and

engagements of citizens of San Paolo. We believe that to build our brand in Sao Paulo, extensive marketing for the brand cannot be as effective as the marketing through performance and social responsible actions.

- **Distribution channel:** The machines will be imported from Starbucks Corporation (Seattle) in case there are not any potential suppliers in Brazil. As Starbucks has alliances with coffee farmers around the world and own exclusive rights to those crops, most of the coffee beans will be packaged and shipped to Starbucks retails stores worldwide. It will help Starbucks in maintaining its differentiation in products.
- **Marketing research:** Following the strategic positioning analysis of the Porter 5 forces analysis, we believe that we have enough comparative advantage to initiate business in Sao Paulo. This first point of entry will be operated on the basis of our added value differentiation in terms of quality. For later expansion, we will use the experience and knowledge we have built from our business in Sao Paulo.
- **Customer service:** In Starbucks, the customer will enjoy the unique experience of feeling in a “Third Place” where he can relax between his journey from home to the office or vice versa. He will be in a comfortable environment where he can relax, meet people, access the internet, and listen to his favorite music which he can buy, if he likes.

#### **4.1.2 The internal strategy**

Offering our customer quality service and products is key for Starbucks Corporation, therefore, in Brazil, we will invest in the training of our partners (employees) in hand-crafting coffee but also in sharing the values of the brand. This will involve hiring individuals who prove to adhere to the values of Starbucks Corporation and have been identified as individuals who are “adaptable, self-motivated,

passionate, creative and team-oriented". Among these partners, those who will play a supervisory and mentor role will be trained in Starbucks Corporation for their knowledge in procedures in coffee preparation, procedures for laying out the coffeehouse, and knowledge of the product offered. We believe that a partner who is carefully trained and who understands the added value of quality products and quality services, will be crucial to delivering on the brand promise.

In addition to learning to respect the standard procedures for the execution of their work, partners will also be motivated through a scheme of incentive from opportunity for professional development, to automatic benefits package, or stock options. All these actions will foster the atmosphere of respect and trust which will build partners involvement towards the brand.

#### **4.1.3 The Interactive marketing**

We believe that employers who understand the value of Starbucks brand and who believe in its activities will play a role of "marketer" toward the customers. This is further encouraged through partners'-customers' social activities which are initiated at Starbucks, such at the Make your Mark (MYM) community event where they donate time for community actions.

Brazilian customers who will also be enthusiastic about their positive experience in the Sao Paulo coffeehouse will also move from suspect customers to partners and advocates for the coffeehouse in their neighborhood.

#### **4.2 Operations strategy**

In order to open a new retail store in a new market (in this case, a new country), Starbucks Corporation first seeks an investor, usually within that country. This investor will need a sum of money that is sufficient enough to open up at least one retail store (can be anywhere from \$10 million to \$20 million), and is considered a 'franchisee' until a certain point of profitability. Once the retail store(s) start reaching acceptable profit margins, Starbucks Corporation buys the 'franchise' from the investor for a

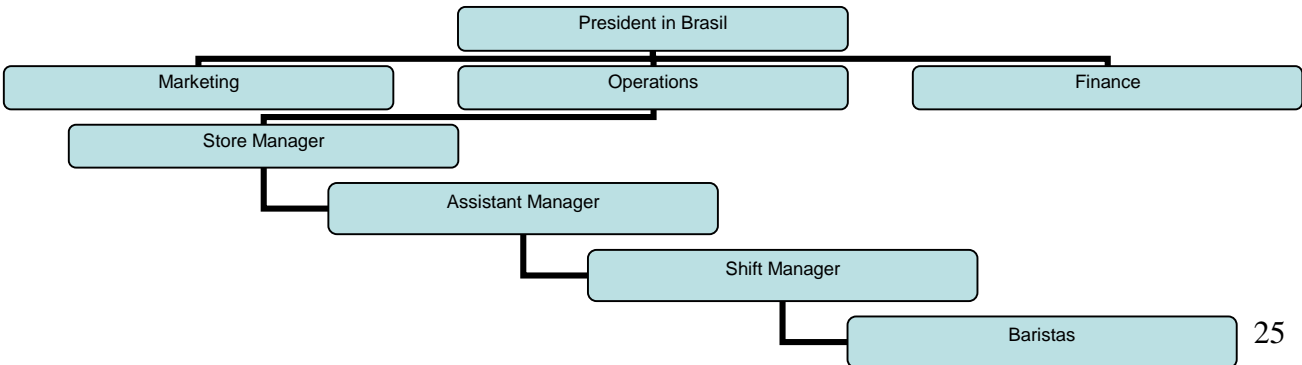


price well above his initial investment. There is no possibility for the investor to keep the retail stores as his franchise for this is prohibited by Starbucks Corporation. It is either great success (great profitability, 'franchise' buyout) or complete failure (little or no profitability, close stores) for the investor and the corporation. The corporation can wait two or more years in order to see sufficient profitability before it decides what to do.

Starbucks' presence in Sao Paulo will be first a small company for which a functional structure organization will be more appropriate. The structure will have to support the activity, which is selling the concept of a "The Third Place" for customers to enjoy the Starbucks Experience with emphasis on quality products, great customer service and good music. As such, the activities in Sao Paulo will develop, in the first years, around 3 primary activities: Productions, Marketing and Sales, and Support Services under the direction of a President for Brazil, who is hired by the World Headquarters (Seattle) and trained for one year in Seattle, Washington, USA. Starbucks Sao Paulo will therefore have an administrative or support entity and a coffeehouse entity.

This structure will ensure that Starbucks Corporation is in touch with all operations in Brazil and can easily monitor market penetration, from installation to development. In addition to simplifying monitoring, a functional structure will also ensure that the roles and responsibilities of each actor are clear: From the President who monitors the overall picture and adherence to Starbucks Corporation standards, to the Manager who monitors the standards in the day-to-day coffeehouse management, and to the sales person who understands that his main focus is customer satisfaction and high standards of services.

The support activities under the president of Starbucks Brazil will be comprised of



- **A Marketing and Sales entity** responsible for:
  1. Managing the relations with the local authorities: town, hospital, labor offices, stock market.
  2. Monitoring the adherence to the Starbucks Corporation standards to be attained.
  3. Managing information (Internet presence on the main Brazilian youth websites as a competitive advantage, Provide e-services specific to Starbucks: sell product on line, deliver coffee to offices....., organize Starbucks social events at the beach..)
  4. Managing the customers: define the segment for future expansion after careful study of the culture.
  5. Developing relation with local farmers for future R&D.
  6. Keep studying the market to adapt the strategy to competitive attacks.
  
- **A Production entity** will be responsible for:
  1. Providing the coffeeshouse partners services in terms of human resources and learning support.
  2. It will also provide support in terms of Enterprise Related Planning system (ERP) to make sure the input and output processes are effectively monitored.
  3. It will handle the logistics for product distribution and purchase of Starbucks Corporation line of products.
  4. It will provide support to the management of the Starbucks coffee shop in Sao Paulo.
  
- **A finance entity** will be responsible for:
  1. Following up the finances: managing the funds necessary for the different expenditures, and the profits together with recording them according to Starbucks corporation's standard procedures (reporting format of Starbucks Corp).

2. Monitoring the management of the Brazilian office and the Starbucks Sao Paulo coffeehouse according to Starbucks standards for financial management.
3. Being prepared for competition from new entrants, and understand cost drivers in order to improve reduction of economies of scale. Take into account the financial expectations from bankers, from suppliers, and from shareholders.

▪ **The coffee shop** will be comprised of:

1. One store manager
2. One assistant manager
3. Three to five shift managers
4. Ten to fifteen Baristas

**Starbucks Coffee Shop operation**

The Sao Paulo Starbucks coffeehouse is the place where the experience of discovering new coffee and services takes responsibility.

Listed below are the partners who will be involved in the day to day handling of the business:

**Store Manager and Assistant Store Manager** : Day to day operations of the coffee shop; Supervisors of the coffee shop staff and ensuring that quality and financial standards are respected; Counts the safe (daily); Apply marketing tools passed down from headquarters; Ensure that all employees have proper paperwork filed with the state/city;

**Shift managers:** Help store and assistant managers in carrying out daily operations; In charge of supervising Baristas, ensuring that they get their breaks as needed, as well as making sure that their work is done correctly and efficiently; Help the Baristas with operations such as taking orders and

preparing the drinks; Verifies the deliveries by making sure all items were received; Puts in the order for the following day.

**Barista:** Takes the orders from the clients; Prepares hot and cold drinks; Prepares pastries; Cleans the lobby; Prepares the Frappuccino bases, whipped cream, and mocha (is done each day); Unloads and organizes the pastries delivered.

Note that even though each position has its own set of responsibilities, all positions put the employees in direct contact with the clients, especially if there are many clients at once. Everyone works together to help each other out. Meaning that from time to time, the store manager is seen wearing an apron, taking the orders, preparing the drinks, and cleaning the lobby. And every once in a while, Baristas will help the managers count the safe in order to have a second person witness.

#### **4.3 Performance targets process**

Here the emphasis will be on the output or the way our key success factors will be measured by Starbucks Corporation:

- Customers' value of product quality and worth to be measured after one year.
- Service quality to be regularly measured, each quarter.
- Perception of how Starbucks Brazil manages to influence and/or impose itself in the life of the average Brazilian customer. To be measured each quarter in terms of number of corporate social responsibility actions.
- Standard Starbucks key success factors to be regularly monitored: comfort, hygiene.
- Starbucks' employees' involvement measured regularly. This will serve to measure whether Starbucks employees serve as advocates outside Starbucks.

With the future expansion of the Starbucks Brazil, we plan to modify the organizational structure and change it to a multidivisional structure that will have separate divisions which will take care of the

expansion in the different Brazilian states (each division responsible for the expansion in one of the 26 states of Brazil).

#### **4.4 The relationship with the Corporate Parent**

Starbucks Corporation will add value to the business by providing:

1. Strategic guidance in terms of marketing the Starbucks experience, the quality people, how to create quality place and products, or introduce customers to the specialty coffees, the quality music
2. Guidance in terms of innovative business strategy: the partners and programs like MYM, the communities and the Coffee and Farmer Equity (C.A.F.E.) Practices and strategic alliances with non profit organization,
3. Guidance in terms of standard and performance assessment: ensuring that the standards of sales inside a Starbucks Brazil are the same as the ones inside an American Starbucks retail store (with the idea that 'Customer is King').
4. Guidance in terms of strategic planning.
5. Guidance in terms of product technology control: the Starbucks coffee buyers, the roasting facilities, the centralized blending.
6. Expertise in the method of internal development: specific products, market knowledge, cost spread experience to launch it in new market.
7. Expertise in carrying out research and finding out the best way to adapt to a new market.
8. Expertise with brand recognition, with global dominance.
9. Expertise in brand strategy and communication.
10. Authority for approving the quality standards.
11. Authority for monitoring the adherence to the standards.
12. Authority for raising the funds.

## **5- Conclusion**

In conclusion, the time is right for Starbucks to invest in Brazil. After an in-depth analysis of the environment using Pestel, Porter, and SWOT, the research shows that the economy, as well as the culture, in Brazil is very promising for foreign investments as it is considered an emerging market. As the objectives indicate Starbucks Corporation's desire to achieve, and eventually dominate, market share, it is believed that they will attain this goal due to their core competency in market knowledge, as well as their dedication to being the best in quality products and customer service.

Sao Paulo has been chosen as the city which will host the flagship Starbucks retail store, due to its affluence and great locations. Although there are many competitors, Starbucks will introduce a new concept of enjoying a cup of coffee and will carry out its usual business strategy of added value differentiation. Excellence in customer service and the high quality of all of its products are only two of many key added values which enhance the Starbucks experience.

Hopefully, Sao Paulo will be only one of many successful Starbucks retail stores in Brazil. The goal is to spread throughout the whole country in five years and keep increasing market share, while always reaching the customers' needs.

## **6- References**

- Company fact sheet

[http://www.starbucks.com/aboutus/Company\\_Fact\\_Sheet\\_Feb06.pdf](http://www.starbucks.com/aboutus/Company_Fact_Sheet_Feb06.pdf)

- Company profile

[http://www.starbucks.com/aboutus/Company\\_Profile\\_Feb06.pdf](http://www.starbucks.com/aboutus/Company_Profile_Feb06.pdf)

- Company recognition

[http://www.starbucks.com/aboutus/Company\\_Recognition\\_Feb06.pdf](http://www.starbucks.com/aboutus/Company_Recognition_Feb06.pdf)

- Company Social Responsibility report - Society

[http://www.starbucks.com/aboutus/FY05\\_CSR\\_Society.pdf](http://www.starbucks.com/aboutus/FY05_CSR_Society.pdf)

- Company Social Responsibility report - Workplace

[http://www.starbucks.com/aboutus/FY05\\_CSR\\_Workplace.pdf](http://www.starbucks.com/aboutus/FY05_CSR_Workplace.pdf)

- Press release: Starbucks unprecedented performance continues until fiscal 2006

<http://www.starbucks.com/aboutus/pressdesc.asp?id=649>

<http://www.starbucks.com/aboutus/pressdesc.asp?id=633>

Press release: Starbucks Announces Record Fourth Quarter and Fiscal Year End 2005 Results; Consolidated Net Revenues Increase 20 Percent to \$6.4 Billion; Net Earnings Increase 27 Percent to \$494 Million

- Starbuck Jobs Profiles

[http://starbucks.recruitsoft.com/servlets/CareerSection?art\\_ip\\_action=FlowDispatcher&flowTypeNo=13&pageSeq=2&jobOfferNo=76275&csNo=10020&art\\_servlet\\_language=en&selected\\_language=en&JServSessionIdstarbucks=2eu52bxtc4bmh3mk1.RJS3\\_400\\_1](http://starbucks.recruitsoft.com/servlets/CareerSection?art_ip_action=FlowDispatcher&flowTypeNo=13&pageSeq=2&jobOfferNo=76275&csNo=10020&art_servlet_language=en&selected_language=en&JServSessionIdstarbucks=2eu52bxtc4bmh3mk1.RJS3_400_1)

- Types of coffees

<http://www.starbucks.com/ourcoffees/menuboard.asp?category%5Fname=Coffee+Menu+Board#Africa/Arabia>

- Brazil Statistics

<http://www.abic.com.br/estatisticas.html>

- Starbucks project

<http://bschool.washington.edu/gbc/2003%20Presentations/Concordia.pdf>

- The BRIC Countries

[http://www.nationalbanken.dk/DNUK/Publications.nsf/1c326d7c6cdf6f66c1256c080048787c/e620f890a6185dc9c1256f7200310bb6/\\$FILE/kap03.html](http://www.nationalbanken.dk/DNUK/Publications.nsf/1c326d7c6cdf6f66c1256c080048787c/e620f890a6185dc9c1256f7200310bb6/$FILE/kap03.html)

- Coffee Report

[http://www.sindicafesp.com.br/nota\\_starbucks\\_out05.html](http://www.sindicafesp.com.br/nota_starbucks_out05.html)

- Starbucks Case Study

<http://www.mhhe.com/business/management/thompson/11e/case/starbucks-2.html>

- Starbucks Key Factors

<http://homepages.wmich.edu/~l2tripp/projectVpart2.htm>