Chapter 1 – The Scope and Challenge of International Marketing

Teaching Objectives

As an introductory chapter, the broad goal is to provide a view of international marketing that sets the boundaries and scope of the course. The teaching objectives are to:

1. Provide students with a broad picture of the global environment within which business operates today and into the future.

2. Give students an appreciation of how the globalization of world markets and the internationalization of U.S. business and U.S. markets influence all functions of business including marketing.

3. Show how the internationalization or globalization of markets affects their professional futures regardless of where they work in business. In short, just as domestic or international business cannot escape the internationalization of business and U.S. markets, neither can students escape the influences of these international trends on their professional careers.

4. Illustrate the scope of the international marketing task.

5. Show the importance of one's self-reference criterion in assessing international issues.

6. Illustrate the stages of becoming international and the international marketing concepts used in international marketing management.

7. Impress students with the importance of becoming globally aware.

Comments and Suggestions

1. Key points to make are: a) An increasingly larger share of corporate profits are generated by international operations; b) In previous decades competition for U.S. markets was only among U.S. businesses with the same relative cost of money, labor, and product but now it includes competitors from the world over; c) U.S. multinationals face competition for lucrative markets from new rivals from developed as well as developing countries; and d) The growth of new markets created by changes in Latin America, Asia, Eastern Europe and the former members of USSR, India, and hopefully the MENA region.

2. Exhibit 1–3, The International Marketing Task, serves as a guide when discussing the international marketing manager's task. With this illustration, points about the environment of business, uncontrollables and controllables can be made.

3. As an assignment for class discussion, Case 1–1, Starbucks-Going Global Fast, can be used to have students think about the marketing mix and the effects of uncontrollables and controllables both in the domestic and foreign environments. Have students read and answer the questions in the case before class. During class, have the students illustrate the various controllables and uncontrollables in Using Exhibit 1–3, The International Marketing Task, with examples from the case. Students can be challenged by asking how they would have done things differently to overcome some of the problems illustrated in the case. **[BE SURE TO CHANGE ALL THE 2016 DATES, AS BELOW, ON ALL THE PAGES!!!!!!!!]**

4. A key point to make when discussing the self-reference criterion is that a person from one culture is often not aware that a reaction is influenced by one's cultural background and that those from another culture may have a different perspective. It often uses Hall's idea of the silent language of space (see Edward T. Hall, "The Silent Language in Overseas Business," Harvard Business Review, May–June 1960, pp. 87–96 or Edward T. Hall, The Silent Language (New York: Doubleday & Co., 1959) to make this point. In this first chapter and throughout the course it is important to stress the nature of the SRC, that is, whenever confronted by some aspect of another culture one's reaction and evaluation is routinely clouded by one's own cultural experiences.

5. When exploring the different Stages of International Marketing Involvement, it is important that students understand that the differences between global markets and global products. Further, they need to understand that a global marketing orientation does not necessarily mean standardization across all markets. Instead it may mean operating as if all the country markets in a company's scope of operations (including the domestic market) are approached as a single global market that may have multiple market segments extending across country borders and that the company is seeking commonalties across country markets in order to standardize the marketing mix where culturally feasible and cost effective.

Lecture Outline

I. The Internationalization of U.S. Business
II. International Marketing Defined
III. The International Marketing Task
   A. Marketing Controllables
   B. Domestic Uncontrollables
   C. Foreign Uncontrollables
IV. Self-Reference Criterion: An Obstacle
V. Becoming International
   A. Stages of International Marketing Involvement
   B. Global Markets and Global Marketing
VI. Developing A Global Awareness

Discussion Questions

1. Define:

International marketing	Foreign uncontrollables
Controllable elements	Marketing relativism
Uncontrollable elements	Self-reference criterion (SRC)
Domestic uncontrollables	Global awareness

2. ". . . the marketer's task is the same whether applied in Dime Box, Texas, or Dar es Salaam, Tanzania."

   Discuss. The only difference between domestic marketing and international marketing is that the activities take place in more than one country. Therefore, the marketing task is the same throughout the world.

3. How can the increased interest in international marketing on the part of the U.S. firms be explained?

Increased interest has been brought about because of changing competitive structures, coupled with shifts in demand characteristics throughout the world. The U.S. market has reached saturation levels for many products and services and increasing numbers of firms are faced with surpluses which must be sold. Also, many firms find that return on investment may be higher in foreign markets than in domestic markets. Finally, more and more firms realize that tomorrow's markets will be world markets and it is imperative that they establish world market positions early.

4. Discuss the five phases of international marketing involvement.

The first phase includes those domestic firms which have no foreign business activity except those sales made to foreign customers who come directly to the firm. The second phase includes domestic firms which have temporary surpluses which are sold abroad. Therefore, sales are made on an availability basis with little or no intention for continuing market representation. The third phase includes the domestic firms that have permanent productive capacity which is utilized to produce goods which are sold on a continuing basis in at least one foreign market. The fourth phase includes firms that regularly sell and often produce their products in a number of foreign markets, often around the world. The fifth phase includes the international company that produces a product for the world market.

5. Discuss the conditions that have led to the development of global markets.

According to Professor Levitt and others who suggest that there is a global market for goods, this phenomenon has resulted from new communications technology, travel and other factors which have led to the markets of the world being more aware of different products and processes. As a result of this awareness, there are segments in each market who have had similar experiences and thus have common needs. These common needs are described as a demand for high quality, reasonably priced, standardized products. There is a strong feeling that within each country's market there is a growing segment that has been exposed to ideas from around the world and thus have had their tastes and perceived needs affected. There is a strong feeling that world markets are being driven toward a converging commonality of taste and needs leading toward global markets.

6. Differentiate between a global company and a multinational company.

The main distinction between a global and a multinational company is that a global company assumes there are segments across countries which have the same needs and wants and designs a standardized, high quality, reasonably priced product for those segments and markets it as if there are no differences among the country markets. On the other hand, a multinational company operates in a number of countries and adjusts its products and marketing practices for each market. The multinational company has a specific marketing plan and adapts products for each country market. The philosophy for the multinational company is that there are cultural differences among countries that require specific adaptations for those markets. This is contrasted with the global company which sees the entire world, or major regions of it, as a single entity requiring no specialized adjustments. This distinction may be more myth than fact and reflects Professor Levitt's opinion.

7. Differentiate among the three international marketing concepts or levels of involvement.

Companies can be described by one of three orientations to international marketing management:

1. Domestic Market Expansion Concept (that is, No Direct Foreign Marketing, Infrequent Foreign Marketing, and Regular Foreign Marketing)
2. International Marketing (sometimes referred to as multi-domestic marketing)
3. Global Marketing

It is expected that differences in the complexity and sophistication of a company's marketing activity depend on which of these orientations guides its operations.

The Domestic Market Extension Concept. The domestic company that seeks sales extension of its domestic products into foreign markets illustrates this orientation to international marketing. It views its international operations as secondary to and an extension of its domestic operations. The primary motive is to dispose of excess domestic production. Domestic business is its priority and foreign sales are seen as a profitable extension of domestic operations. While foreign markets may be vigorously pursued, the orientation remains basically domestic. Its attitude toward international sales is typified by the belief that if it sells in Peoria it will sell anywhere else in the world. Minimal, if any, efforts are made to adapt the marketing mix to foreign markets. The firm's orientation is to market to foreign customers in the same manner the company markets to domestic customers. It seeks markets where demand is similar to the home market and its domestic product will be acceptable. This Domestic Market Expansion Strategy can be very profitable. Large and small exporting companies approach international marketing from this perspective.

Multi-Domestic Market Concept. Once a company recognizes the importance of differences in overseas markets and the importance of offshore business to their organization, its orientation toward international business may shift to a Multi-Domestic Market Strategy. A company guided by this concept has a strong sense that country markets are vastly different (and they may be, depending on the product) and that market success requires an almost independent program for each country. Firms with this orientation market on a country-by-country basis with separate marketing strategies for each country. Subsidiaries operate independently of one another in establishing marketing objectives and plans. The domestic market and each of the country markets have separate marketing mixes with little interaction among them. Products are adapted for each market with minimum coordination with other country markets, advertising campaigns are localized as are the pricing and distribution decisions. A company with this concept does not look for similarity among elements of the marketing mix that might respond to standardization. Rather, it aims for adaptation to local country markets. Control is typically decentralized to reflect the belief that the uniqueness of each market requires local marketing input and control.

Global Marketing Concept. A company guided by this new orientation or philosophy is generally referred to as a global company, its marketing activity is global marketing, and its market coverage is the world. A company employing a Global Marketing Strategy strives for efficiencies of scale by developing a standardized product, of dependable quality, to be sold at a reasonable price to a global market (that is, the same country market set throughout the world). Important to the Global Marketing Concept is the premise that world markets are being "driven toward a converging commonalty" that seek much the same ways to satisfy their needs and desires and thus, constitute significant market segments with similar demands for the same product the world over. With this orientation a company attempts to standardize as much of the company effort as is practical on a world-wide basis. Some decisions are viewed as applicable worldwide, while others require consideration of local influences. The world as a whole is viewed as the market and the firm develops a global marketing strategy.

8. Prepare your lifelong plan to be globally aware.

Student exercise. A minimum would be a reading list plus some commitment to study different countries.

9. Discuss the three factors necessary to achieve global awareness.

The three factors necessary to achieve global awareness are: 1) objectivity; objective in assessing opportunities, evaluating potential, and responding to problems. Too often mistakes are made because companies are swept away with generalities and make investments only later to find out that their commitment or abilities were not sufficient to succeed, 2) tolerance toward cultural differences; tolerance is understanding cultural differences and accepting and working with others whose behavior may be different from yours, 3) knowledgeable; knowledgeable about cultures, history, world market potentials, and global economy and social trends is critical for a person to be culturally aware. To be successfully in international business and globally aware, a person needs to keep abreast of the enormous changes occurring throughout the world. The 21st century will usher in great change and opportunities. The knowledgeable marketer will identify those opportunities long before it becomes evident to others.

10. Define and discuss the idea of global orientation.

A global orientation means operating as if all the country markets in a company's scope of operations (including domestic market) are approachable as a single global market and to standardize the marketing mix where *culturally feasible* and *cost effective* or to adapt the marketing mix where culturally required and cost effective. A global orientation does not mean to follow a single strategy of standardization without regard for cultural differences nor does it imply that the marketing effort must be adapted to every cultural difference. Instead, it means looking for market segments with similar demands that can be satisfied with the same product, standardizing the components of the marketing mix that can be standardized, and, where there are significant cultural differences that require parts of the marketing mix to be culturally adapted, adapting.

11. Visit the Bureau of Economic Analysis homepage http://www.bea.gov/. Select the section, International articles, and find the most recent information on Foreign Direct Investments in the United States. Which country has the highest dollar amount of investment in the United States? Second highest?

This exercise is designed to familiarize the student with the Internet and the data available from the BEA.

CASE 1-1 Starbucks—Going Global Fast

The Starbucks coffee shop on Sixth Avenue and Pine Street in downtown Seattle sits serene and orderly, as unremarkable as any other in the chain bought years ago by entrepreneur Howard Schultz. A few years ago, however, the quiet storefront made front pages around the world. During the World Trade Organization talks in November 1999, protesters flooded Seattle's streets, and among their targets was Starbucks, a symbol, to them, of free-market capitalism run amok, another multinational out to blanket the earth. Amid the crowds of protesters and riot police were black-masked anarchists who trashed the store, leaving its windows smashed and its tasteful green-and-white decor smelling of tear gas instead of espresso. Says an angry Schultz: "It's hurtful. I think people are ill-informed. It's very difficult to protest against a can of Coke, a bottle of Pepsi, or a can of Folgers. Starbucks is both this ubiquitous brand and a place where you can go and break a window. You can't break a can of Coke."

The store was quickly repaired, and the protesters scattered to other cities. Yet, cup by cup, Starbucks really is caffeinating the world, its green-and-white emblem beckoning to consumers on three continents. In 1999, Starbucks Corp. had 281 stores abroad. Today, it has about 7,000—and it's still in the early stages of a plan to colonize the globe. If the protesters were wrong in their tactics, they weren't wrong about Starbucks' ambitions. They were just early.

The story of how Schultz & Co. transformed a pedestrian commodity into an upscale consumer accessory has a fairy-tale quality. Starbucks grew from 17 coffee shops in Seattle to over 19,000 outlets in 58 countries. Sales have climbed an average of 20 percent annually since the company went public, peaking at $10.4 billion in 2008 before falling to $9.8 billion in 2009. Profits bounded ahead an average of 30 percent per year through 2007, peaking at $673 million, then dropping to $582 million and $494 million in 2008 and 2009, respectively. The firm closed 475 stores in the U.S. in 2009 to reduce costs. But more recently, 2017 revenues rebounded to $22.4 billion profits with an operating profit of $4.1 billion.

Still, the Starbucks name and image connect with millions of consumers around the globe. Up until recently, it was one of the fastest-growing brands in annual *BusinessWeek* surveys of the top 100 global brands. On Wall Street, Starbucks was one of the last great growth stories. Its stock, including four splits, soared more than 2,200 percent over a decade, surpassing Walmart, General Electric, PepsiCo, Coca-Cola, Microsoft, and IBM in total returns. In 2006 the stock price peaked at over $40, after which it fell to just $4, and then again rebounded to more than $50 per share.

Schultz's team is hard-pressed to grind out new profits in a home market that is quickly becoming saturated. The firm's 12,000 locations in the United States are mostly in big cities, affluent suburbs, and shopping malls. In coffee-crazed Seattle, there is a Starbucks outlet for every 9,400 people, and the company considers that to be the upper limit of coffee-shop saturation. In Manhattan's 24 square miles, Starbucks has 124 cafés, with more on the way. That's one for every 12,000 people—meaning that there could be room for even more stores. Given such concentration, it is likely to take annual same-store sales increases of 10 percent or more if the company is going to match its historic overall sales growth. That, as they might say at Starbucks, is a tall order to fill.

Indeed, the crowding of so many stores so close together has become a national joke, eliciting quips such as this headline in *The Onion,* a satirical publication: "A New Starbucks Opens in Restroom of Existing Starbucks." And even the company admits that while its practice of blanketing an area with stores helps achieve market dominance, it can cut sales at existing outlets. "We probably self-cannibalize our stores at a rate of 30 percent a year," Schultz says. Adds Lehman Brothers Inc. analyst Mitchell Speiser: "Starbucks is at a defining point in its growth. It's reaching a level that makes it harder and harder to grow, just due to the law of large numbers."

To duplicate the staggering returns of its first decades, Starbucks has no choice but to export its concept aggressively. Indeed, some analysts gave Starbucks only two years at most before it saturates the U.S. market. The chain now operates more than 7,000 international outlets, from Beijing to Bristol. That leaves plenty of room to grow. Most of its planned new stores will be built overseas, representing a 35 percent increase in its foreign base. Most recently, the chain has opened stores in Vienna, Zurich, Madrid, Berlin, and even in far-off Jakarta. Athens comes next. And within the next year, Starbucks plans to move into Mexico and Puerto Rico. But global expansion poses huge risks for Starbucks. For one thing, it makes less money on each overseas store because most of them are operated with local partners. While that makes it easier to start up on foreign turf, it reduces the company's share of the profits to only 20 percent to 50 percent.

Moreover, Starbucks must cope with some predictable challenges of becoming a mature company in the United States. After riding the wave of successful baby boomers through the 1990s, the company faces an ominously hostile reception from its future consumers, the twenty- or thirty-somethings. Not only are the activists among them turned off by the power and image of the well-known brand, but many others also say that Starbucks' latte-sipping sophisticates and piped-in Kenny G music are a real turnoff. They don't feel wanted in a place that sells designer coffee at $3 a cup.

Even the thirst of loyalists for high-price coffee cannot be taken for granted. Starbucks' growth over the early part of the past decade coincided with a remarkable surge in the economy. Consumer spending tanked in the downturn, and those $3 lattes were an easy place for people on a budget to cut back.

To be sure, Starbucks has a lot going for it as it confronts the challenge of regaining its fast and steady growth. Nearly free of debt, it fuels expansion with internal cash flow. And Starbucks can maintain a tight grip on its image because most stores are company-owned: There are no franchisees to get sloppy about running things. By relying on mystique and word of mouth, whether here or overseas, the company saves a bundle on marketing costs. Starbucks spends just $30 million annually on advertising, or roughly 1 percent of revenues, usually just for new flavors of coffee drinks in the summer and product launches, such as its new in-store web service. Most consumer companies its size shell out upwards of $300 million per year. Moreover, Starbucks for the first time faces competition from large U.S. competitors such as McDonald's and its new McCafés.

Schultz remains the heart and soul of the operation. Raised in a Brooklyn public-housing project, he found his way to Starbucks, a tiny chain of Seattle coffee shops, as a marketing executive in the early 1980s. The name came about when the original owners looked to Seattle history for inspiration and chose the moniker of an old mining camp: Starbo. Further refinement led to Starbucks, after the first mate in *Moby Dick*, which they felt evoked the seafaring romance of the early coffee traders (hence the mermaid logo). Schultz got the idea for the modern Starbucks format while visiting a Milan coffee bar. He bought out his bosses in 1987 and began expanding.

The company is still capable of designing and opening a store in 16 weeks or less and recouping the initial investment in three years. The stores may be oases of tranquility, but management's expansion tactics are something else. Take what critics call its "predatory real estate" strategy—paying more than market-rate rents to keep competitors out of a location. David C. Schomer, owner of Espresso Vivace in Seattle's hip Capitol Hill neighborhood, says Starbucks approached his landlord and offered to pay nearly double the rate to put a coffee shop in the same building. The landlord stuck with Schomer, who says: "It's a little disconcerting to know that someone is willing to pay twice the going rate." Another time, Starbucks and Tully's Coffee Corp., a Seattle-based coffee chain, were competing for a space in the city. Starbucks got the lease but vacated the premises before the term was up. Still, rather than let Tully's get the space, Starbucks decided to pay the rent on the empty store so its competitor could not move in. Schultz makes no apologies for the hardball tactics. "The real estate business in America is a very, very tough game," he says. "It's not for the faint of heart."

Still, the company's strategy could backfire. Not only will neighborhood activists and local businesses increasingly resent the tactics, but also customers could grow annoyed over having fewer choices. Moreover, analysts contend that Starbucks can maintain about 15 percent square-footage growth in the United States—equivalent to 550 new stores—for only about two more years. After that, it will have to depend on overseas growth to maintain an annual 20 percent revenue growth.

Starbucks was hoping to make up much of that growth with more sales of food and other noncoffee items but stumbled somewhat. In the late 1990s, Schultz thought that offering $8 sandwiches, desserts, and CDs in his stores and selling packaged coffee in supermarkets would significantly boost sales. The specialty business now accounts for about 16 percent of sales, but growth has been less than expected.

What's more important for the bottom line, though, is that Starbucks has proven to be highly innovative in the way it sells its main course: coffee. In 800 locations it has installed automatic espresso machines to speed up service. And several years ago, it began offering prepaid Starbucks cards, priced from $5 to $500, which clerks swipe through a reader to deduct a sale. That, says the company, cuts transaction times in half. Starbucks has sold $70 million of the cards.

When Starbucks launched Starbucks Express, its boldest experiment yet, it blended java, web technology, and faster service. At about 60 stores in the Denver area, customers could pre-order and prepay for beverages and pastries via phone or on the Starbucks Express website. They just make the call or click the mouse before arriving at the store, and their beverage would be waiting—with their name printed on the cup. The company decided in 2003 that the innovation had not succeeded and eliminated the service.

And Starbucks continues to try other fundamental store changes. It announced expansion of a high-speed wireless Internet service to about 1,200 Starbucks locations in North America and Europe. Partners in the project—which Starbucks calls the world's largest Wi-Fi network—include Mobile International, a wireless subsidiary of Deutsche Telekom, and Hewlett-Packard. Customers sit in a store and check e-mail, surf the web, or download multimedia presentations without looking for connections or tripping over cords. They start with 24 hours of free wireless broadband before choosing from a variety of monthly subscription plans.

Starbucks executives hope such innovations will help surmount their toughest challenge in the home market: attracting the next generation of customers. Younger coffee drinkers already feel uncomfortable in the stores. The company knows that because it once had a group of twentysomethings hypnotized for a market study. When their defenses were down, out came the bad news. "They either can't afford to buy coffee at Starbucks, or the only peers they see are those working behind the counter," says Mark Barden, who conducted the research for the Hal Riney & Partners ad agency (now part of Publicis Worldwide) in San Francisco. One of the recurring themes the hypnosis brought out was a sense that "people like me aren't welcome here except to serve the yuppies," he says. Then there are those who just find the whole Starbucks scene a bit pretentious. Katie Kelleher, 22, a Chicago paralegal, is put off by Starbucks' Italian terminology of grande and venti for coffee sizes. She goes to Dunkin' Donuts, saying: "Small, medium, and large is fine for me."

As it expands, Starbucks faces another big risk: that of becoming a far less special place for its employees. For a company modeled around enthusiastic service, that could have dire consequences for both image and sales. During its growth spurt of the mid- to late-1990s, Starbucks had the lowest employee turnover rate of any restaurant or fast-food company, largely thanks to its then unheard-of policy of giving health insurance and modest stock options to part-timers making barely more than minimum wage.

Such perks are no longer enough to keep all the workers happy. Starbucks' pay doesn't come close to matching the workload it requires, complain some staff. Says Carrie Shay, a former store manager in West Hollywood, California: "If I were making a decent living, I'd still be there." Shay, one of the plaintiffs in the suit against the company, says she earned $32,000 a year to run a store with 10 to 15 part-time employees. She hired employees, managed their schedules, and monitored the store's weekly profit-and-loss statement. But she also was expected to put in significant time behind the counter and had to sign an affidavit pledging to work up to 20 hours of overtime a week without extra pay—a requirement the company has dropped since the settlement.

For sure, employee discontent is far from the image Starbucks wants to project of relaxed workers cheerfully making cappuccinos. But perhaps it is inevitable. The business model calls for lots of low-wage workers. And the more people who are hired as Starbucks expands, the less they are apt to feel connected to the original mission of high service—bantering with customers and treating them like family. Robert J. Thompson, a professor of popular culture at Syracuse University, says of Starbucks: "It's turning out to be one of the great 21st century American success stories—complete with all the ambiguities."

Overseas, though, the whole Starbucks package seems new and, to many young people, still very cool. In Vienna, where Starbucks had a gala opening for its first Austrian store, Helmut Spudich, a business editor for the paper *Der Standard*, predicted that Starbucks would attract a younger crowd than would the established cafés. "The coffeehouses in Vienna are nice, but they are old. Starbucks is considered hip," he says.

But if Starbucks can count on its youth appeal to win a welcome in new markets, such enthusiasm cannot be counted on indefinitely. In Japan, the company beat even its own bullish expectations, growing to over 900 stores after opening its first in Tokyo in 1996. Affluent young Japanese women like Anna Kato, a 22-year-old Toyota Motor Corp. worker, loved the place. "I don't care if it costs more, as long as it tastes sweet," she says, sitting in the world's busiest Starbucks, in Tokyo's Shibuya district. Yet same-store sales growth has fallen in Japan, Starbucks' top foreign market, as rivals offer similar fare. Meanwhile in England, Starbucks' second-biggest overseas market, with over 400 stores, imitators are popping up left and right to steal market share.

Entering other big markets may be tougher yet. The French seem to be ready for Starbucks' sweeter taste, says Philippe Bloch, cofounder of Columbus Cafe, a Starbucks-like chain. But he wonders if the company can profitably cope with France's arcane regulations and generous labor benefits. And in Italy, the epicenter of European coffee culture, the notion that the locals will abandon their own 200,000 coffee bars en masse for Starbucks strikes many as ludicrous. For one, Italian coffee bars prosper by serving food as well as coffee, an area where Starbucks still struggles. Also, Italian coffee is cheaper than U.S. java and, say Italian purists, much better. Americans pay about $1.50 for an espresso. In northern Italy, the price is 67 cents; in the south, just 55 cents. Schultz insists that Starbucks eventually will come to Italy. It'll have a lot to prove when it does. Carlo Petrini, founder of the antiglobalization movement Slow Food, sniffs that Starbucks' "substances served in styrofoam" won't cut it. The cups are paper, of course. But the skepticism is real.

As Starbucks spreads out, Schultz will have to be increasingly sensitive to those cultural challenges. For instance, he flew to Israel several years ago to meet with then Foreign Secretary Shimon Peres and other Israeli officials to discuss the Middle East crisis. He won't divulge the nature of his discussions. But subsequently, at a Seattle synagogue, Schultz let the Palestinians have it. With Starbucks outlets already in Kuwait, Lebanon, Oman, Qatar, and Saudi Arabia, he created a mild uproar among Palestinian supporters. Schultz quickly backpedaled, saying that his words were taken out of context and asserting that he is "pro-peace" for both sides.

There are plenty more minefields ahead. So far, the Seattle coffee company has compiled an envious record of growth. But the giddy buzz of that initial expansion is wearing off. Now, Starbucks is waking up to the grande challenges faced by any corporation bent on becoming a global powerhouse.

In a 2005 bid to boost sales in its largest international market, Starbucks Corp. expanded its business in Japan, beyond cafés and into convenience stores, with a line of chilled coffee in plastic cups. The move gives the Seattle-based company a chance to grab a chunk of Japan's $10 billion market for coffee sold in cans, bottles, or vending machines rather than made-to-order at cafés. It is a lucrative but fiercely competitive sector, but Starbucks, which has become a household name since opening its first Japanese store, is betting on the power of its brand to propel sales of the new drinks. Also, introducing tea to the menu in 2015 caused a 7 percent increase in sales. Stores in Japan now number close to 1,700.

Starbucks is working with Japanese beverage maker and distributor Suntory Ltd. The "Discoveries" and "Doubleshot" lines are the company's first forays into the ready-to-drink market outside North America, where it sells a line of bottled and canned coffee. It also underscores Starbucks' determination to expand its presence in Asia by catering to local tastes. For instance, the new product comes in two variations—espresso and latte—that are less sweet than their U.S. counterparts, as the coffee maker developed them to suit Asian palates. Starbucks officials said they hope to establish their product as the premium chilled cup brand, which, at 210 yen ($1.87), will be priced at the upper end of the category.

Starbucks faces steep competition. Japan's "chilled cup" market is teeming with rival products, including Starbucks lookalikes. One of the most popular brands, called Mt. Rainier, is emblazoned with a green circle logo that closely resembles that of Starbucks. Convenience stores also are packed with canned coffee drinks, including Coca-Cola Co.'s Georgia brand and brews with extra caffeine or made with gourmet coffee beans.

Schultz declined to speculate on exactly how much coffee Starbucks might sell through Japan's convenience stores. "We wouldn't be doing this if it wasn't important both strategically and economically," he said.

The company has no immediate plans to introduce the beverage in the United States, though it has in the past brought home products launched in Asia. A green tea frappuccino, first launched in Asia, was later introduced in the United States and Canada, where company officials say it was well received.

Starbucks has done well in Japan, although the road hasn't always been smooth. After cutting the ribbon on its first Japan store in 1996, the company began opening stores at a furious pace. New shops attracted large crowds, but the effect wore off as the market became saturated. The company returned to profitability, and net profits jumped more than sixfold to 3.6 billion yen in 2007, declined again to 2.7 billion yen in 2009, and increased again to 6 billion yen by 2013.

In Japan, the firm successfully developed a broader menu for its stores, including customized products—smaller sandwiches and less-sweet desserts. The strategy increased same-store sales and overall profits. The firm also has added 175 new stores since 2006, including some drive-through service. But McDonald's also has attacked the Japanese market with the introduction of its McCafé coffee shops.

Starbucks opened its first store in Africa in 2016, hoping to tap into an expanding consumer class, despite an overall weakness in the economy. It will open up just 12 to 15 stores initially, despite a capacity on the continent of 150 stores, according to company estimates.

In 2018, China was opening a new store every 15 hours, with 3,000 planned over the next few years. Shanghai now boasts the largest Starbucks store in the world. Starbucks is pushing "a coffee culture in China where the reward will be healthy, long-term, profitable growth for decades to come," CEO Kevin Johnson said. Meanwhile, in North America, Starbucks is struggling to maintain growth above inflation rates.

QUESTIONS

As a guide, use Exhibit 1.3 and its description in Chapter 1, and do the following:

1. Identify the controllable and uncontrollable elements that Starbucks has encountered in entering global markets.
2. What are the major sources of risk facing the company? Discuss potential solutions.
3. Critique Starbucks' overall corporate strategy.
4. What advice would you have for Starbucks in Africa? In China?

Visit www.starbucks.com for more information.

Sources: Stanley Holmes, Drake Bennett, Kate Carlisle, and Chester Dawson, "Planet Starbucks: To Keep Up the Growth It Must Go Global Quickly," *BusinessWeek*, December 9, 2002, pp. 100–110; Ken Belson, "Japan: Starbucks Profit Falls," *The New York Times*, February 20, 2003, p. 1; Ginny Parker Woods, "Starbucks Bets Drinks Will Jolt Japan Sales," *Asian Wall Street Journal*, September 27, 2005, p. A7; Amy Chozick, "Starbucks in Japan Needs A Jolt," *The Wall Street Journal*, October 24, 2006, p. 23; "McCafe Debuts in Japan, Challenging Starbucks, Other Coffee Shops," *Kyoto News*, August 28, 2007; "Starbucks Japan Sees 55% Pretax Profit Jump for April-December," *Nikkei Report*, February 6, 2008; see the most recent annual report at www.starbucks.com; Alexandra Wexler, "Starbucks Opens First Africa Store," *The Wall Street Journal*, April 22, 2016, p. B6; Sherisse Pham, "China is Getting Nearly 3,000 new Starbucks, money.cnn.com, May 16, 2018.