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Entry Modes of Starbucks

Tutor: Leif Linnskog
Authors:
Beatriz Santamaría (841007-p008)
Shuang Ni (831206-p446)
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Summary

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Title: Entry Modes of Starbucks

Authors:

Beatriz Santamaria (841007-p008)
Cuenca, 3 3A
19005 Guadalajara (SPAIN)
+34 64621633
Date of birth: 1984-10-07
E-mail: Bea5031@msn.com

Shuang Ni (831206-p446)
Vasagatan 40
722 15 Västerås
+46 73 584 27 66
Date of birth: 1983-12-06
E-mail: sophia_nishuang@hotmail.com

Tutor: Leif Linnskog

Topic: When an MNC seeks to enter a foreign country, it must choose the most appropriate entry mode for that specific market, such as exporting, licensing, a turnkey project, franchising, joint ventures or wholly-owned subsidiaries. There are many factors which affect the choice of entry modes. Influential factors contributing to the entry mode decision can have different degrees of impact for each particular country. As a consequence, an MNC has to use different entry modes in order to adapt to the specific situations it faces in its international expansion strategy.

Research Problem: Our research problem is to find the answer to two specific research questions while investigating in a particular MNC: Starbucks. The relevant questions are: (1.) What factors affected Starbucks' entry mode decisions? (2.) Which entry mode strategies did Starbucks use foreign markets and why?

Method: We collected data through a qualitative method. We regarded that a qualitative research method would provide us the necessary data to understand entry mode decisions. We collected data through literature, books, journals, and Internet resources. We have decided to focus our qualitative research on exploring Starbucks' entry mode decision in some specific markets. In particular, we have concentrated on Spain, New Zealand and the United Kingdom.

Conclusions: The choice of entry mode is a critical decision made by MNCs. The choice is influenced by several factors; we have divided these into internal and external factors. We have found both groups are important in the decisions made by Starbucks. However, the degree of influence is different in each case. Moreover, it is possible that some influential factors in the choice of entry mode can differ by case. Finally, we have found external factors have been critical in affecting Starbucks' choice of entry modes. Starbucks has sought to adapt to those external factors and local needs and requirements by using different entry modes.

Keywords: entry modes, Starbucks, external factors, internal factors, Spain, New Zealand, United Kingdom, licensing, joint-venture, wholly-owned subsidiaries

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--- **Beatriz Santamaría Sotillo---**

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CHAPTER 1: INTRODUCTION AND RESEARCH PROBLEM

1.1.TOPIC

When a firm seeks to enter a foreign market, the company must choose the most appropriate entry mode for that specific market. The decision of entry mode strategy is the most critical decision in international expansion. The choice of international strategy has long-term implication for MNCs. That means, entry mode strategies are often massive, irreversible, and can influence the performance of the firm in the long run. MNCs can choose between six international entry mode strategies: exporting, licensing, a turnkey project, franchising, joint ventures and wholly-owned subsidiaries.

There are many factors which affect a company's decision of entry modes. Therefore, managers need to analyze them and determine the most suitable international strategy. Influential factors in entry mode decision can be different in each case. In addition the degree of influence of each factor can vary between countries. As a consequence, some MNCs use different entry modes to adapt to specific situations in their internationalization process.

1.2. RESEARCH PROBLEM

1.2.1. Research Questions

Our purpose is to find an answer to the following research questions while exploring a particular MNC, Starbucks:

- What factors affected Starbucks' entry mode decisions?
- Which entry mode strategies did Starbucks use in foreign markets and why?

1.2.2. Approach research problem

As we previously commented, our master thesis is focused on choice of entry modes. Our aim is to explore those factors that influence the choice of different entry modes within the same MNC. Furthermore, we will explore why Starbucks uses different entry modes in its internationalization process.

1.3. OUR MOTIVATION

We find it interesting to investigate the reasons for why Starbucks uses different entry mode strategies in its expansion abroad. We think our investigation has enabled us to better understand the key to Starbucks' strategy of internationalization.

There are many theories about entry modes such as Chen and Mujtaba (2007), Root (1994), Koch (2001), Brassigton and Pettitt (2000) and Transaction Cost Entry Mode (TCE), which have developed different factors that influence entry modes decisions. Through our investigation, we would like to have a more clear understanding of how these theories work in practice.

1.4. TARGET GROUP

One purpose in writing our thesis is to target Starbucks' managers, students and researchers who are interested in this company and its entry modes strategies.

Regarding Starbucks' managers, we hope our thesis enables them to obtain more information about their company. Our results might shed light on new ways to analyze their entry modes in different subsidiaries and their process of internationalization.

The second target group of our thesis is students. Our research could be useful to students−particularly those learning international business. They will find our thesis to be a practical example of a company's internationalization process.

Last but not least is researchers. Our findings could help other researchers in their investigation, or even to suggest new inquires.

1.5. LIMITATIONS

In an investigation, their authors often found limitations in their work. In our particular case, we found two important limitations. First limitation was time; we had liked to analyze six cases in our thesis to get reliable findings. However, as we had a short period of time we only selected three case studies to answer our research questions. Second limitation was found in our methodology part. We had difficulties to get primary data we only got an interview in one of three cases. As consequence, we had to use secondary data and contrast it to avoid using unreliable information.

CHAPTER 2: RESEARCH METHOD

There are two main methods which resolve a research problem: quantitative and qualitative methods. The choice of method depends on the researcher and the research problem.

Qualitative method is a subjective approach which includes examining and reflecting on perceptions in order to gain an understanding of social and human activities (Hussey J & Hussey R 1997).

Quantitative method is an objective approach which includes collecting and analyzing numerical data and applying statistical tests (Hussey J & Hussey R 1997).

In our master thesis, we have collected data through a qualitative method. As previously, mentioned the research method has to fit with the research problem. We regarded that a qualitative method was the most suitable to understand entry mode decisions. We sought the flexibility of qualitative instruments to obtain findings more than the rigidity of quantitative methods. We have focused our investigation on several established aspects and factors. However, we have ruled out the possibility to include other crucial factors that explain our phenomenon in our research. The qualitative method has allowed us not only to find the data we look for, but also to locate complementary information that was relevant for our study.

2.1. RESEARCH INSTRUMENTS

There are several instruments that can be used to carry out our qualitative method. We have chosen to develop our investigation through interviews (particularly e-mail interviews) and documentary research. Both methods are suitable to obtain the data for our investigation. Interviews have provided us information directly from the company, and documentary research has provided information indirectly.

Interviews: We considered that it was important to obtain information directly from Starbucks' managers for our research. Interviews are the most reliable research instrument in order to obtain information for our case study. Furthermore, they provide us new and unknown information that would be impossible to get through other sources such as books or annual reports.

We have interviewed the Marketing Director of Starbucks in Spain, Luis Peña. We had preferred to interview him face to face, but we were unable to do so because of his schedule and our physical distance from Spain. Therefore we obtained an e-mail interview (See Appendix I). Furthermore, we tried to interview some managers of Starbucks in the United Kingdom, in New Zealand, and in Starbucks international subsidiary. Unfortunately the United Kingdom office refused our request. They informed us that they received a huge demand of enquires and were unable to respond to individual requests. We also got in touch with the managers of Starbucks in New Zealand. They told us they could not provide the information we needed. Because

Starbucks used the licensing mode of entry in New Zealand, managers who operate under Starbucks' licensing agreement lack information about the internationalization process of Starbucks in New Zealand. They said that information was only available from Starbucks' international subsidiary. The New Zealand managers did provide us the email address of the Starbucks international subsidiary contact, however when we sent our e-mail interview (see Appendix II) we did not receive a reply.

E-mail interview: There are several limitations to an e-mail interview. First of all, the interviewer cannot know with total certainty who will reply to the interviews. An e-mail interview might carefully crafted by public relations advisers or by someone who is posing as the person to whom we have sent the e-mail. In addition, an e-mail interview denies the chance to ask spontaneous questions or to immediately follow up on an answer. Answers tend to be shorter than a face-to-face interview. Finally, the interviewer cannot see the visible reactions of the interviewee.

An e-mail interview does have some advantages. Physical distances between interviewer and interviewee are eliminated. Additionally, the interviewee has flexible time to answer an e -mail interview (Ros-Martin 2006).

Interview literature distinguishes two types of interview: pre-code interviews and open interviews.

Pre-code interviews are developed using a specific structure. The interviewer hardly deviates from his prepared script and follows a logical sequence (Hussey J & Hussey R 1997).

Open interviews are flexible. The interviewer deviates from his prepared script and asks questions which are not directly related to the interview topic (Hussey J & Hussey R 1997).

As our interviews were by e-mail, we chose to use pre-code interviews. We have asked precise questions in order to determine the exact information that we seek as provided by the interviewee. However, we have also added some open questions in order to provide an overview of our topic or another perspective (See Appendix I and II).

Documentary research consists of using text and documents that come from journals, reports, videos and other research sources (Bryman & Bell 2003). Documentary research also has some advantages and limitations in research. The main advantage is that there are many sources which we can use to obtain information. The documentary research can also provide different perspectives from a number of different people. However, this research instrument has some limitations such as the data might be unreliable. Also relevant information for a specific company is often difficult to find.

We have chosen this data collection method because we considered that documentary sources could provide us relevant information for our research. This form of research offers a variety of means to obtain information such as journals, document files, reports, books and so on. Starbucks is a successful company which has been the target of a huge amount of studies. There are many documentary sources concerning Starbucks and its strategies and policy. In addition, documentary research enables us to complement the scarce information available with our own interviews.

Information sources on the Internet: At the present there are a multitude of resources available on the Internet for many types of investigations. Among the numerous available sources for research are catalogues of important libraries, databases, e-journals and company homepages. In addition, we can consult and read completed versions of textual materials in virtual libraries and e-journals.

However, to use the Internet as an information source can be a double-edged sword. We have to be careful when choosing documents. We have to regard which documents are useful and which are not. Furthermore, the reliability and rigor of Internet sources should always be considered.

2.2. RESEARCH DESIGN

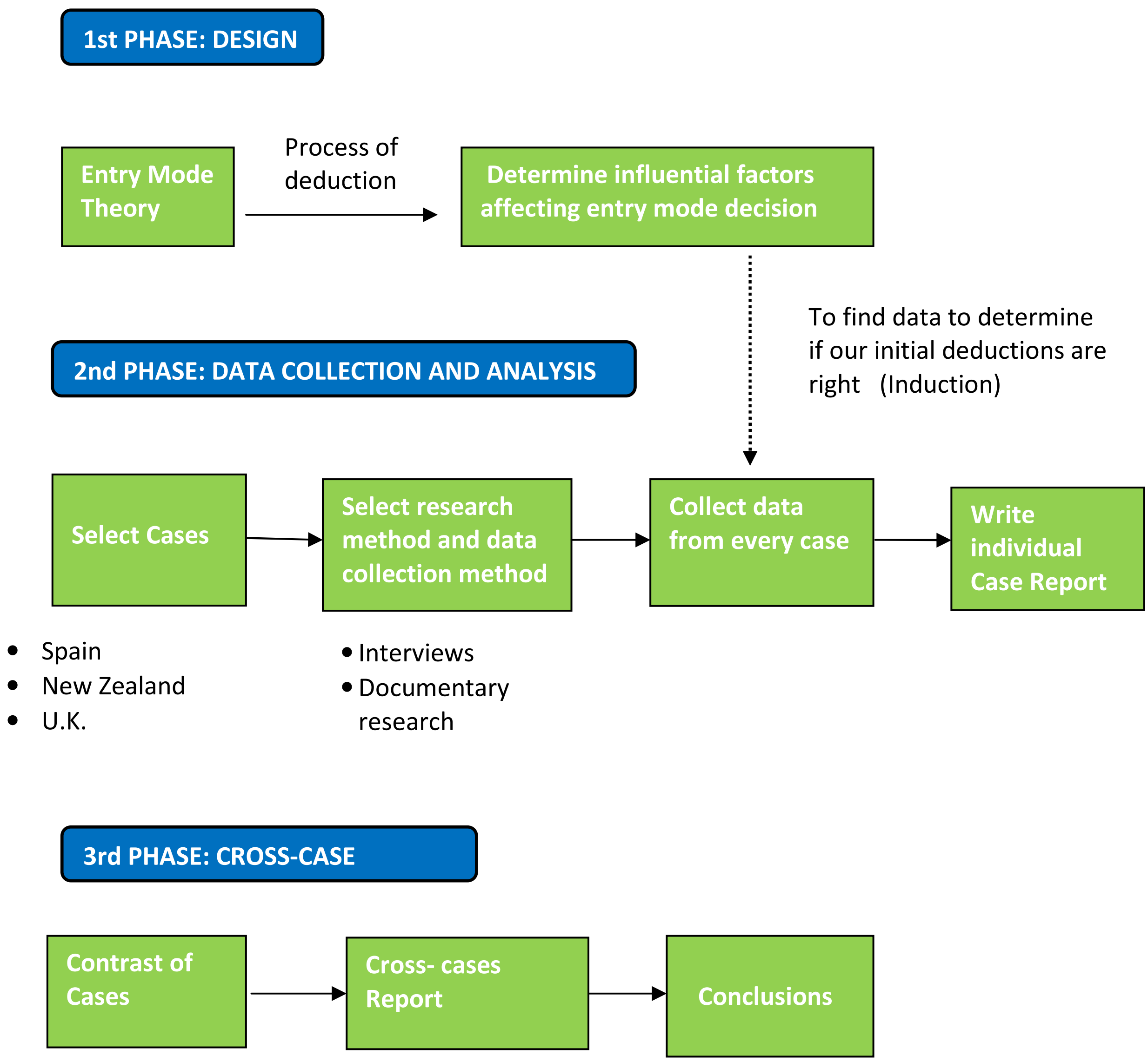
Research design is defined as the link between the collected empirical data, its research questions, and the conclusions generated by a study (Yin 1989). There are five main research designs:

First is *Experimental design,* which consists of choosing some independent variables to determine if those influence a determined variable. It also implies that experimental groups and control groups are needed to make a further comparison before and after the manipulation (Bryman & Bell 2003). Second is *Cross-sectional design,* which refers to collecting quantitative or quantifiable data (through questionnaires, interviews, surveys, etc) within several cases at a specific point in time, establishing patterns of associations between two or more variables. Later on, comparisons are made to surveys formed in other points in time (Bryman & Bell 2003). Third is *Longitudinal design,* which looks for specific alterations in contexts, organizations or industries. A sample is surveyed several times during different occasions in order to find the effects of the independent variables within the time period (Bryman & Bell 2003). Fourth is *Case analysis design,* which describes a single case as a specific location, an organization, a person or an event. It uses different sources of data because a unique source of evidence is not enough to achieve validity (Gillham 2000). Lastly is *Comparative design,* which analyzes two or more cases which are contrasted using more or less the same methodology. When qualitative methodology is applied, the chosen focus is multi-case.

Our aim is to study influential factors affecting the decision of entry mode. In order to analyze those factors we need to make a comparison between different examples. Therefore, we consider that using a single case study is not suitable for our research. Using a multi-case study we will achieve a reliable finding in our thesis. Therefore, we have selected a set of locations that correspond with countries in which an MNC, Starbucks, has internationalized. In addition to comparative design, we have used cross-sectional design to determine our conclusions. We need to compare case studies and contrast if our three cases have similarities and differences.

There are some criticisms to the use of multi-case. It is argued that researchers are less concentrated on the specific context of every case study and more focused on the contrast between different cases. As a consequence, researchers will develop more comparative analyses instead of deepening a particular analysis, therefore losing the essence of research (Dyer & Wilkins 1991). We have tried to avoid the above effect in our thesis by dividing our empirical analysis into two separate phases: the first phase was to analyze in depth each case and second, after we had already reported the individual characteristics of each case, we started to compare our three cases.

The following picture depicts the research approach that we are going to follow in our thesis.



In the first phase, the target factors of research are selected using entry mode literature. In the second phase, case studies are chosen based on the factors selected in the first phase. After taking that into account, research and data collection methods are selected for our chosen case studies. Then the data for every study is collected, and an individual report will be written for each country. In the third phase, a contrast process will be applied. When the contrast process is finished, we will describe the results. Finally, we will finish our thesis with the conclusions that can be determined from our research.

2.3. SELECTION OF MNC

We have focused our research on Starbucks. We have chosen this company because we found that Starbucks takes different entry modes to internationalize.

The choice of entry mode is due to a set of factors that will determine a company's international strategy. We consider that it is an interesting case to investigate and determine these possible factors that influence the company's entry mode strategy. Furthermore, we were interesting in exploring if the choice of Starbucks' entry mode can be determined by factors enumerated by entry mode theories.

Starbucks used three different entry mode strategies to internationalize: joint venture, licensing and wholly-owned subsidiaries (Starbucks.com 2008). We have chosen three countries; each one represents one of three Starbucks' international strategies.

We decided to study three countries because of two reasons. First, we sought to obtain representative results. We considered that one unique country was not enough to reach reliable conclusions. Second, we knew it is really difficult to obtain information regarding Starbucks' internationalization. If we explored more countries than a country we would obtain data from more sources and have the ability to contrast the reliability of our data.

We chose United Kingdom, New Zealand and Spain, because these three countries represented the three Starbucks' entry modes. In United Kingdom, we investigated that Starbucks only chose entry mode of wholly-owned subsidiary in this country from the early beginning. In the rest of cases where at present Starbucks is a wholly-owned subsidiary the company entered with a different strategy to wholly-owned subsidiary. We selected New Zealand case, because Starbucks used licensing and there was available secondary data to carry out our research. Last in Spain case, Starbucks decided to choose joint venture. We selected this case because we knew that to obtain data from Spain it would be easy as Beatriz Santamaria, one of authors this thesis, is Spanish. With the analyses of three different countries, we thought it would carried out an interesting investigation and could draw a comprehensive contrast in order to make the conclusion for answering our research questions.

In case analyses, our aim is to explore which factors affect choice of each entry mode. In order to obtain results we are going to separately examine each country. Our research on factors represented in our conceptual framework. We considered that our investigation has to follow a structure. Therefore we decided to use these depicted factors in our conceptual framework as guidance or structure within our research. However, we were not going to rule out including other relevant factors on Starbucks's choice of entry mode.

At the end of our case analysis, we will obtain factors that influenced Starbucks' choice of entry mode. In addition, we will determine if the factors developed in our conceptual framework were represented in our finding. Finally, we will conclude with the causes of Starbucks' choice of entry mode.

CHAPTER 3: LITERATURE REVIEW

In this chapter we review literature which relates to our research questions. Inside of our literature review, there are two differentiated parts related to above two main parts of our conceptual framework: literature about factors that affect the entry mode decision, and entry mode strategy theory. Literature of entry mode factors describes factors may influence on entry mode decision. Another hand, entry mode theory shows a set of entry mode strategies that a company can carried out to go into a foreign country.

3.1. DEFINITION OF ENTRY MODE

According to Root (1994), an international market entry mode is to create the possibility by arranging company's products, technology, human skills, management or other resources to enter into a foreign country. He regards that entry modes help companies to determine goals, resources and policy in order to channel their international activities toward a sustainable international expansion.

3.2. ENTRY MODE FACTORS

Several studies have attempted to identify a set of factors that influence entry mode decisions. In our thesis we draw our attention to the following theories:

3.2.1.Chen. L.Y and Mujtaba B.

Chen and Mujtaba (2007) develop their study about entry mode factors based on TCE (Transaction cost model) and non-TCE perspectives. TCE argues that the cost of implementing a particular entry mode is a relevant factor in a company's entry mode decision. The mode of foreign entry is based on efficiency criteria in order to economize on transaction costs (Yiu & Makino 2002). *Non- Transaction Cost Economics Model* consists of a set of approaches such as Ecletic approach, Bargain power theory and Resource-based theory. In Ecletic Theory, Dunning (1998) developed three groups of factors that influence the entry mode choice: transaction-specific advantages, internationalization-specific advantages and ownership-specific advantages. Bargaining power theory posits the relative bargaining power of the firm and the host governments are influential factors on international strategy (Deng 2003 & Taylor et al 2000). The resource-based approach considers that resource availability and utilization both play a part in the choice among modes of entry.

Chen and Mujtaba's study is concentrated on MNCs in the US. They divided the entry mode factors into three groups of factors: firm-specific factors, country-specific factors and market-specific factors (See Figure 1). The description of the three factors is as follows:

Firm- Specific Factors are related to the TCE model. It refers to firm-specific assets and skills that comprise ownership advantages. Chen and Mujtaba (2007) distinguish three types of firm-specific factors: asset specificity, international experience and firm size. *Asset specificity* refers to products and technologies that tend to create dissemination risks because of the threat of opportunism. The authors posit that great asset specificity tends to favor a higher-control entry mode. *International experience* according to the TCE approach is local market knowledge accumulated to avoid hazards in international market transactions. Chen and Mujtaba consider that great international experience favors a higher-control entry mode. Finally, *firm size* refers to the idea that larger firms have a greater capability than smaller ones to expend resources and absorb risks.

Country-specific factors are a set of factors that include country-specific economic, political, legal, institutional and cultural factors. Chen and Mujtaba divided country-specific factors into two variables: country risk and government restriction. *Country risk* is possible risk of change in the mode of operation owing to that unpredictable changes in the environment might render the original mode inefficient (Erramilli & Rao, 1993). Chen and Mujtaba posit that high country risk tends towards lower involvement entry modes. *Government restrictions* are laws and regulations that impact on the operation of a foreign firm (Ibid). This theory supports that increased government restrictions leads to low involvement entry modes.

Market-specific factors: Several studies posit that factors specific to the market will influence the choice of entry mode. Chen and Mujtaba (2007) point out as representative variables: market potential, demand uncertainty and competitive intensity. *Market potential* refers to the growth and size potential of the foreign market. When there is a great market potential MNCs preferr high-control entry mode. *Demand uncertainty* refers to the future demand of products and services in a foreign market that are difficult to predict. Chen and Mujtaba argue that when demand of uncertainty in a foreign market is high, firms tend to use a higher-control entry mode. *Competitive intensity* refers to the degree to which a firm's entry into a foreign market is pursued by its competitors. The authors show in their study that firms use a high control entry mode when the competitive intensity is high.

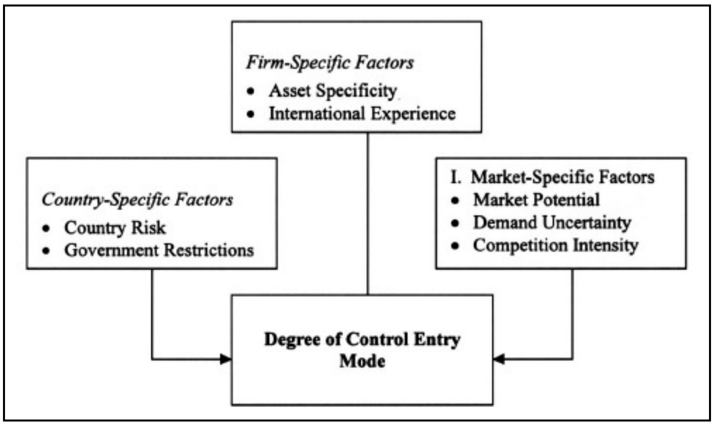


Figure 1: Factors affecting entry mode decision
Source: Chen and Mujtaba (2007)

3.2.2.Theory of Root (1994)

Root (1994) develops a model of factors that affect entry mode decision. He distinguishes between internal and external factors. He states that the choice of entry mode for a product or target country is the result of several (often conflicting) forces. (See Figure 2). He divides influential factors affecting entry mode decision into two groups: external and internal factors.

EXTERNAL FACTORS

Root (1994) determines four influential external factors affecting entry mode choice: target country market factors, target country production factors, target country environment factors and home country factors.

Target Country Market Factors: Root (1994) argues that the *size of target country market* influences entry mode choice. In small markets companies use entry modes with low breakeven sale volumes such as indirect distributor exporting, licensing and contracts. In a market with high *potential sales* the company uses entry modes with high breakeven sales volume. Root mentioned competitive structure of the market is an important aspect in considering the target country factors. When *competitive structure* tends towards monopoly, entry modes are high resource commitments to compete against competitors. Otherwise, if the competitive structure of the market tends towards perfect competition, entry modes are often low resource commitments such as exporting.

Target Country Production Factors: the *quality, quantity and cost of resources* in the foreign country, as well as the *quality and cost of economic infrastructure* influence the choice of entry mode. When the costs of production are low in the target country, local production is favored. On the other hand, if production costs are high in the foreign country, the company tends to export (Ibid).

Target Country Environment Factors such as political, economic and socio-cultural dimensions of the foreign country can influence the choice of entry mode. In particular, *government policies and regulations* can be decisive in choosing the entry mode. Another important factor within country environment factors is *geographical distance*. When there is a great distance between the home and foreign country, it is possible that transportation costs are high, thereby discouraging export entry modes and favoring another entry mode such as a wholly-owned subsidiary. The *economy* of the target country can also influence the decision of entry mode. For instance, in centrally planned socialist economies, equity entry modes are not possible, and therefore companies only rely on non-equity entry modes such as exporting, licensing or other contractual modes. Other important factors are the *size of economy* (gross national product), *absolute level of performance* (gross national product per capita), and *relative importance of its economic sectors* (percentage of gross national product devoted to the particular sector). Finally, another relevant factor is *cultural distance*; the firms often prefer to enter those foreign countries that are culturally closest to the home country (Ibid).

Home Country Factors: These are the set of factors that have influence on entry mode choice such as home country market, production and environmental factors. If the home country has a big *market*, it enables a company to grow to a large size in the home market before going abroad. The *competitive structure* also influences the choice of entry mode. *Relative production costs of the home country versus the foreign country* influence entry mode decisions. If there is a high *production cost in the home country, the company will* chose foreign market entry modes such as licensing, contract manufacture and investment. Another home country factor is the policy of the home government toward exporting and foreign investment by domestic firms. Finally, *geographic distance* is an influencing factor in that a large distance will favor local presence in a foreign country (Ibid).

INTERNAL FACTORS

Root expounds two internal factors which affect the choice of entry mode: product factors and resource commitment factors.

Product factors: when products are highly differentiated over those offered by their competitors; there is a degree of pricing discretion. As a consequence these products can absorb high unit transportation cost and high import duties and still remain competitive in a foreign market. Otherwise, if products are weakly differentiated, they have to compete on a price basis. Therefore, high product differentiation favors export entry whereas a low differentiation tends to use entry modes as contract manufacture or equity investment. When the company's product is a service, the firm cannot export it. In order to provide services in foreign countries, the firm must train local companies as in franchising or deliver its service directly under contract with the foreign customers via technical agreements and construction contracts. Firms with products using intensive technology often opt to license. In order to internationalize the product, a considerable adaptation is often necessary. The company establishes the foreign market through branch/ subsidiary exporting or by going into local production (Ibid).

Resource commitment factors: if a company owns a huge amount of resources (management, capital, technology, production skills, and management skills), the company will have numerous entry mode options. However, companies with limited resources are constrained to use entry modes with small resource commitment (Ibid).

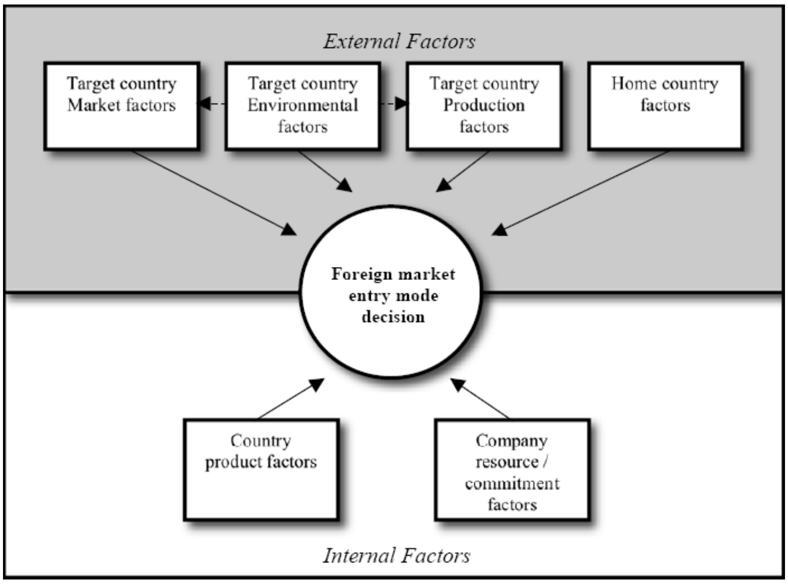


Figure 2: Influential factors in the entry mode decision
Source: Root (1994)

3.2.3.Theory by Brassigton and Pettitt (2000)

Brassigton and Pettitt (2000) state two internal factors have influence on entry mode: payback and speed. They define *payback* as the time that a company needs to create revenue from investment in a foreign country. They refer to *speed* as the time the company desires to dedicate in order to penetrate a target market.

3.2.4. Theory by Koch (2001)

Koch (2001) posits that influential factors on market entry model selection (MEMs) can be divided into three groups: external, internal and mixture of external and internal factors. In our literature review we only mentioned external and internal factors.

EXTERNAL FACTORS

Koch (2001) states there are six external factors influencing choice of entry mode: industry feasibility/viability of MEM, characteristics of the overseas country business environment, market growth rate, image support requirements, global management efficiency requirements, popularity of individual MEMs in the overseas market, and market barriers.

The first factor is *Industry feasibility/viability of MEM.* Koch argues some entry modes such as wholly-owned subsidiary or joint venture may be excluded by *law* in some countries owing to that the particular industry might be considered strategic by the state. This factor also refers to know-how dissemination risk, labor regulation, cost of labor, level of skill and taxes. Furthermore, Koch states that there are *characteristics of the overseas country* which are easy to obtain these days, but information about industry and company-specific information is often difficult to find. Inside the last category we finds aspects such as similarity, volatility of general business regulations/ practices, business infrastructure, levels of industrial development, forms, scope and intensity of competition, customer protection legislation and customer sophistication. Knowledge of this information will influence the choice of international strategy.

Koch also regards that *market growth rate* can be influential in entry mode decision. When the market has a fast growth rate, the company seeks to exploit this opportunity by using entry modes of fast expansion. Otherwise, when growth of demand is predicted to occur over a long time, the company tends to establish entry modes such as joint venture and wholly-owned subsidiary. Another external factor is *image support requirements*. In order to build and sustain their image, some companies may license their inventions to increase their role as global providers of the latest technology, thereby enabling the company to influence global industrial standards.

Koch also points out *global management efficiency requirements* as another external entry mode factor. He posits that when involvement of internationalization of a company is high, company's resources start being limited. It is necessary to redefine the company's global strategy. Some companies choose a diversified, multinational mode of operation in that case. The *popularity of individual MEMs in the overseas market* factor refers to the particular nature of individual country markets. Country markets may have certain entry modes with more popularity than others. New entrants in this kind of market are influenced by the experience and degree of success of the former entrants, as well as the product market situation. Finally, Koch states that *market barriers* such as tariff barriers, governmental regulations, distribution access, natural barriers, exit barriers and level of country development can have influence on entry mode choice.

INTERNAL FACTORS

Koch (2001) states that entry modes are influenced by seven internal factors: company size/ resources, management locus of control, experience in using MEMs, management risk attitudes, market share target, calculation methods applied, and profit target.

Koch argues that the freedom of selection of entry mode and their relevant preference depends on the *company size and its resources.* Another internal factor is *management locus of control.* This refers to manager perceptions, intuition and management style.

Koch also states that *experience in using MEMs* is an internal factor affecting the entry mode decision. It refers to the management culture which will influence the behavior of decision makers. For instance, managers will refuse to use unsuccessful and untried modes if there are negative personal consequences for proponents. The author thinks effectiveness and efficiency depend on the amount of experience gathered by individuals, and on prevalence of idea sharing within the company.

Management risk attitudes are another internal factor. Koch states that the degree of international business risk that the company takes in its entry mode decision depends on: the company's financial situation, its strategic options, and competitiveness of environment. *Market share target* also influences the entry mode decision. Koch argues that there are criteria such as sales or market share maximization that will be important in making this decision. Another influential internal factor affecting the entry mode decision is the *calculation methods applie*d. Koch points out that there are available calculation methods of risk or benefit to evaluate the market entry selection. The last internal factor which influences choice of entry mode is profit target. The choice of entry mode will depend on the level and dynamic of profit that the company desires to attain (Ibid).

3.3. ENTRY MODE LITERATURE

When a firm is going to explore a foreign market, the choice of the best mode of entry will arise in the firm's expansion strategy. There are six essentially different entry modes, generally named as exporting, turnkey projects, licensing, franchising, joint venture with a host country firm, and setting up a wholly-owned subsidiary in the host country (Hill 2007). All of them have their advantages for the firm to explore as well as disadvantages which must be considered by the firm's top management. In other words, the managers should make the choice carefully because it directly affects whether the firm will succeed or not in its foreign expansion. Regarding the choice of entry for a service company, licensing, franchising, joint-venture with a host country firm or setting up a wholly-owned subsidiary are more suitable for these types of firms. What's more, the entry mode theory below is from Hill who wrote the book about foreign market entry entitled *International Business—Competing in the Global Marketplace*. (Hill 2007)

Licensing

Licensing involves a licensee and licensor tied together by a certain agreement which stands to benefit both sides. The licensor will sell its know-how right to the licensee, usually for a period of time. The know-how refers to intangible properties such as patens, inventions, formulas, processes, designs, copyrights and trademarks. The licensee needs to pay the royalty fee in order to have the agreement with the licensor.

Licensing is a primary stage for a firm which plans to enter a foreign market. Due to the uncertainty of the foreign market, the political or economic situation, this instability will arouse the firm to consider developing a licensee agreement. This agreement can help the firm to make their expansion in a more steady way. In this manner the licensor firm, can collect a royalty fee from the licensee; this is especially a big benefit for a licensor who has limited capital to establish full operations in a foreign country.

Thus the firm can decrease its expansion costs via licensing. Moreover, the country barriers make it difficult for the firm to participate in a foreign market, which makes licensing a more suitable entry mode to explore a new market. Last but not least, when the firm doesn't expect entry into a new market with its intangible property by themselves, having the foreign licensor may help the firm to improve its chance of a successful patent application.

One drawback which is similar to exporting is that licensing gives the firm less central and tight control. For the firm it is difficult to control their licensee through the agreement, except by establishing its own subsidiary. The licensee could be a major disadvantage for the licensor because of the difficulty in coordination. Technical know-how is a competitive advantage for the firm; whereas by selling the know-how the firm undertakes a huge risk of losing this asset to competitors. Because the licensor will receive the main technology and make full use of it, the licensor loses control by selling it to licensee.

Franchising

Franchising is a similar entry mode to licensing. By the payment of a royalty fee, the franchisee will obtain the major business know-how via an agreement with the franchiser. The know-how also includes such intangible properties as patents, trademarks and so on. The difference from the licensing mode of entry is that the franchisee must obey certain rules given by franchiser. Franchising is most commonly used in service industries, such as McDonald's to cite an example. However the licensing entry mode is frequently used by manufacturing firms.

The primary advantage of franchising is that the firm doesn't have to bear the development costs and risks associated with entering a new foreign new market, just like in the entry mode of licensing. By the low costs and risks, the firm could explore the market in an efficient way. Thus the strategy of using franchising is similar to the entry mode of licensing.

The disadvantage is clear because the agreement requires that the franchisee will abide by strict rules. The franchisee is often hard to control, especially in the service industry whereby the franchisor will require the franchisee to adhere to the same standards of quality. If the franchisee does not strictly obey the rules of the franchisor, it could lead to a worldwide collapse of the international firm.

Joint Ventures

A joint venture is a typical entry mode used world-wide. Literally, it means two or more individual and independent firms join together in an alliance in order to achieve better position in the market. Often the joint ventures are a 50/50 venture. It is a method that both sides hold relatively the same percentage of shares in the venture. The joint venture's operation is separate from both companies, and often the same role is shared by both managerial teams. It could be possible that one firm invests more in order to gain the larger percentage of shares and hold tighter control of the joint venture's operations. Likewise, a lower investment percentage will usually lead to less control.

A joint venture has a lot of advantages. Firstly, both of the firms share the costs as well as the benefits. Both sides share the risk as well. By investing into and joining a local firm, the international firm could successfully explore the foreign market with their assisting jointed firm. The international firm could thereby gain market knowledge from the local firm. Especially considering the political and economic issues in the international market today, it is an overwhelmingly popular way to enter foreign markets. The local firm might have a way to influence the local government, which will smooth the market entry for its joint partner.

The disadvantage is obvious in that the firm might have major conflicts with its partner. Regarding the shareholding of the firms, it is often difficult to maintain a balanced relationship. Once one firm's expansion strategy is in conflict with the other party, it will by all means bargain about the relative share ownership in order to have more control of the firm. Thus the partner with stronger bargaining power will continue to lead an unsteady joint venture. As for the firm's international expansion, giving up control of technology could be very risky for the firm.

Wholly-owned subsidiaries

The entry mode of wholly-owned subsidiaries means the firm owns 100 percent of the overseas entity. There are two major ways to establish foreign wholly-owned subsidiaries. First is a greenfield venture. That means the firm will enter the new international market by establishing a completely new operation and legal entity. The second method is acquisition; whereby the firm acquires another firm in that international market in order to directly enter. The other firm could be an established and well-built firm in that particular industry. Thus the firm could gain a lot of advantages and promote its own products by using the acquisition strategy.

There are a number of advantages to establishing wholly-owned subsidiaries. Obviously, one of the advantages is that the firm could have tight control, because the firm has 100 percentage of ownership. Then it is easy to understand that the firm could make its own strategic plan and control the subsidiaries in its own way. Especially, compared with other entry modes, the firm does not need to bear the risk to lose its competitive advantages and know-how by selling these to another party. Therefore, the firm has more power of control and less risk. Furthermore, as for multinational firms, many of them are eager to explore foreign markets in order to go up the experience curve and understand the local economy. Last but not least, the firm could have 100 percent of profits in its wholly-owned subsidiaries.

The disadvantages of wholly-owned subsidiaries are clear too. As long as the firm chooses wholly-owned subsidiaries, the cost is definitely high. Because of full ownership, the firm cannot get any assistance from other party. While bearing the full cost of the investment in the foreign country, the firm still needs to bear the entire risk. The risk lies in the uncertain foreign market, the unfamiliar political and economic environment or the culture gap. To do business in a new culture, especially by choosing the entry mode of wholly-owned subsidiaries by acquisition, could raise a lot of problems. The variety and diversity of the foreign business practice or country culture could be a significant issue for the firm to deal with.

ENTRY MODE	ADVANTAGES	DISADVANTAGES
Licensing	Lower cost and risk	No tight control Risk for losing know-how
Franchising	Lower cost and risk Fast	Quality control Hard monitoring
Joint Venture	Benefit from local partner Share cost and risk Political considerations	Loss control of technology No tight control of partner Conflicts and battles
Wholly-owned subsidiaries	Technology control Tight overall control 100% share of profits Location and experience Curve economy	Full cost and risk Culture problems

Figure 3: Entry modes
Source: Hill Charles, 2007

CHAPTER 4: CONCEPTUAL FRAMEWORK

To understand the development of our master thesis conclusion and to collect data for our research, it is valuable to depict a conceptual framework. We have modeled our conceptual framework in two different parts: factors which affect decision of entry modes and different strategies of entry modes. The purpose of this conceptual framework is to show the influence of different factors on the choice of entry modes.

When managers have to choose an entry mode to enter into a foreign country, there are many factors which they take into account before making decisions. We have selected a set of factors for our conceptual framework. The factors proposed belong to Chen and Mujtaba (2007), Root (1994), Koch (2001) and Brassigton and Pettitt (2000) entry mode factors literature. Our criterion of selection was based on validity for our particular cases.

Entry mode literature has collected many of the influential factors on entry mode decision. Some authors have divided these factors in two groups: for example, external and internal factors as Root (1994). Koch (2001) includes a third group which consists of mixed categories of external and internal factors. Other authors such as Chen and Mujtaba (2007) divide factors of entry mode decision in three groups from a different perspective relating to specificity: firm-specific factors, country-specific factors and market-specific factors. In our conceptual framework we have decided to follow the perspective of Root. We have divided influential factors of entry modes into two groups: external factors and internal factors. In external factor group we have included all factors affect entry mode decision indirectly. MNCs cannot control influence of external factors in choice of entry mode. Internal factor group is a set of characteristics and strategies of firm which influence on entry mode strategy. The firm has opportunity of modifying and controlling *internal factors*, but only in the long term. It is required to make a huge effort to modify those factors over time.

EXTERNAL FACTORS

They are a set of factors make up environment surrounds MNCs such as political, economic and social factors. These factors affect its entry mode choice indirectly and MNCs do not have control under them In this group we have decided to include four factors from the authors mentioned in the literature review. The chosen factors to represent the external factor group are as follows:

Culture distance refers to the possible differences existing between individuals from different countries in certain behaviors and their ways of thinking. Cultural difference will influence the validity of work practice transfer and methods from one country to another (Quer, Claver & Rienda 2007). In addition, Root (1994) states that the firms often prefer to enter those foreign countries that are closest to their home country. We have chosen this factor because cultural differences among the three countries in our cases (Spain, New Zealand and United Kingdom) might affect the choice of international strategy. Starbucks is American company with a different culture as compared to European or New Zealand culture.

Market barriers: Koch (2001) states that market barriers such as tariff barriers, governmental regulations, distribution access, natural barriers, and level of country development can influence a company's entry mode choice. Many MNCs find legal or natural obstacles to internationalization. We regard market barriers might have played an important role in Starbucks' entry mode decision.

Market potential refers to growth and size potential of the foreign market (Chen and Mujtaba 2007). When Starbucks expanded to the three countries we study, the concept of its coffee stores was successfully adapted. Likely among all three countries a high market potential was identified prior to Starbucks' entry. In addition, market potential could have been relevant on the chosen entry mode in each country.

Competition intensity is the degree to which a firm's entry into a foreign market is simultaneously pursued by its competitors (Chen and Mujtaba 2007). The number of competitors in a market can influence the choice of entry mode.

INTERNAL FACTORS

Internal factors are those characteristics, variables and strategies of MNC that affect its activities. In contrast to external factors, MNCs can control influence of internal factors. Within the group of internal factors we have included the following six factors:

Characteristics of the overseas country business environment are defined as knowledge of the host country: language, habits, culture, foreign market behavior and functioning of the market. It is also information about the overall industry specific to the company such as volatility of general business regulations/ practices, business infrastructure, levels of industrial development, forms, scope and intensity of competition, customer protection legislation and customer sophistication (Koch, 2001). We consider that Starbucks' degree of country-specific knowledge could be important in the decision of Starbucks international strategy.

Resource commitment/ firm size refers to the idea that the entry mode option depends on the amount of available resources. The freedom of selection of the entry mode and the preference for a specific entry mode depend on the company size and industry-specific resource demand (Koch, 2001). We think that Starbucks' firm size could have influenced the selection of entry mode in each country. Its large size and huge amount of available resources might expand number of possible entry modes.

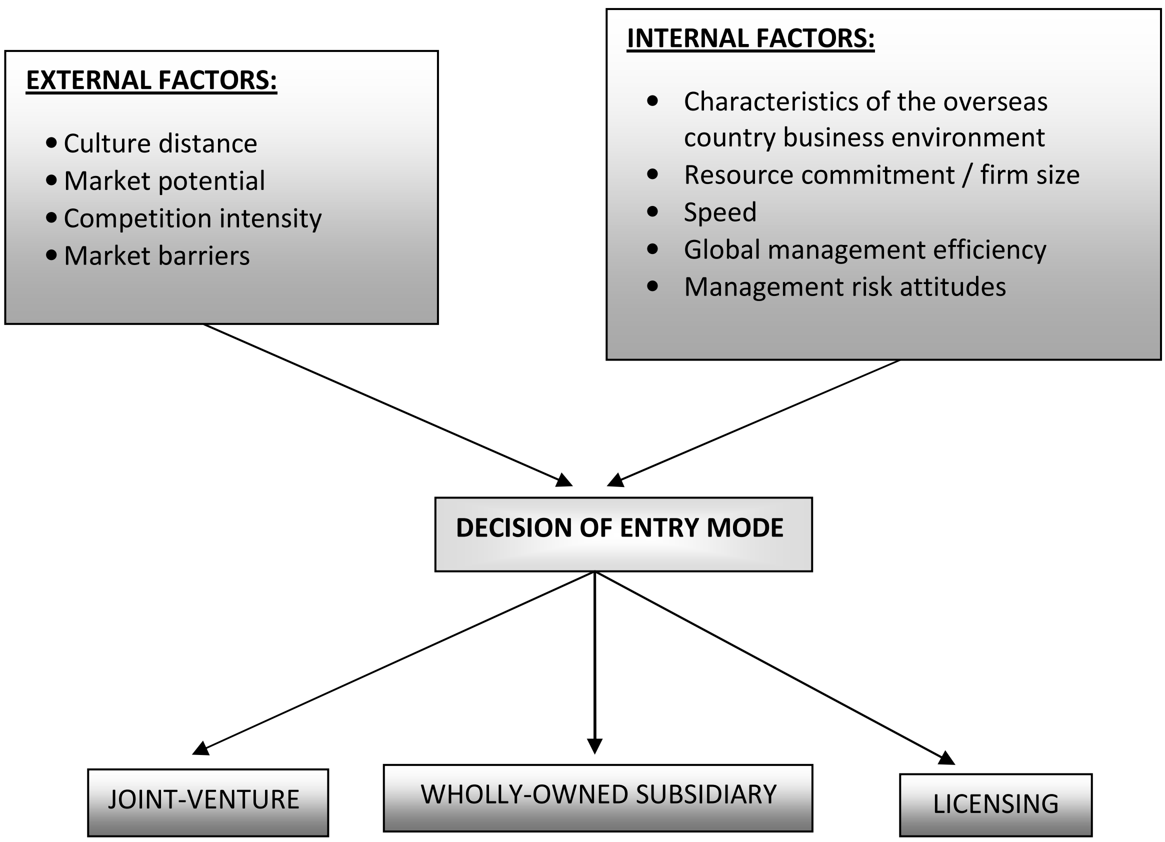
Speed consists of the time a company wants to dedicate to go into a foreign market (Brassigton and Pettitt, 2000). We selected this speed factor because we thought it could be a determining factor in Starbucks' entry mode selection. Starbucks might have chosen some of its entry modes seeking to expand quickly and to avoid losing market opportunities.

Global management efficiency requirements refers to the degree of involvement management in the internationalization of a company. When a company has a high degree of international involvement, the company's resources start to become limited. It therefore becomes necessary to redefine the company's global strategy (Koch, 2001). We have selected this factor because when Starbucks expanded to our three target countries the degree of involvement was high. We think that might have been an important factor influencing its entry mode decisions.

Management risk attitudes refers to the degree of international business risk that company takes in entering a foreign market, which will depend on: the company's financial situation, its strategic options, and competitiveness of the environment (Koch, 2001). We are sure that Starbucks' risk attitude was influential in its choice of entry modes.

Some above factors may affect influence other selected factors, increasing or reducing their influence.

After managers analyze the factors that influence the target foreign market, they will select the most appropriate entry mode. If the company is in the service industry, such as Starbucks, it can only select its entry mode strategies among the following types: joint-venture, wholly-owned subsidiary, licensing and franchising. We only have depicted in our conceptual framework the joint venture, wholly-owned subsidiary, and licensing strategies because these are three international strategies that Starbucks carries out in its internationalization process.



CHAPTER 5: EMPIRICAL INFORMATION

In this chapter, information about Starbucks will be presented while focusing on factors listed in our conceptual framework. Our aim is to present the information we will use in order to analyze our three cases.

5.1. BACKGROUND

Starbucks' history began in Seattle in 1971, when three students named Jerry Baldwin, Zev Siegel, and Gordon Bowker decided to be partners and opened a little shop in Pike Place Market to sell high-quality coffee beans and equipment. They were influenced by a trip to Africa where they tried a huge variety of coffee flavors as well as a coffee retailer called Alfred Peet. (Magazineusa.com 2004)

In 1981, Howard Schultz, Vice President and General Manager of U.S. Operations for Hammarplast, noticed Starbucks' success and decided to analyze the company in more depth. He was struck by the business philosophy of serving good coffee with dark-roasted flavour profiles. He wanted to transmit that coffee passion by working for the Starbucks enterprise to expand outside Seattle, thereby exposing people all over America to Starbucks coffee. However, the founders were against hiring him because geographic expansion was too risky and because they did not share Schultz's vision for Starbucks. Finally, they reconsidered Schultz's idea and decided to hire him as head of Marketing.

After that, Schultz was trained about Starbucks' coffee culture and then was sent to Italy to attend an international housewares show. In Italy, he visited a variety of coffee bars and noticed that Starbucks needed to serve fresh-brewed coffee, espresso, and cappuccino in its stores in addition to beans and coffee equipment. Besides, he considered that Starbucks stores would be a place to meet friends as they would at home. Re-creating the Italian coffee-bar culture in the United States could be Starbucks' differentiating factor. (Wilson. R 2005)

Baldwin and Bowker were not interested in serving coffee. They regarded that to expand their business would deviate from their core business. They were however attracted by the idea to acquire Peet's Coffee and Tea, which took place in 1984. Finally they decided to give Schultz the opportunity to test an espresso bar. (Gresham 2005)

Howard Schultz was convinced that his idea was a big winner. He eventually left Starbucks to start his own business, called Il Giornale in 1985. In 1987, Schultz raised enough capital with local investors and purchased Starbucks. He first combined Starbucks and Il Giornale operations, and then re-branded both businesses under the Starbucks name. He wanted Starbucks to become the most respected brand name in coffee and to be admired for its corporate social responsibility, its values and its guiding principles. (Starbucks CSR Report 2007)

In 1985, Starbucks started its expansion into different cities in the USA and Canada, opening in Chicago and Vancouver, B.C. Finally, Starbucks decided to internationalize its business outside of North America in 1995. The company entered into Japan by creating a joint venture with SAZABY Inc.

In 1998, the company went into New Zealand by granting its license to Restaurant Brands New Zealand Ltd. Furthermore, in that year Starbucks bought sixty-five Seattle Stores to enter the United Kingdom market.

In 2001, Starbucks created a joint venture with VIPS Group, a well-known Spanish restaurant chain. The following year, Starbucks opened its first store in Spain.

Today Starbucks is the largest coffee shop company in the world. It is specialized in high quality of coffee which derives one hundred percent from the arabic coffee variety.

Starbucks is characterized by its "third place concept". A coffee company seeks its customers to consider its stores as a place between home and work. Moreover, its success owes to its introducing a new way to drink coffee and its coffee culture.

At present Starbucks has more than 15,700 stores in 43 countries. It is becoming one of the most respected brands in the world. (Starbucks 2008)

5.2. INTERNATIONALIZATION OF STARBUCKS

In this section we show some general aspects of Starbucks' international strategy. Our aim is to use this data in order to understand our three cases and to know the reason why Starbucks uses different entry modes in its internationalization process.

Starbucks adapts its international strategy in order to satisfy the needs and requirements of every market, seeking to respect its cultures and traditions. At present, the company uses three different strategies: joint venture, licenses and wholly–owned subsidiaries (see Figure 4).

Country	Partner	Agreement	Starbucks' Ownership
Australia	-	Majority-owner	90%
Austria	Bon appétit Group	Joint venture	19,5%
China (Beijing)	Mei Da Coffee Co	License	-
China (Shanghai)	Shangai President Coffee Co.	Joint venture	5%
Germany	Karstadt Quelle AG.	Joint venture	19,5%
Greece	Marinopoulos Brothers S.A.	Joint venture	18%
Hong Kong	Maxim´s Caterers Limited	Joint venture	5%
Indonesia	PT Mitra Adiperkasa	License	-
Israel	Delek Development	Joint venture	19,5%
Japan	Sazaby Inc.	Joint venture public	40%
Malaysia	Berjaya Coffee Co.	License	-
Mexico	S.C. de México, S.A. de C.V.	Joint venture	18%
Middle East	M.H. Alshaya Co. W.L.L.	License	-
New Zealand	Restaurant Brands Ltd.	License	-
Philippines	Rustan Coffee Corp.	License	-
Puerto Rico	MacNaughton Group	Joint venture	5%
Singapore	Bonvests Holdings Ltd.	License	-
South Korea	Shinsegae Department Store	Joint venture	50%
Spain	Group Vips & Europastry, S.A.	Joint venture	18%
Switzerland	Bon appétit Group	Joint venture	19,5%
Taiwan	President Coffee Co.	Joint venture	5%
Thailand	-	Majority-owned	97%
United Kingdom	-	Wholly-owned	100%
France	Group VIPS	Joint venture	50%

Figure 4: Starbucks' international strategy
Source: Merrill Lynch and Starbucks Homepage

Before entering a new country Starbucks conducts rigorous quantitative market studies. The company also develops extensive focus group interviews to get a pulse of the marketplace and potential.

Starbucks has demonstrated that even a large company needs help to achieve its goals. In order to succeed, a company needs to realize that it often cannot alone fill the gap in serving the needs of its target market. Starbucks has mostly always needed the help of another entrepreneur or another company with whom to work and share financial risks.

Starbucks' partners have helped the coffee company to enter new markets and obtain the products and services available in that market quickly. Strategic partnerships have enhanced Starbucks' competitiveness in the marketplace. They have also helped the company to keep pace with the rapid changes of technological innovation. Starbucks was able to achieve its objectives, break into new markets, and enhance its bottom line by entering into strategic alliances with the right companies (Isidro 2004).

Starbucks has certain criteria for consideration of ‘International Partners’. They seek to ensure their local partners will share its value and commitment to bringing the Starbucks Experience to customers worldwide (Starbucks International Development, 2007). Those selection criteria may include the following: a partner who shares its values and corporate culture; a partner with a strategic fit to Starbucks’ business; a seasoned operator of small- box, multi-uni retail stores; a local business leader; someone with a strong track record developing new ventures; someone with experience managing licensed & premium brands and concepts; and a partner with food & beverage experience. Further selection criteria include sufficient financial and human resources, and involvement and commitment with top management. A final point is the partner’s real estate knowledge and access to leverage their structure.

Starbucks has developed the following procedure of global expansion: The company selects local partners who are local business leader. Then, Starbucks together with its partner try to adapt its business traditions to the local market. For instance, Starbucks coffee stores in Spain have outside terraces, and in Japan coffee shops have more seats than others countries and provide a smaller serving (Forbes.com 2003).

Starbucks’ involvement in the internationalization process varies only in degree (e.g. licensing, joint venture and wholly-owned subsidiary) since the company is constantly in touch with operators to keep abreast of the marketplace.

In a joint-venture, Starbucks’ equity position varies across a wide range. Lately, the company tends to minimize its holding and requires a local partner (as in the Spain case) to hold most of the capital cost (Isidro 2004). Starbucks holds less than 50% of the shares in their joint ventures. Schultz commented that Starbucks is constantly attracting potential partners (Forbes.com 2003).

5.3. EMPIRICAL INFORMATION FROM THE MARKETS INVESTIGATED

In this section we present the information found in annual reports, Starbucks’ homepage, interviews and other sources for our three cases. In the following section, we will analyze data based on our literature review. Finally, we compare the three cases in order to attain reliable conclusions for our research.

5.3.1. Case 1: United Kingdom:

Starbucks Coffee Company Ltd (UK) is a wholly-owned subsidiary of Starbucks Corporation of the US, which is the world’s largest retailer and roaster of specialist coffee. It is the market leader of branded coffee shops in the UK. (Caterersearch 2006)

In May 1998, Starbucks entered into the UK by the acquisition of sixty-five Seattle Coffee Company stores (Starbucks UK Home Page). It acquired the Seattle Coffee

Company in exchange for about 1.8 million shares of common Starbucks stock, or about £50.8 million (Holmes 1998). Starbucks re-branded the purchased Seattle Coffee stores in the year following their purchase. The Starbucks Coffee Company also let Seattle Coffee managers Scott and Ally Svenson continue to manage the original UK operations (BBC news 1998).

Seattle Coffee Company was founded in 1995. It included the Seattle's Best Coffee and Torrefazione Italia Coffee brands (Coffeegeek 2003). The company was managed by two Americans, Scott and Ally Svenson. Seattle Coffee Company opened its first coffee bar in Covent Garden in 1996. As of 1998 it had sixty-five retail stores selling American-style coffee which has a similar coffee culture as Starbucks. (Bitic 2003)

The United Kingdom was the first European country which Starbucks entered. The UK was to be a springboard from which to internationalize its business in Europe. Acquisition was therefore an efficient and fast way for Starbucks to enter into a new foreign market.

Entering the UK was a milestone for Starbucks' international expansion. The internationalization plan in Starbucks' long-term strategy consisted of opening 500 retail stores in Europe by the end of 2003. "We are a way from taking the step from the U.K. to Europe," said Schultz, Chairman and Chief Executive Officer of Starbucks (Holmes 1998). What's more, Schultz said Europe was a "major strategic opportunity to achieve our goal of creating and building an enduring global brand" (Holmes 1998). The low competition intensity in earlier times drove Starbucks to expand in a strategically smart way, which was to create and build a sustainable brand.

In the UK Starbucks has grown step by step until becoming recognized as one of the "Top 10 UK Best Places to Work" in 2007 (Starbucks Homepage 2008). In 1999, Starbucks formed an alliance with Sainsbury's. Starbucks also acquired London coffee shops from Madisons Coffee for £1.4 million in 2001. In 2002, Starbucks formed a partnership with Borders bookshops and bought 13 coffee bars from Coffee Republic for £2 million. By early 2005, Starbucks had 30 concessions in supermarkets (Caterersearch 2006). In 2006, Starbucks UK was listed as one of "UK Top 50 Best Places to Work" (ranked 34th), awarded by the Great Places to Work Institute, in partnership with the Financial Times.

Howard Behar, President of Starbucks Coffee International said "We do not believe we are an American company, but an international brand. We hope to benefit from the pub culture in the UK to make Starbucks a natural meeting place for people" (BBC News 1998). The above remark intends to reduce the importance of cultural distance between Starbucks' coffee concept and United Kingdom's coffee concept. Between the two countries, there was a huge gap. British people had a different way of thinking than Americans. In the United Kingdom, there was also certain opposition to American products and concepts. Starbucks sought to reduce that distance by acquiring an existing British coffee chain, Seattle Coffee stores. In addition, Starbucks waited a year to re-brand the acquired Seattle Coffee stores with the Starbucks brand. In this way, Starbucks first made the British familiar with the Starbucks Coffee concept prior to rebranding.

In 2007, Starbucks gained a major success in the UK with more than 500 stores having been opened. It remained the most recognized chain coffee store, with 27% of the respondents rating it their favorite (with Costa at 15 %) (Manson 2007). As of the present moment, Starbucks has more than 600 branches in the UK and Ireland. According to the retail analyst Euromonitor, the company has a 16.7 per cent market share, one per cent ahead of Costa Coffee (Hickman 2008). Costa Coffee is founded in 1971 by Italian brothers Vilas Costa with a wholesale operation supplying roasted coffee. Besides, it is based in United Kingdom.

5.3.2. Case 2: New Zealand

In October 1998, Starbucks opened the first Starbucks retail store in New Zealand at Parnell Road, Auckland, which was operated and owned by Restaurant Brands New Zealand Ltd. Restaurant Brands New Zealand Ltd, which was listed on the New Zealand Stock Exchange in June 1997, was an authorized licensee of Starbucks. Besides that, it was the franchisee for the KFC and Pizza Hut brands in New Zealand with an annual turnover of NZ$216.8 million in 1997 (Business Wire 1998).

Restaurant Brands New Zealand Ltd. shared with Starbucks the enthusiasm of bringing the Starbucks experience to New Zealand. Therefore, Restaurant Brands New Zealand Ltd. tried to operate Starbucks stores while keeping the essence of Starbucks' coffee culture. In this manner, New Zealand Starbucks stores offered much the same as in other international Starbucks stores: coffee beverages, more than 30 varieties of arabic coffee beans, and local pastries and desserts.

Restaurant Brands New Zealand Ltd. was delighted to help Starbucks enter New Zealand. Jim Collier, CEO of Restaurant Brands, commented: "We are excited about bringing the unique specialty coffee experience of Starbucks to New Zealanders with our first Starbucks retail location. We hope to open up to 10 retail locations by the end of next year. Our commitment to people, quality coffee, exciting products and excellent customer service will provide New Zealanders with a unique cafe experience." (Business Wire 1998)

Starbucks regarded that its partnership with Restaurant Brands New Zealand Ltd. would provide it certain opportunities. This was especially because the competition intensity of the 1990s in the coffee retail industry was low, as a result of the early stage and un-mature coffee industry in New Zealand. Howard Behar, president of Starbucks Coffee International said "Our successful partnership with Restaurant Brands provides us with a strategic opportunity to further enhance the recognition of Starbucks as the world's leading purveyor of specialty coffee in the Asia Pacific region" (Business Wire 1998). Starbucks could also gain recognition of its good brand image by forming the licensing agreement with the well-known Restaurant Brands New Zealand Ltd. and entering into the new and un-mature New Zealand coffee market.

After years of having the licensing agreement with Restaurant Brands New Zealand Ltd., the information about Starbucks' achievement can be found in 2006's annual report. "Total sales for the year grew 14.4% on a comparative weekly basis to a high of $27.9 million for the year. Same store sales for the year grew by 2.6% and store earnings improved 6.3%" (Salmon 2006). Starbucks was also very successful in the following year as well. Starbucks is now recognized in New Zealand as the foremost international coffee brand. "Starbucks Coffee New Zealand has also been recognized internationally for our local marketing activity" (Salmon 2006).

In 2001, Starbucks and Restaurant Brands New Zealand Ltd. reached an agreement to open 50 outlets. In 2006, Starbucks obtained the above negotiated number of coffee stores. Starbucks in New Zealand has been a shining star where there were no signs of its light dimming since its beginnings (Salmon 2006). At the present, Starbucks is continuously growing with steady store development. Starbucks plans to "double shoot" the original plan, with its current plan calling for 100 stores throughout New Zealand (Mark 2006). Starbucks New Zealand General Manager Steve Montgomery said "We could possibly double that and hold our own."

5.3.3. Case 3: Spain

In 2001, Starbucks signed a joint venture agreement with VIPS, a leading European food service and retail operator, as well as El Molí Vell, a retail operator of cafes and pastry shops in the Barcelona area. Tres Estrellas Unidas S.L. was a joint venture, formed by Starbucks and its two partners to manage the day-to-day Starbucks operations in Spain (Starbucks 2002). In the joint-venture structure, VIPS controlled 82% and Starbucks the other 18%. Nowadays, the joint venture ownership by Starbucks is up to 50% (Press report 2007).

Group VIPS was the Spanish market leader in full service dining. It had over 30 years' experience in retail business. The group operated several chains including VIPS' own concepts (retail and restaurant), as well as Ginos, and Laeñe. It also integrated international brands such as T.G.I Fridays', Bice and Itsu. The Group operated many other established restaurants as Teatriz and El Bodegón. At the end of 2001, VIPS operated about 150 outlets (Starbucks 2002).

Group VIPS created the joint venture with Starbucks because it regarded that becoming Starbucks' partner would contribute to its growth strategy (allbusiness.com 2001). In 2000, Group VIPS had put an ambitious growth project into action to double its size in three years.

Starbucks, in turn, chose Group VIPS because they needed a local partner to help the company to establish themselves in the community (elmundo.es 2002). Álvaro Salfranca, Starbucks' Chief Executive in Spain, mentioned in an interview "VIPS group plays a local role, because they understand the country and they operate in the stores; and Starbucks sets its heart, soul and philosophy behind Starbucks' concept". (elpais.com 2007)

Furthermore, both companies shared vision and values facilitate the smooth flow of their venture. Howard Schultz, Starbucks Coffee Company chairman mentioned "VIPS Group is an ideal partner for Starbucks, as its strategic and business vision fit in with ours" (elpais.com 2007). After seven years, its joint venture continues working; they have even expanded their business in France and Portugal.

El Moli Vell was a top retail operator of bread and pastry shops in the Barcelona area. It was founded in 1863. It had expertise and skills in handcrafted bakery products. In 2001, the company owned over 170 cafes. El Moli Vell was the retail component of the Europastry group. The Europastry group owned one of the most important European businesses in pastries (allbusiness.com 2001).

Similar to Group VIPS, El Molí Vell was delighted with being Starbucks partner. David García-Gasull, CEO of El Molí Vell, commented "We are excited about introducing Starbucks into the Spanish market". Starbucks sought to strive for the highest quality products and service in the market. (allbusiness.com 2001)

In our interview, Luis Peña mentioned more reasons why Starbucks decided to ally with VIPS group and El Molí Vell. First, its partners had experience and reputation in the hotel sector. Besides, both regarded customer service as an important part of their business. Another factor is that they integrated human resources in their businesses. Starbucks also took into account VIPS' and El Molí Vell's creative ability, local knowledge and capability to create branding. Finally, both partners had strong financial resources and quality in their products and services.

Spain was the first Latin market which the company entered into and an important landmark for Starbucks. Moreover, Starbucks' development in Spain was part of Starbucks' ambitious European growth strategy. For instance, in 2001, Starbucks not only entered in Spain, but also in Switzerland and Austria (cincodias.com 2002).

Álvaro Salfranca in an interview characterized Spain as a mature and attractive market when they established coffee stores there (elpais.com 2007). When Starbucks went into Spain, coffee market had already developed.There were a huge quantity of traditional coffee stores and big and known coffee chains such as Kroxan, Jamaica Coffee and Café& Té Gr Compañía del Trópico.

In Europe, Starbucks was having a tremendous reception from customers and fast and successful growth. Howard Schultz stated, "Our entry into Spain comes at very exciting time for Starbucks" and "While these are still early days in our growth, our success worldwide firmly validates our ongoing belief of the enormous potential for expansion in Europe"(Starbucks 2002). In reference with Spanish market, Peter Maslen, president, Starbucks Coffee International mentioned "We believe that Starbucks Experience will be in Spain as it is in the rest of our international market in Europe". Besides, he added " we are confident that Spanish coffee drinkers will enthusiaticallly embrace Starbucks unique coffee house experience" (Ibid).

In 2002, Starbucks opened its first store in the center of Madrid. Tres Estrellas Unidas S.L. planned to open over 10 to 15 stores over the followings 18 to 24 months.

(Starbucks 2002). In addition, Alvaro Cañete, managing director of Tres Estrellas Unidas S.L., stated that the joint venture hoped to have 100 stores in five years (Cincodias.com 2002).

At present the company has more than seventy stores distributed amongst large Spanish cities: Madrid, Barcelona, Valencia and Sevilla (Press Report, Spain 2007). All Starbucks stores are company-owned by the venture, ruling out the use of franchising owing to a desire to guarantee control over the purchase, treatment and distribution of coffee (Cincodias.com 2002).

The reception of Starbucks in Spain was better than had been hoped. Álvaro Salafranca admitted to feeling surprised about the positive reception of Starbucks' brand. He commented: "We did not know if we get people to fall in love faster than we thought, or if we have been received better we thought". (elpais.com 2007)

When Starbucks was established in Spain, the coffee company already had a strong brand. As a consequence, Starbucks could play a fundamental role in the negotiation between its partners. For instance, Starbucks did not use any co-branding strategy with the VIPS Group. Its brand concept and clear position as "purveyor of experiences" were enough to consolidate its brand locally in a short time (Galli & Carbone 2007).

In spite of having a good reception in Spain, Starbucks' coffee culture was different from Spanish coffee culture. Luis Peña in our interview mentioned: "Spain consumes a lot of coffee, but it does not have coffee culture". He regarded that Spanish people do not have a lot of knowledge about coffee. Spanish people did not know to distinguish between different varieties of coffee. Therefore, Starbucks established programs in Spain to help people to learn about coffee culture, which included tasting of different kinds of coffee.

CHAPTER 6: CASE ANALYSES

In this part we will analyze the empirical data showed in the previous section to get an answer to our research questions. In order to analyze the empirical data thoroughly, the following analysis was based on the literature review.

6.1. DATA ANALYSES

6.1.1. Case 1: United Kingdom:

1. **What factors affected Starbucks' entry mode decisions?**

INTERNAL FACTORS

Characteristic of the overseas country business environment

Before Starbucks entered into the UK, it analyzed the foreign market. The top management expected the UK to be the springboard for entry into Europe (Pettigrew 1999). Koch (2001) states that there are characteristics of overseas countries which are easy to obtain these days. While understanding the Italian coffee market and French coffee market, Starbucks saw the more significant opportunity in the British coffee market. The language was easy to understand and the management would be easy to organize. Besides, compared with Italian worldwide coffee culture, British coffee culture was much easier to merge into.

However, "volatility of general business regulations/ practices, business infrastructure, levels of industrial development, forms, scope and intensity of competition, customer protection legislation and customer sophistication" are of difficulty to define in an earlier stage (Koch 2001). Thus, to gain knowledge about the United Kingdom market, Starbucks decided to allow Seattle Coffee Company managers to continue operating for Starbucks. They already had enough market knowledge to run Starbucks stores in the U.K.

Firm size

Starbucks is a relatively large firm. Until the end of 1997, Starbucks had around 1,400 stores. As it mentioned in Chen and Mujtaba's theory, larger firms could have a greater capability than smaller ones to expend resources and absorb risks. Therefore, Starbucks had greater capability than others for expending resources and absorbing risk, which meant they could afford to buy sixty-five stores with a cost of £50.8 million.

Resource commitment

Root (1994) argues that company who owns a huge amount of resources has numerous entry mode options. Starbucks had management skills, experience and a huge amount of resources. Thus it had more options regarding their choice of entry. In choosing the particular entry mode the firm considered that it had the available capital to purchase Seattle Coffee.

Speed

In an internationalization process, speed is related to the stated time a company desires to dedicate before establishing itself in a host country. (Brassigton and Pettitt 2000). The speed of Starbucks' international expansion was getting more and more aggressive in 1990s. In order to explore the new market, Starbucks needed to find a way to enter into the UK. With the acquisition of Seattle Coffee, Starbucks achieved expansion of its business in a short time.

Global management efficiency requirements

Degree of internationalization influences the quantity of available resources in a company (Koch 2001). Starbucks had the strategy to enter into the UK as the first step in expanding into the European continent. As Koch defined, as the firm's degree of internationalization becomes higher, the resources become more limited. Starbucks was a relatively large company in 1997, with 1400 stores. Instead of limiting its resource commitment and redefining their global strategy, Starbucks instead chose the resource-intensive route of a wholly-owned subsidiary. Therefore, this was not a significant factor affecting Starbucks' mode of entry choice in the UK.

Management risk attitudes

The management risk attitudes of Starbucks were clear due to the uncertainty of the British market. Koch (2001) determined degree of risk depends on: company's financial situation, its strategic options, and competitiveness of the environment. When Starbucks entered into United Kingdom, Starbucks had carried out a policy of minimizing risk.

<u>EXTERNAL FACTORS</u>

Culture distance

Culture distance refers to the possible differences existing in relation to the way in which individuals from different countries observe certain behaviors and ways of thinking. They will influence the ability of companies to transfer work practices and methods from one country to another (Quer, Claver & Rienda 2007). When Starbucks, as the American coffee giant, entered the UK market, it widely acknowledged the basic culture distance between American and British culture. Thus, Starbucks tried to look for a local company to adapt to the British coffee culture.

Howard Behar, President of Starbucks Coffee International, told BBC News Online that taking account of local conditions was very important (BBC news 1998). Starbucks made a distinctive decision to acquire Seattle Coffee Company unlike its more common strategy of a joint venture. It was a good way to enter into a new market and solve the problem of cultural distance. Furthermore, Starbucks waited a year to re-brand these stores with the Starbucks name. In this way, Starbucks made the British first become familiar with Starbucks Coffee. In addition, Seattle Coffee Company was operated in an American coffee style by two Americans. It was a good advantage for the Starbucks' operation in UK to already have a similar style of coffee.

Market barriers

Market has obstacles such as tariff barriers, governmental regulations, distribution access, natural barriers, existed barrier and level of country development (Koch 2001). Market barriers are not a distinctive factor in considering the British case.

Market potential

Chen and Mujtaba's theory of market potential refers to growth and size potential of foreign market. The market potential affects the strategy of Starbucks' European expansion. Howard Schultz, chairman of Starbucks Coffee Company, recognized that the market potential of the United Kingdom was an important factor in internationalization in the following statement: "While these are still early days in our growth, our success worldwide firmly validates our ongoing belief of the enormous potential for expansion in Europe". (Starbucks 1998)

Competitive intensity

Competitive intensity is measured by the number of competitors in the host country. The degree of the market density of the competitors affects MNCs' strategy of entry mode. Competitive pressures drive MNCs to perform shared-control modes, franchising, licensing, or others when the market could be assumed to be operating under perfect competition. (Chen and Mujtaba 2007)

Based on the above analysis, Starbucks was a case of a company using direct investment in order to enter the market in the UK. In 1998, the British coffee market was not mature, and competitive pressure was high. Through the acquisition of the established coffee chain, Seattle Coffee Company, Starbucks could gain a lot of advantages. Starbucks eliminated a potential competitor and reduced competitive intensity in the United Kingdom. Starbucks also used its capital and influence to obtain prime locations and to gain competitiveness. Even some of them were operated at a financial loss. "Critics claimed this was an unfair attempt to drive out small, independent competitors, who could not afford to pay inflated prices for premium real estate." (Wikipedia 2008)

2. Which entry mode strategies did Starbucks use in foreign markets and why?

Starbucks used a wholly-owned subsidiary as the entry mode in the UK. A wholly-owned subsidiary means the firm owns 100 percent of the stock. Establishment of a wholly-owned subsidiary in a foreign market can be done in two ways. The firm either can set up a new operation in a foreign country or can acquire an established firm in that host nation. Thus, the case in the UK uses the second of the two methods.

In the case of Starbucks in the UK, it is easy to find out that the internal factors and external factors are relatively important for the choice of entry mode. First of all, Starbucks was influenced by scarce knowledge of the British business market characteristics. There was culture distance between two countries which was generally defined in the external factors. Moreover, there were uncertainties in the new market. For Starbucks, it needed to choose an entry mode which could eliminate these disadvantages. To acquire the Seattle Coffee Company, which was an existing coffee company in the UK, was definitely a big benefit for Starbucks to gain knowledge in the new market. What's more, the comparatively large size of Starbucks, which could afford to commit more resources and especially a large amount of capital, was a critical factor leading to Starbucks' decision to acquire Seattle Coffee. Starbucks, in pursuing its high-speed and aggressive expansion strategy, chose this entry mode of building a wholly-owned subsidiary due to the global management efficiency requirement and management risk attitudes. Starbucks' top management was eager to enter into the UK as the springboard to explore the rest of the European market. Because of high risk, Starbucks chose a familiar American-style operated coffee company existing in the UK. Last but not least, the market potential and the competitive intensity affected Starbucks' choice of entry. With the promise of serving its first European country in a yet-to-mature market and with the added benefit of eliminating a potential competitor, Starbucks decided to acquire Seattle Coffee Company, form a wholly-owned subsidiary, and enter the UK market.

6.1.2.Case 2: New Zealand

1. **What factors affected Starbucks' entry mode decisions?**

INTERNAL FACTORS

Characteristics of the overseas country business environment

Starbucks had an aggressive overseas expansion in the late 1990s. The growth in the Pacific Rim continued since its new opening in several countries in 1998, including such countries as Taiwan, Thailand, New Zealand and Malaysia. The global giant had the aggressive strategy to explore further Pacific Rim locations.

At an earlier stage in 1998, Starbucks was planning to enter New Zealand. The first store opening in New Zealand was one of its expansion strategies. However, the new characteristics of the overseas country business environment was unfamiliar to Starbucks in New Zealand. It was not the same as those other Pacific Rim countries Starbucks entered such as Japan and Singapore in 1996, and the Philippines in 1997 (Starbucks Timeline 2008) . Starbucks was lacking the information of the new area, which had its own intensive knowledge and culture. Specifically it was facing the "problems of business regulations, business infrastructure, and levels of industrial development, forms, scope and intensity of competition, customer protection legislation and customer sophistication". (Koch 2001)

Thus it was difficult to operate in New Zealand because of the lack of country-specific knowledge. Therefore, Starbucks joined a licensing agreement with Restaurant Brands New Zealand Ltd., which was a well-known hotel business company. It was obvious that Restaurant Brands New Zealand Ltd. was a suitable licensee for Starbucks to gain market knowledge and obtain benefits through this licensing agreement.

Firm size

Until the end of 1997, the year before Starbucks entered into New Zealand, Starbucks already had a successful business in the coffee market throughout America and Canada. Furthermore, Starbucks had expanded its branches in the Asia Pacific Rim. In 1996, Starbucks opened its stores in Japan and Singapore and in the Philippines in 1997 (Starbucks Timeline 2008). Starbucks was reaching a high number of total stores, which was 1,412 at fiscal year end 1997 (Starbucks Timeline 2008).

Therefore, at that time, Starbucks was a comparatively large-sized firm with around 1,400 stores. As per the theory described by Koch, Starbucks could have greater capability than any other small coffee shops to make full use of its management knowledge and recognition to reach an agreement with Restaurant Brands New Zealand Ltd. However, Starbucks did not use its capability to expend resources and absorb risks in New Zealand.

Resource commitment

Resource commitment is a factor related to firms' size. Both of them, the firm size and resource commitment, joined together, influence the choice of the New Zealand entry mode. As mentioned before, Starbucks in 1998 was a comparatively large company with more than 1400 stores. And it already had the experience of expanding abroad. Starbucks opened in Japan and Singapore in 1996 and in the Philippines in 1997. It was already a successful case at an early stage. However, the resource commitment of the company for the New Zealand market seemed not that much. Starbucks had capital, and management, but lacked the huge amount of resources to invest in New Zealand's internationalization. Starbucks had already acquired more than sixty coffee stores to enter into the United Kingdom and also its far-reaching internationalization plan had limited the number of available resources. Owing to uncertainty of the foreign market, Starbucks could not fully bear the whole costs to establish operation in a new market.

Therefore, Starbucks' licensing agreement with a local partner was a strategic way to obtain resources and to share financial risk to enter into New Zealand. The most important thing was that Starbucks could gain the royalty fee through this licensing agreement, which could compensate for the limitation of its capital for international expansion.

Speed

According to Brassigton and Pettitt (2000), the speed factor in the internationalization process is the time a company desires to dedicate in order to reach a foreign market. The speed of Starbucks' international expansion was getting more and more aggressive. The firm size was getting bigger too. Before 1998, there were approximately 1400 stores. In 1998, Starbucks also had an accelerated pace of internationalization. The company not only entered into New Zealand, but it established its stores in three more countries: Taiwan; Thailand and Malaysia. As of the end of that year, Starbucks totally had more than 1800 stores worldwide. The company's desire to expand was getting larger and larger.

In the New Zealand case, Starbucks' strategy was to form a licensing agreement with Restaurant Brands New Zealand Ltd. They had an initial agreement which was to open fifty outlets, a target that was reached in 2006.

Global management efficiency requirements

According to Koch (2001), the company will start to become limited in its resources, due to the high speed of its international expansion. Starbucks' internationalization pace was accelerating since the 1990s. The strategy in New Zealand was during this high speed stage of Starbucks' internationalization. Before entering into New Zealand, Starbucks had acquired more than sixty five Seattle Coffee stores and also it has expanded into many other foreign countries. As a consequence, Starbucks had a reduced quantity of capital for New Zealand internationalization. In spite of being a big firm with a huge quantity of resources, its ambitious expansion program limited quantity of involved resources in its expansion to New Zealand.

Management risk attitudes

A company's financial situation, strategic options and competitiveness are influential aspects affecting entry mode decision (Koch 2001). Starbucks in New Zealand formed the licensing agreement with Restaurant Brands New Zealand Ltd. assuming low risk to enter. This decision was in accordance with Starbucks international policy of limiting quantity of invested capital.

EXTERNAL FACTORS

Culture distance

The culture distance between New Zealand and USA culture distance was not so high to affect entry mode decision.

Market barriers

According to the information of the New Zealand market, there is not any typical market barrier such as tariff barriers, governmental regulations, distribution access, natural barriers, existed barrier and level of country development (Koch 2001) that would have influenced Starbucks' entry mode choice in international expansion.

Market potential

Market potential refers to growth and size potential of foreign market. New Zealand was a new promising market for Starbucks to enter in the early 1990s. That is why Starbucks chose to enter into New Zealand in the early stage.

Competitive intensity

Competition intensity is measured by number of competitors in the host country. The degree of the market density of the competitors affects the firms' strategy of entry mode (Chen & Mujtaba 2007). According to the research, the competition intensity in 1990s was comparatively low. There were not many coffee shops operating in New Zealand. Therefore, Starbucks did not need to invest in a high-control entry mode in order to be competitive in New Zealand

2. Which entry mode strategies did Starbucks use in foreign markets and why?

Starbucks uses licensing as the entry mode in New Zealand. Licensing is an arrangement where a licensor grants the rights to intangible property to another entity for a specified period, and in return, the licensor receives a royalty fee from the licensee.

Based on the above investigation and discussion, the main reason for using a licensing entry mode can be found on the internal factors and external factors. The internal factors occupy a higher percentage of the reason for choosing a licensing entry mode, whereas the external factors are less significant.

First of all, the characteristic of New Zealand's business environment was unfamiliar. Starbucks was lacking knowledge of this new market. To form the licensing agreement with an experienced firm, Restaurant Brands New Zealand Ltd. was a way to gain knowledge from its local partner. Besides that, the comparatively large size of the firm made it have the capability to commit resources. However, Starbucks needed its partner to commit more managerial resources and lacked the capital due to the fast speed of its growth in the 1990s and internationalization process planned. Thus the global management efficiency and the management risk attitude combined together to incentivize Starbucks to find an efficient and low-risk entry mode: licensing.

As for the external factors, there were few cultural differences or market barriers and a large market potential. However, because of the low level of competitive intensity, Starbucks was able to choose the low-control licensing entry mode as opposed to a high-control entry mode such as a joint venture.

6.1.3. Case 3: Spain

1. **What factors affected Starbucks' entry mode decisions?**

In Spain, entry mode decision was influenced by several factors: internal and external. Within internal factors, the most relevant factors were *characteristic of the overseas country business environment* and *speed*. The most influential external factors affecting entry mode were those such as *resource commitment*, *global management efficiency* and *management risk attitude*. In this case analysis, we will explain why the above factors were influential in Starbucks' choice to pursue a joint venture in Spain.

INTERNAL FACTORS

Characteristics of the overseas country business environment

There is information to be considered about a specific country such as business regulations or practices, infrastructure, scope and intensity of competition, customer protection legislation and customer sophistication (Koch 2001). In addition, there is host country knowledge to be learned such as habits, culture and foreign market behavior. Companies sometimes have difficulties to attain part of this information. When Starbucks decided to enter into Spain, the coffee company had a long international experience, but it lacked knowledge about the hotel sector in Spain. The company sought partners that "*understood the country and played a local role*" and helped the company to form part of the community as Álvaro Salfranca, Starbucks Chief Executive in Spain, mentioned in several interviews (Starbucks 2002). Therefore, the company allied with VIPS and El Molí Vell who had hotel experience and necessary knowledge to operate Spanish market.

Speed

Brassigton and Pettitt (2000) define speed factor as time that a company wants to dedicate to go into foreign market. Starbucks desired to enter into Spain in a short time in order to bring profits from third year of operations. Furthermore, the company had designed an ambitious expansion plan consisting of opening over 10 to 15 stores over 18 to 24 months (Starbucks 2002) and to have 100 stores in five years (Cincodias.com 2002).

Global management efficiency requirement

Degree of involvement in internationalization process can determine quantity of available resources to enter into a new country (Koch 2001). When international involvement is high, the company's resources start being limited. Before Starbucks established its stores in Spain, the coffee company had already internationalized in twenty countries (see Appendix III: Company time line). The internationalization process had required a huge amount of investment by Starbucks and its expansion plan anticipated even further investment. As a consequence it was impossible for the company to expend a huge quantity of resources in internationalizing Spain.

Resource commitment/ firm size

Choice of entry mode depends on amount of available resources and company size Koch (2001). If the company size is big, the company will have a huge amount of available resources and in turn numerous entry mode options. (Root 1994) However, companies with limited resources are constrained to use entry mode with small resource commitment. In 2001, Starbucks was already an important and large company. The coffee company had experience, technology, reputation, strong branding and management and production skills. As a consequence, Starbucks had certain power and advantages in negotiations to choose certain entry modes such as the joint venture entry mode. For instance, Starbucks did not use any co-branding strategy with VIPS Group. Its brand concept and clear position as "purveyor of experiences" were enough to quickly consolidate its brand locally (Galli & Carbone 2007). However, the number of resources involved was reduced, as Starbucks only invested 18% of the joint venture's capital in spite of its large size. Although Starbucks was big MNC, its high level of international involvement limited the number of available resources to go into Spain.

Management risk attitudes

Degree of risk in an international business depend on: the company's financial situation, its strategic options, and the competitiveness of the environment (Koch 2001). Starbucks' international strategy tends to minimize its holding and require a local partner to operate in the target market. In a joint-venture strategy, the company usually does not hold more than a 50% stake (Forbes.com 2003). In the case of Spain, Starbucks only held an 18% stake of the Tres Estrellas Unidas, S.L. joint venture, in keeping with its financial policy to hold less than a 50% stake. VIPS Group was the investor of a major part of Tres Estrellas Unidas' capital .

EXTERNAL FACTORS

The greatest external factors in Spain's entry mode choice were: market potential and competitive intensity.

Market potential

According to Chen and Mujtaba (2007) market potential is the growth and size potential of a foreign market. Spain was regarded as a potentially important market by Starbucks. Howard Schultz, chairman of Starbucks Coffee Company, stated "While these are still early days in our growth, our success worldwide firmly validates our ongoing belief of the enormous potential for expansion in Europe". Starbucks was confident of Spanish market would behave as the rest of European markets where the coffee company had already internationalized (Starbucks 2002). Peter Maslen, president of Starbucks coffee international gave the same opinion in the following statement: "We are confident that Spanish coffee drinkers will enthusiastically embrace Starbucks unique coffee house experience" (Ibid).

Competitive Intensity

It is related to number of competitors and competitive pressure in a host country (Chen and Mujtaba 2007) When Starbucks entered into Spain, the company knew that Spain was a mature market with many competitors. Álvaro Salfranca recognized the importance of competitive intensity to go into Spain in a granted interview where he said "We knew Spain a mature and attractive market when they entered into" (elpais.com 2007). In Spain, there were a huge quantity of traditional coffee stores and also big chain of coffee company as Kroxan, Jamaica Coffee and Cofee & Té GR Compañía del tropico.

Culture distance

Culture distance refers to the possible differences with relation to the way in which individuals from different countries observe certain behaviors and ways of thinking. In Spain's case, cultural distance was not a large influential factor in the entry mode decision because Spanish people were already consuming a huge amount of coffee before Starbucks entered into Spain. However, they lacked coffee culture. Therefore Starbucks has sought to inculcate its coffee culture through coffee learning programs ever since it entered into Spain.

2. Which entry mode strategies did Starbucks use in foreign markets and why?

In Spain, Starbucks chose joint venture as entry mode. Luis Peña in our interview pointed out the Starbucks' international strategy adapts to different markets to satisfy needs and requirements from every market, respecting its cultures and traditions. In Spain, Starbucks decided to use a joint venture entry mode in order to adapt to external factors and also internal factors as well.

The choice of the joint venture entry mode instead of its other international strategies (licensing and wholly-owned subsidiary) owes to a set of factors. First of all, Starbucks lacked knowledge of the Spain market. Therefore, the coffee company needed to ally with a local partner who provided its knowledge and helped the company to operate locally. Another factor was speed; Starbucks wanted to have a fast expansion in Spain. The coffee company had planned to open 100 stores in only five years and needed an international strategy that enabled its internationalization in a short period of time. As Starbucks wanted a fast internationalization process, the wholly-owned subsidiary strategy was unsuitable. Global management requirement was another crucial factor; the degree of internationalization in Starbucks Company was high in 2001 with coffee stores in twenty countries. The coffee company had invested a huge quantity of financial resources in its international process, and its anticipated internationalization plan was also ambitious. All of that limited the number of available resources, reducing influence firm size factor in entry mode choice. In addition, Starbucks' management attitudes were to minimize its holding and require a local partner to operate in the target market and to share financial risk. As a consequence, the company could only dedicate a limited number of resources in every country, which ruled out the wholly-owned subsidiary entry mode.

Finally, the key factors that influenced the company in choosing a joint venture instead of licensing were market potential and competitive intensity. The Spanish market had great potential for Starbucks. The coffee company needed an entry mode that allowed it to control its operations in Spain, but licensing gave Starbucks a low degree of control. Lastly, the Spanish market was already mature, and with several significant competitors Starbucks needed an entry mode that allowed higher control in order to face the competitive situation. Therefore, Starbucks chose joint venture as entry mode.

6.2. CONTRAST ANALYSES

After having analyzed three cases separately the following is a comparative analysis to determine similarities and differences between Spain, United Kingdom and New Zealand cases.

The comparison of the first research question, "What factors affected Starbucks's entry mode decisions?"

In every case, there is a set of factors, external and internal, which influenced entry mode decisions. We will explore if crucial factors of entry mode choice were different or not.

Internal factors

Characteristics of the overseas country business environment

It refers to information about characteristics of overseas country. There are overall country characteristics which are easy to obtain, but information about particular industries and company-specific information is often difficult to find such as general business regulations/ practices, business infrastructure, levels of industrial development, forms, scope and intensity of competition, customer protection legislation and customer sophistication (Koch 2001).

In the three cases, we only have found similarities about knowledge of host country. All of them were affected by the "characteristic of the overseas country business environment". Due to the uncertainty and unfamiliarity of the new foreign market, Starbucks investigated the foreign market at first. Then it managed to gain the knowledge through different ways of entry from its partnerships or alliances. As we mentioned above there are not major differences—only the manner which Starbucks took in order to obtain host country knowledge. In Spain and New Zealand, Starbucks sought a local partner who provided information whereas in the United Kingdom the company kept Seattle Coffee Company managers.

Firm size

Firm size refers to capability of expending resources and absorbing risks (Chen and Mujtaba 2007). In our three cases, we have found that firm size affected the choice of entry mode. Owing to Starbucks' size, its experience and resources, the coffee company had possibility to choose any international strategies. The firm size was quite big, with more than 1,400 stores in 1998 when Starbucks went into New Zealand by licensing and acquired the Seattle Coffee Company in the UK. In 2001, Starbucks' firm size was much larger, with approximately 4,700 stores when Starbucks entered into Spain. However, influence of Starbucks' size in entry mode decision of Spain and New Zealand was reduced owing to influence global management requirement factor.

Resource commitment

Resources commitment is the number of resources which a firm invests to enter into a foreign country. We have found the resource commitment factor to be relevant in the three cases. Comparatively, there are some differences. The three modes of entry show a different degree of resources commitment. In the U.K. Starbucks committed a great quantity of resources to acquire Seattle Coffee store, £ 50.8 million. In Spain, the joint venture required an investment of 3 million euros, which means Starbucks invested €540.000, equal to 18% of its total capital (Cincodías.com 2002). In New Zealand, Starbucks committed few resources at all, while Restaurant Brands New Zealand Ltd. committed a huge amount resources, including store set up costs and royalty fees under the licensing agreement.

Speed

This refers to time a company dedicates in order to reach a target market (Brassigton and Pettitt 2000). These three cases are all influenced by the firm’s speed. Starbucks sought to enter into all three countries and expanded in a short time. In the 1990s Starbucks accelerated the speed of internationalization, and as a consequence this aggressive speed was a decisive factor in the choice of entry mode.

However, the strategy of Starbucks’ international subsidiary to accelerate internationalization was different in each case. In the United Kingdom, Starbucks expanded quickly by acquiring 65 established Seattle Coffee stores. In the New Zealand case, Starbucks handed over its expansion to Restaurant Brands New Zealand Ltd. Lastly in Spain, Starbucks allied with VIPS Group and El Moli Vell to help them expand in a short time.

Global management efficiency requirements

When involvement of internationalization of a company is high, resources start being limited (Koch 2001). We have found that Starbucks in Spain and in New Zealand were affected by limitation of resources owing to Starbucks’ ambitious expansion plan. Internationalization of Starbucks was high when it entered into three countries. The coffee company wanted to internationalize in a huge of number countries, and Starbucks had already internationalized in many countries. That limited available resources to invest in Spain and New Zealand. In these two countries, the influence of global management efficiency requirement reduced influence of firm size and degree of resource commitment in entry mode decision. However, Starbucks’ entry mode in the UK is not in accordance with explanation of global management requirement by Koch (2001). Starbucks chose the more aggressive way of entry in the UK, by acquiring a similar coffee company with a high capital commitment. In spite of the decision to invest a reduced quantity of resources, Starbucks still invested a great amount in the United Kingdom internationalization.

Management risk attitudes

Companies determine degree of international business risk that they will take in their international businesses taking into account their specific situation (Ibid). Starbucks had established a policy of reduced risks. We found that management attitudes of reduced risk had affected the three cases. The differences between the three cases are in degree of assumed risk. The lowest risk was taken in New Zealand with a licensing entry mode, whereas the highest risk was assumed by Starbucks in the United Kingdom. In Spain, the risk involved is somewhat of a middle-ground strategy.

External factors

Culture distance

Between different countries is the possibility of differences in behaviors and ways of thinking. They can influence the validity of transferring work practices and methods from one country to another (Root 1994). In our research we have found that cultural distance was not a crucial factor in New Zealand and Spain. However, the cultural distance factor was relevant in the United Kingdom.

Market barriers

Tariff barriers, governmental regulations, distribution access, natural barriers, exit barrier and level of country development can influence entry mode choice (Koch 2001). However, in our three investigated countries, market barrier factors did not affect entry mode decisions.

Market potential

Internationalization process can be influenced by potential growth of a market (Chen and Mujtaba 2007). Starbucks had a great potential market in Europe that made the company sought entry modes of fast expansion. In New Zealand, market potential also was important, but the company had a low degree of market potential.

Competitive intensity

Competitive intensity in a host country drives companies to select an entry mode related to specific competitive pressures (Chen and Mujtaba 2007). Starbucks' entry mode decision was influenced in the three cases by competitive intensity factors. Competitive intensity was relatively high in the Spain and United Kingdom cases. Starbucks in Spain chose a joint venture with two local partners to attain recognition and reputation in market. The joint venture increased Starbucks' market power. In the UK case, Starbucks acquired a potential coffee competitor to reduce competitive intensity. However, degree of influence in New Zealand was totally different. There was a low competitive intensity that provided Starbucks the chance to license its coffee stores to Restaurant Brands New Zealand Ltd.

	FACTORS	NEW ZEALAND	UK	SPAIN
INTERNAL FACTORS	Characteristic of the overseas country business environment	X	X	X
	Firm size	X	X	X
	Resource commitment	X	X	X
	Speed	X	X	X
	Global management efficiency requirements	X	--	X
	Management risk attitudes	X	X	X
EXTERNAL FACTORS	Culture distance	--	X	--
	Market barriers	--	--	--
	Market potential	X	X	X
	Competitive intensity	X	X	X

Figure: Comparision of influential factors affecting entry mode decision

X means the factors affect the choice of entry in each country.
-- means the factors do not affect the choice of entry in each country.

The comparison of the research question, "which entry mode strategies did Starbucks use in foreign markets and why?"

Starbucks chose different international strategies in each of our cases. Our three countries represent the three types of Starbucks' international strategies in its international development. In Spain, Starbucks carried out a joint venture as its entry mode. In New Zealand Starbucks decided to use licensing whereas in the United Kingdom the coffee company opted for a wholly-owned subsidiary.

Starbucks carried out different entry modes in order to adapt to specific factors, needs and requirement in every country. Our findings show that similar factors influence the three cases. However, their degree of influence was different in every particular case. For instance, the competitive intensity factor was decisive in two of our cases, Spain and New Zealand, but its influence affected each country in a different way. In the Spain case, competitive intensity was high and led Starbucks to choose a joint venture as its entry mode. In New Zealand, Starbucks selected licensing, influenced by a low competitive intensity together with other relevant factors such as the global management requirement.

Starbucks carried out different entry modes because situations in the three cases were not the same. In the Spain case, Starbucks chose joint venture as the entry mode owing to three main reasons. First, the company needed a partner who provides it country specific knowledge. Besides, the coffee company sought to share financial resources and risk owing to its financial policy and that the company was immersed in an ambitious international development program. Lastly, the coffee company had to control its operations directly because the Spanish market had high potential with high competitive intensity. In the United Kingdom case, the company decided to use a wholly-owned subsidiary as the cultural distance there was great, and there was a high degree of competitive intensity. Besides, the coffee company was influenced by speed and characteristics of the overseas country business environment. Finally, the reasons for choosing licensing in New Zealand were the followings: Starbucks lacked knowledge about the country and needed a local partner to help the company to operate. Furthermore, the decision was influenced by management attitudes of minimizing its international investment. It is also because of the global management requirement that the company had limited available resources to enter into New Zealand. Lastly, Starbucks' decision was influenced by a low competitive intensity.

In short, Starbucks carried out different entry modes in Spain, New Zealand and the United Kingdom because it wanted to adapt to the specific circumstances of each country. In three countries, the external and internal factors, as well as their degree of influence, were not the same. As Starbucks wanted to avoid difficulties during its expansion and was aware of the long-implications of entry mode decision, the company preferred to seek the most suitable entry mode in each case.

CHAPTER 7: CONCLUSION AND RECOMMENDATION

7.1. CONCLUSION

The main purpose of our research was to know why an MNC such as Starbucks used different entry modes, and what factors have influenced their entry mode decisions. To obtain findings: first, based on our literature review, we developed a set of possible influential factors affecting the entry mode decision in our conceptual framework. Then we collected our empirical data from different sources. Finally, we analyzed and contrasted our three cases in order to determine similarities and differences between them.

In our first research question: "*What factors affected Starbucks' entry mode decisions",* we obtained the following findings: First, entry mode decision is influenced by a number of factors. Factors which influenced entry mode decisions can be related to either internal or to external environment of MNC. In our case, we have found that internal factors that have affected Starbucks' choice of entry modes are: culture distance, market potential and competition intensity. On the other hand, relevant external factors are: characteristic of overseas country business environment, resource commitment, speed, management risk attitudes, and global management requirement. Both sets of factors are relevant in entry mode decisions, but the external factors are often decisive in devising the choice of international strategy. Furthermore, internal and external factors can influence companies' internationalization strategies to different degrees. Factors that influence entry mode decisions can be different in each case; not always is an entry mode decision influenced by the same factors. Even, some factors can affect other as it happened in New Zealand and Spain case with firms size, resource commitment and global management efficiency requirement factors. Starbucks was a big company with high experience and resources when internationalized in both countries. However, the company had to limit and rationalize their resource and to reduce its entry mode options to fulfill its ambitious internationalization plan. Last but not least, there are several factors which influence choice of international strategy, but one or two factors are often crucial in the decision. Those factors are often external factors.

The results of our second research question *"Which entry mode strategies did Starbucks use in foreign markets and why?":* We show that Starbucks used three different international strategies: joint-venture, wholly-owned subsidiary and licensing. Our findings have determined that the reason for using three different strategies is that Starbucks seeks to adapt to different local needs, requirements and influential factors in every country. It means that the cause of using different entry modes is mainly owing to external factors.

In summary, we can conclude by saying our investigation shows that entry mode strategy is an important decision in the internationalization process of Starbucks. The choice of international strategy has long-term implications for the company. Therefore, managers needed to analyze every influential factor thoroughly in the internationalization process prior to make entry mode choice.

7.2. RECOMMENDATION

Our study has shown that internal and external factors influenced the choice of entry mode for Starbucks. Moreover, we have determined that external factors are often the most decisive ones.

As for the firm, it is significant to analyze the external factors first-hand. Then to choose the suitable way of entry among possible entry modes is to find the most effective and efficient way for the company's international expansion.

As for Starbucks, each mode of entry for the three cases was a good choice for the short-term or early stage entry. As part of a long-run strategy, it is critical that Starbucks chooses stable entry mode strategies in order to stand still in the highly competitive market situation.

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APPENDIX - I

Interview questions: Spain

E-mail Interview with Luis Peña, Marketing Director of Starbucks Coffee Company in Spain. Luis Peña only answered two of our questions, as can be seen below.

To whom it may concern:

We are two Master students, majoring in International Business and Entrepreneurship in Mälardalen University (Sweden). At the present, we are writing our master thesis about why Starbucks uses different entry modes in different countries. There are several questions we appreciate you could answer as much you can the following questions. Thank very much for you help!

Write your name and job function below, please:

NAME:
JOB:

1. Could you explain us why Starbucks decided to create a Joint Venture with VIPS Groups and El Molí Vell instead of the other two Starbucks's international strategies: licensing or wholly- owned subsidiary?

Luis Peña: *Starbucks's international development is adapted lightly to different markets in order to intend to satisfy needs and demands from every market, respecting its cultures and traditions. Starbucks's expansion in Spain carries out through joint-venture with local partners. To choose its partners, Starbucks looks for the followings characteristics in them:*

1.-Values and corporative culture
2.-Experience in hotel sector
3.-Integration of human resources
4.-Dedication to consumer
5.-Quality in products and services
6.-Creative ability, local knowledge and capacity of creation of brand
7.-Strong financial resources

2. Before Starbucks choose to enter a foreign country, Starbucks analyzed its market. What analyzed factors were crucial to decide to create a joint venture instead of use licensing or wholly-owned-subsidiary?

2. Álvaro Salfranca granted El Pais an interview; he told "Starbucks knew that Spain was mature and attractive market when Starbucks entered Spain". Understanding "Mature" market as a market have many competitors, we

wonder: Did Starbucks create a Joint Venture to gain market power and to increase its competitiveness?

3. When Starbuck went into Spain, Starbucks had six years of international experience. Its experience was enough to establish its Coffee Stores in Spain. However, its knowledge about Spanish specific market might be very little. Did Starbucks form an alliance with VIPS Group because VIPS could provide Starbuck knowledge about Spanish market?

4. In 2001, Starbucks had an accelerated pace of internationalization. The company not only signed a joint venture with VIPS in Spain, but also Starbucks entered into two more countries: Switzerland and Austria. The internationalization process supposes a huge investment. Therefore we wonder: Was entry mode decision in Spain influenced by financial factor and need for sharing financial risk and resources?

5. In the three Starbucks's international strategies: licensing, wholly-owned-subsidiary and joint venture, the level of control is different. In wholly-owned subsidiary, Starbucks owns totally control of its operation in foreign countries. Another hand, licensing is the strategy in which Starbucks has less control. Did Starbucks use joint-venture strategy to control its operations in Spain? Why did Starbucks create a joint venture to 50 %?

6. Luis de la Peña, marketing director of Starbuck Coffee Company in Spain, said in an interview : "In Spain is consumed a huge amount of coffee, but there is not coffee culture". In addition, Starbucks Coffee Company in Spain has established programs to introduce Spanish in coffee culture.

   Culture distance is related to level of resource commitment in entry mode decision. That's why, we would like to know if the decision of choosing Joint Venture was affected by culture distance.

   Luis Peña: *In reference to coffee culture question concerns more about knowledge and differentiation of coffees for instance, robust and Arabic coffee variety, origin, culture, tasting, etc.,… as it happened with wine years ago in Spain.*

7. In La Nación journal is writing that Starbucks had "bargain power" in its agreement of joint venture with VIPS and as consequence Starbucks did not need co-branding. Did Starbucks use as entry mode Joint-venture because it knew it has power to bargain with VIPS?

8. Did Starbucks choose joint venture entry mode owing to government restrictions? What about country risk? Was political risk in Spain an influential on entry mode decision?

9. In 2001, Starbucks created a joint venture VIPS and El Moli Vell. The information about Starbucks and El Molí Vell is difficult to get. I would like to know: Does El Molí Vell continue being Starbuck's joint venture partner at the present?

Thanks for the time you have dedicated in contributing to our research.

Shuang Ni and Beatriz Santamaría

APPENDIX - II

Interview questions: New Zealand

To whom it may concern:

We are two Master students, Shuang Ni and Beatriz Santamaría, majoring in International Business and Entrepreneurship in Mälardalen University (Sweden). At the present, we are writing our master thesis about why Starbucks uses different entry modes in different countries. There are several questions we appreciate you could answer as much you can in the following questions.

Thank you very much for your help!

Please, write your name and job function below:

NAME:
JOB:

10. Could you explain us why Starbucks decided to grant license to Restaurant Brands instead of the other two Starbucks's international strategies: joint venture or wholly- owned subsidiary?

11. Before Starbucks choosing to enter a foreign country, Starbucks analyzed its market. What analyzed factors were crucial to decide licensing instead of joint venture or wholly-owned-subsidiary?

12. Did Starbucks decide using a licensing entry mode because in 1998 there were not many coffee competitors?

13. When Starbuck went into New Zealand, Starbucks had three years of international experience, but its knowledge about New Zealand specific market might be very little. Did Starbucks grant a license Restaurant Brands because its licensee could provide Starbuck knowledge about New Zealand market?

14. In 1998, Starbucks had an accelerated pace of internationalization. The company not only entered into New Zealand, but it established its stores in three more countries: Taiwan; Thailand and Malaysia. The internationalization process supposes a huge investment. Therefore we wonder: Was entry mode decision in New Zealand influenced by financial factor and need for sharing financial risk and resources?

15. In the three Starbucks's international strategies: licensing, wholly-owned-subsidiary and joint venture, the level of control is different. Why did Starbucks choose licensing entry mode strategy to control its operations in New Zealand?

16. Culture distance is related to level of resource commitment in entry mode decision. Did Starbucks use licensing because there were a gap between New Zealand Culture and Starbucks's Coffee Culture?

APPENDIX - III

Company Timeline

COMPANY **TIMELINE** February 2008

1971 Starbucks opens its first store in Seattle's Pike Place Market.

1982 **Howard Schultz** joins Starbucks as director of retail operations and marketing. Starbucks begins providing coffee to fine restaurants and espresso bars.

1983 **Schultz** travels to Italy, where he's impressed with the popularity of espresso bars in Milan. He sees the potential to develop a similar coffeehouse culture in Seattle.

1984 **Schultz** convinces the founders of Starbucks to test the coffeehouse concept in downtown Seattle, where the first Starbucks® Caffè Latte is served. This successful experiment is the genesis for a company that Schultz founds in 1985.
Starbucks introduces Starbucks® Christmas Blend.

1985 **Schultz** founds Il Giornale, offering brewed coffee and espresso beverages made from Starbucks® coffee beans.

1986 **Il Giornale** introduces Eggnog Latte.

1987 **With** the backing of local investors, Il Giornale acquires Starbucks assets and changes its name to Starbucks Corporation. Opens in Chicago and Vancouver, B.C.
Store store total at fiscal year end = 17

1988 **Offers** full health benefits to full- and part-time employees.
Starbucks store total at fiscal year end = 33

1989 **Opens** in Portland, Ore.
Starbucks store total at fiscal year end = 55

1990 **Starbucks** expands headquarters in Seattle and builds a new roasting plant.
Awarded Horizon Air account.
Starbucks store total at fiscal year end = 84

1991 **Establishes** a relationship with CARE, the international relief and development organization, and introduces the CARE coffee sampler.
Becomes the first privately owned U.S. company to offer a stock option program that includes part-time employees.
Opens first licensed airport store with HMSHost at Sea-Tac International Airport.
Opens in Los Angeles.
Starbucks store total at fiscal year end = 116

1992 **Completes** initial public offering (IPO), with common stock being traded on the Nasdaq National Market under the trading symbol "SBUX."
Opens in San Francisco; San Diego; Orange County, Calif.; and Denver.
Starbucks store total at fiscal year end = 165

1993 **Begins** Barnes & Noble, Inc., relationship.
Completes $80.5 million convertible debenture offering.
Opens second roasting plant in Kent, Wash.
Announces first 2-for-1 stock split effective September 29.
Opens in Washington, D.C.
Starbucks store total at fiscal year end = 272

1994 **Awarded** ITT/Sheraton (now Starwood Hotels) account.
Completes offering of additional common stock.
Opens in Minneapolis; Boston; New York; Atlanta; Dallas; and Houston.
Starbucks store total at fiscal year end = 425

1995 **Begins** selling compact discs (CDs) as a result of an extremely popular in-house music program.
Awarded United Airlines account.
Begins serving Frappuccino® blended beverages.
Opens roasting facility in York, Pa.
Forms alliance with Canadian bookstore chain Chapters, Inc. (Chapters).
Forms alliance with Dreyer's Grand Ice Cream (Dreyer's) and introduces Starbucks® superpremium ice cream.
Completes $165 million convertible debenture offering.
Starbucks Coffee International forms joint venture with SAZABY Inc. to open Starbucks stores in Japan.
Announces second 2-for-1 stock split effective December 1.
Opens in Philadelphia; Pittsburgh; Las Vegas; Cincinnati; Baltimore; San Antonio; and Austin, Texas.
Starbucks store total at fiscal year end = 677

1996 **Awarded** Westin (now Starwood Hotels) account.
North American Coffee Partnership (Starbucks and Pepsi-Cola North America) begins selling bottled Frappuccino® coffee drink.
Converts approximately $80.5 million of its 4.5 percent convertible subordinated debentures to common stock.
Opens in Rhode Island; Idaho; North Carolina; Arizona; Hawaii; Utah; and Ontario, Canada.
Starbucks Coffee International opens in Japan and Singapore.
Starbucks store total at fiscal year end = 1,015

1997 **Converts** approximately $165 million of its 4.25 percent convertible subordinated debentures to common stock.
Forms alliance with eight companies enabling the gift of more than 320,000 books to children through the *All Books for Children* book drive.
Establishes The Starbucks Foundation, benefiting local literacy programs in communities where Starbucks has coffeehouses.
Introduces Starbucks Barista® home espresso machine, capable of using ground coffee or convenient preground, premeasured espresso pods.
Offers Frappuccino® Lowfat Ice Cream Bars, a lowfat decadent treat.
Opens in Florida; Michigan; and Wisconsin.
Starbucks Coffee International opens in the Philippines.
Starbucks store total at fiscal year end = 1,412

1998 **Introduces** Milder Dimensions, a lighter and milder tasting line of premium coffee blends.
Acquires Seattle Coffee Company in the U.K. with more than 60 stores.
Forms Urban Coffee Opportunities LLC, a joint venture

with Earvin "Magic" Johnson's Johnson Development Corp., to develop Starbucks stores in diverse, urban and suburban communities lacking major high-end brands.
Signs a licensing agreement with Kraft Foods, Inc., to extend the Starbucks brand into grocery channels across the U.S.
Launches Starbucks.com.
Offers the Doonesbury@Starbucks line of products, with all net proceeds donated to local literacy organizations.
Opens in New Orleans; St. Louis; Kansas City, Mo.; and Portland, Maine.
Starbucks Coffee International opens in Taiwan; Thailand; New Zealand; and Malaysia.
Starbucks store total at fiscal year end = 1,886

1999 **Acquires** Tazo LLC (Tazo), a tea company based in Portland, Ore.
Partners with Conservation International to promote environmentally responsible methods of growing coffee.
Introduces Shade Grown Mexico coffee.
Acquires Hear Music, a San Francisco–based music company.
Introduces Starbucks Barista Aroma™ Solo thermal coffeemaker, an insulated automatic drip coffee brewer.
Enters into agreement with Albertsons, Inc.
Opens in Memphis and Nashville, Tenn.; and Saskatchewan, Canada.
Announces the third 2-for-1 stock split effective March 19.
Starbucks Coffee International opens in Beijing; Kuwait; South Korea; and Lebanon.
Starbucks store total at fiscal year end = 2,498

2000 **Howard Schultz** transitions from chairman and chief executive officer to chairman and chief global strategist.
Orin Smith promoted to president and chief executive officer.
Enters into agreement with Safeway.
Introduces a Commitment to Origins™ coffee category that includes shade grown, organic and Fair Trade Certified™ selections.
Expands contribution to Conservation International to establish conservation efforts in five new sites.
Launches Special Reserve program in a quest to find the highest quality coffee in the world.
Enters into agreement with Host Marriott International.
Starbucks Coffee International opens in Dubai; Hong Kong; Shanghai; Qatar; Bahrain; Saudi Arabia; and Australia.
Establishes licensing agreement with TransFair USA to sell Fair Trade Certified™ coffee in U.S. and Canada.
Starbucks store total at fiscal year end = 3,501

2001 **Introduces** coffee-sourcing guidelines developed in partnership with Conservation International.
Commits to purchase one million pounds of Fair Trade Certified™ coffee.
Provides $1 million in financial support to coffee farmers through Calvert Community Investments.
Begins a four-year, $1 million philanthropic partnership with Jumpstart, a national organization that pairs college student tutors with preschoolers.
Introduces the Starbucks Card, a stored-value card for customers to use and reload.
Enters into agreement with Hyatt Hotels Corp. (Hyatt)
Starbucks and international business partners seed Starbucks Cares Fund with $1.2 million contribution to benefit September 11th Fund. Customers and partners (employees) contribute more than $1.4 million to Starbucks Cares.
Starbucks Board of Directors authorizes stock repurchase plan of up to $60 million of stock.
Announces the fourth 2-for-1 stock split effective on April 27.
Starbucks opens 300th store in Japan and celebrates fifth year of business in Japan.
Starbucks Coffee Japan introduces a stock-option program for eligible full- and part-time partners (employees) and successfully implements IPO.
Starbucks Coffee International opens in Switzerland and Austria.
Starbucks store total at fiscal year end = 4,709

2002 **Signs** memorandum of understanding with Fairtrade Labelling Organizations International (FLO) enabling Starbucks to enter into licensing agreements with national Fair Trade organizations to sell Fair Trade Certified™ coffee in the countries where Starbucks does business.
Publishes its first Corporate Social Responsibility Annual Report.
Celebrates 10-year anniversary of Starbucks IPO.
Introduces Starbucks DoubleShot® espresso drink to the ready-to-drink category.
Signs licensing agreement with TransFair Canada to bring Fair Trade Certified™ coffee to more than 270 stores in Canada.
Reinforces its dedication to coffee-producing countries and the farmers who grow Starbucks® coffee through an expanded line of Commitment to Origins™ coffees.
Extends the beverage menu line to include crème, a non-coffee blended beverage option.
Launches its high-speed wireless internet service branded T-Mobile® HotSpot™ in U.S. stores.
Tazo and Mercy Corps establish Collaboration for Hope and Advancement in India (CHAI), a project to strengthen communities in the tea-growing district of Darjeeling, where Tazo purchases some of the finest teas available in the world.
Organizes more than 45,000 volunteer hours in the month of September and contributes more than $275,000 through the Starbucks *Make Your Mark* program to charitable organizations across North America.
Starbucks Board of Directors authorizes stock repurchase plan of up to 10 million shares.
Establishes Seattle Coffee Trading Company (SCTC) in the Canton of Vaud, Lausanne, Switzerland

Starbucks Coffee International opens in Oman; Indonesia; Germany; Spain; Puerto Rico; Mexico; Greece; and Southern China (Macau and Shenzhen).
Starbucks store total at fiscal year end = 5,886

2003 **The Starbucks Foundation** awards more than 650 grants totaling $6.5 million to literacy, schools and community-based organizations across North America since 1997.
Begins three-year $225,000 commitment to America SCORES, a national non-profit, youth development organization that uses soccer and literacy to inspire teamwork among at-risk children in urban public schools.
Introduces Shade Grown Mexico and Fair Trade Certified™ coffees to the coffee selections available to Hyatt Hotel and Resort's guests.
Develops and launches Starbucks Card Duetto™ Visa,® the first-of-its-kind payment card blending Visa credit card functionality with the reloadable Starbucks Card.
Starbucks Board of Directors authorizes stock repurchase plan of up to 10 million shares.
Acquires Seattle Coffee Company, which includes Seattle's Best Coffee and Torrefazione Italia coffee brands.
Celebrates Earth Day with a $50,000 contribution to Earth Day Network.
Introduces *Iced Shaken Refreshments,* a handcrafted and refreshing new beverage category featuring coffee and tea shaken over ice.
Starbucks Coffee International opens its 1,000th Asia Pacific store in Beijing, China.
Encourages more than 50,000 hours of partner and customer volunteer time and contributes $500,000 to nonprofit organizations across North America through *Make Your Mark* volunteer program in September.
Opens new state-of-the-art roasting facilities in Carson Valley, Nev., and Amsterdam, The Netherlands.
Starbucks Coffee International opens in Turkey; Chile; Peru; and Cyprus.
Starbucks store total at fiscal year end = 7,225

2004 **Starbucks Coffee International** opens in Paris.
Extends Conservation International partnership with a new three-year agreement and $1.5 million grant, and provides $2.5 million loan to help capitalize the non-profit's newly launched Verde Ventures fund. Verde Ventures provides direct access to affordable credit for small-scale coffee producers.
Opens Starbucks Farmer Support Center in San Jose, Costa Rica.
Introduces in-store CD-burning service powered by HP. The new music delivery experience allows Starbucks customers to create personalized CDs at the Starbucks Hear Music™ Coffeehouse in Santa Monica, Calif.
Dedicates six weeks to promote environmental awareness in its company-operated stores in North America and engages millions of customers in a dialogue about environmental stewardship.
Tazo and Kraft Foods announce licensing agreement to distribute Tazo® superpremium teas in U.S. grocery channels.
Announces Starbucks and Jim Beam Brands Co. agreement to develop and market a superpremium Starbucks-branded coffee liqueur outside of Starbucks stores.
Presents Jumpstart with $100,000 in honor of the non-profit's 10-year anniversary.
Loans $1 million to Calvert Community Investments, enabling Calvert to provide affordable credit to the Fair Trade Certified™ coffee farmers.
Joins the United Nations Global Compact, an international network of corporations, U.N. agencies, trade unions and non-governmental organizations that support a shared set of nine principles about the environment, labor and human rights.
Expands agreement with United Airlines to include cooperative marketing agreement.
Debuts strategic marketing alliance with XM Satellite Radio featuring a 24-hour Starbucks Hear Music™ channel.
Launches Hear Music™ media bar CD burning service in select stores in Seattle and Austin, Texas.
Introduces new Frappuccino® Light blended coffee beverages.
Signs licensing agreement to open Seattle's Best Coffee cafes in more than 400 existing Borders Books & Music® (Borders) stores over the next several years in the continental U.S. and Alaska, and within new Borders stores as they open.
Introduces 100 percent Kona coffee as the first of the Black Apron Exclusives™ assortment of coffees, a new line of rare, exotic coffees available only in limited quantities.
Releases *Ray Charles, Genius Loves Company* CD through a collaboration between Concord Records and Starbucks Hear Music.
Forms Conservation Coffee Alliance partnership with the United States Agency for International Development and Conservation International in an effort to improve the livelihoods of small-scale coffee farmers.
Grants $500,000 to America SCORES to promote literacy and the physical and social well-being of at-risk youth.
Expands high speed wireless service, T-Mobile® HotSpot™ to more than 3,300 Starbucks stores.
Introduces Starbucks Coffee Master Program to provide Starbucks partners with an opportunity to learn more about the world of coffee, and share their passion with customers and partners.
Starbucks store total at fiscal year end = 8,569

2005 **Orin Smith** retires as Starbucks president and chief executive officer.
Jim Donald promoted to president and chief executive officer.
Ray Charles, Genius Loves Company wins eight GRAMMY® Awards including "Album of the Year" and "Record of the Year."

Introduces Starbucks™ Coffee Liqueur and Starbucks™ Cream Liqueur. Created with the Starbucks enthusiast in mind.
Responds to the tremendous tsunami devastation in South Asia by donating more than $1.5 million for tsunami relief and recovery, channeled through a variety of relief organizations around the world, including Oxfam affiliates, the Red Crescent Society and Save the Children.
Reports that as part of its long-term commitment to aid the relief and recovery efforts following Hurricane Katrina, Starbucks will make an initial commitment of $5 million over five years to impacted U.S. Gulf Coast communities.
Introduces a unique, limited-edition Starbucks Card bearing the image of Seattle Mariners superstar Ichiro Suzuki with Major League Baseball. This first-ever commemorative Starbucks Card benefits children's charities in the United States and Japan.
Acquires Ethos Water and sets a goal of donating $10 million to support clean water projects around the world over the next five years.
Announces $5 million Starbucks China Education Program in Beijing to support access to education, underscoring Starbucks commitment to creating a long-term relationship with the people of China.
Introduces Starbucks Discoveries,™ a ready-to-drink (RTD) chilled cup coffee, in Japan and Taiwan. Available in two flavors, Seattle (latte) and Milano (espresso), the drinks are available at most convenience stores in Tokyo and Taiwan.
Herbie Hancock: ***Possibilities*** becomes first global release by Hear Music (in conjunction with Hancock Music, Vector Recordings, and Warner Music International).
Announces that the Board of Directors authorizes the repurchase of up to five million shares of the company's common stock.
Starbucks Board of Directors approves a 2-for-1 stock split. This is the fifth 2-for-1 split of the company's common stock since its initial public offering in 1992.
Starbucks and the African Wildlife Foundation announce the launch of the "Coffee for Conservation" project, aimed at promoting coffee quality, environmental sustainability and natural resource conservation in East Africa.
Opens the next evolution of the Hear Music™ Coffeehouse in San Antonio, offering more than one million digital tracks to sample and burn.
Introduces Café Estima Blend,™ a Fair Trade Certified™ coffee, a complex coffee with a dark roast.
Purchases 10 million pounds of Fair Trade Certified™ coffee and becomes North America's largest purchaser of Fair Trade Certified™ coffee.
Starbucks Coffee International opens stores in the Bahamas; Ireland; and Starbucks first company-operated stores in Dalian in Northeast China.
Introduces Aged Sumatra Lot 523, Kigabah Estate, Elephant Kinjia, La Candelilla Estate and Ethiopia Sun-Dried Shirkina as Black Apron Exclusives™ coffees.
Starbucks store total at fiscal year end = 10,241

2006 **Announces** innovative model for the marketing of Lionsgate and 2929 Entertainment's new film, *Akeelah and the Bee.*
Introduces Starbucks DoubleShot® Light espresso drink in U.S.
Acquires full ownership of Coffee Partners Hawaii, the joint-venture company that operates Starbucks stores in Hawaii and Café del Caribe, the joint-venture company that operates Starbucks stores in Puerto Rico.
Introduces Rwanda Blue Bourbon Black Apron Exclusives™ coffee, one of the world's oldest and rarest coffee species, which thrives in Rwanda's high elevations and is prized for its elegant flavor.
Starbucks Coffee Master Count reaches more than 22,000 partners worldwide.
Starbucks through its Ethos Water brand invited partners and customers in 11 U.S. cities to take part in *Walks for Water* to commemorate World Water Day, raising awareness for the more than 1.1 billion people worldwide who lack access to clean drinking water.
Introduces bottled Strawberries and Crème Frappuccino® crème beverage, the first non-coffee bottled Starbucks® beverage.
Introduces ready-to-drink Starbucks® Iced Coffee, a refreshing, cold coffee drink with just a touch of milk and sweetness.
Pledges $550,000 to revitalize historic Central District Park on Martin Luther King Jr. Way in Seattle, part of Starbucks $1 million commitment to the improvement of parks in King, Pierce and Snohomish counties in 2006.
Starbucks Coffee International enters a joint-venture agreement with Cafés Sereia do Brasil Participações S.A., a Brazilian holding company led by successful local retailers, to form Starbucks Brasil Comercio de Cafes Ltda. (Starbucks Brasil).
Debuts Pomegranate Frappuccino® juice blend and Tangerine Frappuccino® juice blend made with fruit juice and freshly-brewed Tazo® tea.
Starbucks Coffee Company and Pepsi-Cola North America announce through their joint-venture partnership, the North American Coffee Partnership, the signing of a distribution agreement for Ethos Water.
Starbucks Coffee Company hosts the first "African Coffee Celebration" at its Seattle headquarters to honor coffee farmers in East Africa.
Starbucks opens 100th Urban Coffee Opportunities (UCO) store.
Supports Jumpstart's Read for the Record campaign; contributes to a world record for the largest shared reading experience ever.
Launches Starbucks™ Coffee Liquor and Starbucks™ Crème Liquor in Canada.
Introduces Starbucks DoubleShot® espresso drink in Korea.
Announces expansion of relationship with Kraft to distribute Starbucks® coffee into retail channels in Canada and the U.K.

Announces plans to roll out Starbucks hot vending machines, using proprietary technology developed by Pepsi-Cola North America, where a latte is heated on demand for customers.
Starbucks Coffee International enters Egypt.
Starbucks store total at fiscal year end = 12,440

2007 **Starbucks Coffee International** enters Romania.
Extends partnership with Earthwatch Institute, the world's leading environmental volunteer organization, will bring Starbucks partners (employees) and customers together to conduct scientific research designed to benefit a cooperative of 2,600 coffee farms in Costa Rica.
CARE, the international humanitarian and development organization, receives a $500,000 commitment from Starbucks to fund a three-year program that will help improve economic and educational prospects for more than 6,000 people in rural Ethiopia's coffee growing regions.
Starbucks Entertainment and Concord Music Group form a new record label, Hear Music, to forge relationships with artists and distribute recordings in Starbucks and traditional music channels.
Hear Music announces Paul McCartney is the first artist signed to the new record label.
Teams with Global Green USA to launch Planet Green Game to encourage individuals to "click, play and learn" about global climate change and smart solutions.
Champions new film, "Arctic Tale," as part of new relationship with Paramount Classics and National Geographic Films to build awareness and foster discussion around the climate change issue.
Launches a Spanish edition of the Fiscal 2006 Corporate Social Responsibility (CSR) Annual Report interactive website. This is the first time the Spanish edition of the Report has been available online in this detail.
Announces a development and distribution agreement with The Hershey Company to create and market a new Starbucks-branded premium chocolate platform in the United States starting in the fall.
Launches Starbucks® Limited Reserve, a new line of rare and exquisite coffees, offered nationwide where groceries are sold.
Announces an exclusive partnership with Apple Computer, Inc. that lets customers wirelessly browse, search for, preview, buy and download music from the iTunes® Wi-Fi Music Store at Starbucks while at participating Starbucks locations in the U.S.
Collaborates with BMW Group DesignworksUSA and Saeco Italy to introduce Starbucks® Sirena™ Semi-Automatic Espresso Machine.
Announces plans to open Starbucks Farmer Support Centers in Ethiopia and Rwanda.
Launches Starbucks® Bottled Frappuccino® Coffee Drinks in China through International Coffee Partnership with PepsiCo.
Announces new "Skinny" platform, a nonfat Latte made with sugar-free syrup. Platform takes the guesswork out of ordering lighter options. Introduced Mocha to the selection of sugar-free syrups, which includes Vanilla, Hazelnut, Caramel and Cinnamon Dolce.
Chairman Howard Schultz returns as CEO. Announces a renewed focus on customer experience and innovation; will slow U.S. store growth and accelerate International expansion.
Starbucks store total at fiscal year end = 15,756