STARBUCKS
Growing in the Spanish Market

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1. Executive Summary

For my part, I saw Starbucks not for what it was, but for what it could be. Howard Schultz, CEO of Starbucks, (1997)

Starbucks was founded in 1971 by three friends with no relevant business background who shared a common passion for high quality coffee. Later, in 1987, a visionary manager acquired the company and turned his vision into reality by turning a bunch of local coffee stores into the “Empire of Coffee”.

According to the Starbucks 2009 annual report, there are 16,635 outlets all over the world and the net revenue of the company was of 9.8 billions of dollars. Wherever you go, you will see people holding their characteristic disposable paper cups. Not bad for a coffee shop, above all, considering that the investment of the initial partners was 1,350$ each, plus a joint bank loan of 5,000$ (Clark, 2007).

This report’s objective is to serve as a compass for the establishment of Starbucks in Spain. The methodology selected follows the general guidelines of the main Marketing Theories, 1) analysing and explaining the controllable and uncontrollable forces of the environment that affects the company, 2) selecting the appropriate marketing strategies and 3) addressing the challenge with coherent tactics.
2. Environmental Analysis

The analytical techniques that will be used in this report are the Porter’s Five Forces, the PESTLE and the SWOT.

2.1. Porter’s 5 Forces

Through this notorious framework (which was his first HBR article) Porter introduced a new tool for measuring the competitiveness of a market and, therefore, its profitability. The figure 1 illustrates this model.

In this case, this model will help to have a clear overview about the coffee industry environment.

2.1.1. Threat of Entry

Porter divides the potential threat of entry in two groups, the barriers of entry described as advantages of incumbents over new competitors, and the expected retaliation, which means basically how is expected that former companies act against new competitors (2008).

Bars of entry in the coffee retailing industry are low according to Porter (2008), whereas new competitors should not fear the expected retaliation from incumbents given that these are mainly small companies with no relevant resources.

Therefore, it can be concluded that in this industry the threat of entry is high. In order to defend its position, Starbucks should try to build some barriers of entry (e.g. gaining presence, strategic alliances with key agents of the supply chain, investment...
in new technologies) and be prepared for an aggressive reaction to competitors trying to compete in the same segments.

2.1.2. Bargain power of Suppliers (BPOS)

Suppliers affect directly their clients businesses given that they provide the input necessary to produce the product/service (Willan, 2010). Therefore, “Powerful suppliers, including suppliers of labour, can squeeze profitability out of an industry that is unable to pass on cost increases in its own prices” (Porter, 2008, p.29).

Prices in the coffee retailing industry rely directly on the prices of coffee beans. Such a direct reliance represents a risk for any industry. Thus, an eventual worldwide shortage in the production of coffee would raise the price of retail coffee. It would seem logical to argue then that BPOS in coffee retailing industry is high.

Nevertheless, one of the conditions that Porter claims to be important in order to consider a supplier group powerful is their level of concentration. According to Oxfam, “70% of the world’s supply is provided by smallholders cultivating less than 10 hectares in 80 countries in Africa, Asia and Latin America” (Brown et al. p.2, 2001)

Even if the industry is not concentrated, companies like Starbucks, when possible, are recommended to build defensive tools against the potential risks (e.g. backward integration, long-term contracts with supplier, and/or not rely in few suppliers (Willan, 2010).

2.1.3. Bargain Power of Buyers (BPOP)

“The flip side of powerful suppliers” (Porter, 2008, p.30). Mainly, it is high when there are few buyers, there are a lot of competitors and/or the products are standardized (Porter, 2008).

According to the last “Spain Economic Yearbook” published by La Caixa (2010), there are 7 hospitality outlets in Spain per 1000 people.

This high concentration levels in the supply side gives customers a high BPOP, creating therefore a more competitive industry.
Companies need to offer a higher value to their customers, so that they will purchase in their business rather than in the competitor’s. Regarding Starbucks, the company will need to put great effort in differentiating and loyalty schemes to keep consumers satisfied and away from competitors.

### 2.1.4. Threat of Substitutes

As Porter says, “A substitute performs the same or a similar function as an industry’s product by a different means”. These can be divided into *direct* or *indirect*.

In the Starbucks case, *direct substitutes* would be mainly the traditional “cafeterias”, whereas *indirect substitutes* are products covering same needs but in a different market such as e.g. vending machines in offices, coffee in capsules or instant coffee.

As above, the industry is very competitive, so giving added value to your customers and differentiating your offering are essential to become less “replaceable”.

### 2.1.5. Rivalry among existing competitors

Porter relates the intensity of rivalry to (2008):

- Number of competitors
- Barriers of exit
- Market-leadership orientation of companies
- Familiarity between companies

As a result of the great number of competitors, the rivalry in the coffee retailing industry should be considered high. Nonetheless, is important to analyse whether companies “aim to meet the same needs” (Porter, 2008, p.33). Regarding this point, Starbucks is introducing a new way of having coffee, highly differentiated to the rest of competitors, which protect them from competing directly with these companies.

### 2.2. PESTLE

#### 2.2.1. Political factors

- Taxes. Central Government, due to the crisis effects in Spain, has just raised VAT from 16% to 18%. “Impuesto de Sociedades”, is 30% (meanwhile in
Basque Country is 28% with a special rate for SMEs of 24%). An VAT increase suppose higher prices in general and, theoretically, less consumption.

Smoking in public places is allowed in Spain, while the Basque Country Government has enacted a new law banning this activity (Europapress, 2010). This law will be operational in 2011. The consequences of this point are explained in the SWOT.

2.2.2. Economic Factors

Unemployment is, at this, moment, one of the most dramatic problems Spain (20.09%). Even if the Basque Country is the Autonomous Community with less unemployment (10.4%) this amount has growth dramatically in the last 2 years (unemployment in 2008 was just 3.8%) (INE, 2010). Unemployment is a threat for Starbucks since affects consumption in a negative way directly.

After showing a great performance in the last years, the Spain is struggling with the consequences of the current international crisis since 2008 (INE, 2010).

2.2.3. Socio-Cultural factors

As extracted from the market research “Coffee consuming habits in Spain” performed by the Spanish company “Cafe & Te” (2008) the following information illustrates the main characteristics of the Spanish coffee market and the Spanish habits while having coffee:

- 63% of Spanish people above 15 years old take at least 1 cup of coffee every day. (approximately 22 million of consumers)
- On average, Spanish consume 3.6 cups/day during the week and 2.7 cups/day during the weekend.
- 99% of coffee consumers take coffee during the week, while 89% do it on weekends.
- To the question, when do you have coffee? The answers were:
  - In the morning ................................................................. 63%
  - In the morning + after lunch ............................................ 38%
In the morning + after lunch + in the afternoon ............... 29%

- 78% of consumers have coffee accompanied by friends, colleagues or relatives. Just 22% have coffee alone.

- The favourites types of coffee are:
  - “Cafe con Leche” (white coffee) 37%
  - “Solo” (short espresso) 27%
  - “Cortado” (coffee with just a dash of milk) 24%
  - Other types 12%

- 67% take coffee because “they like it”, 17% just as a habit, and 11% for keeping them active.

It is clear then that Spain is a “coffee country” and, thus, Starbucks has a wide market to exploit.

- More and more Spanish consumers are demanding adequate environments for having their coffees, such as the ones of specialized coffee retailers (Cafe & Te, 2008)

- Spain has 4 official languages: Castilian (widely known as Spanish), Basque, Catalan, and Galician. The Figure 2 shows the geographical distribution of these languages. As a result, Starbucks needs to make sure that they use always the appropriate official languages.
2.2.4. **Technological factors**

- Irruption of a new technology in the coffee sector: the capsule system coffee machines. Basically, this technology permits to produce high quality espressos easily in just few seconds. At the moment, just 10% of the houses in Spain have at least one of these new coffee brewers but it is expected to increase in the next years (Expansion.com, 2008). It represents an *indirect substitute* for Starbucks but it is also a potential new product development opportunity.

2.2.5. **Environmental factors**

- Demand for Fair-Trade products - one of the key positioning strategies of Starbucks – increased by 40% in Spain in 2009 according to data from the Fair-trade organisation (Fair Trade Foundation, 2009). Consequently, Spaniards will value more Starbucks products, and be more convinced about paying a higher price for a fairer product.
### 2.3. SWOT

#### 2.3.1. Strengths

<table>
<thead>
<tr>
<th><strong>Strengths</strong></th>
<th><strong>Consequences for Starbucks</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong brand name</td>
<td>The company can charge higher prices to the costumers, whom identify “The Starbucks Experience” (Michelli, J.A., 2007) as highly valuable. In addition to this, a strong brand name also offers the chance to expend fewer resources in promoting, given that the high quality values of Starbucks are worldwide known</td>
</tr>
<tr>
<td>Growing presence in Spain</td>
<td>This is increasing the demand of Starbucks in the cities where they are not present.</td>
</tr>
<tr>
<td>Huge financial resources. Net revenues were of 9.8 billion of Dollars in 2009 (Starbucks Annual Report, 2009)</td>
<td>Permits Starbucks to operate following carefully their strategy even if that leads into eventually initial losses.</td>
</tr>
</tbody>
</table>

#### 2.3.2. Weaknesses

<table>
<thead>
<tr>
<th><strong>Weaknesses</strong></th>
<th><strong>Consequences for Starbucks</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher prices than the competitors</td>
<td>This translates into a need for giving added value to customers</td>
</tr>
<tr>
<td>Compared with local competitors, Starbucks product range is narrow</td>
<td>Many potential customers may choose to go where they have wider possibilities, such as other beverages or foods.</td>
</tr>
</tbody>
</table>

#### 2.3.3. Opportunities

<table>
<thead>
<tr>
<th><strong>Opportunities</strong></th>
<th><strong>Consequences for Starbucks</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Market size of approximately 22 million coffee drinkers (Cafe &amp; Te, 2008)</td>
<td>Good opportunity for expanding business in a country with these characteristics</td>
</tr>
<tr>
<td>Increase in the demand of specialized coffee environment (Cameron, 2008)</td>
<td>Perfectly in accordance with Starbucks positioning. Great potential market.</td>
</tr>
</tbody>
</table>
Smoking allowed in bars and restaurants

Smoking inside Starbucks is banned in Spain. By itself, this represents a differentiating tool for the company. Therefore, they will gain value for non-smokers clients and other customers looking for healthier environments.

### 2.3.4. Threats

<table>
<thead>
<tr>
<th>Threats</th>
<th>Consequences for Starbucks</th>
</tr>
</thead>
<tbody>
<tr>
<td>High expectations in places where there are no Starbucks yet</td>
<td>Good opportunity for expanding business in a country with these characteristics</td>
</tr>
<tr>
<td>Spanish usually associate foreign hospitality outlets with junk food</td>
<td>“If the product’s performance falls short of the customer’s expectations, the buyer is dissatisfied” (Kotler, P., et al. 2005, p.10). Customers not satisfied might damage the brand positioning as high quality coffee through word-of-mouth and, therefore, find the product too expensive</td>
</tr>
<tr>
<td>Unemployment high levels</td>
<td>High levels of unemployment have a direct negative effect in the levels of consumption, which probably will decrease the revenues of Starbucks in Spain. Anyway, according with Bentolila &amp; Ichino, correlation between unemployment and lower consumption levels are lower in Mediterranean countries than in other such as USA, UK or Germany (2000).</td>
</tr>
</tbody>
</table>
**Strengths**
- Strong Brand name
- Growing presence in Spain
- Huge financial resources

**Weaknesses**
- Higher prices than competitors
- Narrower product range

**Opportunities**
- Market size
- Smoking allowed in bars
- Increase in the demand of specialised coffee environment

**Threats**
- High expectations from local customers
- Prejudices against foreign companies
- Unemployment
3. Marketing Strategy

Since Starbucks is a global brand, it is essential to develop a marketing strategy that is coherent with the mission statement, which follows like this “Our mission: to inspire and nurture the human spirit – one person, one cup and one neighborhood at a time” (Starbucks website).

Starbucks opened the first outlet in Spain in 2002. At the present, there are around 66 outlets, placed in Madrid (38), Barcelona (16), Seville (5), Valencia (4), Malaga (2) and Las Palmas (1). (Starbucks Spain). Thus, the Market Development strategy (Ansoff, 1957) was successful. Nevertheless, there are still some zones of Spain left that are likely to become successful markets in the future. Therefore, the recommended strategy is to continue expanding the brand over the rest of the Iberian territory applying the same formula. Both Alvaro Salafranca (El Pais 2007), CEO of Starbucks Spain, and Gonzalo Echavarría (Cincodias.com, 2009), CMO of Starbucks Spain, have publicly praised the profitability and potential of the Spanish market and their intentions of continuing expanding.

According to Porter generic strategies (1980), Starbucks competitive strategy in this particular market will not differ from the generic “differentiation strategy” followed in the rest of the markets where they operate. This will help Starbucks to differentiate themselves from the rest of local competitors and will attract customers looking for high quality products, the comfortableness of the stores and the kindness of the service.
The main objective will be to increase the number of outlets in the next two years, increasing the number of stores in the cities where Starbucks is currently operating, and expanding to new cities that have the requirements for a successful implementation. By 2012, the number of outlets should not be inferior to 100.

To reach this objective, apart from the general strategies mentioned above (Market Development and Differentiation) it is also necessary to proceed to segment the market, select the appropriate market target, and develop the offer’s value positioning. (Kotler, 1994, cited by Restrepo). “The formula (segmentation, targeting, positioning) is the essence of strategic marketing” (Kotler, 1994, p. 93, cited by Restrepo)

3.1. **Segmentation**

According to Kotler, “Market segmentation means dividing a market into distinct groups of buyers with different needs, characteristics or behaviours, who might require separate products or marketing mixes” (p.391). By this, Starbucks convert a heterogeneous large market in smaller segments (Kotler, 1996). According to McDonald and Dunbar, the main benefit of using segmentation strategies is that “it can lead to the concentration of resources in markets where competitive advantage is greatest and returns are high” (2004, p.55)

Considering the high prices of its products, Starbucks should look for consumers with high disposable incomes and for the most developed zones of Spain. For this reason, using a Geographic segmentation model (Kotler, 1996) is the approach more advisable in this case. The figure 4 (INE, 2009) highlights the wealthier “Autonomous Communities” of Spain.
The Basque Country ranks first in GDP per capita in Spain. Given that Starbucks is not exploiting that opportunity at the moment, the Basque Country represents a key geographical segment for the growth of Starbucks in Spain. Navarra is also an interesting segment – ranks third in GDP per capita even though its lower population levels represent a smaller market.

### 3.2. Targeting

Targeting involves “making the decision about which market segments a firm decides to prioritise for its sales and marketing efforts” (Dibb, 2001 cited by Willan).

The target market is formed of people with ages comprised between 20 and 40 years old, a reasonable high income, sociable lifestyle, and well educated. Geographically, our targets are the major cities of the Basque Country and Navarra (Bilbao, San Sebastian and Pamplona), specifically the central area of these cities.

The most suitable targeting strategy to follow in this case is the “undifferentiated targeting”, offering the same range of products to all the customers (Kotler, P. Et al, 2005).

Some population groups that might be interesting are:

- Students whose families have high disposable income
- Individuals who like travelling and appreciate foreign products
- Young people with a well paid job and stylish.

Our communication mix will be aimed mainly at these groups.

### 3.3. Positioning

Positioning is defined by Kotler as “the place that a product or brand occupies in consumer’s mind compared to competing products” (2005, p.432).

Starbucks will be positioned as a *premium brand*, providing high quality products at a high price. According to the *benefits* Starbucks offers, it is important to make clear that compared to other traditional *cafeterias* Starbucks provides a relaxing environment compared to the noisy Spanish style.

Another key part of the positioning is to show Starbucks brand as something trendy, proper of successful trendy people, whereas they can show traditional *cafeterias* as something for old people. Promotion tools must be used to this goal.

This differentiation is essential to the success of Starbucks in Spain given that they cannot compete in prices.
4. Marketing mix

4.1. Product

Product is defined by Kotler as “anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. It includes physical objects, services, persons, places, organisations and ideas” (2005, p.539).

In the case of Starbucks, the products are not only coffees, teas, salads and sweets.

“People don’t buy products, they buy brands” (Willan, M, (2010), Marketing Handouts). The most determinant part of their success is the “Starbucks Experience”. In words of Howard Schultz “At Starbucks, our product is not just great coffee but also what we call the ‘Starbucks experience’ (Michelli, J.A., 2007): an inviting, enriching environment in our stores that is comfortable and accessible, yet also stylish and elegant” (Schultz and Yang, 1997,p.251)

In Spain, Starbucks needs to follow the same direction that leaded them to success in the past. High quality products, offered with an excellent service. This is the “core product” (Kotler, 2005) that must be offered.

Nonetheless, given the strong tradition surrounding the coffee market in Bilbao, and the habits of Basque people, Starbucks is recommended to apply a certain level of adaptation to local tastes by offering some traditional products, mainly in the food category.

4.2. Price

“Setting the right price for a product can be the key to success or failure” (Cateora, Graham, 2002, p.544). Álvaro Salafranca (CEO of Starbucks Spain) rejects the idea of an expensive price. “Is it really expensive to pay 3€ for a coffee? We offer the best coffee in the world, prepared just as our customers want it, served by the kindest people, in an ideal environment that gives you the possibility to work, read, or listen to music. All that just for few Euros. Is it expensive?” (ElPais.com, 17/01/2010)
According to Kotler and Armstrong price is “the amount of money charged for a product or service, or the sum of the values that consumers exchange for the benefits of having or using the product or service” (2005, p.664). As stated by these authors, it is also a common mistake to think that by cutting prices your sales will increase rather than convincing that those prices respond to a higher value.

Starbucks products are comparatively more expensive from the competitors

Therefore, Starbucks should not compete with local outlets in price, but in value of the products and the service, i.e., use a customer-value orientation rather than a cost-value approach.

Nevertheless, considering that the economic situation in Spain at the moment is not the best, it is recommended to enter in the new cities with slightly lower prices, following a penetration pricing strategy which will help to “attract a large number of buyers quickly and win a large market share” (Kotler, P., et al. 2005).

This pricing strategy will be also an important promotion tool that will spread the “Starbucks Experience” among the Spaniards.

4.3. Place (Distribution channels)

Defined by Kotler and Armstrong as “a set of interdependent organisations involved in the process of making a product or service available for use or consumption by the consumer or industrial user” (2005, p.858).

In Spain, Starbucks formed a joint venture with Grupo Vips, a company with 25 years of experience in the Spanish restaurant and retail sector (Starbucks website, 2003). In this particular case, the type of Joint Venture used is the Licensing.

Thanks to this collaboration Starbucks has had access to a new market, benefiting from the local knowledge of the Spanish company. However, joint ventures present also a risk.

According to the research of Bamford, Ernst, and Fubini, 47% over 2000 alliances fail due to a lack of correct planning of both launching and execution, and as a consequence of the channel conflicts. (February, 2004). To overcome these difficulties, both companies need to work in the same direction.
Through its stores, Starbucks reaches directly their customer. As a consequence of this point, the outlet represents a key element for the whole marketing mix.

It is important to locate these stores in strategic places, accessible to our target market and visible to everybody, so that people will notice Starbucks presence.

4.4. Promotion

As stated in the analysis part of this report, a direct consequence of the strong brand name that Starbucks hold is that the company don’t need to use high resources for promoting their offerings. In fact, Starbucks expenditure in advertising represents just 1% of total revenues (Holmes, S, et al. 2002).

However, in some places of Spain Starbucks is not as famous as in the rest of the world. Thus, a promotion mix is needed.

Bearing in mind that the company is incurring in high rent costs due to a premium stores location (which can be considered a promotion tool too), it is important to use the rest of the resources wisely, focusing just in two of the possible tools: advertising and sales promotions.

Advertising:

- Print media: handing out of leaflets in strategic places such as universities, malls, and shopping areas, where it would be likely to find the target market. Make clear in this leaflets that Starbucks is for successful young people
- Facebook & Tuenti: advertising through Faceboook and Tuenti (one of the most used social networks in Spain) is a cheap and necessary way of reaching the target

Sales promotion

- 50% off take away beverages: during the first 3 months. Thanks to the differentiated disposable cups and the logo Starbucks can transform customers into living mobile advertising media.
- Considering the current problems with unemployment in Spain, a recommended pricing tactic is to give special discounts to unemployed
people. This would improve the perception of the brand and transmit a positive message to the local customers.
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