Strategies for International Product Introduction: Starbucks DoubleShot© Meets Mexico

A thesis submitted to the Miami University Honors Program in partial fulfillment of the requirements for University Honors with Distinction

by

Eric Cipra

May 2006
Oxford, Ohio
ABSTRACT

STRATEGIES FOR INTERNATIONAL PRODUCT INTRODUCTION: STARBUCKS DOUBLESHOT© MEETS MEXICO

by Eric Cipra

Starbucks Coffee Company is a specialty coffee retailer with approximately 8,500 locations in over 30 countries worldwide. With a focus on cultivating strong customer relationships through continuous innovation, quality, and people management, Starbucks has become one of the most recognizable brands in the world.

In 2002, the company took two steps toward expansion—it expanded its ready-to-drink product line by introducing Starbucks DoubleShot© to the US market and made the decision to enter the country of Mexico for the first time. DoubleShot©, a unique blend of Starbucks’ signature espresso and cream in a 6.5-ounce can, has proven itself to be a slow-growing domestic success and category leader, and the nearly 72 Mexican Starbucks locations (operated through a joint-venture with Alsea S.A.) have experienced extensive growth and expansion.

Given these factors, coupled with recent experience Starbucks has had in introducing a ready-to-drink beverage into Japan, the timing is ripe for the introduction of DoubleShot© into Mexico. This work will discuss many of the necessary strategies behind a successful international introduction, touching on Starbucks’ history, its global experience, DoubleShot© itself, and an analysis of the Mexican marketplace. Finally, it will conclude by proposing an appropriate strategy for this introduction, taking into account the characteristics most appropriately kept the same and those most appropriately adapted to the market.
Strategies for International Product Introduction: Starbucks DoubleShot® Meets Mexico

By Eric Cipra

Approved by:

_________________________, Advisor
Dr. Gillian Oakenfull

_________________________, Reader
Mrs. Janice E. Taylor

_________________________, Reader
Dr. Antonio Sánchez-Jiménez

Accepted by:

_________________________, Director,
University Honors Program
Acknowledgments

I would like to thank Dr. Gillian Oakenfull, my advisor, for her patience and guidance during this process. Her numerous insights, flexibility and wit made for a “wonderfully warm” and surprisingly stress-free experience. Many thanks are deserved.

I would also like to thank my readers, Mrs. Janice E. Taylor and Dr. Antonio Sánchez-Jiménez, for their ability to provide great feedback while dealing with communication that could be considered patchy at best. Their flexibility and assistance provided fresh insight and the final polish that this work needed during its final two weeks.

I want to express gratitude to Dr. Carolyn Haynes for providing the initial impetus behind this endeavor, from answering silly questions to helping me focus my admittedly broad topic to what it is today.

Finally, I want to thank collectively those around me who were forced to listen to me speak repeatedly about ‘my thesis,’ Starbucks and Mexico all this while. Their patience and understanding proved invaluable, and their humor helped keep me sane.
Table of Contents

Introduction ..................................................................................................................... 1
Starbucks Corporation ................................................................................................. 1
  Overview .................................................................................................................. 1
Global Strategies ......................................................................................................... 6
  History of Global Expansion .................................................................................... 6
  Japanese Operations | Year Entered: 1996 .............................................................. 6
  United Kingdom Operations | Year Entered: 1998 .................................................. 8
  Latin American Operations | Year Entered: 2002 .................................................... 10
Starbucks DoubleShot .............................................................................................. 12
Strategy for Mexico .................................................................................................... 14
  Initial SWOT Analysis ........................................................................................... 14
    Strengths ............................................................................................................ 15
    Weaknesses ....................................................................................................... 16
    Opportunities .................................................................................................... 16
    Threats ............................................................................................................... 17
RTD Market Analysis ................................................................................................. 18
Standardized Elements ............................................................................................. 20
  Segmentation Approach / Target Audience .......................................................... 21
  Positioning ............................................................................................................ 22
  Brand Name ......................................................................................................... 24
  Product Decisions ................................................................................................. 24
  Marketing Communications (Promotional Mix) ..................................................... 25
Localized Elements .................................................................................................... 25
  Packaging Decisions ............................................................................................. 26
  Distribution ........................................................................................................... 26
  Marketing Communications (Message) ................................................................. 28
  Pricing (Competitive and Costs) .......................................................................... 30
Conclusion .................................................................................................................. 31
References ................................................................................................................... 32
# List of Tables

Table 1: Values and objectives of Alsea S.A. ................................................................. 11  
Table 2: Summarized SWOT analysis .............................................................................. 17  
Table 3: Advantages of both standardization and localization ........................................ 19
**Introduction**

The Starbucks Coffee Company is renowned for its ability to cultivate strong customer relationships through the use of continuous innovation, a strong focus on quality, and great people management. From its very inception, it has provided customers with a unique product in a warm and inviting ambience that encourages customers to return frequently. Some of its successes include its specialized dark-roasted coffees and blends, its unique Frappuccinos®, and its espresso beverages such as DoubleShot®. These coffee products began in the retail stores, but in order to establish themselves in a new niche, Starbucks extended the last two to the world of domestic bottled beverages and new retail locations.

This work will focus specifically on the extension of Starbucks DoubleShot® into the international world—one which Starbucks has known intimately for the past 10 years—with Mexico as the country of focus. Taking into account the strategies utilized in its domestic introduction, a study regarding these decisions will be undertaken that will ultimately discuss the Starbucks Corporation itself, the DoubleShot® product, and the international Mexican market (specifically regarding ready-to-drink beverages).

**Starbucks Corporation**

**Overview**

Starbucks Coffee Corporation is a specialty coffee retailer that produces and sells a variety of hot and cold beverages, complementary food items, coffee-related accessories and equipment, teas and other non-food products. As of May 2005, it has
opened over 8,500 retail locations in over 30 countries worldwide. The company itself is headquartered in Seattle, Washington ("Starbucks Corporation" May) and is headed by company-founder and CEO Howard Schultz.

In twenty some odd years, Schultz has transformed what once was a locally-oriented Seattle coffee manufacturer focused on providing its customers with the best in dark-roasted whole beans and ground coffee into a “profitable national retailer with a simple, if radical, growth strategy: investing in employees” ("Starbucks—Investing” 137). In his own words, Schultz succinctly describes the focus of this strategy: “Our only sustainable competitive advantage is the quality of our workforce. We’re building a national retail company by creating pride in—and providing a stake in—the outcome of our labor” ("Starbucks—Investing” 137). This, coupled with a strong mission statement (which can be found below), has served the company very well over its lifetime as it has grown by leaps and bounds yet stayed true to its values. As Schultz says, “We built the Starbucks brand first with our people, not with consumers” (Schultz 245).

“Starbucks Mission Statement
Establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles while we grow. The following six guiding principles will help us measure the appropriateness of our decisions:
• Provide a great work environment and treat each other with respect and dignity.
• Embrace diversity as an essential component in the way we do business.
• Apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee.
• Develop enthusiastically satisfied customers all of the time.
• Contribute positively is essential to our future success.
• Recognize that profitability is essential to our future success.” (Schultz 139)
This people-oriented focus resonates through all levels of the company—Emily Ericsen, head of Human Resources, says “We are in the people-development business almost as much as the coffee business.” (‘Starbucks—Investing’ 137) It is this orientation that allows such a rapidly expanding corporation to maintain relationships with all of its employees—from the executives in Seattle to a newly-hired barista. In essence, it provides a distinctly familial atmosphere. Says Schultz, “how we treat our people is directly related to how we treat our customers and to the quality of our product.” He continues by focusing in particular on one specific segment—“It is inarguable that our part-timers are key to our success.” (‘Starbucks—Investing’ 138)

These part-time employees are the face of Starbucks Corporation. They interact and develop relationships with the consumer, and their level of satisfaction with the company is visible to each customer served. As such, that high satisfaction is heavily important. Several ways that Starbucks has boosted the positive sentiment have been through the introduction of stock options and extensive hands-on training. Company stock options, otherwise known as Bean Stock, are available to employees of 6 months or longer, and the program is structured to achieve both employee and corporate goals (‘Starbucks—Investing’ 138). Additionally, “each is given 25 hours of training before starting work behind the counter. Management trainees attend eight to 12 weeks of classes with titles like ‘Coffee Knowledge 101’” (‘Starbucks—Investing’ 138).

What’s more, the company understands that its stores are billboards for the brand in their own right. As such, Schultz says that “at Starbucks, our product is not just great coffee but also what we like to call the ‘Starbucks Experience’: an inviting, enriching
environment in our stores that is comfortable and accessible yet also stylish and elegant” (251). He continues by positioning Starbucks as a “Third Place” in the lives of consumers, where they can come to take a break from the stresses of the home and the workplace—in essence, a place that offers a rewarding treat and break from the chaos of life.

Some of the product categories for which it has developed products include anything from its signature beverages (such as brewed coffees, Italian-style espresso beverages, cold blended beverages, and roasted whole bean coffees) to both food and non-food items (ranging from sandwiches, salads, pastries, and ice creams to mugs, travel tumblers, coffeemakers, compact discs, and seasonal novelty items) (“Starbucks Corporation” May). Several of Starbucks’ popular brands include: Starbucks, Seattle’s Best Coffee, Torrefazione Italia, Frappuccino, and Starbucks DoubleShot© (“Starbucks Corporation” Jan.).

Recent revenues were as follows: total recorded revenues reached nearly $5.3 billion during the fiscal year ended September 2004, an increase of 29.9% over FY 2003. The retail division accounted for 84.2% of total revenues, the specialty licensing division for 10.7%, and specialty foodservice for 5.1%. More importantly, geographically speaking, domestic revenues were 84.8% and international revenues were 15.2% (“Starbucks Corporation” May). In fiscal year 2005, the story gets even brighter. In December alone, Starbucks reported record sales levels of $532 million, up 26% from the previous year (“Company Spotlight” 19). This healthy increase was due largely to a combination of unique gift solutions, holiday-themed products, and a “renewed emphasis
on the brand’s positioning” (“Company Spotlight” 20). Industry insiders point to the emphasis on the “deliberately self-indulgent Starbucks experience” that is proving to be a hit and an obvious impetus for stronger sales growth. This experience includes providing high-tech, high-comfort store environments that offer a wonderful getaway in which to enjoy its premium offerings (“Company Spotlight” 20).

One of the best qualities of the Starbucks store is its ability to be customizable and shift its product mix based on size and location. For example, larger stores will carry a broad selection of whole-bean coffees in various sizes and types of packaging. Additionally, they have the capacity to offer an assortment of coffee and espresso-making accessories (“Company Spotlight” 18). Even with this unique aspect, a recent MarketWatch Global Round-up bulletin highlights several steps Starbucks should ultimately consider taking to continue its impressive growth. “For Starbucks to continue its strong financial performance” it states, “the company will also have to increase traffic per store and customers’ average transaction value.” It also mentions the need to “continue its current rate of store openings, in particular in non-urban areas, and widen its brand recognition demographically” (“Starbucks: strong coffee” 45). What’s more, through its Specialty Operations division, Starbucks strives to develop its brand name outside the company operated retail environment via such strategies as partnerships and licensing agreements (“Company Spotlight” 21). Most importantly—and appropriately for this work—this source points to the need for expansion of food and drink occasions, specifically mentioning continued development of its ready-to-drink and lunch offerings (“Starbucks: strong coffee” 45).
Global Strategies

History of Global Expansion

As of October 2\textsuperscript{nd}, 2005, Starbucks boasts approximately 572 stores in Japan, 467 stores in the United Kingdom, and 89 stores in four countries of Latin America (with over 60 of these in Mexico alone), among a multitude of locations in other countries worldwide ("United States Securities"). This extraordinary expansion can be attributed to both well-developed market strategy and the tight focus Starbucks maintains on its brand image. In this way, says Tim Craig of DSN Retailing Today, Starbucks has been able to penetrate Europe (and other locales) by “ingeniously creating a sense of indulgence that transcends cultural boundaries. It’s your coffee, made your way, enjoyed in a hip, attractive environment” (6)—and it’s that way, all over the world.

Japanese Operations | Year Entered: 1996

Until Starbucks began its international expansion into Japan, the leading local coffee chain was Doutor Coffee Company, with a total of 453 shops (Shirouzu B1). The market itself was, at the time, the number three coffee consumer behind the US and Germany. Not only that, but the Japanese culture was one of coffee-consumption in varying ways, from traditional hot drinks to ready-to-drink canned coffee offerings. The latter segment in particular was heavily saturated, yet espresso-style drink tastes weren’t overly developed (Shirouzu B1). Thus, when Starbucks entered the market, it brought with it a whole new perspective on the coffee lifestyle.

In fact, according to a Wall Street Journal article that appeared shortly before the first Starbucks opened in Tokyo, “some Japanese coffee-chain operators admit[ted] they
lack[ed] Starbucks' sophistication in what they call ‘packaging the store’: meshing such elements as store design, package design and other merchandising techniques into a compelling identity.” What worried them more, though, was the fact that Starbucks' Japanese partner, Sazaby Inc., “… [was] an expert at upscale retailing that … help[ed] Starbucks project a hip image” in the Tokyo market (Shirouzu B1).

As the first push outside North America (Shirouzu B1), the entrance into Japan received much attention and forethought. Starbucks built a mock-up store in its Tokyo office, where it went about tutoring future managers on things such as how to make a latte and the difference between "tall" and "grande"—names the company decided to use untranslated (Shirouzu B1).

More recently Starbucks came full circle, deciding to introduce its first international ready-to-drink coffee product in Japan (Madden 20). Starbucks Discoveries, as it is called, was introduced to the Japanese and Taiwanese markets in October of 2005 (Madden 20). The decision to launch such a product came after extensive consumer research into the market, with the vast majority of customers in Asia suggesting that a cold ready-to-drink coffee was the “best way for Starbucks to enter the retail market outside of their retail stores” (“Starbucks launches…beverage”). Starbucks Discoveries is described as a “fresh, chilled cup coffee drink with a short, 14-day shelf life” (“Starbucks launches new…”). The initial offering provided two flavors, Seattle (latte), named after the birthplace of Starbucks, and Milano (espresso), named for the Italian city and honoring the development of the first espresso maker (“Starbucks launches…beverage”).
In order to successfully manufacture and distribute Starbucks Discoveries in the Japanese market, Starbucks entered into an agreement with Suntory Ltd. in May 2005 for the production and distribution of the product. Additionally, Starbucks Coffee Japan, Ltd. has “provide[d] ongoing consulting support including local brand and marketing expertise” for this market (“Starbucks launches…beverage”). In neighboring Taiwan, an existing joint-venture with President Starbucks Coffee Taiwan Limited was utilized for marketing and distribution of the coffee drink, while Uni-President Enterprises Corporation was charged with its manufacture (“Starbucks launches…beverage”).

Even though it was facing difficult odds—“with chilled ready-to-drink coffee, Starbucks is moving very late into a highly competitive market. The Japanese love coffee but the market is saturated with products” (Madden 20)—it was still well-received and proved to be a great success. In fact, it still sells out all of its daily production, and has been recognized as one of the top new products of 2005 by the Nikkei Marketing Journal (“Starbucks launches new…”).

United Kingdom Operations | Year Entered: 1998

When it acquired the Seattle Coffee Company, a retail coffee chain with 60 locations based in the United Kingdom, in 1998, Starbucks began its first venture onto the European continent. The United Kingdom was an interesting choice since it was a land entrenched in the tradition of drinking tea. Even so, during Starbucks’ initial expansion, its first challenges came in the form of “high-real estate costs and management problems” (Ball B1). Even with these early setbacks, within seven years London grew to house more Starbucks outlets than New York City (with approximately
200 vs. 190, respectively). Outside the capital, another 266 Starbucks can be found competing with a number of local chains (‘A Spot of Frappuccino’ 64), for a total of nearly 470 locations.

Its successes come not from the older generations, who yet maintain their traditional consumption of tea, but from the younger generations who are embracing the products and lifestyle Starbucks offers. Many 20-somethings interviewed purchase items ranging from a single caramel frappuccino for £3.30 ($5.78) to an array of items—say, a mocha frappuccino, caffè latte, cappuccino, and a piece of chocolate cake—for nearly $20 [£10.60 ($18.55)] (Ball B1)—and do so several times a day. Ultimately, this purchasing power and quick growth has been attributed to the nation’s recent economic boom and rise of low airfares, providing, in the words of Mr. Martin Coles, president of Starbucks International, “…enough disposable income to pay for the fancy coffee drinks they have discovered on trips to the U.S. and continental Europe” (Ball B1).

Most importantly, the rise in consumption by the younger generations not only has attracted increasing visits that translate into higher revenues, but visit lengths are also much longer than in other global locations. Nearly 80% of all British Starbucks customers stay in the store to consume their beverage, offering the opportunity to sell food items as well (in contrast, in the U.S. market nearly 80% of customers buy their drinks and leave) (Ball B1). Additionally, the British locations have demonstrated an ability to create product innovations that become global favorites, most notably the Strawberries and Cream Frappuccino © (Ball B1).
After pondering several locations in Latin America (namely: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Puerto Rico and Venezuela (Bruss 8)), Starbucks decided to open locations in mid-2002 in both Mexico and Puerto Rico (“Starbucks 2002”). Of distinct importance here is, of course, the Mexican market (on which this section will focus).

Starbucks decided upon the Mexican market in order to coax more Mexicans into drinking one of their largest exports—and to take advantage of the Mexican population scope of nearly 100 million inhabitants (Case 1). One of the first challenges, according to the *Dallas Morning News* of March 2002, was “to convince more people that they need extra shots of caffeine from morning to noon to night” (Case 1) by promoting and expanding a coffee culture that is relatively weak (per capita consumption in 2002 stood at a mere 2 pounds annually) (Case 1).

In entering the Mexican market, Starbucks needed to decide upon an entrance strategy. Judging from past experiences, several options at their disposal were joint-venture and acquisition of existing chains. In this case, however, Starbucks decided to enter into a joint-venture with Alsea, S.A. de C.V., the leading operator of restaurants in Mexico (the majority of which are brands initially developed in the United States). The joint-venture, of which Starbucks holds only 20%, uses Starbucks coffee expertise with Alsea’s well-developed distribution network “to fuel Starbucks’ growth” (Case). Additionally, Alsea has very similar value statements and objectives to those of Starbucks, which made it an even more compatible partner:
“Valores: Lo que nos hace grandes
SERVIR
Gente, lo más importante
Respeto y lealtad
Excelencia personal
Compromiso
Orientación a Resultados
Servicio al cliente”

“Los objetivos que integran nuestra visión:
• Satisfacer al cliente, excelente operación
• Ser el líder en el mercado
• Ser el empleador preferido
• Ser el socio estratégico
• Crear valor para el accionista”
(“Quiénes Somos”)

“Values: What makes us great
TO SERVE
People, the most important
Respect and royalty
Personal excellence
Compromise
Results-orientation
Client service”

“The objectives that integrate our vision:
• Satisfy the client, excellent operation
• Be the market leader
• Be the preferred employer
• Be the strategic partner
• Create value for the shareholder”

Table 1: Values and objectives of Alsea S.A.
(translated with some assistance from http://babelfish.altavista.com/tr)

Since the first store opened in 2002, expansion has been steady and revenues have increased year-on-year. As it currently stands, according to facts obtained from Alsea and Starbucks’ records, there are approximately 76 Starbucks locations in Mexico, concentrated largely in the Federal District of Mexico City (“Starbucks 2002”) and in locations such as: Zapopan (Jalisco), Puebla (Puebla), Cuernavaca (Cuernavaca Morelos), Naucalpan (Estado de Mexico), and the airport of Guadalajara (“Tiendas”), among others. According to the recent (2/2/06) document, “Alsea informa su plan de aperturas 2006” [Alsea informs its 2006 opening plans], Alsea wishes to open 48 additional Starbucks locations by December 31, 2006, bringing the total to 124 (“Alsea Informa”).

In financial terms, Starbucks Mexico has proven to be very profitable for Alsea in the past two quarters. In the most recent statement that breaks total revenue down by
brand, that of quarter three, 2005, Starbucks Coffee garnered $93.1 million net pesos, up from $48.5 million net pesos in the same period of 2004—an improvement of 92.0% (“Resultados y Hechos”). This increase has been attributed both to an increase of 28 stores over the period and increased same-store sales (“Resultados y Hechos”)—both of which point to sustained growth.

Each of the Starbucks Mexico locations offers a very comparable menu of products to those offered in the United States. For example, they offer almost all of the same hot and cold beverages (from a caramel macchiato and espresso to a Frappuccino de frambuesa [strawberry] and caffè latte helado [frozen]). Additionally, they offer breads, pastries, sandwiches, cakes, and chocolate (“Productos”). The largest difference, however, is the distinct absence of ready-to-drink beverages as part of the typical product line.

Starbucks DoubleShot

Starbucks DoubleShot© is manufactured and distributed by the North American Coffee Partnership (a fifty-fifty joint-venture between Starbucks and PepsiCo that allowed Starbucks a substantial degree of ownership and control over brand equity and product formulas (Schultz 222)). This partnership was first formed in 1994 with the introduction of the Frappucino© drink (“Two Cool Coffees” 80), and was given the ultimate goal of “creating new coffee-related products for mass distribution, including cold coffee drinks in a bottle or can” (Schultz 222).
The DoubleShot® product itself is described as an “Espresso & Cream” blended coffee drink (“Starbucks DoubleShot”). It exudes a “delicious intensity of espresso mellowed by a touch of cream” (“Starbucks hits supermarkets…again” 7). The effectiveness brief prepared by Fallon New York for its DoubleShot® ad-campaign proclaimed that “it’s an intense hit of coffee that gives you an invigorating morning pick-me-up, in a great tasting and convenient format. It helps you start the day with a spring in your step, instead of being grumpy and tired” (“Effie Awards”). In concrete terms, Starbucks DoubleShot is available in a single-serve 6.5-ounce can (“PepsiCo and Starbucks” 25) or 24-can cases (“Two Cool Coffees” 80), and it generally has a manufacturer’s suggested retail price (MSRP) of $1.99.

Its target audience has been described in various terms. While Starbucks itself declines to say specifically who it targets, according to a recent product release and the aforementioned effectiveness brief (coinciding with its television advertising) the general target has been young adults who drink specialty coffees (“Starbucks DoubleShot”), who are characterized as “Intensity Hunters”: passionate; seize and actively experience life; crave fresh, novel, intense experiences and seek out the new and exciting; quite young and active (“Effie Awards”). Additionally, this group tends to have a high index for listening to music and a general desensitization to marketing (“Effie Awards”).

Starbucks DoubleShot® was initially test-marketed on the west coast in various California cities (“PepsiCo and Starbucks” 25), and from there became “…available in the cold-drink case of supermarkets, convenience stores, mass merchandisers, and Starbucks” (“Starbucks hits supermarkets…again” 7) across the nation.
In order to promote this new offering, Starbucks enlisted the help of Fallon, New York to create a campaign with specific goals. These included: “Increase awareness; offer clear reasons for when and why you’d want to drink DoubleShot, in order to motivate trial; hit our sales target of at least 10% growth; and create brand fame, with a campaign that would get talked about” (2004) (“Effie Awards”). In order to reach these goals, Fallon utilized a strategy promoting Starbucks DoubleShot as “Liquid Motivation for the day ahead” (“Effie Awards”). The “launch [was] supported with “TV, print, internet, and outdoor advertising, as well as in-store merchandising and targeted store sampling” (“Two Cool Coffees” 81). More specifically, in the television arena such highly engaging, entertaining, and music-centric targeted national cable channels were utilized, including MTV, MTV2, Fuse, ESPN, ESPN2, and Spike (“Effie Awards”). The “Print campaign feature[d] two-page spreads in publications including Entertainment Weekly, Rolling Stone, InStyle, Jane, Vanity Fair, and ESPN Magazine” (“New Starbucks ads” 50). Other highly targeted and unconventional strategies were used, including regional sampling at 10 ski resorts and selected music venues and Infinity radio programming in San Diego (“Effie Awards”). In all, for the initial launch campaign total media expenditures fell between $5 million and $10 million (“Effie Awards”).

**Strategy for Mexico**

**Initial SWOT Analyses**

A SWOT analysis (that is, strengths, weaknesses, opportunities and threats) is a four-pointed review of the market situation in any given location. Focusing on these aspects in regard to both Starbucks Coffee Company and Mexico itself will allow for an
important overview of the potential positive and negative issues facing the introduction of DoubleShot© into Mexico. This information will then be taken into account when creating the overall strategy (which will be discussed later). What follows now is the analysis:

**Strengths**

**Global presence** | Starbucks is widespread, operating a staggering number of company-owned and licensed retail locations in countries worldwide. This widespread presence “provides it with widespread brand recognition and a strong customer base” (“Starbucks Corporation” Jan.).

**A disciplined innovator** | Starbucks adheres to a process of continuous improvement and innovation, especially when it comes to its product line. This not only increases the appeal of visiting a Starbucks, but also increases the consistency of same store sales—regardless of operating country. This is truly a considerable advantage for the company (“Starbucks Corporation” Jan.).

**Current penetration of Mexican market in several locations** | The current joint-venture with Alsea S.A. de C.V. has positioned Starbucks with nearly 76 locations in Mexico, with nearly 50 additional locations to be opened by the end of 2006. This strong presence in the market makes Starbucks a household name, garnering not only familiarity but also recognition.

**Recent introduction of Starbucks Discoveries into Japan** | Having just recently taken a ready-to-drink outside North America for the first time in late 2005, Starbucks has background and knowledge that will prove to be transferable (if not completely so) to
this situation. This could cut down on financial expenditures, turnaround time, and general uncertainty.

Weaknesses

**Bottling plant located in central United States** | Currently, Starbucks DoubleShot is only manufactured and bottled in a plant located in Missouri, using 6.5-ounce cans sourced from New York. The issue of moving the beverage from Missouri to Mexico City could prove both a challenging and expensive proposition.

**Nature of joint-venture gives less domestic control** | Given that the joint-venture established between Starbucks and Alsea is 80:20, Starbucks will relinquish much of its control over the execution of the Mexican introduction of DoubleShot.

Opportunities

**Macroeconomic stability and growth under the Fox government** | During Vicente Fox’s tenure, the emphasis on macroeconomic stability has helped do the following: improve the fiscal books, lower inflation and lower interest rates (“Chapter 2: Economic Outlook” 7). Any and all of these factors provide a much more favorable marketplace overall, which can only help during a new product introduction.

**Increased market share plus ability to develop a new segment** | With the introduction of DoubleShot, Starbucks has the opportunity to take a small niche market and, using its established brand equity, increase both market share (of which the RTD Coffee & Tea segment holds only 0.10% of the total soft drink market) (“Soft Drinks in Mexico”) and diversity of products offered.
Most heavily penetrated Latin American market | To date, the Mexican market has the overwhelming majority of Starbucks locations in Latin America, with the second highest number of retail locations falling to Chile with a mere 11 stores as of October 2, 2005 (“Starbucks 2002”).

Threats

Potential future political unrest | The presidential elections, scheduled for this summer (2006), have the potential to “provoke investor nervousness and ultimately, capital flight” (“Chapter 2: Economic Outlook” 7).

New coffee-consumption legislation may create local competition | Currently, there are various products on the market in Mexico that can be considered ready-to-drink, but are not all a coffee-based beverage. Those that are, however, could constitute a certain level of competition.

<table>
<thead>
<tr>
<th><strong>Strengths</strong></th>
<th><strong>Weaknesses</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Global presence</td>
<td>Bottling plant located in central United States</td>
</tr>
<tr>
<td>A disciplined innovator</td>
<td>Nature of joint-venture gives less domestic control</td>
</tr>
<tr>
<td>Current penetration of Mexican market in several locations</td>
<td></td>
</tr>
<tr>
<td>Recent introduction of Starbucks Discoveries in Japan</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Opportunities</strong></th>
<th><strong>Threats</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Macroeconomic stability and growth under the Fox government</td>
<td>Potential future political unrest</td>
</tr>
<tr>
<td>Increased market share plus ability to develop a new segment</td>
<td>New coffee-consumption legislation may create local competition</td>
</tr>
<tr>
<td>Most heavily penetrated Latin American market</td>
<td></td>
</tr>
</tbody>
</table>

Table 2: Summarized SWOT analysis
RID Market Analysis

As a relatively young and vibrant segment of the bottled beverage market, the ready-to-drink tea and coffee markets in Mexico have broad data that is generally grouped together with both hot drinks and soft drinks—not unlike Starbucks, which places itself into a unique category that offers both hot coffee drinks in its retail stores and ready-to-drink beverages in a variety of retail locations. In this way, it is important to recognize the Mexican market for what it is—a distinct environment.

To begin, the hot drinks market—which “consists of the total revenues generated through the sales of coffee, tea and other hot drinks” (“Hot Drinks”)—in Mexico had a total market value of $10.8 billion pesos [or $957.4 million] in December 2005, which comprised a 7% growth in revenues from the previous year (“Hot Drinks”). With such a level of continued growth, the forecast for the year 2010 exceeds $15 billion pesos [or $1329.2 million]—an increase of approximately 38.8% from 2005 value (“Hot Drinks”).

Hot coffee specifically comprises approximately 38.4% of the hot drinks market in Mexico. Given this information, its total market value was $4.15 billion pesos [or $367.64], and its projected value in 2010 (assuming its market share remains constant at 38.4%) falls at $5.76 billion pesos [or $510.41 million] (“Hot Drinks”). The market leaders include such companies as Girathe SA de CV with a 34.5% share and Nestle, S.A. with a 16.1% share. Independent hot-drink retailers—such as Starbucks—hold 25.1% of the remaining market share (“Hot Drinks”).

In terms of read-to-drink beverages specifically (which, as stated above, have been combined, for data-reporting purposes, under the “soft drink” umbrella), the total
market share consists of 0.10% for both coffee and tea. This equates to a total market value of $21.26 billion pesos [or $1.88 billion as of December 2005] (“Soft Drinks”). While the sales of cola-flavored soft drinks have fallen in Mexico due to increased health awareness, sales of ready-to-drink coffee have increased, largely attributed to “their popularity with the younger population (“Soft Drinks”). In terms of future sales, projected estimates place the entire soft drink market as having a value of $287.1 billion pesos [or $25.4 billion] by the end of 2010—an average growth rate of 6.2%—of which RTD Coffee & Tea will have a total market value (assuming its market share remains constant at 0.10%) of $28.71 billion pesos [or $2.54 billion] (“Soft Drinks”).

Taking all of this information into account, building a strategy for the introduction of Starbucks DoubleShot into Mexico becomes a lesson in standardization versus localization. According to notes offered by Dr. Gillian Oakenfull, Associate Professor of Marketing at Miami University, there are several advantages to both standardization and localization that apply to this situation. These advantages are provided below:

<table>
<thead>
<tr>
<th><strong>Standardization</strong></th>
<th><strong>Localization</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Economies of scale in production and distribution.</td>
<td>Differences in market and economic development, consumer needs, media availability and legal restrictions.</td>
</tr>
<tr>
<td>Lower marketing and advertising costs.</td>
<td>Usage patterns and perceptions of a product may vary from one country to another.</td>
</tr>
<tr>
<td>Ability to exploit good ideas on a worldwide basis.</td>
<td>Cultural differences make advertising standardization difficult.</td>
</tr>
<tr>
<td>Consistent brand and/or company image in all markets.</td>
<td>Climate, geography, and infrastructure concerns and/or differences.</td>
</tr>
<tr>
<td>Simplification of coordination and control of marketing and promotional programs.</td>
<td>Differences in general customer expectations, preferences, and buyer behavior.</td>
</tr>
</tbody>
</table>

*Table 3: Advantages of both standardization and localization*
With specific regard to this situation, many elements that would normally require extensive research and decisions here have already been established and standardized under the brand image of Starbucks Coffee Company. Additionally, with four years of experience in Mexico already, from consumer behavior research to appropriate distribution channels, the typical entrance obstacles have already been surmounted.

**Standardized Elements**

Starbucks has a commitment to creating a “Third Place” for its customers, and this vow is upheld by its ability to take the best features of its stores and implement them worldwide. From the color palettes and layouts used for the store design to the most popular beverages, Starbucks has continually advanced its brand while maintaining consistency across all locations. According to Howard Schultz, “customers choose to come to us for three reasons: our coffee, our people, and the experience in our stores” (249), and these remain consistent across markets:

> “After you place your order, you’ll usually hear the cashier call out the name of your drink, and then hear it echoed back by the barista. The hiss of the espresso machine, the clunk-clunk as the barista knocks the coffee grounds out of the filter, [and] the bubbling of the milk steaming in a metal pitcher … for our customers, these are all familiar, comforting sounds” (Schultz 253).

As you can see, even the sounds in a Starbucks store are used to evoke familiarity, and this is one of the main reasons to keep various elements of this Mexican marketing strategy standardized.
Following squarely in the footsteps of expansions in the past and utilizing tried-and-true strategies that are generalized across all markets will keep a seamless brand image—especially for a location such as Mexico, which is situated so close to the United States. In this way, the consistency of the overall Starbucks Coffee brand image and equity will remain intact, even as certain aspects of the introduction are customized for Mexico.

**Segmentation Approach / Target Audience**

In terms of market segmentation, it’s important to look back and understand the Starbucks approach to segmenting the market—both with its decisions on where to locate its stores and on where to initiate product launches. As Howard Schultz states, Starbucks developed a “market entry strategy that began by hiring a local public relations firm to help [them] understand the heritage of a given city” (255). As outlined in his book, Starbucks was very selective about the initial entry-location in a given city: “early in our store-opening sequence we always picked a flagship site, a very visible location in a busy part of the city, to build a high-profile store, such as those in Dupont Circle in Washington, D.C., and Astor Place in New York’s Greenwich Village” (255). For this reason, Starbucks chose the metropolitan area of Mexico City in which to open its first Starbucks location in 2002.

In a similar vein, the Starbucks DoubleShot© introduction took place in locations that were highly visible and were able to focus on influence and passion: cities along the west coast of the United States. Not only is this region open to embracing new and exciting innovations in the coffee industry, but it has been familiar with Starbucks since
its infancy. Likewise, introduction of DoubleShot© to Mexico will focus on similar types of geographical locations that offer the same characteristics as those focused upon in the United States (since Mexico City has the highest concentration of Starbucks and likely the most influence).

Given this geographic information, the audience targeted for this expansion will largely parallel that utilized for Starbucks DoubleShot in the United States and for Starbucks in general in other international locations such as Japan and the United Kingdom. In psychographic terms, this market is largely comprised of young, active adults characterized as “intensity hunters”: they are passionate people who seize and actively experience life. They desire fresh and new experiences and seek out the intense and exciting (“Effie Awards”). As specified in a recent Datamonitor report, the RTD Coffee & Tea segment in Mexico already has seen a boost from the younger population; the target audience listed above fits nicely with this demographic and psychographic information.

Additionally, on a behavioral level, it is important that this audience knows and loves Starbucks, as Starbucks DoubleShot will be available through Starbucks stores during its introductory period. As such, leveraging this association in order to build usage and trial of DoubleShot© is important to overall success of the launch.

Positioning

Positioning of the Starbucks DoubleShot© brand too will remain much the same in Mexico as it is in the United States. It will focus on usage occasion, positioning DoubleShot© as a beverage that helps one to start strong and maintain vigor throughout
the day. “Bring on the Day,” (“Starbucks adds buzz” & “Fallon Sets Musical Mood”) shouts the copy in several 2003 and 2004 spots that bolstered the domestic product launch. This same idea will be created in the Mexican market which, as has been previously mentioned regarding the trends in ready-to-drink coffees among the younger generations, gives Starbucks a unique advantage within this growing segment of the market. Additionally, the positioning will emphasize the quality that Mexico City residents already have come to see in the Starbucks brand, using this established cache as its leading “reason to believe” (that is to say, the reason consumers will seek out DoubleShot© in the first place). As such, this positioning will aid Starbucks in reaching and cultivating a loyal market that will purchase this product well into the future.

Starbucks must be sure to emphasize this positioning firmly, however, due to the fact that there already exists at least one direct competitor. Café Punta del Cielo is a Mexican coffee chain that maintains various locations around Mexico, serving freshly brewed coffee, as well as offering granulated coffee and two ready-to-drink beverages—one of which is a canned espresso drink (de la Iglesia 44). Adding to the similarities, its contemporary focus includes the young, active market and targets it using slogans like “Stimulate yourself with coffee” (de la Iglesia 45). It also utilizes little traditional advertising, opting instead for literature and sponsorships to spread the word. While this constitutes direct competition for Starbucks DoubleShot©, the young entrepreneur behind Café Punta del Cielo, Pablo González Cid, is quick to explain why there is room for everyone in the Mexican market: “There are people who want to enjoy an Italian coffee,
people who with the style at Starbucks, and people who want to enjoy what Mexico produces well” (de la Iglesia 45).

Brand Name

As has become apparent, the product in question has been referred to as Starbucks DoubleShot© throughout this work. The brand name “Starbucks DoubleShot©” will remain exactly the same, unchanged and un-translated, in order to promote consistency among the canned coffee offerings. Granted, the canned coffee product recently introduced into Japan (Starbucks Discoveries) utilized a new and separate brand name. However, an important difference is that this market is not situated directly adjacent to the United States. Potential media overlap, constant flow of people, and branding concerns make the need for consistency with the US market much more important in the Mexican market.

Product Decisions

The Starbucks DoubleShot© product itself, as described earlier, is a canned beverage that is a refreshing blend of espresso and cream. This combination of elements will remain the same as the product is introduced into Mexico, since the Starbucks focus on dark-roasted, intensely flavored coffee is already available and accepted in the portions of the country where Starbucks has located itself. To start in such a manner—that is, by maintaining the simple yet flavorful mixture of espresso and cream—will provide a good base for the Starbucks ready-to-drink product portfolio in Mexico.
Additionally, the product itself will be available in 6.5-ounce single-serve cans initially, as it will be available through Starbucks locations only as it enters its introduction phase. The four-pack will not be used, as all Starbucks products in Mexico (from the traditional drinks to the beans themselves) are currently only available through Starbucks stores, and thus only in single-serve sizes.

Marketing Communications (Promotional Mix)

As exemplified in Howard Schultz’s book, the marketing stance taken by Starbucks has always been (at its core) that of relatively low amounts of media spending and high levels of community involvement and word-of-mouth. As Schultz says, “…we try to integrate our stores into the fabric of the local communities. Community events and sponsorships became an ongoing part of our marketing work…” (255). To this end, the style of marketing communications in Mexico will uphold this focus, utilizing the events with which Starbucks is already involved (including specialized media outlets or channels) to showcase DoubleShot©—assuming the fit is appropriate for the target.

Localized Elements

Even with the multitude of elements remaining unchanged from the United States to Mexico, there are many issues that must be developed, resolved, and localized to the Mexican market. As has been offered before, there are many reasons to localize sections of the marketing strategy to the new market, and the following headings require the largest amount of localization: packaging decisions, distribution, marketing communication (message), and pricing (competitive and costs). While this proposition
will no doubt increase the cost and complexity of the product launch, it is a vital step that will help Starbucks to conform to local standards and properly understand the Mexican Starbucks-branded ready-to-drink coffee product consumer.

Packaging Decisions

The actual packaging of the DoubleShot\(^\circ\) product will be brought into compliance with stated Mexican labeling laws. While the size (6.5-ounce) and coloring (hues of green, black, and brown) will be kept the same in order to maximize economies of scale (in terms of the actual cans) and to compensate for potential overlap between the US and Mexican markets, all pertinent writing on the label is required to be translated into Spanish. In the words of the Official Mexican Standard (NOM-051-SCFI-1994) of General Specifications for Labeling Prepackaged Foods and Nonalcoholic Beverages, “The information contained on the labels of prepackaged foods and non-alcoholic beverages must be truthful and be described and presented in such a way as not to lead to error on the part of the consumer regarding the nature and characteristics of the product” (“Official Mexican Standard” 8) Some of the various specific items that must be included are: name, list of ingredients, net content mass, name and fiscal domicile, country of origin, batch identification, expiration date, nutritional information, and presentation of mandatory requirements (“Official Mexican Standard” 9).

Distribution

The means of distribution in Mexico will be distinct from that used in the United States. One of the largest differences is that Starbucks owns and operates all of its
domestic store locations. As such, Starbucks does not relinquish control of merchandise routed to its retail stores at any point from the fresh bean purchasing to roasting stage to its transport nationwide. This extreme vertical integration—as Howard Schultz puts it, “Starbucks is not only a brand but also an importer, a manufacturer, a retailer, a wholesaler, and a direct-mail business” (261)—is a difficult proposition for most companies in the United States and even more so in other locations around the world. For Mexico specifically, Starbucks cannot maintain such tight control due to its joint-venture with Alsea S.A.

Already, Starbucks and Alsea are strong partners with regards to the Starbucks brand, retail locations, products and services. As such, Starbucks North America has no control over any product once it enters Mexico as Alsea oversees all of its own distribution thanks to its distribution wing, Día (Distribuidora Internacional de Alimentos or International Distributor of Foods). Día has five separate distribution centers located strategically around Mexico: Mexico City, Hermosillo, Tijuana, Monterrey, and Cancún (“Centros de Distribución”). As a subsidiary of Alsea, Día will have an exclusive distributorship of DoubleShot® after it enters Mexico. The steps in the process will take place as follows, keeping in mind that the ultimate goal is efficiency and the streamlining of the three discrepancies: bulk, or quantity of product delivered to a location; assortment, or the types of products available; and timing, or the frequency of shipments to a given location):

- The 6.5-ounce aluminum cans will be produced and labeled according to Mexican labeling requirements by Ball Corp. at its plant in Walkill, NY. Starbucks has a
relationship with this company as it already produces cans for DoubleShot© in the United States (“Starbucks, Pepsi introduce” 2).

- Once finished, the cans will be shipped to Springfield, MO where DoubleShot© is produced by the “same Dairy Farmers of America plant that produces Frappuccino©.” It will be canned using a process of cold-filling and retorting (“Starbucks, Pepsi introduce”).

- Once canned, the DoubleShot© will be transported via truck to the United States-Mexico border where it will pass through the appropriate authorities.

- Alsea S.A., via its distribution arm Día, will take control of the merchandise at the border and take it directly to its distribution center in Mexico City.

- At this distribution center, the large shipments of Starbucks DoubleShot© will be offloaded and broken into smaller amounts, and then repackaged with other Starbucks products before being sent to the retail locations. While the bulk shipments will come more infrequently, the retail locations will have access to Día drivers on a consistent basis. From its website, it mentions that its “monthly base” of visits include “2 visits to 123 cities along 308 distribution routes” (“Quiénes Somos”).

- Finally, the DoubleShot© inventory (included in an assortment of items) will be delivered to Mexico City retail stores and the other outlying Starbucks locations.

Marketing Communications (Message)

As has been discussed in the section regarding standardized marketing communications, the promotional mix elements to be used will not change (that is,
community events and sponsorships that garner positive word-of-mouth will retain heavy focus). However, the message itself will be tailored to local culture and important lifestyle norms. For example, since Mexicans are very hospitable and enjoy conversing and socializing with friends or relatives ("Mexico: United Mexican States"), Starbucks already focuses heavily on the ambience and ability to lounge and talk with others in its stores. While this is largely inherent to the marketing and branding of the Starbucks retail store, for a canned product that lends itself more readily to eating/drinking on the go (something, unfortunately, that currently is considered inappropriate for adults ("Mexico: United Mexican States")), other tactics must be utilized.

The emphasis on relationships and friends would be the perfect angle from which to focus the stance of any buzz surrounding DoubleShot©. Rather than coercing people into the stores to spend their time chatting, DoubleShot© lets you quickly and easily take your morning pick-me-up anywhere you want. Once there, you can spend quality time gearing up for the day with friends, your family, or others. Also, since many urban professionals who often eat meals at restaurants or street-side stands ("Mexico: United Mexican States"), if you’re on your way to the office you can grab a bunch to share with coworkers. In other words, Starbucks DoubleShot© will not only vitalize you for your day, but can be a great intra-office beverage to share.

In reference to the previous DoubleShot© advertisements mentioned (which, again, ran domestically), the overall positioning would remain the same while the message would be tweaked to fit this focus on relationships. For example, the ideas of “Bring on the Day” and “Liquid Motivation” would stay, but they would be encompassed
within a focus on sharing the motivation and delicious espresso with friends and enjoying it together. As such, it would be more than “Bring on the Day”—it would be “Bring on the Day Together.”

Pricing (Competitive and Costs)

Obviously, overall pricing issues will differ substantially in Mexico from that in the United States. While production costs will stay relatively constant, additional costs will be incurred during the distribution phase as DoubleShot© makes its way to Mexico. Many of these freight and importation costs will be absorbed into the ultimate consumer price. For example, those incurred from the Mexican border to the retail locations will be folded into the retail price. Those incurred from initial production until the Mexican border will be folded in, taking into account that these are costs incurred by Starbucks North America on which it will see reduced revenues (as per its 20:80 joint-venture with Alsea).

Additionally, it is important to take into account the lower gross-national-product per capita of the Mexican market (which was approximately US$6,000 in the year 2000 as compared to the United States’ of approximately US$38,000 (“Gross National Product”)). This lower standard of living requires reduced pricing—a practice that Starbucks already employs. In fact, there exists a Starbucks index that measures coffee prices around the world using the price of a Starbucks tall latte. According to this index, in June of 2004 the price in the United States was US$2.80, whereas in Mexico it was (using the provided figure of a 15% undervaluing of the dollar and simple math) approximately US$2.38. Following this formula, given the assumption that the published
2004 data remains equal, the projected price for a Starbucks DoubleShot© in Mexico based on a current estimate of US$2.55 per can in the United States would be US$2.17.

Conclusion

Starbucks Coffee Company has the international experience, joint-venture, and resources to feasibly introduce DoubleShot© into the Mexican marketplace. The outline of information regarding this extension listed above, coupled with the discussion of Starbucks itself, the DoubleShot© product, and the international Mexican market (specifically regarding ready-to-drink beverages), is one appropriate way in which this can be achieved. Granted, these are but projections and are subject to more refined data (for example, proprietary trends-analyses that Starbucks would have access to) that may change their focus. Even so, the outlined strategy for the introduction of Starbucks DoubleShot© into Mexico takes into account the intricacies of both the product and the Mexican culture, and should effectively bring DoubleShot© into the public consciousness.
References


Case, Brendan M. “Starbucks Targets Latin America with First Mexico Shop.” *Dallas Morning News (TX)* 26 March 2002.


