

International Business: Expansion of Starbucks to Pakistan

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Abstract- The following is extensive research acting as a member of the 'Global Strategy Team' in Starbucks. Starbucks is a global coffee chain that currently owns almost 29,039 stores around the world. The aim of the report is to shed light on the international expansion of Starbucks in Pakistan. The study investigates motives of internationalization, extensive analysis of environment scanning and assessing its prospectus. The findings are based on the annual reports of the company, academic literature and statistical data of government of Pakistan. The report cannot refrain drawbacks and shortcomings of the company, due to the problems and complexities in finding the scholarly data to support the critical analysis; along these lines, it has considered a few online materials as non-scholastic sources. A couple of recommendations are drawn taking into account the intended research.

Index Terms- Globalization, Marketing mix, Marketing strategy, Environmental scanning, Organisational architecture, Global standardization of products, Human resource management.



1. Introduction of Starbucks and its current strategies

Starbucks can be tagged as one of the biggest success stories in American history. It started with smooth beginnings and managed to pin their image in the minds of people on the top of the priority. 'Inspire and nurture the human spirit - one person, one cup, and one neighborhood at a time.' (Lawrence, 2019) As the vision and mission have enabled it to prevail in a quick pace world, and Starbucks's faithful clients have stuck by their most loved brand through everything. It has also bagged numerous awards at a global level such as 'One of the world's most admired companies by Fortune from the year 2009 to 2017' (Fortune, 2019)

'The first Starbucks opened in Seattle, Washington, on 31 March 1971, by three partners who met while they were students at the University of San Francisco: English teacher Jerry Baldwin, history teacher Zev Siegl, and writer Gordon Bowker.' (Johnson, n.d.) Kevin Johnson is the Chief executive officer of Starbucks corp. as of 3 April 2017. 'Starbucks operates in 76 countries with almost 28,039 stores as of January 2018.' (Smith, 2019) It mainly follows global standardization strategy to maintain uniformity in the product offerings.

2. Motives of Internationalization and justification to enter Pakistan

According to the United Nations development report, Pakistan currently has the largest population of young people ever recorded in its history (Kundi, 2018). 'Pakistan's rising middle-class level is ascending the consumer spending' (Arifeen, 2018) and it can be seen that the urbanized youth is 53.66% (Population by selective age groups - Pakistan Bureau of Statistics) which can be interpreted as growth of premiumization among the youth and therefore comprehends the basic target market of Starbucks that is urbanized and on-the-go spenders. In short, taking the right decision to enter

the Pakistani market might ascend the successful growth of Starbucks.

Administrative Unit	less than 5 Years	less than 10 Years	less than 15 Years	18 Years and above	15 to 64 Years	65 Years and above	(In percent) Age dependency ratio.
Pakistan	14.80	30.45	43.40	51.25	53.09	3.50	88.34
Rural	15.69	32.18	45.06	50.05	51.16	3.78	95.46
Urban	13.00	26.98	40.07	53.66	56.98	2.94	75.5

Fig 1: Population by selective age group

In recent years being a tea-lover country Pakistan has gained tremendous growth in coffee culture as students and corporate businessmen prefer café as a decent platform to socialize as well as conduct informal business deals. (Coffee Culture in Pakistan, 2016) Pakistan being the fastest growing economies with a growing disposable income, managing development in shopping centers, infrastructures, etc. Coffee consumption noticed a consistent growth as well due to market development. Moreover, an abundance of agricultural production supports the idea of entering the market with the availability of resources. Although, Starbucks is known for using the Arabic coffee bean, although other resources used in the functioning of the coffee chain can be easily supplied without any hinderances. Making the coffee sachets similar to Nescafe and producing merchandise such as mugs, accessories, packaged goods and, gift items and identifying the core need of the consumer helped them to gain a competitive advantage.

The Electric Paradigm consists of three major aspects ownership, location, and internationalization advantage. The diagram below highlights the main flavor of Electric Paradigm in a snapshot.

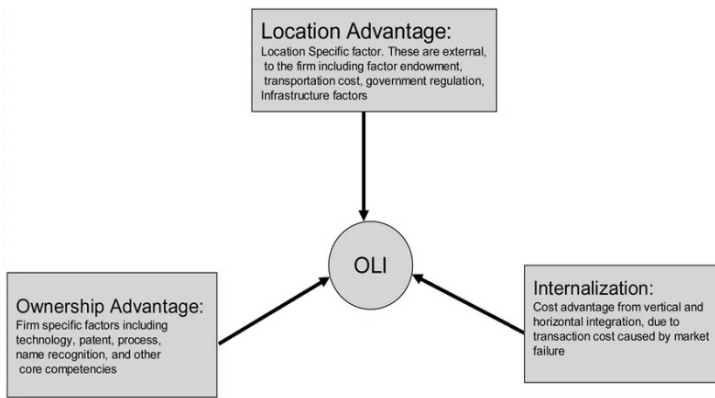


Fig 2: The Electric Paradigm

Ownership advantage helps the firm to prevail the liability of foreignness. 'The liability of foreignness can be described as disadvantage that international firms experience in host countries because of their non-native status.' (Peng, 2009) The core competencies of Starbucks are customer service along with the best quality. Secondly, location advantage is nothing but geographic advantages for Starbucks after entering Pakistan. It can be identified using Porter's diamond model. One of the most significant access to the resource is agricultural resources, which therefore implies easy availability of cheap raw materials. And lastly, internalization advantage deals with the decision regarding in-house production or external production. Within the firm makes it easier for a firm to manage its assets and thus retain control over the process.

3. Environment Scanning

PEST is used as a tool of the situational analysis of business evaluation and is one of the most used models is the evaluation of the external business environment that is highly dynamic. (Perera, 2017) Following is the thorough scanning of Pakistani environment in order for Starbucks to penetrate into the emerging market.

Political

Taxation and Political risks

Taxation is a major aspect to look after as it is the source of income generation for the country. Starbucks was trapped in the political variables of taxation in the United Kingdom around 2013-2014. Starbucks was blamed for abstaining from paying corporate tax and only reported once in 15 years as a taxable profit. (BBC-News, 2013)

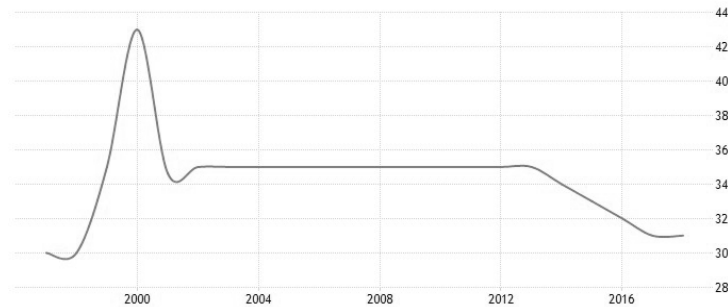


Fig 3: Pakistan corporate tax rate, Federal Board of Revenue Pakistan

Corporate Tax in Pakistan is based on the net income companies obtain while exercising their business activity, normally during one business year. 'Currently, it is observing corporate tax at a lower level of 29% for the 2019 tax year and it will be reduced by 1% each year from 2019, until the rate reaches 25% in the tax year 2023.' (Mufassir, 2018)

All the companies need to face risk in some or other facets. It can be said that there is no business without risks. Pakistan being a democracy, the government has observed severe violence against the ruling party and the political scenario during elections remains unstable for businesses to function. Additionally, business freedom index is a measure to look into, it is nothing but, the efficiency of government policies to run a business in a particular country. It can be depicted from the graph below that Pakistan has seen a major downfall in business freedom in the year 2018 and observed heavy guidelines in the efficiency and general regulatory process. Although, being at unrest, it is in a state of rapid recovery as the government is inducing foreign companies to enter.

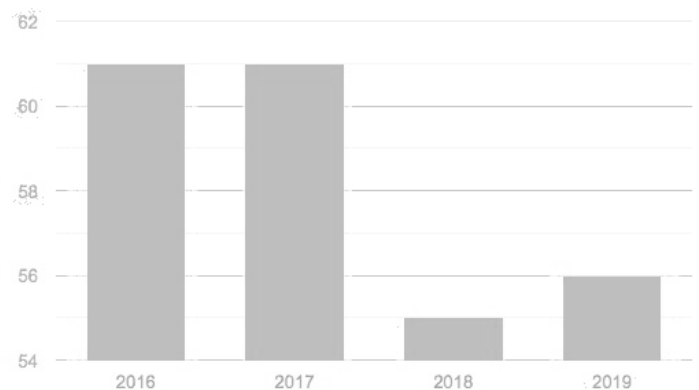


Fig 4: The Pakistan business freedom index

Political stability and legislation

Pakistan being able to chase development at a dynamic pace, it has a vibrant domestic market and decreasing level of poverty in a recent year. The gross domestic product being 5.7% in the year 2018. It has also chased an attraction in foreign direct investment by guaranteeing the equal treatment between foreign and domestic investors. (Board of Investment, n.d.)

Economic

Economic growth and Exchange rates

Various factors such as lack of command on foreign investment incapable regulations, administration, etc. constrain the economic expansion of Pakistan. Nevertheless, recent steps have liberalized foreign investment and reassembled their policies which not only lowered the tax rates but also affected the currency valuations. Hence, it is said that the country is undergoing economic reform and is able to coordinate with the world economy.

Currency crisis acts as a hindrance to international investments in Pakistan. The economy is incentivized to construct long term investments to encourage the financial potential of the country. The efforts of the government of Pakistan in uplifting the economic platform will encourage businesses to enter the Pakistani market. According to Pakistani forex as of April 2019, the current exchange rate is fluctuating between 141 Pakistani rupee equaling 1 USD.

Competition in the market

Pakistan being a predominantly tea-based country, indulging coffee in the minds of people can be a challenging task. In competition, there are other common beverages consumed at a large scale such as Fruit juice, soda, carbonated beverages, etc. Local tea and coffee houses also act as a substitute as people find it affordable and a decent place to chit chat. In terms of luxurious competitors similar to Starbucks. Canadian beverage chain - the second cup and Australian chain Gloria Jean's coffee shop can give a tough competition as they have an already settled customer base in Pakistan.



Fig 5: Main competitors in the market

Social

Level of skills and education

According to UNICEF Pakistan allows employment after the age of 14. As the Pakistan Social and Living Standards Measurement was not carried out for 2017-18, the figures for 2015-16 should be considered for the current year as well says Pakistan Economic Survey 2017. (Ali, 2018)

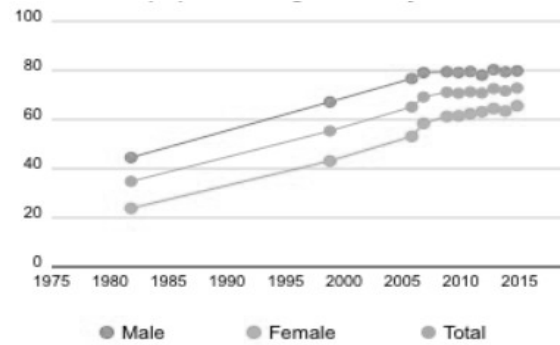


Fig 6: Pakistan social and standards measurement

	TOTAL	MALE	FEMALE	
Literacy rate (%)				
15-24 years	72.8	79.77	65.55	(2014)
15 years and older	56.98	69.07	44.28	(2014)
65 years and older	25.29	35.71	9.96	(2014)

Fig 7: The literacy rate (15-24 age group)

It can be depicted from the data above that the target age of normal employment (i.e. 15-24) has a literacy level of 79.77% male and 65.55% female.

Ascending education level has a major effect on the training and development carried out by the companies, Starbucks has an incentive to minimize costs by effective training to the suitable educated employees. Overall, as Pakistan is striving to accelerate its economic growth, Starbucks thus has the advantage to drive into the market.

Health and Lifestyle of people

The problem of obesity has always had a major impact on the fast-food industry. 'According to the Pakistani newspaper Daily times, almost fifty percent of the Pakistani population is obese.' (Ali, 2018) To address the issue Starbucks can update its menu with new product lines in coffee as well as food products.

Attitude towards spending is emerging into a new phase in the new generation. Majority of families had the motto of savings, but youth nowadays have been spending lavishly to enjoy life and spend money. Pakistan being a tea-based culture. The level of consumption of tea is twice a day (Morning and afternoon.) Coffee was consumed at a very low extent in the villages, while the number of consumers in the urban areas was comparatively very high. Although the people in urban areas were not coffee drinkers but the trend of fashion drove many people in experimenting various flavors.

Technological

Social Media and Wi-fi a trending catalyst of revenue

The emergence of social networking such as Instagram, Snapchat, Facebook has helped in developing the brand image. This communication bridge not only markets the product through mouth publicity but also maintains a contact platform that helps in capturing the needs of the customers.

Providing fast and efficient Wi-Fi facilities at the cafes will drive people to socialize more and carry out their general meets in the cafes and hence spend more time on the premises. One of the surveys also alluded that 'almost 62 percent said that customers spent more time in their shop or facility once Wi-Fi was introduced. Also 50% customers spent more money, too.' (Campbell, 2016)

4. International Business Strategy

International business strategy can be defined as 'Effective and efficient matching of MNE's strengths with the opportunities and challenges found in geographically dispersed environments that cross international borders.' (Verbeke, 2009) Starbucks plans a focused research over local tastes, culture, and accordingly serves the requirements of local people, but Starbucks being a reputed brand globally the main strategy followed is Global standardization. Having mentioned the research over local tastes and culture, Starbucks's implements a perfect blend of localization strategy into a strict globally standardized one. It provides an incentive to tackle the market in a distinctive manner. For instance, Starbucks adopted Chai Latte from mirroring the concept of traditional tea in India. (Kohli, 2015) Adaption not only in terms of products but it also adopted an innovative store design in China to meet their traditions. American coffee culture differed on a large scale when compared to the local Chinese culture. 'Market research showed that they would prefer to go in groups rather than alone. Therefore, Starbucks adapted stores accordingly so that they could accommodate large groups as compared to their traditional way of two and four sittings.' (Flanagan, 2014)

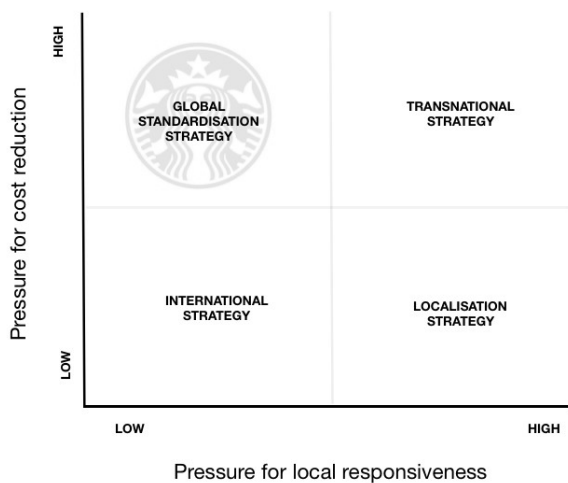


Fig 8: Suitable international business strategy

Depicting the diagram above it can be said that Starbucks initiates high pressure for cost reductions and low local responsiveness. The strategy ensures the protection of the brand adequately since changes and differences in the offerings expose the brands to risks and also reduces costs as it employs similar strategies and across outlets and as a consequence enjoys economies of scale.

5. Recommendations

5.1 Organisational Architecture

A matrix organization structure can be said as a structure that combines functional and divisional departmentation.' Below is the cart depicting the matrix organisational structure.

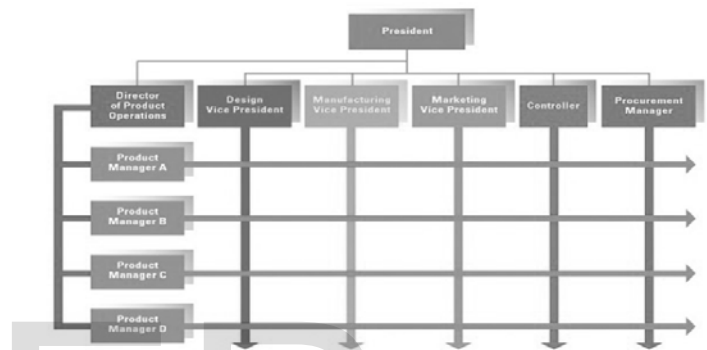


Fig 9: A matrix organisational structure

Matrix structure helps in the smooth flow of information and involves fewer human resources. On the other hand, it entails accountability to two separate chains of command and creates a two-boss problem in the organization. Thus, Starbucks can operate in a matrix form of organisational structure in Pakistan as it makes sure successful mechanisms in place.

5.2 Entry Mode

There are various entry modes available for an organization when penetrating into a new market such as licensing, joint venture, franchising, turnkey projects, and wholly owned subsidiary. Selection of entry mode widely depends upon firm, industry and country level factors such as technology legislation barriers, competition, culture etc.

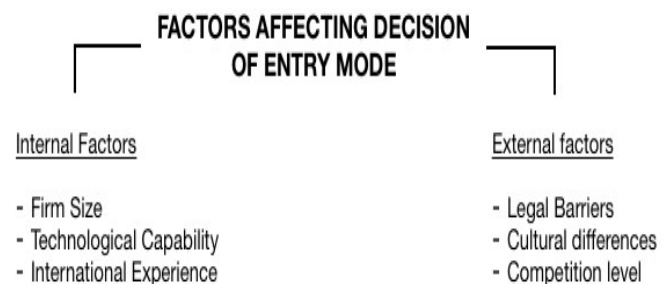


Fig 10: Factors affecting decision of entry mode

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. After classifying all the modes of entries, it can be referred that wholly owned subsidiary suits the best according to the market conditions. 'A company enters a country by establishing a 100% ownership stake in a business in the particular country is known as Wholly-owned Subsidiary.' (Daniel W. Baack, 2019) In simple words, a wholly owned subsidiary owns hundred percent of the entity. The subsidiary functions independent of the parent company having its own management structure. Initiating a wholly-owned subsidiary comes with bearing huge costs as it associates full capital costs and risks of operations. Likewise, it also initiates full control over the operations and associates vertical integration of supply chains. Subsidiaries can be established as followed:

Greenfield Venture

'A venture where firm buys or constructs a new facility and hires or transfers managers and then independently launches a new operation without the involvement of a partner is known as a greenfield venture.' (R. Duane Ireland, 2008) It is comparatively difficult to execute as the structure has to be constructed from scratch.

Acquisition

'The company buys the target company's ownership stake and grant a control of the target firm. It is easy to execute, and the risks are reduced on a certain extent.'

A joint venture is when two businesses pool their resources and share their risks and incentives to achieve a certain goal. (Asefeso, 2015) 'Starbucks penetrated through a 50:50 joint venture with Tata group in the Indian market.' (McPherson, 2012) 'According to the annual fiscal report of Starbucks 2018, \$1.4 billion that is not subject to income tax, was presented as gain resulting from the acquisition of joint venture on the consolidated statements of earnings.' (Johnson, 2018)

On one hand, it is easy of the companies to unify their technological structures, financial information which will help integrate processes and minimize costs. Also, as the local partner is already familiar to the culture it is easy for the firm to get used to the market. In simple words, it offers an easy route to access the local market. On the other hand, there are various disadvantages such as apprehension about the local partner's interference in decision-making process. In the case of misunderstandings, it might also increase the political risks as the local partner is already used to the functioning and structure of the country. (Aswathappa, 2008) Hence, as an alternative, it is possible for Starbucks to form a joint venture in Pakistan with the reputed beverage companies such as Pakistan Beverage Limited, 1950 (PBL)

5.3 Human Resource Strategy

Starbucks pursues polycentric approach in staffing lower level employees as localities are hired in the cafes and not employees from the United States. It's not only inexpensive to implement but it also helps in alleviating cultural myopia. Contrarily, undertaking this approach might limit the check on levels of managerial expertise, and, the home country managers can also act biased in the performance appraisals.

It is important for the international firms to understand the importance of hiring local employees in the business as they are more familiar to the culture and it also avoids hinderance in communication. 'As stated by Labor Force Survey 2014-15, the absolute labour in the nation is roughly 61.04 million out of which 54.42 million were employed' (Commerce Division Ministry of Commerce & Textile, 2018)

Generally, Pakistan has recently embraced a friendly approach to visa regulations. Pakistan Missions abroad are authorized to give work visas to remote specialized and administrative faculty as proposed by BOI to impart specialized expertise to the locals. The duration is one year at first and can be extended in the future. (BOI, 2013)

5.4 Marketing Mix

Product

Being a premium coffee, they aim at an exclusive degree of quality, innovative presentation, and exceptional service. It can be recommended that as Pakistani's ascend their lifestyle towards beverages, Starbucks should provide tailored products offerings, in the beginning, to get used to the market. Additionally, they offer seasonal drinks such as strawberry Frappuccino in the summer. There are various product offerings like tea, pastries, coffee, ice-creams, espresso, cookies, smoothies, and merchandise.



Fig 11: Various products offered by Starbucks

Price

Price is the most crucial element of the marketing mix as it has a major influence on customer turnover. Director of the Coffee Association of Shanghai Wang Zhendong once announced that "Starbucks has been able to enjoy high prices in China, mainly because of the blind faith of local consumers in Starbucks and other Western brands," (Jourdan, 2013) It can be said that the prices are high as Starbucks attempts to deliver quality coffee beans, providing the perfect decorum and ambiance to all the cafes,

guaranteeing productive and efficient training for the staff, etc. Preferentially, it can also be other factors such high as operational costs or unforeseen hike in the rents. (Gajanan, 2018) Having said that, it is important to note that, cheap availability of raw materials or diminishing fluctuations in taxes can have a major impact on price of the product offered.

Place

'Starbucks follows a direct supply chain from the producer to the consumers.' (Bhasin, 2018) They use various channels of distribution as the products are sold through self-own stores and direct retailers. They also have special arrangements with hotels, airports, etc. This encourages them to oblige the more extensive market.

Promotion

Promotion in simple words can be explained as, a bridge to communicate using disseminate information of firm and its products. Starbucks promotes through various sources such as verbal promotion, public relation, sales promotion and advertising. Keeping in mind the standard and reputation of Starbucks, it can advertise adapting the local tastes and catchy publications as well.

5.4 Marketing Strategy

Starbucks being a reputed global brand of the coffee chain following international uniformity, it will use a standardized marketing strategy in Pakistan. 'Standardized marketing follows a union of cultures with similar environmental and customer demand around the globe.' (Jain, 1989) Economies of scales help in improved research and development, lower investment and less marketing costs. Also, it enhances quality improvement as global standardization helps in concentrating on one product and maintaining a uniform marketing mix.

6. Conclusion

Throughout the research over factors influencing Starbucks' penetration in Pakistan, it can be alluded that Starbucks is the coffee chain that follows a perfectly blended global standardization and localization strategy in terms of product offerings to satisfy the local tastes and maintain their reputation worldwide as well. In terms of resources, Pakistan has a wide availability of agricultural raw materials and technology. Also, increasing level of education and a number of educated youths searching jobs helps in efficient training with less efforts and hindrances. Hence, being the member of the global strategy team of Starbucks I would recommend penetration in the market as Pakistan is scaling the ladder of development in terms of economic aspects in the near future and also it can act as a new catalyst to bring people together and socialize.

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