



Executive Summary

Rejuvenating our stores with music

Group D4

Our challenge

With the saturation of the American coffee market and shrinking customer attachment to the Starbucks brand, CEO Howard Schultz has developed a transformation plan to guide the company's operations over the next few years. The plan emphasizes a return to focus on coffee and the café experience and an accelerated international expansion. With these new priorities, Starbucks faces the challenge of:

Where and how do we expand Starbucks Entertainment internationally to rejuvenate our café experience and sales?

We propose

Taking a global as well local approach to the music industry while moving into

- **Japan** -- Using J-pop as our leader in the expansion: local music with a global appeal .
- **United Kingdom** – Expanding upon the successes such as of Paul McCartney while developing localized music.

Music Industry

We plan to take advantage of our existing infrastructure and use our U.S. network as a model for our international expansion of Starbucks Entertainment into Japan and U.K. Our North American store sales, up 22% from the year before, reached 4.4 million CD's in 2007. We have valuable partnerships with Apple and AT&T to provide our music to both our customers. Our stores are based all over the world giving us the largest network of retail outlets and wireless systems. This gives us a distinct distribution advantage for both physical and digital distribution.

- **CD** – Physical music gives us higher profit margins and our compilations are very popular.
- **Digital** – Take advantage of the growing market in which we are already interested but concentrate on physical sales for the short term.

Country Decision

The criteria we used to determine which countries to expand into consists of:

- **Our presence** -- Eliminating all countries where we had less than a 100 stores.
- **Music Synergy**-- Analyzing the music imports and exports of the remaining countries to and from America.
- **Piracy** – Removing countries based on the IFPI Top Ten Priority Country List.

The two countries we have chosen – Japan and U.K. – have a very strict policy on piracy which the government enforces leading to few problems with pirating of physical or digital music. These two countries are also very good choices because of previous brand success. They also have thriving local music that can add value to our global brand. Most importantly, these are strong markets where music can be an important tool for differentiating Starbucks based on atmosphere. We anticipate a low start up cost due to existing infrastructure which eventually leads to projected profitability in 5 years time.

Japan

With 722 stores in Japan and popularity of American jazz music, Japan makes for a very rewarding market for Hear Music. The reciprocal likeness of Japanese and American music in the US and globally makes this venture a win-win situation.

- 2nd largest retail and music industry
- Best case- \$3.4 million profit NPV in 5 years

U.K.

Due to similarities with the U.S., the U.K. has typically been a strong market for Starbucks. As the market approaches saturation, our brand needs new features to reignite sales. Thus, Hear Music can be a powerful tool to refresh the café coffee experience. With the rise of the barista as the “new bartender,” we believe we can build a relationship between the barista's music choices and the customer's trust to enhance sales.

- Strong “third place” feeling in U.K. with Starbucks
- Best case- \$2.7 million profit NPV in 5 years

Timeline

As we expand our operations in Japan and the U.K. we want to leverage our global network while developing our local connections. We have prioritized our expansion using the following 5 year plan:

- Year 1: Broader release of U.S. music, Create and release localized compilation albums, Negotiate deals with local digital providers
- Year 2: Have digital distribution running at full capacity, Conduct search for local talent to sign to Hear Music label
- Year 3: Sign our first local artists in each country
- Year 4: Evaluate success
- Year 5: Look to future countries and new technologies