

CORPORATE BRAND MANAGEMENT AND REPUTATION

MASTER CASES



Tea Marriage of Starbucks and Teavana

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Student Case Papers

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Corporate Brand Management and Reputation: Master's Cases

The "Corporate Brand Management and Reputation: Master's cases" is a case series for applying the case method of teaching and learning in higher education. The cases are relevant to brand strategists in private and public sector organizations, as well as academics and students at universities, business schools, and executive education.

The cases are written by groups of master's students as a course project. The specially developed case format is defined as: *"A management decision case describes a real business situation leading up to a question(s) that requires assessment, analysis, and a decision reached by discussion in class. The alternative approaches and recommendations from the class discussion are followed by a description of the choices made by the case company. This description is then discussed by the class."*

The student groups select the topics of their case providing updated and relevant insights into the corporate brand management. The cases can be used as "written cases" (handed out and read in advance, later to be discussed in class) and/or as "live case" (presented by the teacher following a discussion in class). Each case includes teaching notes, visuals with speaker's notes, learning objectives, board plans, and references.

The mission of the series is *"to develop cases for discussion providing insights into the theory and practice of corporate brand management and reputation, with the intent of bridging the gap between academic teaching and managerial practice."*

The series is a result of co-creation between students and teachers at the elective course Corporate Brand Management (BUSN35 – five-credit course/eight-week half-time studies), part of the master's program International Marketing and Brand Management at Lund School of Economics and Management, Sweden. The cases represent the result of the intellectual work of students under the supervision of the head of course.

Although based on real events and despite references to actual companies, the cases are solely intended to be a basis for class discussion, not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. The cases are free to be used and are to be cited following international conventions.

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Tea Marriage of Starbucks and Teavana

WRITTEN CASE

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MANAGEMENT DECISION CASE

2019

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Tea Marriage of Starbucks and Teavana

31 December 2012

It is an ordinary Monday morning; the Christmas spirit is still lingering in the air and it is possible to feel the excitement for the coming year. Brand Manager Charlie Cooper¹ enters the office of Starbucks, he is a few minutes early for the scheduled meeting, so he has time to think back on all the hard work the team has gone through over the last months.

However, it is not only due to the efforts of the previous months that have led them to the point they are at right now. It goes back to 1971 when the doors of the first Starbucks coffee store in Seattle, WA were opened. It all started with the idea of making a great cup of coffee that could be shared among friends. This idea still lies at the core of the company's operation with the mission "*to inspire and nurture the human spirit - one person, one cup and one neighborhood at a time.*" Always aiming to be the gathering point for friends and family and be a part of the local community.

The founders Jerry Baldwin, Gordon Bowker and Zev Siegel were inspired by the timeless book Moby Dick when they named the company Starbucks and they choose to have a twin-tailed siren as a logotype as it connected to the history of transporting coffee overseas. The siren descends from Greek mythology and tells the tale of a beautiful woman luring sailors to their death. The woman is found sitting on the shore or on a cliff singing songs that are out of this world. The siren's singing is so compelling that men are moving towards her and they are either drowned on their way over or eaten by her once they reach the mysterious creature. For the siren to appear even more compelling and innocent it is impossible to get eye contact with her, which makes it easier for her to catch her preys. Mythology has illustrated the siren in different ways, both with human legs and with either one or two fishtails.

The present company owner, Howard Shultz, bought the business in 1987. He is the one who traveled to Italy and brought the concept of coffeeshops back to North America. Meaning that he moved the business from only selling coffee beans to the

espresso-based beverage Starbucks is known for today. Shultz also found it important to educate customers about coffee, especially since they could become a bit confused about the different roasts and blends of the beverage.

Charlie's eyes rest upon the art piece of the siren on the wall across the room and remembers that the latest version of the logotype was introduced in time for Starbucks 40th anniversary last year (see **Exhibit 1** for all versions of the logotype). The decision was made to exclude the brand name and only display the siren as she had become a well-recognized symbol on her own, immediately associated with Starbucks. In times of the celebration, Starbucks introduced some new products such as Starbucks Tribute Blend, Starbucks VIA Ready Brew, Starbucks Tribute Blend and Charlie's favorite, the Cocoa Cappuccino. Another offering that was made available at that time was pastries named Starbucks Petites, which were gifted to customers in selected stores as a compliment to their anniversary coffee.

The photograph next to the siren shows two employees participating in the first Global Month of Service held last year. Starbucks decided to commit to their local communities on a new level by letting their employees participate in various activities that would enhance the local neighborhoods. It was also an opportunity for customers to take part in Starbucks engagement and participate in the rebuilding of the local communities. The charity work was made possible in collaboration with non-profit organizations. During the first Global Month of Service, the business employees and customers were able to reach 155.000 hours of service. Charlie remembers that one of the main arguments for starting the Global Month of Service in the first place was that the size of the business could be used as a catalyst for positive change throughout society.

In April this year, they were all able to make substantial contributions to the local communities by painting schools, growing gardens, rebuilding homes destroyed by natural disasters and supporting youth programs. They managed to reach 230.000 hours of service around the globe, strengthening the core value of being a part of the local community.

The wide recognizability of the company can to some extent be explained by the iconic status the cup has been given in popular culture. The desirable lifestyle image portrayed in TV-series and movies of successful businessmen and businesswomen starting their day with a newly brewed cup of coffee from Starbucks is something that many individuals aspire for. Especially in the United States where the stores are present in almost every street corner. The Starbucks cup has become an icon of wealth and success.

Charlie walks over to the bookshelf in the edge of the conference room and strokes his fingers across the binders of different projects Starbucks has gone through over the year. Some of them more expected than others. All information is there about the opening of the first coffeehouse in 1984, the roasting plant in 1993, the entrance into grocery stores in 1998 and launching an online community in 2008. A smile appears

on Charlie's face when he sees the binder regarding the acquisition of Hear Music, a catalog company based in San Francisco. Hear Music was later liquidated, and a partnership was created with Concord in 2007 to establish a record label with the same name. The record label Hear Music has cooperated with artists such as Paul McCartney, Sia, Paul Simon and Carole King.

Charlie's fingers stop when he reaches the binder with the buddha logotype, he pulls it out and starts reading the condensed version of the research the team has put together regarding Teavana.

Company Profile: Teavana			
Milestones			
Founded	1997		
Went Public	2011		
General Information			
Place of Origin	Atlanta		
Founder	Andrew T. Mack		
Business Model	Specialty Retail Stores		
Product	Loose-Leaf Teas		
Number of Stores	Approximately 300 (USA)		
Market Presence	North America and the Middle East		
Collaborations	ETP		
Financials			
Fiscal Year Ended (Jan/Feb)	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net Sales (USD in thousands)	\$ 124,701	\$ 90,262	\$ 63,861
Net Income (USD in thousands)	\$ 12,003	\$ 5,291	\$ 1,197
<small>Source: United States and Exchange (2012)</small>			
Competitors			
USA	Fava Tea		
Canada	David's Tea		

Teavana Background

The founder of Teavana, Mack, strongly believed in the opportunity to portray tea as a fundamental part of Americans lives. There was a gap in the market for a chain of tea-based specialty goods. Teavana was then launched with the purpose of capitalizing on the increasing consumer demand for premium products, such as wine and coffee, but with the idea of shifting that demand to the tea market.

The premium teas are locally crafted in Seattle by a group of tea experts and the great variety of teas are inspired by contemporary trends and ancient traditions all around the world. From the traditional black tea to more exotic infusions as oolong spiced chai, Teavana is compromised to deliver quality and consistency. This quality has allowed the chain to expand its presence into Canada and the Middle East.

Teavana Target Market

As a marketing strategy, Teavana targets a younger population than usual tea drinkers. Women between 30 and 55 years old are meant to be the primary target customers. However, the layout of the stores and their location are aimed to attract a younger demographic, who are willing to spend more money on products compared to traditional tea drinkers. Shopping malls, in this sense, represent a great location for the Teavana shops, as there is evidence that customers that frequently visit shopping centers are attracted to premium products and do not mind paying a high price. Therefore, besides the target market that is mainly pursued, there is a high probability that other customers from another age range will visit the store to purchase their customized tea blend.

Teavana Competitors

With Teavana's success, the rising competition was inevitable. *Fava Tea* is a loose tea specialty retail store located in Wisconsin for the moment, but with a high opportunity to internationalize its brand.

The Canadian market has also been deeply influenced by the increasing tea demand. DavidsTea created a similar platform to Teavana's, that allows consumers to purchase loose tea and other products online and in a physical store around the country. More stores are eager to open, as there is an expectation for the tea segment to continue growing as fast as it has up until this point in time.

Teavana Collaboration

Teavana's commitment to values is expressed by their dedication to tea-growing communities and their support for sustainable farming practices. For more than ten years, Teavana has worked together with the Ethical Tea Partnership (ETP) in order to ensure that their products follow sustainable practices under transparent, safe and human working conditions.

Teavana Customer Relation

Teavana position itself as a company that is concerned for the health and wellbeing of the society. The company highlights the benefits of each tea kind and educate the customer in order to ensure that the client gets the tea that suits them best. The Buddha image as the logo that characterizes Teavana, strengthens the company's culture of representing products that can improve people's health, happiness and wisdom.

Customers get attached to the brand not only for the excellent quality of the products, but also for the differentiating customer service that Teavana offers both instore and online. The company does not follow traditional marketing, it rather promotes itself with positive word of mouth and personal recommendations.

In 2008, Teavana relaunched its website with the purpose to interact more actively with its customers. The online page, now, includes the different categories of the product, information about the sustainability program and store locator that will sync the current location of the client and indicate the nearest Teavana shop available. Social media accounts are also available for customers that rely on and are in constant interaction with social networks.

The company's unique "Wall of Tea" and its business model changed the perception of tea around the world. Infused tea was no longer an old fashion drink, it became a healthy and trendy beverage that allowed customers to try new and fun flavors. Demographic trends are indicating that this industry has a lot of space for expansion, as younger consumers are more attracted to drinking tea over coffee compared to their parents.

Charlie remembers that after launching the successful latte series and Frappuccino's, Starbucks was craving to create the next big hit, and they have now decided to place their bet on the tea offering. He puts the binder back in the bookshelf and begins reminiscing everything that had led them to this point.

The decision to go in this direction was based on the promising market growth of the tea industry in America. According to the Tea Association of the USA, the domestic tea market in 2011 had seen an expansion of approximately four times the scale of the market in 1990. American consumers enjoy tea in several categories, of which bottled

tea, or Ready-To-Drink teas, and even iced teas with a slightly more tea-like taste, has become a new trend among customers. During 2011 the Ready-To-Drink tea segment grew by 7% and was predicted to continue with this increase to 24% by 2016. "RTD Tea in the U.S." reported that the growth could be explained by the rise of health awareness among consumers who were searching for alternative beverages with natural health benefits and few calories. Premium teas, as another key actor in the industry, account for nearly 60% of the market, and this is exactly where Teavana is positioned.

Therefore, the acquisition of Teavana will not only benefit Starbucks with a considerable return rate in the expanding tea market but also give the company an opportunity to perform as an active and leading tea seller in the premium segment of the market, which will most preferably contribute to the current business model. The acquisition price of Teavana is approximately \$620 million in an all-cash deal, and it is expected that the acquisition will accrete to earnings by nearly \$0.01 per share in 2013. Starbucks is fully capable of this acquisition deal as they, as of September 30 this year, despite a long-term debt of \$550 million, had a cash flow of \$1.2 billion.

However, Charlie knows that Starbucks' ambition is larger than to only capture the US market. Asian countries, with their fast-growing economy and habitude of tea consumption, presents Starbucks with another business opportunity. For instance, China is the largest tea consumption country worldwide, where tea is consumed 16 times more than coffee. The increase purchase power of the middle class provides Starbucks with a perfect opportunity to expand its business. While the company is slowing down its expansion in many other regions and even closing down some store in the UK, the plan is to double the physical stores, aiming at 1000 locations in China by the end of 2013. The premium tea offers will strengthen Starbucks' sophisticated image, attracting more consumers who not only drink tea as a habit but also enjoy intangible values that a cup of Starbucks brings, thus providing a larger customer base to support the planned business expansion.

Charlie remembers that Starbucks for a long time have envisaged a series of actions to perform on Teavana with the purpose of expanding its tea product presence at malls, where all Teavana stores are located. Teavana's extensive distribution channels are attractive to Starbucks, with around 300 stores generating \$3 for every dollar invested. Based on the business model of Teavana, Starbucks plans to invest in opening 200 new stores by 2015, as well as to try to tweak the model to include urban neighborhoods as one of the main target positions. "High-profile" neighborhood tea lounges in certain areas were seen as a good idea and were tried out in November 2012 under the brand Tazo in Seattle as a laboratory test for Teavana. In addition, Starbucks wishes to install tea bars in Teavana stores, which at the moment only sell premium bulk, loose-leaf tea. The idea is to run Teavana's business the same way as Starbucks historically did for its coffee line: by introducing bars with a menu of customized hot and cold beverages.

While Charlie and the other Starbucks managers are very enthusiastic about the potential success in the tea market brought by the acquisition of Teavana, they are also well aware of the potential risks and uncertainties of this strategic decision. Acquiring Teavana is a daring move, since it is a major player in the US tea market and Starbucks is not exactly very well-experienced in the tea industry. Therefore, there is no guarantee for the integration of Teavana into its business to be successful, nor the ability to accelerate growth in the tea category. Starbucks has always been proud of its ability to create new products, enter new markets and distribute through multiple channels. However, whether Teavana will fit this long-term strategy is unknown. Starbucks has dipped its toe in the tea industry with Tazo by announcing a tea-only store in Seattle under the Tazo brand, but it seems unfit to apply the same strategy to Teavana since Tazo is on the slightly low end. Positioning Teavana as a super-premium tea seems to be a good idea according to the data analysis; however, customer preference and definition for super-premium tea may evolve rapidly in the coming years.

It is December 31, the last day of 2012, and it is time for Starbucks Coffee Company to formally close the acquisition of Teavana, welcoming it as a new member of Starbucks emerging brand family. It is an ordinary Monday morning at the office, yet Charlie knows that everything is different and that the future is unknown. You are a part of Charlie's brand management team. *What would you suggest is the best developing plan for the Teavana brand?*

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Exhibit 1 Starbucks Logo



1971 - 1987



1987 - 1992



1992 - 2011



2011-

Source: Jeong (n.d.)