

Tea Marriage of Starbucks and Teavana

MANAGEMENT DECISIONS

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Management Decisions

2013

Teavana Products in Starbucks Stores + Teavana Specialty Retail Stores

Since the acquisition of Teavana in December 2012, the company has successfully expanded its tea credentials and delivered great tasting, high-quality tea in Starbucks stores. Meanwhile, customers have access to unique and personalized loose-leaf teas in more than 350 Teavana specialty retail locations.

Teavana Fine Teas + Tea Bars

As Starbucks initially planned, the first Teavana Fine Teas + Tea Bar debuted on October 23rd in New York City's Upper East Side. Over the past five years, Americans' interest in tea has increased by 16%. Hand in hand, Starbucks and Teavana are entering the \$90 billion tea market by offering a new tea bar experience. This by bringing together Starbucks' strengths of in-store design and customer experience, with Teavana's expertise in tea sourcing and blending. The Teavana Fine Teas + Tea Bar represents an innovative way to delight customers as well as to develop the tea category. It offers American tea lovers a premium experience composed of handcrafted tea beverages, tea-inspired food offerings, and various tea merchandise. The second tea bar was launched on November 19th in Seattle's University Village, followed by two more in New York and another in Beverly Hills. Teavana was strategically prioritized by Starbucks, showing the company's ambition to continuously exceed customer expectations and to lead the tea market.

2016

The Closing of Teavana Fine Teas + Tea Bars

Teavana tea bars did not turn out as well as Starbucks expected. In January, the company made the decision to replace the three bars located in New York with Starbucks stores and close down the location in Beverly Hills. According to Starbucks, this action would allow the company to focus on new product innovation.

The Plan for Teavana Craft Iced Teas

In 2015, the company's stores in the US sold more than \$1 billion worth of handcrafted Teavana beverages, representing a year-over-year sales growth of 11%. This year, the strategy was to team up with Anheuser-Busch to bring customers the first Ready-To-Drink (RTD) tea range under the Teavana brand, namely Teavana Craft Iced Teas. The popularity of premium and iced tea among young customers provided Starbucks with an opportunity to grow its business in this category at a faster pace than they did in the coffee industry. The collaboration with Anheuser-Busch aimed to profit from its production capabilities and its strong distribution network in the US. The company worked with more than 500 wholesalers and operated distributors across a large number of cities, such as New York, Boston, Los Angeles, and San Diego. The extension of Teavana's product line outside both Starbucks and Teavana stores was a strategic move to further increase the customer demand and expand the product availability, resembling what Starbucks achieved with the RTD Frappuccino's.

2017

The Launch of Teavana Craft Iced Teas

As Starbucks promised, Teavana Craft Iced Teas were launched on February 13th. Four new flavors were introduced to the market, including Pineapple Berry Blue Herbal Tea, Peach Green Tea, Passion Tango Herbal Tea, and Mango Black Tea. These bottled iced teas were first seen in supermarkets and convenience stores in New Hampshire, New York, Vermont, and Missouri. New flavors were planned to be launched in the second half of the year, and the intention was to provide nationwide access in 2018.

The Closing of Teavana Specialty Retail Stores

However, an unforeseen event took place. On Thursday, July 27, a striking announcement popped up in the business section of all news platforms: Starbucks announced that they were closing all 379 Teavana retail stores by the spring of 2018. Customers were shocked by this groundbreaking news, which evoked the question of whether this action was taken out of the blue or not.

Teavana represents 3% of Starbucks stores in the US and accounts for 1.5% of the global stores. Teavana's locations have not been performing up to the expected financial levels, which drove the CEO to predict that this negative performance would continue. Even though Teavana has played a key role in increasing the Starbucks tea business, it is important to recognize that the way Americans shop has changed. This fact is crucial as most Teavana stores are located in shopping malls. The US mall culture is fading, due to the convenience of online shopping. Despite the efforts Starbucks has made, including creative merchandise and new store designs, the trend

cannot be reversed. Starbucks executive chairman Howard Schultz once said: “We anticipated and we saw very early on that there was going to be a very, very significant disruptive and almost cataclysmic change in the landscape of physical retailers. We’re in the nascent stage of that. And there are going to be many, many losers.” (World Tea News, 2017) Apparently, Teavana became one of those losers.

Starbucks’ coffee shops are, however, immune to the problem affecting most physical retail stores as they are seen as a ‘customer destination’. Customers still need to go to physical stores to grab their beverages, because no matter how much online shopping is affecting people’s purchasing behavior, hot coffee cannot be sold over the Internet. For Teavana, it is a different story, as it provides retail stores where customers mix and buy their own personalized tea, an action that could easily be done online.

Teavana Products in Starbucks Stores

Fortunately, Starbucks in-store sales of Teavana kept growing. According to Starbucks, Teavana is a business worth over \$1 billion that has the opportunity to double its profits over the coming five years. Since the launch of Teavana, Starbucks’ tea business has grown 40% in total, with particular success in China and Japan. This shows that Starbucks’ strategy of acquiring Teavana was not, as most people say, a complete failure.

2018

Teavana Tea Sachets

On June 26th, Starbucks announced its plan to introduce Teavana into US grocery stores. Packaged Teavana sachets were first available at Walmart in June, and they were offered at other grocery retailers in July. Starbucks will try to stick to the plan of increasing its tea business to \$3 billion over the coming five years, which will be realized by selling packaged teas and Ready-To-Drink teas through Starbucks global retail stores. Inspired by consumers’ favorite Teavana blends, six premium tea sachets were released, namely Youthberry, Peach Tranquility, Citrus Lavender, Jade Citrus Mint, Imperial Spiced Chai and Earl Grey Crème.

Asian Market, Specifically China

Despite the massive close-downs of Teavana in the US, Starbucks remained confident in its tea business growth as it was aiming at a bigger scale. In 2016, Starbucks launched its new line of Teavana tea-based drinks in China, followed by the massive market entrance in the entire Asia Pacific region. The health trend among American consumers has guaranteed Starbucks’ tea business to grow 12% in 2015, with the best-selling iced tea growing with 29%. The same trend has now grown

throughout Asia, especially in China where new trends always popularize faster than in the rest of the world.

Starbucks Teavana Handcrafted Beverages

Tea-drinking is a well-developed habit in Asia. The tea market is already very matured since it has been in the lives of Asian people for thousands of years. In 2010, the growth rate of the market reached 18% when new forms of teas, such as bubble tea, became very popular among young generations. Starbucks was a late player on the market, and it was important for them to keep their reputation of being an innovative company. Therefore, in order to provide the customers with a premium, different and sophisticated experience, Starbucks supplied the Asian market with more complex recipes compared to the US. The new Starbucks Teavana Handcrafted Beverages line includes Iced Shaken Hibiscus Tea with Pomegranate Pearls, Iced Shaken Black Tea with Ruby Grapefruit and Honey, as well as Matcha & Espresso Fusion. With this new product line, Starbucks plan to increase its global business by \$3 billion over the coming five years, as well as to expand its business in China, aiming for 3400 stores by 2019.

Starbucks Teavana Frozen Teas

In September 2017, Starbucks introduced Starbucks Teavana Frozen Teas exclusively in Asia. Available in three flavors, the tea features Kyoho grapes, matcha, yuzu and other products that represent different cultures across the continent. Customers in Asia had presented a growing interest in frozen beverages with textural and visual appeal. The preference for tea was shifting towards botanical teas with a mix of different herbs, fruits, and spices. Starbucks, therefore, grasped inspiration from traditional tea cultures, added popular flavors and formed a creative texture to provide a new variety of teas in order to satisfy the sophisticated customers.

In conclusion, since 2012 the Teavana brand has gone through multiple branding architectures during the acquisition process, which is illustrated in **Exhibit 1**.

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Exhibit 1 Teavana Brand Architecture 2013-2018

