

CORPORATE BRAND MANAGEMENT AND REPUTATION

MASTER CASES



Brewing Up a Storm: The Rise of Stars Coffee

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Tenth Edition
Master Student Case Papers

2023

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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WRITTEN CASE

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Brewing Up a Storm: The Rise of Stars Coffee

It is an early August morning in New York City. CEO of Starbucks Howard Schultz is at the JFK Airport, preparing the agenda for the upcoming meeting with the board of directors in Seattle. After Starbucks shut down all of its business in Russia earlier this year, the board has had their hands full with challenging decisions regarding the future of the corporation. The board is planning to form a long-term strategy for their business in Russia on Friday. The meeting is long awaited for Howard, who is eager to finally create some stability on the subject.

As he boards the flight, Howard orders breakfast and picks up the New York Times in front of his seat. Oh, how he loves the calmness of an early morning flight! He flips through the pages to find an article about global companies that have decided to leave Russia. When western food and beverage brands like Starbucks, PepsiCo, and McDonalds put a stop to their sales, Kremlin officials began to form a mobilization economy. The government has decided to loosen up on several regulations, emphasizing the importance of freedom for the people who are operating in Russian businesses. However, instead of innovative entrepreneurs seizing the opportunity to create entirely new businesses, they are motivated to come as close as possible to the already well-known brands. Howard shakes his head, gazing out from the small airplane window. He wondered: when did the world become like this?

Hours turned into minutes and the stewardess asked to prepare for landing. Howard fastens his seatbelt and puts the newspaper back in his seat pocket, with a feeling that the words he just read might come to change his business. What he did not know then, was what type of call awaited him when he got off the plane.

Background and History

Starbucks started in 1971 with the business foundation of offering high-quality beverages, made with premium beans, teas, and equipment, changing the coffee industry from a necessity to luxury. Nowadays, we know Starbucks as the giant that has taken over the coffee market, making them top of mind for most consumers

when discussing its takeout coffee supply. By targeting the mass market and focusing on high-quality beverages, Starbucks has created a successful business model.

Although a lot can be said regarding the success of Starbucks' business, a large focus must be placed on the brand of the coffee chain to fully understand its greatness. The Starbucks brand is highly recognized and associated with a general feeling of quality. Judging from these previously mentioned factors, Starbucks has high brand equity. This brand equity positively correlates with a higher consumer purchase intention and an enhanced long-term value for the brand. As a corporate brand, Starbucks has managed to penetrate all its activities with this coherent sense of quality, commitment, and sustainability. By doing this, the brand has gained a strategic advantage where it is perceived authentically whilst attracting those individuals who agree with the brand values, which is one of the key assets for being a strong brand.

On the other hand, a strong brand can also inspire other businesses to imitate you in order to thrive on your success. An imitation is illegal if it is likely to create confusion from the average consumer's point of view. In cases of illegal imitations or trademark infringement, a company can rely on its trademarks to protect the company's reputation and brand since a trademark implies exclusive rights to the owner and the trademark. There is an importance of both renewing the trademark and defending your trademark because otherwise, the brand risks losing its rights.

Starbucks holds many types of trademarks, including word marks for the words 'Starbucks' and 'Starbucks Coffee', trademarks for different iterations of the iconic siren (two-tailed mermaid) logo (see **exhibits 1 & 2**), and exclusive rights to various product-specific names such as 'Frappuccino'. As an indication of its commitment to brand protection, the company has registered over 200 trademarks, many of which have been in existence for over two to three decades. Starbucks has in the past been the subject of numerous trademark infringement cases, which it has responded to by taking legal action against alleged infringers. Examples in the past emphasize Starbucks' perseverance in defending its brand regardless of the size or location of the company in question, and regardless of whether the infringement involves the use of the Starbucks name, logo, or both.

For instance, in 2013, the Belgian coffee shop *Coffee Rocks* sought to register a trademark for its logotype (see **exhibit 3**), which Starbucks opposed on the grounds of its similarity to its trademarks. Following legal proceedings at both the European Union Intellectual Property Office and the General Court, Starbucks emerged victorious in the case. Furthermore, in 2005, a business owner by the name of Sam Bucks Lundberg decided to name her shop in Oregon, *Sambucks*. This naming choice attracted the attention of Starbucks, which subsequently sent Lundberg a cease and desist letter. Despite this legal warning, Lundberg chose to disregard the letter, leading to Starbucks filing a trademark infringement lawsuit of its word mark against *Sambucks*. Moreover, in 2017, Starbucks took legal action against the Indian coffee shop *Sardarbuksh Coffee*, claiming that its logo infringed upon Starbucks'

logotype trademark (see **exhibit 4**). Sardarbuksh subsequently modified its logo in response to the demand letter from Starbucks. However, the legal dispute did not end there, as Starbucks filed another lawsuit against Sardarbuksh in 2018, alleging that the name “Sardarbuksh” was deceptively similar to the Starbucks brand name. Despite Sardarbuksh’s objections to the allegations, the Delhi High Court ultimately ruled in favor of Starbucks, citing potential consumer confusion as a key factor in its decision. These three cases are just some of many examples of Starbucks’ persistence in defending its brand against potential infringement and serve to illustrate the importance of protecting a brand and its trademarks in the face of potential competition.

The Incident

24 February 2022 – Russia’s invasion of Ukraine

In February, Russian military forces invaded Ukraine, sparking a global crisis with significant social, political, and economic consequences. The still ongoing war has had an inevitable, obvious effect on large parts of western society, due to the shift in the dynamics of our contemporary world. Moreover, this situation has created economic insecurity that affects the world as a whole. Businesses of all sorts quickly had to adapt to the conflict, which has destabilized financial markets, affected the stock market, and led to a significant increase in the price of energy and other commodities globally. In addition to the skyrocketing energy prices, the conflict had broader economic effects, with financial markets experiencing significant struggles in post-invasion. One of the most affected of these was certainly the Russian market. The war has led to several companies deciding to leave Russia, due to economic uncertainty and political instability. Companies that did business in Russia before the war, have had increasing pressure from both consumers and investors to make a quick decision after the invasion of Ukraine.

23 May 2022 – Starbucks leaves Russia permanently

At the end of May, Starbucks announced the closing of all its stores in Russia due to the invasion of Ukraine. After a former decision to suspend operations temporarily in early March, the company left the market permanently after 15 years in business. This included 130 licensed locations, concerning 2,000 employees all over the country.

30 July 2022 – The new deal is announced and sealed

With empty store venues and a license on hold, several entrepreneurs tried to get a hold of the “new Russian Starbucks”. But who won the battle? As confirmed to the media, Anton Pinsky and Timur “Timati” Yunosov, along with the company of

Senator Arsen Kanokov (Sindika Holding Company), buys the Starbucks chain in Russia. Pinsky is a well-known restaurateur and the owner of several Russian restaurants. The rapper Timati is a singer and record producer who also partly owns several restaurant chains around the country. On July 30, Timati announced that the deal was completed; “Now officially all the assets of the SB network have been acquired and are under our reverent leadership”.

9 August 2022 – Trademark registration

At the beginning of August, the new owners filed three possible chain names on their behalf. The applications that were filed on the system of Russia’s intellectual property authority are the trademarks *Stars Pinskiy Coffee*, *Stars Kanokov Coffee*, and *Stars Coffee*. Just a week after the filed trademarks, the official logo of *Stars Coffee* was announced (see **exhibit 5**). It features a circular shape and stars together with a ‘mint-green’ and ‘cigar-like brown’ background. Resemblance can be made with the iconic Starbucks mermaid, where a woman with a star on her head decorates the logo, presumably wearing a Russian headpiece called Kokoshnik. Furthermore, the circular design of *Stars Coffee*’s logo has a resemblance to the previous Starbucks logo, which is still trademarked (see **exhibits 1, 2 & 5**). Timati has commented on the resemblance and reassured potential customers that a big rebranding never was in sight, as the chain’s brand will be “one hundred percent Russian”. Pinsky later argued that peoples’ perceptions will always be different and that the Starbucks and *Stars Coffee* logo have “nothing in common”.

18 August 2022 – First Stars Coffee opens in Moscow

Stars Coffee’s first store in Moscow opened and local Russians “now felt a caffeine jolt of hope” when their favorite coffee store was almost identically reinforced. Scrolling through the *Stars Coffee* website, the menu looks similar to any Starbucks venue with caramel lattes, salads, and croissants. Not only did the new owners receive the rights to 130 stores, but also managed to keep 2,000 former Starbucks employees.

The Starbucks scenario

Eight days prior to the opening of *Stars Coffee* in Moscow, Howard finally lands at Seattle Airport to attend the monthly meeting with the board of directors on Friday. With time to kill, Howard makes a quick stop at the Starbucks at Pike Place Market, chatting with the store manager and ordering his favorite cup of House Blend. Suddenly, he is interrupted by the loud ringing of his phone, with an incoming call from Starbucks’ Head of Legal, Zabrina Jenkins. Zabrina, who is normally known to be calm and collected, sounds distressed as she announces that she wants to gather the executive team and her legal team to a crisis meeting. The meeting is to be held this afternoon at Starbucks’ HQ, due to the news about newly

filed trademarks from a Russian coffee chain named Stars Coffee. Zabrina explains the incident to Howard shortly, making sure that she will inform all attendants before the meeting. She explains that Stars Coffee might open its first store just in a few days, with the leasing agreement already settled. Due to her former experience of infringements against the Starbucks trademark, she knows that the media will be quick to report on the news. Zabrina sounds strained as she ends the call, “This situation is not going to go away, we need to come to a decision this afternoon!”

Later that afternoon, Howard welcomes the executive team to the crisis meeting and clarifies that a complex situation lies ahead. Due to the newly filled brand of Stars Coffee, Starbucks has to be prepared to act. Howard further explains that the executives will most certainly have different perspectives on the case - some might want to take more actions than others. The room gets quiet as Howard sits down in his chair; “Let’s start, shall we?”.

Taking the role of the executive team at Starbucks, consider the following question: *How should Starbucks react and take action against Stars Coffee?*

Exhibit 1 Starbucks logo



Exhibit 2 Starbucks previous logo (trademarked)



Exhibit 3 Coffee Rocks logo (2013)



Exhibit 4 Sardarbuksh Coffee logo (2017)



Exhibit 5 Stars Coffee logo

