



UNIVERSITY OF GOTHENBURG
SCHOOL OF BUSINESS, ECONOMICS AND LAW

Entry into the Coffee Shop Market – Starbucks establishes in Gothenburg

The demand and supply of the domestic coffee shop market

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Summary

This thesis discusses the expansion of Starbucks to Gothenburg and their main preconditions and challenges when establishing. It also looks at the state of competition on the local coffee shop market, students' preferences and associations towards Starbucks and the students' willingness to pay for Starbucks' coffee. In order to gather and analyze this information, a survey has been conducted. The econometric results from this survey combined with Porter's five forces and the Structure-Conduct-Performance paradigm, have led to the following results and conclusions;

The main descriptive statistic results are that the respondents have an average willingness to pay of 25 SEK for a black cup of Starbucks coffee. The willingness to pay increased for 47 % by on average 2, 10 SEK. A majority of the respondents value the factors 'Good quality coffee', 'Availability' and 'Affordable' highest when purchasing coffee. The main associations towards Starbucks are; 'American', 'Expensive', 'Broad coffee supply', 'Popular' and 'International'.

The econometric results show that Espresso House's customers are more willing to visit and pay for Starbucks' coffee, than the rest of the respondents. This, among other factors, indicates that the students see these two coffee shops as close substitutes. In order to avoid fierce competition, Starbucks and Espresso House need to differentiate from each other to achieve a positive sum competition.

The main conclusions are that Starbucks will succeed if they manage to differentiate themselves from their competitors, mainly Espresso House, and given that they also live up to the students' expectations and meet their preferences.

1.0 Introduction

It is widely known that Swedes are one of the worlds' main coffee consumers. With an average of 3, 2 cups of coffee per day, Swedes drinks the second most coffee in the world, right after the Finnish people who drinks 3, 5 cups each day. This together with the typical Swedish phenomena "fika", which means "to drink coffee, and sometimes with a snack", makes coffee an interesting subject. (Nationalencyklopedin, 2012) In the Swedish coffee culture having a "fika" is foremost a social activity; 57 % goes to a coffee shop to socialize, whereas only 37 % goes mainly to actually "fika", 6 % goes for other reasons.

(Kaffeinformation, 2004)

The coffee shop market in Sweden, and more specifically Gothenburg, is growing and the take-away coffee culture is expanding. In 2010 Kaffeinformation.se wrote that the coffee shop market only is in the starting phase and that there are many interesting opportunities (Kaffeinformation , 2010). The CEO for the Swedish industry association for convenience stores and fast food says that there is a strong coffee trend and that customers do not ask for the price of coffee, they just pay (Dagens Industri, 2010). This growing trend can be seen by the expansion in Gothenburg by Espresso House, Le Pain Français, DaMatteo and Condeco during the past few years and their continuous hunt for prime locations for further expansions (Condeco, 2012) (DaMatteo, 2011) (EspressoHouse, 2011). And in January 2012, one of the biggest names in the coffee-shop business is coming to Gothenburg - Starbucks. (Starbucks/SSP, 2012).

This thesis will study Starbucks' history and their keys to success on the American and the world market. It will examine what the domestic coffee shop market looks like and then mainly analyze how the biggest chain Espresso House operates and the future competition between these two. The results are then used to try to answer the following questions:

- Is there room for Starbucks in the Gothenburg coffee shop market or will there be fierce competition between them and Espresso House? Will Starbucks' keys to success benefit them when establishing?
 - How well-known is the Starbucks brand? What do students associate with them?
 - What are students willing to pay for a Starbucks coffee? Will that willingness to pay increase if the coffee is marked with Fairtrade or in other ways environmentally approved?

The actual price of a black cup of Starbucks coffee at the Gothenburg Central Station is between 27 and 32 SEK, depending on the size of the cup. This is however not known by the respondents at the time of answering the survey, due to the coffee shop opening the 24th of January. It is therefore interesting to see if the respondents stated willingness to pay matches the price set by Starbucks. (Starbucks Gothenburg, 2012)

1.1 Method and demarcation

This is an inductive thesis for which the information has been gathered in a qualitative manner and by conducting a survey. In order to gather material for this thesis a survey, websites, case studies, literature, interviews and e-mail conversations have been used.

The analysis will, in addition to the theory, be based on a survey (*Attachment 4*) that has been formed with the purpose of gathering information about the respondents' coffee-related preferences, associations concerning Starbucks and the willingness to pay for a black cup of Starbucks coffee. It also aimed to analyze if environmental considerations in terms of Fairtrade labeling affected their willingness to pay.

Conducting the survey

Most parts of the survey are built using close-ended questions with multiple answers, but there are a few questions that intentionally have been left open-ended. Question 9 about the respondents' willingness to pay for a black cup of Starbucks coffee is open-ended. This was done in order to avoid influencing the answers given by setting spans of examples of willingness to pay. It also enabled the respondents to give a precise and spontaneous answer. The same applies to question 10 where the respondents were asked if their willingness to pay increased if the Starbucks Coffee were labeled Fairtrade or environmentally approved in other ways.

In the process of producing the final version of the survey a focus group of 10 people were used to evaluate the first draft. They all answered the survey and helped evaluate the layout and discuss the formulation of questions to eliminate possible misunderstandings. Based on the feedback and result of these discussions the survey was adjusted into its final version. The survey was conducted in Swedish to avoid language misinterpretations and has been translated into English with the purpose of being used as an attachment.

The selection of respondents for the survey is based both on Starbucks' presumed target group and on the availability of respondents. Given the time constraints for the thesis the availability

of gathering respondents has been important. The 100 survey responses have all been collected at the School of Business, Economics and Law and have exclusively been answered by students. This group can be assumed to be knowledgeable of the coffee market and Starbucks, which enables them to give well-informed answers and updated coffee preferences. Students of this age group also make out a proportion of the target group of Starbucks and their main competitors (Condeco, 2012) (DaMatteo, 2011) (EspressoHouse, 2011). The respondents have also been able to give comments in the survey.

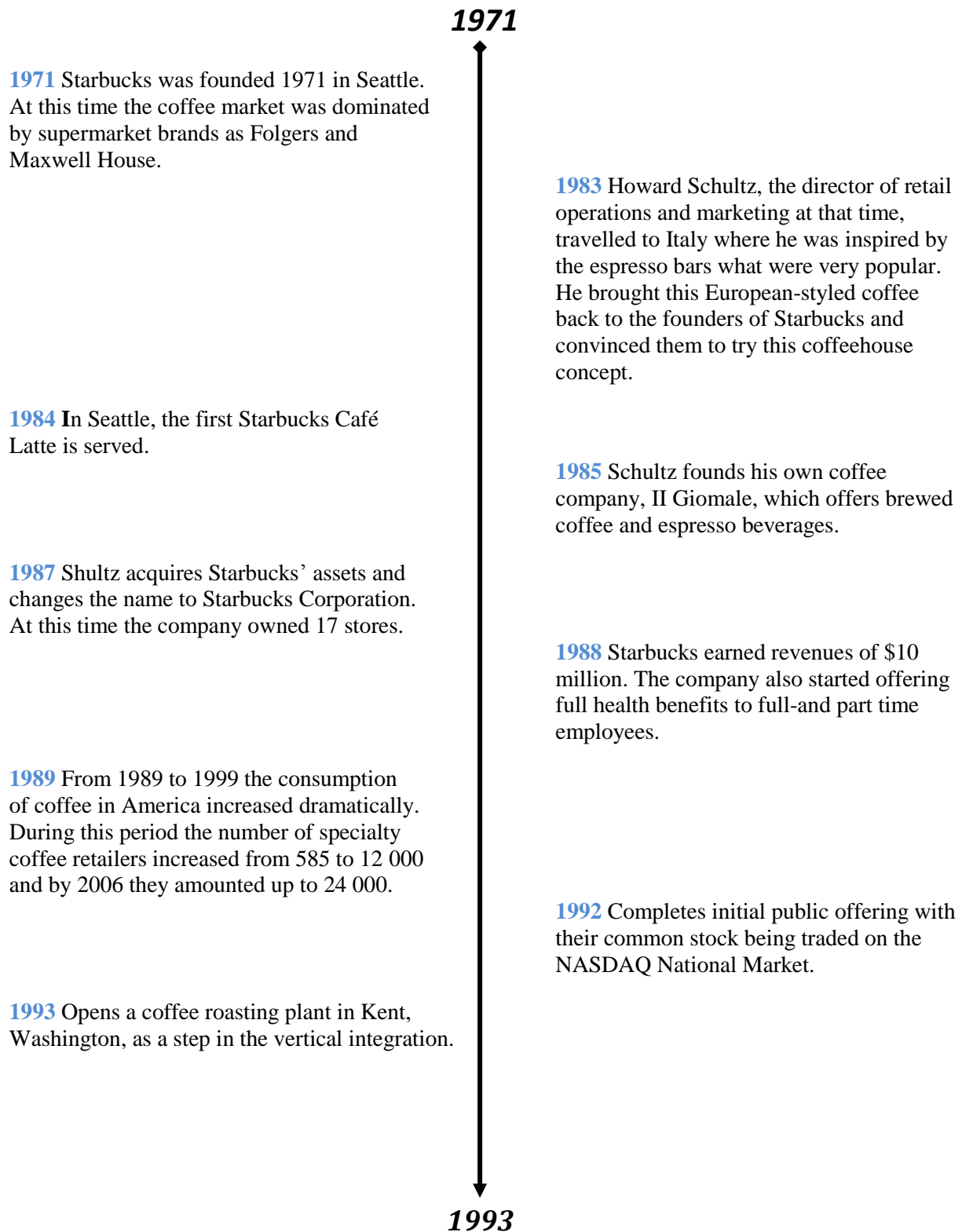
When looking at domestic competitors for Starbucks the main focus will be put on Espresso House with their 13 stores in Gothenburg and 8 new stores opening in 2012 (EspressoHouse, 2011). Espresso House is the biggest chain in Sweden followed by Wayne's coffee, but they only have one coffee shop in Gothenburg (Kaffeinformation, 2011). This is why Espresso House will be seen as the main competitor for Starbucks in the thesis. The survey also included chains such as Pressbyrå and 7-Eleven, but these will not be seen as competitors in the thesis as they are considered to be differentiated from the other coffee chains and therefore not direct competitors to Starbucks.

To analyze the material collected from the survey the econometrics program STATA will be used.

2.0 Starbucks' history

Timeline

The historic timeline is based on (Starbucks, 2011) and (Koehn, 2008).



1994

1995 Starbucks introduced its Frappuccino, which contains a mix of coffee, milk, sugar, flavorings and ice.

1997 The company is valued at \$2.9 billion.

2000 Started to purchase Fairtrade coffee beans.

2007 Starbucks Coffee Company was now the largest specialty coffee retailer in the world with revenues of \$8 billion and 15 000 stores.

1996 Starbucks begins their international expansion and opens a store in Tokyo, Japan, which is the first store outside North America. They start a collaboration with Pepsi-Cola to sell bottled Frappuccino in supermarkets.

1998 Opens coffee roasting plants in Pennsylvania and in Great Britain.

2005-2006 Starbucks expands their product line and starts selling via grocery stores.

2008 In January 2008 Schultz replaced CEO Jim Donald and returned as the company's chief executive. The company is valued at \$12 billion.

2012

2.1 Starbucks' growth and expansion

The following sections take reference point in a case study published by the Harvard Business Review, written by Koehn (2008) and from (Starbucks' Annual Report, 2009). It discusses growth related issues such as the positive and negative consequences of Starbucks' ambitious growth strategy. Ever since Shultz acquired Starbucks in 1987 the company has grown, and when Starbucks was launched on the stock exchange market in 1992, the expansion was intensified. In 2000 they operated 3501 stores and with a new expansion strategy, the number of stores increased fourfold to more than 15 000 in 2007. A component of their ambition to grow came from wanting to spread their products in order to meet demand wherever it existed and of course, to increase their profits.

Starbucks' expansion has predominantly been financed by their own cash flow, rather than using financing from the stock market. When Starbucks was first listed on the stock exchange in 1992 and sold 1.5 million shares of stock, at \$17 each, and during that year raised \$29 million. This amount represented more than six times the company's annual profits at that time.

Comparative-store sales

A way to measure Starbucks' sales, and make sure that the newly opened stores are not cannibalizing on the existing ones, is the rate of comparative-store sales. This measurement shows how fast sales are growing at all stores that have been opened for at least one year. A high comparative-store sales rate indicates that the newer stores were not making profits at the expense of the existing stores, whereas a low rate would indicate that this actually was the case. Up until 2005 Starbucks had a strong comparative-store sales rate, which indicated that they were growing organically and were increasing their business in a larger extent than what corresponded with the average sales of the new stores. (If a typical store had a profit of X, the new stores, and the existing ones, generated a profit larger than just adding X for every new store).

One component in this continued growth of existing stores throughout the massive expansion was due to the enlarged product offerings in the stores. They managed to increase sales, and prevent new stores from cannibalizing on existing ones, by simultaneously expanding their product line. In addition to Starbucks' range of coffee-product offerings they began offering products that can be viewed as complements to coffee. After a while they expanded the

product line further and began selling the music that was played in the coffee shops, other music, movies etc.

Vertical integration

Starbucks has an organizational structure that differs from their competitors. Starbucks has strategically worked towards building a vertically integrated organization – to keep all of the steps in production towards the end product under their own ownership – in order to gain and maintain control over the entire value chain. A component in this is that Starbucks does not use franchising to establish their stores. When expanding, Starbucks either buy the premises or they use licensing. Licensing is mainly used to access areas where they cannot buy the premises, such as department stores and airports. A large share of the stores outside of North America is owned and operated directly by Starbucks, but the majority is still licensed.

International expansion

Starbucks opened their first store outside North America in 1996, in Tokyo, Japan. During the beginning of the international expansion they focused on countries that offered a large growth potential for their business. In 2009 a total of 5507 stores were located outside of North America. Today they have stores in most areas of the world and are expanding continuously.

In order to succeed when establishing on a new market they put effort on research, finding local knowledge and expertise, and adjusting the Starbucks concept to the cultural tastes and domestic preferences. This indicates an important trade-off in keeping a clear univocal concept and meeting the domestic demand of each country.

Consequences and initiatives

Starbucks' substantial growth has also inferred a range of consequences that has affected the company and their trademark. Trying to maintain Starbucks' core values and the relationship with their employees proved to be a difficult task when growing and expanding at this rate. Also, despite the benefits of being listed on the stock exchange, Starbucks' trademark to some extent suffered from the redistributed ownership to shareholders. In order to keep up with the substantial growth strategies and pressure from shareholders, Starbucks had to make compromises. Each of these compromises by themselves represented only small changes, but had combined grown too large and Starbucks was drifting away from what represented the trademark Starbucks. The massive expansion strategies and the different adjustments of the working processes to make it more time efficient had led to a "watering down of the Starbucks experience" Koehn (2008, p. 5).

After 2005 the comparative-store sales growth started to decrease and in 2008 and 2009 the growth rate showed negative numbers. In 2008 these accumulated consequences had become too substantial for the situation to be sustainable and Schultz decided to take control over the company again to bring Starbucks back to its core values and return to profitable results.

When Schultz returned as CEO of the company in 2008, he had some major initiatives to get the company back on track. Some initiatives were directly targeted toward customers; such as a reward program and increased communication. The reward program was within the Starbucks Card, a prepaid card with benefits such as free refills of coffee. Another one, aimed to increase the communication with customers, which resulted in the website MyStarbucksIdea.com where customers could share ideas and opinions about the company. The final initiative concerned increasing environmental responsibility. The final initiative aimed to further address the climate change together with Conservation International that they had been cooperating with since 1998.

2.2 Corporate social responsibility (CSR)

This section briefly discusses how Starbucks works with CSR related questions and communication. Starbucks states that they always have tried to balance profit maximization with social and environmental responsibility.

In 1991 Starbucks started working with CARE, an organization fighting poverty. Since then they have completed 18 projects together with a total contribution of \$1 645 544 (CARE, 2011).

Koehn states that Starbucks pays its coffee suppliers an average of 23 % over market prices. For example, in Malaysia 2004, some of the coffee originated from Thailand and Indonesia and five percent from the sales revenues of the coffee from these regions were given back to the farmers to support agricultural education and activity.

In 2006 Starbucks began selling coffee in a new cup, made with 10 % recycled fiber which saved 78 000 trees during the first year alone. They also increased their usage of renewable energy to 20 % of total energy used in the North American stores.

Starbucks have received critique regarding environmental and social areas where they actually, according to themselves, were working actively. Schultz reckoned that this criticism was an effect of lack in communication from Starbucks to the society. The results from this, among other things, were the program “Voices Behind the Bean” which provided consumers


and journalists information about the supply chain of Starbucks. They even took journalists to meet coffee farmers in Costa Rica. In 2011 they also launched an annual CSR report.

The web page MyStarBucksIdea.com also became a way of increasing the information and interaction between Starbucks and the society. Here people can comment, criticize and share ideas to Starbucks about the company. This resulted in a blog called “Ideas in Action” where Starbucks presented ideas that were considered or even put into practice, like a higher discount for consumers with personal mugs instead of disposable cups.

Starbucks shows some evidence of listening to critique and adjusting their supply to meet the changes in demand. In 2000, Global Exchange, a human rights group, pressured Starbucks to start buying Fairtrade Certified coffee, which they began to do in April the same year. In 2006 they were the largest purchaser of Fairtrade coffee beans in North America. In 2001, Starbucks introduced their own guidelines to sustainable coffee, C.A.F.E. (Coffee And Farmer Equity) and in 2006 53 % of total coffee purchases were marked with C.A.F.E. In 2001, Starbucks were criticized for their dairy products being genetically modified, which led to a phase out of these products in 2008.

2.3 Starbucks' vision

The following is quoted from Starbucks' Mission Statement 2011 (Starbucks, 2011).



Our Starbucks Mission Statement

Our mission: to inspire and nurture the human spirit – one person, one cup and one neighborhood at a time. Here are the principles of how we live that every day:

Our Coffee

It has always been, and will always be, about quality. We're passionate about ethically sourcing the finest coffee beans, roasting them with great care, and improving the lives of people who grow them. We care deeply about all of this; our work is never done.

Our Partners

We're called partners, because it's not just a job, it's our passion. Together, we embrace diversity to create a place where each of us can be ourselves. We always treat each other with respect and dignity. And we hold each other to that standard.

Our Customers

When we are fully engaged, we connect with, laugh with, and uplift the lives of our customers – even if just for a few moments. Sure, it starts with the promise of a perfectly made beverage, but our work goes far beyond that. It's really about human connection.

Our Stores

When our customers feel this sense of belonging, our stores become a haven, a break from the worries outside, a place where you can meet with friends. It's about enjoyment at the speed of life – sometimes slow and savored, sometimes faster. Always full of humanity.

Our Neighborhood

Every store is part of a community, and we take our responsibility to be good neighbors seriously. We want to be invited in wherever we do business. We can be a force for positive action – bringing together our partners, customers, and the community to contribute every day. Now we see that our responsibility – and our potential for good – is even larger. The world is looking to Starbucks to set the new standard, yet again. We will lead.

Our Shareholders

We know that as we deliver in each of these areas, we enjoy the kind of success that rewards our shareholders. We are fully accountable to get each of these elements right so that Starbucks – and everyone it touches – can endure and thrive.

3.0 Competition in the coffee shop market

In this section competition in the coffee shop market will be analyzed from a theoretical point of view. General elements will be drawn from Industrial Organization theory with its *Structure-Conduct-Performance paradigm*, but in particular from *Porter's five competitive forces framework*, developed by Porter (1979) and frequently used in analyses of competition in different markets. This section will try to relate the theoretical aspects with factors of relevance for entry into and the competition of the Gothenburg coffee shop market.

3.1 Existing competition

The biggest chains in Gothenburg are Espresso House (13 stores), Condeco Group, where Muffins m.m. is included (10 stores), Le Pain Français (8 stores) and Da Matteo (3 stores). The main focus will be on Espresso House, because of their size and similar concept. Espresso House has the largest market share on the Swedish coffee shop market today with a total of 106 stores. Espresso House was founded in 1996 by Charles and Elisabeth Asker in Lund, a well-traveled couple who had the Starbucks experience overseas which they brought back to Sweden. In the early 2000, the coffee shop boom had just landed in Sweden and there were no incumbent coffee shop chain at that time, which could be a key to Espresso House's success. In 2006 they were bought by the investment company Palamon Capital Partners who at the same time also bought the coffee shop Coffee Cup, these two were merged together under the name Espresso House. The Asker family still owns a part of the company. They have approximately 900 employees and a turnover 2010 of about 560 million SEK. Their target group is broad; everything from junior high students to senior citizens, although women in the ages 20-35 years are over-represented. Apart from the fact that Espresso House purchases all its coffee via Johan & Nyström, a Swedish roasting-house, they are vertically integrated in most areas. They have their own bakery which distributes to all coffee shops in Sweden. They have approximately 20 000 visitors each day and they offer their customers a coffee card which has 80 000 unique users.

Future plans for Espresso House is an expansion of 25 new coffee shops during 2012, of which eight will be located in Gothenburg. Their marketing strategy is mainly using mouth-to-mouth communication based on customers' coffee shop experiences, mixed with opening-offers as coupons and handing out free coffee and bakeries. When it comes to Starbucks' establishment in Gothenburg Espresso House are not too concerned since they believe that they are offering higher quality coffee to a better price, at more and better locations. As long

as Starbucks does not expand into other central areas of Gothenburg, Espresso House says that they are not too troubled. (EspressoHouse, 2011)

3.2 Price elasticity of coffee

Dick Durevall, a professor at the School of Business, Economics and Law, has studied the Swedish coffee market with focus on the roasted coffee sold mainly in grocery stores. It shows that the Swedish population is relatively insensitive to price changes of roasted coffee, with a price elasticity of -0,19. (Durevall, 2007) However, this price elasticity does probably not reveal much about the price sensitivity in the coffee shop market. Since the coffee beverages in coffee shops are much more differentiated than the roasted coffee sold in grocery stores, the price elasticity of -0.19 is not directly applicable in this thesis. An estimation of customers price-sensitivity for coffee purchased in a coffee shop will be discussed further in the analysis.

3.3 Porter's five forces

In 1979 Porter first published his theory (Porter, 1979) on how competitive forces shape strategy within an industry. This section briefly presents Porter's theory with focus on the components that are relevant for this Starbucks case. All parts within 3.2 without explicit source references are based on Porter's theory, which aims to provide a strategic framework to analyze industry structure and how it affects competition and profitability. This type of analysis enables firms to be prepared for, and take advantage of, challenges in order to survive in a competitive industry. These five forces put focus on more than just rivaling firms; it also highlights four other competitive forces that can put pressure on a firm. The forces are potential entrants, buyers, substitutes and suppliers and are integrated as illustrated in *Figure 1*.

The Five Forces That Shape Industry Competition

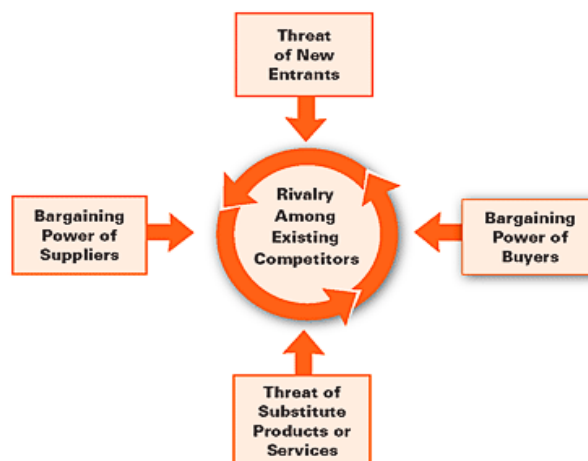


Figure 1. “The five competitive forces that shape strategy” (Porter M. E., *The Five Competitive Forces That Shape Strategy*, 2008)

Porter summarizes his purpose of the framework as follows;

“Awareness of these forces can help a company stake out a position in its industry that is less vulnerable to attack” Porter (1979 p.137)

The understanding of these forces helps a firm increase its knowledge of its own industry and is therefore better prepared to face challenges, but elements within these forces can also be used to a firm's advantage as for example increasing long-run profitability.

3.3.1 Threats of New Entrants

This force concerns different types of barriers to entry that a potential entrant can be faced with. Barriers to entry benefit the incumbent firms, but if an entrant can overcome these barriers they potentially pose a threat to the incumbent firms. Some of the barriers that an aspiring entrant has to take into consideration are the following.

Supply-side economies of scale

If an entrant firm enters a well-established, mature market, they are often facing incumbent firms that have economies of scale. Economies of scale indicate that the incumbents produce at a decreasing long-run average cost, which means that they produce close to their minimum efficient scale (MES). Producing close to MES is equivalent to producing a large output, which indicates that fixed costs are spread out over more units. (Cabral, 2000) The incentives to invest in for example R&D and advertising can therefore be larger for incumbent firms and in a sense less expensive since the investments is associated with a lower cost per unit. If an entrant decides to enter the industry, with a small scale, it needs to accept that it will have a cost disadvantage which includes higher costs per unit than the incumbent.

Since Starbucks is a well-established and mature company on the global market, they should have economies of scale in several areas, especially in training, marketing, R&D, and design of their premises. In contrast to a whole new firm, Starbucks might not need to spend as much on advertising since they are assumed to be well-known already. (Koehn, 2008)

Demand-side benefits of scale

Benefits of scale for the demand-side refers to when customers are benefited by an increased scale, meaning that one customer's utility increases due to other customers consuming the same good. This can be when, for example, Starbucks is able to give extra premiums and benefits on their coffee card due to a high frequency of users.

Customer loyalty

High product differentiation can imply high switching cost which includes costs that can arise when a consumer changes from one company to another. These costs can be purely monetary, in terms of e.g. binding contracts, or in emotional value, such as consumer loyalty to a certain company. The higher the customers switching costs are, the more difficult it will be for the entrant to achieve a high market share since consumers will have less incentive to switch. Another significant switching cost could be transportation cost, in terms of money and time.

A high transportation cost indicates that the location and accessibility of the company is important.

Consumers can also have a search cost which refers to the cost that arises for a consumer to search for a cheaper option. For consumers with a high search cost the gain from finding the cheapest good does not compensate for the cost of searching for it. Whereas consumers with low search cost gains enough value from finding the cheaper option, so that it outweighs the cost of searching for it. (Cabral, 2000)

Switching costs could occur if Gothenburg customers switch to Starbucks due to for example Espresso House offering a pre-paid card to their customers, having them “locked-up” and making them loyal in a monetary sense until the card value is used up. There can also be switching costs connected to the atmosphere or design of the premises. If locals are emotionally connected to the domestic coffee shops they might not change to a new one, even though prices might be lower since there will be an emotional switching cost for them.

Capital requirements

An entrant is most often faced with some level of entry costs. If an entrant wants to enter a market it can sometimes be required to invest in a large amount of advertising and R&D. These are sunk costs and can deter new entrants with weak finances from entering an industry (Grant, 2010).

In addition to these sunk costs the entrant could face large fixed costs in for example its production. An entrant’s expectation of its ability to compensate for the start-up losses could also be a factor in determining whether or not to enter the industry.

Starbucks is financially strong and therefore have the ability to withstand start-up costs and investments and can therefore be considered as a strong entrant (Starbucks' Annual Report, 2009).

With strong finances they can also invest heavily in advertising and marketing of their new coffee shop. Since Starbucks always prepare entry into a new market very carefully on the basis of extensive research it is likely to adjust well into the Gothenburg coffee shop market.

Incumbency advantages independent of size

An incumbent firm can hold competitive advantages regardless of its size. These advantages can for instance be protected technologies, knowledge, experience, government subsidies, geographic location and a well-established brand.

The incumbent firms on the Gothenburg market are well-established with well-known brands, good geographical locations and have good knowledge about the domestic market and its demand.

Starbucks as an entrant have also strong advantages in having a strong brand, patents on their products and that they are opening at a central location in Gothenburg.

Unequal access to distribution channels

A new firm has to secure the distribution of its goods. Some goods compete in terms of space; for example a shelf can only hold a restricted number of goods. If the competition for the best spots for exposure is intense the entrant has to squeeze out incumbents' products in order to be able to sell its own products on the shelf. This can potentially put an entrant in a difficult position.

When discussing distribution channels in the Starbucks case it is mainly relevant with geographic location of stores. Starbucks mainly distribute and sell their products in their own stores, but also cooperates with grocery stores in some countries that sell their products. In Sweden Starbucks has formed a contract with Arla that will be in charge of the production, marketing and distributing Starbucks branded ready-made coffee drinks throughout Europe (Dagens Industri, 2010).

Retaliation by incumbent firms

The aspiring entrant has to take the incumbent firms reactions to an entry into account. The entrant should expect to face a strong reaction or retaliation if;

- The incumbents of the industry have a history of strong reactions and aggressive actions towards entrants.
- If the incumbents have strong competitive means to challenge the entrant with like; large resources, access to capital or large production capacity.
- The incumbents are known to cut prices. If the incumbents are strong financially they can put price below the marginal cost. This can be difficult for an entrant who can have a hard time compensating for the low prices without large capital or the possibility of loaning capital from a bank (Cabral, 2000).
- The growth of the industry is slow or it has diminished, and market shares can only be obtained by taking it from an incumbent.

If the prospective entrant expects retaliation from the incumbent firms, it can be deterred from entering the market.

Starbucks can be viewed as a strong entrant since they are financially strong and have access to large capital resources. Therefore it is unlikely that they will face any retaliation in terms of price-wars etc. after entry. (Starbucks' Annual Report, 2009)

3.3.2 Bargaining Power of Buyers

The term “buyers” refers to both a firm’s retailers and consumers. The main difference between the two is that consumers are generally more price-sensitive when it comes to undifferentiated products, meaning that they can always find the products elsewhere, which implies that they could play one firm against another. They are price-sensitive if a good, which is not a necessity, represents a large fraction of the consumers cost. If a product is not particularly important to the consumer, they are also more price-sensitive.

Retailers can gain bargaining power over manufacturers if they can influence consumers downstream using either advertising or with the help of setting final prices. This gives the retailers the possibility of negotiation with an upstream firm, which the consumers do not have.

Powerful buyers can put pressure on firms and thereby capture value from them. The buyers can use this power to play off firms against each other by demanding lower prices, higher

quality and a higher level of service and thus increase competition within an industry. This increased competition leads to a decrease in producer surplus, due to increased costs and lowered price levels. It also leads to an increase in consumer surplus since the customers are capturing value from the industry.

If the quality of the product used in the buyers' production is of great importance, then they are less price-sensitive. If the product is used for a limited part of their production or if the buyer is highly profitable, then buyers are also generally less price-sensitive. On the other hand, if the product represents a large fraction of the buyers' production costs they are commonly more price-sensitive. If buyers are price-sensitive, the price elasticity of demand is high, and the level of consumption is highly correlated to changes in price, then an increase in price will lead to a decrease in revenues due to decreased sales.

The buyers' bargaining power increases when the buyers have information about the industry's cost and price levels. A well informed buyer has a low search cost which leads to firms having a harder time gaining market power since buyers have access to information and can then pick the firm with the lowest price (Cabral, 2000).

If an industry supplies to a concentrated group of buyers, a few large buyers that purchases large volumes, the buyers have a good bargaining position. This will lead to lower price-cost margins for the industry.

Buyers can also threaten to integrate backwards, meaning that they could expand their own production vertically and start producing their supplier's products themselves, if the supplier does not meet their demands. (Grant, 2010)

Starbucks customers are to a large extent private consumers that combined can have bargaining power. Starbucks works actively with collecting feedback and input from its customers with the objective to meet as many customers demand and preferences as possible. This is done mainly by the website 'MyStarbucksIdea' (Koehn, 2008).

3.3.3 Threats of Substitute Products or Services

An industry's or a firm's profitability can be affected by the presence of goods viewed as substitutes. Rivalry from substitutes can exist between both individual firms or between whole industries, for example clothing chains or plastic- and steel industry. Close substitutes to a product limits the possibility to price with large margins due to competition. If satisfactory substitutes exist, consumers are likely to switch to the cheaper option, if they are price-

sensitive. If a product is unique or differentiated, a higher price can be charged than if the buyer has access to substitutes. If there is lack of substitutes, consumers tend to be less sensitive to changes in price, which therefore enables higher margins.

If an industry or firm experiences threat of substitutes it could distance its own products from others thru product performance, marketing or other strategic decisions.

Substitutes are more likely to arise within an industry that is profitable, with the objective to redistribute the profit from the current product to the substitutes' product. If the threat of substitutes is realized, the industry will suffer from loss in profitability and its firms might risk having to exit the industry.

The threat of substitutes is high if the substitute product offers better performance and better price to the consumers than the existing product. An example of this is record stores which are to a large extent being substituted by online music services such as Spotify.

If the buyer's switching costs are low this will give easier incentives to switch to a substituting product.

Starbucks market is characterized by close substitutes. Despite substantial product differentiation and efforts to build a strong brand, there are several competitors with about the same key product, coffee. In addition to coffee, the supply of food may vary a lot and so does the level of service, internet access, atmosphere etc. To some extent this could create consumer loyalty. In general it can be expected that the consumers are fairly price-sensitive concerning this type of good. (Koehn, 2008)

3.3.4 Bargaining Power of Suppliers

Firms within an industry often use suppliers for their production, to some extent, and can therefore be faced with suppliers with large bargaining power. Suppliers in industries can have bargaining power in terms of being able to charge higher prices or limiting quality or service. As a supplier, setting higher prices are a way of capturing consumer (industry) surplus and making it producer (supplier) surplus, which leads to a decrease in social welfare since the produced quantity will be less than in a perfect competition. This could lead to squeeze-out of firms that cannot deal with the increased costs thru raising their own prices, if for example their customers are highly price-sensitive.

When considering power of suppliers Starbucks have an advantage in that they are highly vertically integrated. This reduces the involvement of suppliers and thereby reduces the risk of being subject to suppliers (intermediary firms) that are strong in negotiations. The step in their production chain where they could meet negotiations is when in contact with the coffee farmers selling the beans. (Koehn, 2008)

3.3.5 Rivalry among Existing Competitors

The force that industries commonly pay the most attention to is the one regarding existing competitors (Grant, 2010). When there is rivalry among existing firms, they can use tactics such as low prices, improvements in service, new products and advertising to attract customers.

The intensity of rivalry is great if the competitors are many and are approximately of the same size. The intensity of rivalry can increase if the industry's growth is slow, since more firms compete for the market shares. Competition within an industry can also be more intense if for instance the barriers to exit are high.

Price competition is an example of a dimension of competition that can be damaging to the profitability within an industry. This is due to price competition, which is more likely to be intense in an industry with undifferentiated products or services and with close substitutes.

If firms compete in different dimensions from each other, the competition is less likely to harm the industries' profitability, so called positive-sum competition. This type of competition could increase average industry profitability because firms are segmenting the customer market; their aim is to serve different types of consumers by differentiating their products. With a differentiated market the customer welfare will increase along with the greater range of supply, because more customers demand will be met. A positive-sum competition benefits both the firms, in terms of profit, and the customers since their needs are better met. On the other hand, if the firms within an industry focus their competition towards the same market segments it can lead to zero-sum competition, which has a negative effect on average industry profitability.

According to Starbucks' Annual Report from 2009, their biggest competitors in the coffee market are specialty coffee shops and quick-service restaurants. (Starbucks' Annual Report, 2009)

The customers at Da Matteo, which is a specialty coffee shop, are between the ages of sixteen to senior citizens, but the largest customer group is in the ages 22-40 years that lives or works in central Gothenburg and values high quality and locally produced food. (DaMatteo, 2011)

At Condeco Group, where Muffins m.m. among other is included, the typical customer is a young woman in the ages of 18-24 years, but they have no specified target group. (Condeco, 2012)

3.4 Additional environmental force

According to Porter, improvements of a firm's environmental work can in fact make them more competitive. He considers firm's pollution to be a sign of a defect in the production processes since the resources are being used ineffectively. Using inputs more efficiently will eliminate the need of hazardous materials and unneeded activities. Improved environmental work can also lead to increased production quality, lower costs and more innovations that can boost resource productivity. Other examples are material savings from more complete processes, reduced material storage and handling costs, safer workplace, lower energy consumption, safer products, lower packaging costs and so on. (Porter & Van der Linde, 1995)

3.5 Structure-Conduct-Performance paradigm

The Structure-Conduct-Performance paradigm (SCP) is a tool for analyzing an industry. Structure focuses on the market structure which includes market concentration, product differentiation, barriers to entry and exit, vertical integration and the cost structure of the firm.

Conduct includes firms' behavior when it comes to investments in advertising and R&D, collusions, mergers and acquisitions and product and pricing strategies. The latter is of great concern if there is a risk of collusion since it could lower the social welfare.

The level of market power is a big determinant of the performance of an industry, which is closely related to the level of allocative efficiency. Efficiency could decrease if firms exhibit large market power and are not allocating their resources efficiently, producing below the optimal level and therefore leaving the consumers with lower quantities and higher price levels. Investments in R&D could potentially increase a firm's profit and with that, its market power. High market power decreases the incentives to invest in R&D since the firm already holds a majority of the market shares. (Cabral, 2000) As R&D plays an important role in the development of society, decreased incentives to invest could therefore be negative.

4.0 Empirical analysis

In this section the results from the survey, which is shown in *Attachment 4*, will be presented. Because of the time constraint and due to limited economic resources this survey has the character of a test project. Caution has been taken in the interpretation of the results. All answers were gathered at the School of Business, Economics and Law and all respondents were students at the time and were randomly selected. Moreover, students are typically coffee shop visitors and constitute a relevant sample also due to the age group that they represent. On the other hand, students are a consumer group that is usually financially constrained, which means that their ability to pay might affect their stated willingness to pay. Students also spend a lot of time at the school premises, which might affect where they most often purchase their coffee and their choice of coffee shops.

4.1 Descriptive statistics

To start with some descriptive statistics will be presented. 100 answers were collected, of which 89 % are coffee consumers. 38 % purchase coffee 3-5 times each week, 22 % purchase 6-10 cups per week, 21 % purchase 1-2 cups. 64 % of the respondents are female and 36 % are male. The average respondent is about 23, 4 years old; the youngest is 19 and the oldest is 39 years, which represents a large proportion of the target group of the domestic coffee shops. 28 % studies single subject courses, 21 % studies a master program, 19 % studies the law program, 14 % studies the business and administration program with analytical focus and 10 % studies with focus on language, 4 % studies the social and environmental program and 3 % studies other. The main part of the respondents, 68 %, has 1-4 semesters left until graduation. The respondents were asked to state how often they travel via the Gothenburg Central Station/Nils Erikson Terminal; 12 % stated that they travel daily, 12 % multiple times each week, 10 % once a week, 44 % some time each month and 21 % a few times each year.

One of the most important questions in the survey concerns the weight students put on different characteristics of a coffee shop and what they value when purchasing a cup of coffee. The result is summarized in *Figure 2*. The respondents' were also asked to rank these factors from 1st to 3rd priority.

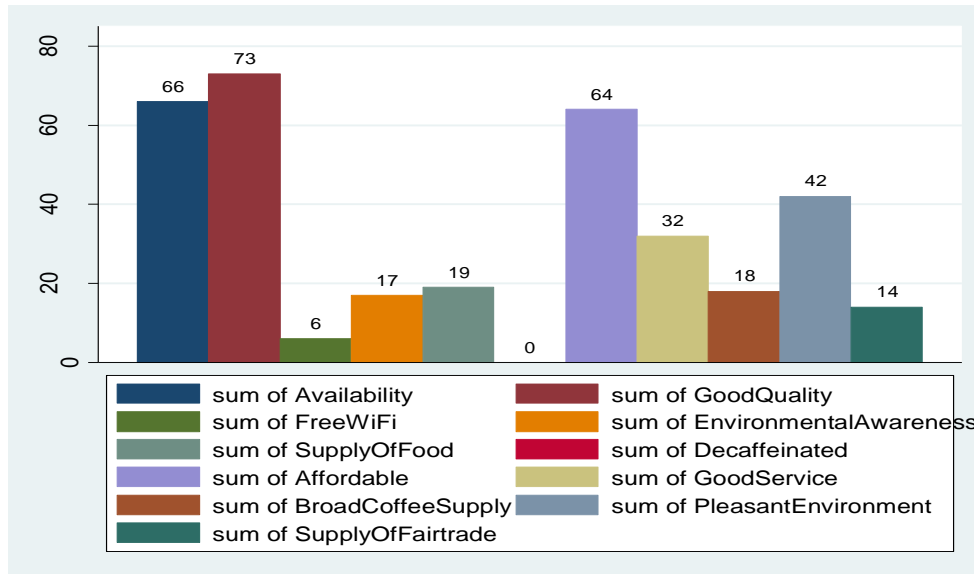


Figure 2. Question 3, “What is important to you when you purchase a cup of coffee?”

The factors that the respondents value the most when purchasing a cup of coffee are; ‘Good quality coffee’, ‘Availability’, ‘Affordable’, ‘Pleasant environment’ and ‘Good service’.

When the respondents ranked these factors 36 % chose ‘Good quality’ as priority one, 27 % chose ‘Affordable’ and 22 % ‘Availability’. As priority two 31 % chose ‘Good quality’, 19 % ‘Affordable’ and 16 % ‘Availability’. As priority three 25 % chose ‘Availability’, 17 % chose ‘Affordable’ and 14 % ‘Good service’.

The popularity of different premises is shown in **Figure 3** below. It seems that the distance to school might be of importance. The respondents were able to choose multiple options, which is why the numbers add up to more than 100 %. The places that the respondents visit to purchase coffee are; 7-Eleven that 54 % goes to, Eurest with 51 % and Espresso House with 43 % of the respondents. 7-Eleven and Espresso House are located close to the School of Business, Economics and Law, while Eurest is the in-house coffee shop. Most of the other coffee shops are located further away from the school premises.

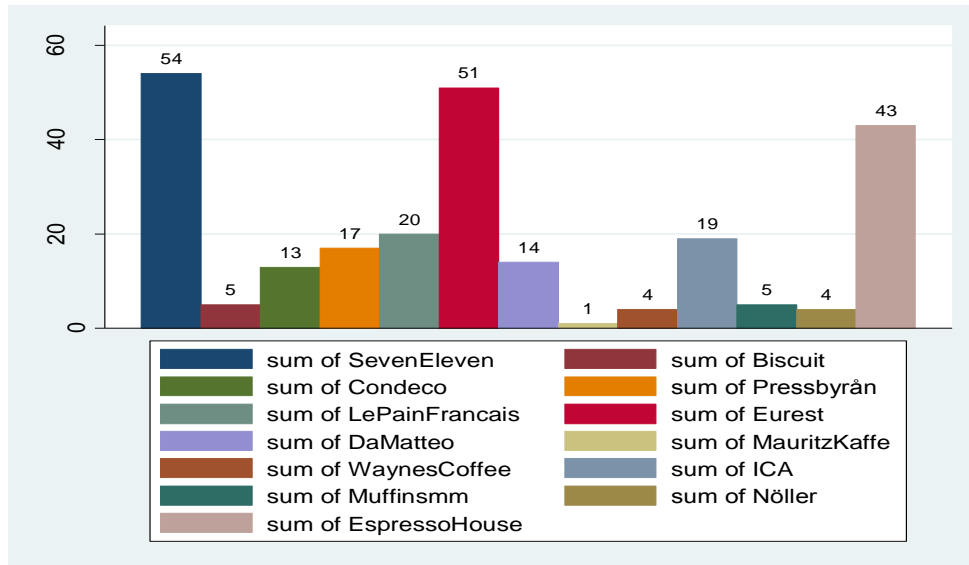


Figure 3. Question 4, “Where do you most often purchase your coffee?”

Even if Starbucks has not opened its coffee shop in Gothenburg yet the general level of knowledge amongst students is high due to international experience. 100 % of the respondents answered that they knew of Starbucks since before, where 74 % have visited them multiple times, 12 % have visited them once and 14 % have never visited a Starbucks store. 49 % of the respondents have visited a Starbucks coffee shop in the United States.

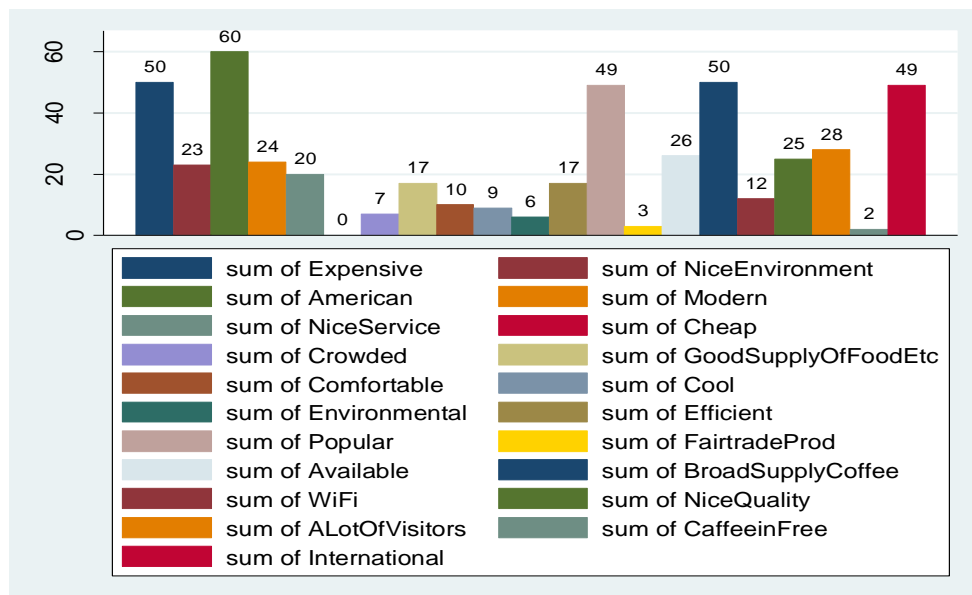


Figure 4. Question 7, “What do you associate with Starbucks?”

What the respondents associates with Starbucks, out of the given options, is shown in **Figure 4** above. 60 % associates Starbucks with ‘American’, 50 % associates them with ‘Expensive’ and a ‘Broad supply of coffee beverages’. 49 % associates them with ‘Popular’

and 'International'. Between 20-28 % associates Starbucks with 'Pleasant environment', 'Modern', 'Good service', 'Available', 'Good quality' and 'A lot of visitors'.

On the question whether the respondents will visit the Starbucks coffee shop when they have opened in Gothenburg, a majority (58 %) stated that they will try once or twice it but will still go to their regular coffee shop. 14 % says that they will not visit Starbucks at all and 13 % does not know whether they will visit or not. 9 % says that they will start purchasing coffee at Starbucks as well and therefore expects their total coffee consumption to increase. 6 % stated that they will switch their consumption and only purchase coffee at Starbucks.

The average willingness to pay for a cup of black coffee from Starbucks is 24, 80 SEK. The minimum stated willingness to pay was 10 SEK whereas the maximum was 40 SEK. The respondents were asked if their willingness to pay increases if the coffee was Fairtrade and 47 % stated that it did increase. On average it increased with 2, 10 SEK, the minimum was 0 SEK and maximum was 15 SEK.

The relevance of the found willingness to pay is supported by *Figure 5* which indicates that the results are normally distributed.

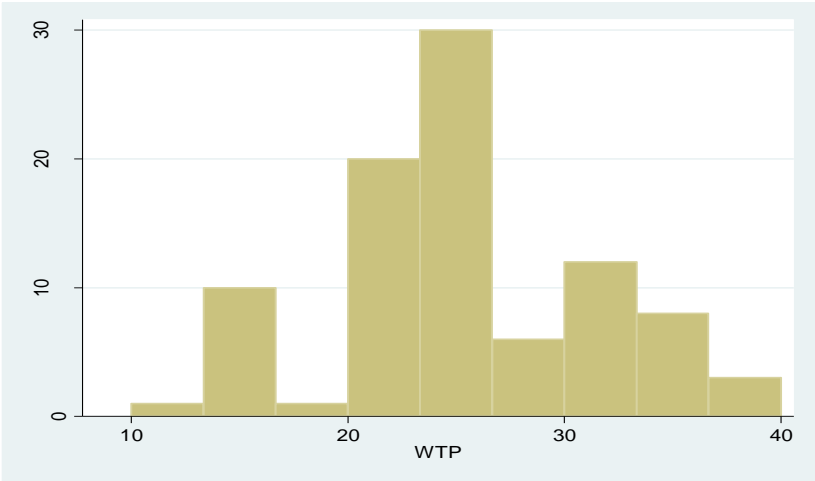


Figure 5. Histogram over WTP.

4.2 Econometric analysis and discussion

In addition to the descriptive statistics a few regressions has been run to further investigate students' preferences concerning coffee. All regressions are enclosed in *Attachment 1*.

Starbucks is a well-established brand, which the results of the survey clearly show. This reduces the need for advertising of their brand, at least among students of this age group, which make out an important part of their target group. However they still have to advertise that they are establishing at Gothenburg's Central Station in a way to reach customers outside this part of the target group.

According to the survey, 49 % associates Starbucks with the factor 'Popular', which could increase the incentives to visit since coffee shops are a social meeting point in the Swedish coffee culture. (*Figure 4*)

Figure 4 also shows that 73 % of the respondents think that 'Quality' is an important factor. However, the connection between choice of coffee shop and the quality of coffee shows no significant results. This might have to do with the fact the experienced quality is highly normative and varies between individuals. It might also have to do with the fact that other factors play a larger part in the choice of coffee shop, such as the availability or perhaps the expected experience.

Students are often considered to have a low search cost, which is shown by the survey in that the respondents that has selected the factor 'Affordable' often goes to ICA, which is located close to the School of Business, Economics and Law, to save a few SEK relative to purchasing the coffee at the in-house coffee shop Eurest. 76 percentage points of ICA's customers and 70 percentage points of Eurest's customers think that 'Affordable' is an important factor, when holding all other factors constant (*Regression 1*). Since Starbucks will establish in the center of Gothenburg, this result indicates that if Starbucks sets price levels a bit lower than their main competitors, customers might find the extra transportation worthwhile.

A monetary switching cost that the customers in Gothenburg could be faced with is if they have a coffee card, such as Espresso House's "Coffee Card" which customers charge with money and therefore are "locked up" to. Since the money is locked, this could make out a cost when/if switching to Starbucks.

Respondents that are customers at ICA and 7-Eleven have stated that 'Availability' is an important factor, in contrast to customers at Espresso House where 'Availability' is not significant (*Regression 2*). This could mean that customers at Espresso House does not mind the transportation cost of going to an Espresso House coffee shop, which could be an indication of consumer loyalty. Consumer loyalty can be seen as an emotional cost that can occur when switching. If this emotional cost is high, customers might end up not switching, as for example the 14 % who chose that they will not Visit Starbucks at all, which they might have stated due to loyalty to their current coffee shop.

One advantage that the incumbent firm Espresso House has is that they are well-established; both in their brand and that they have many coffee shops in central Gothenburg. 66 % of the respondents think that 'Availability' is an important factor (*Figure 2*) and for those who rarely travel via the Central Station Starbucks will not be viewed as particularly available. 24 % of the respondents travel via the Central Station daily or multiple times a week. This view has been emphasized in the comments on the survey concerning Starbucks' location, where some respondents indicated that it could be a problem. The question is if our respondents find the distance to Starbucks too far? The location of the coffee shop is central, but is it easily accessible?

One large advantage that Espresso House possesses is that they are established over large areas of Gothenburg's inner city and are therefore easily accessible. Another advantage could be their existing customer base with 20 000 visitors each day in Sweden, of which some proportion visits Espresso House in Gothenburg. If these customers are highly loyal, Starbucks could face a problem when trying to either gain new customers, or attract Espresso House's customers. Here the important factor, as mentioned before, is if they will differentiate from each other and therefore gain a positive sum competition.

However, 'Availability' might not be the factor that weights most heavily at the end even if 66 % states that it is important. This is shown in the results of the survey where, as mentioned before, some respondents are willing to walk a distance to ICA to save a few SEK on coffee instead of buying at the nearer one, Eurest. This shows that 'Availability' could be seen as highly normative and that the actual distance is what counts in the end and if the price difference is worth it.

Out of the respondents who are customers at other coffee shops than ICA, Eurest, 7-Eleven and Espresso House, 59 percentage points believe that that 'Affordable' is an important factor

when purchasing coffee. Only 30 percentage points of the customers at Espresso House thinks 'Affordable' is an important factor (**Regression 3**), ceteris paribus. This could indicate that customers at Espresso House are less price-sensitive than the rest of the respondents. The results from the survey also shows that respondents that often visits Espresso House are willing to pay on average 3, 11 SEK more (26, 44 SEK) for a black cup of Starbucks coffee than the respondents that does not usually visit Espresso House (23, 33 SEK). This implies that these customers are less price-sensitive (**Regression 9**). This relatively high willingness to pay for a Starbucks coffee is not necessarily a sign of disloyal customers. It might only be related to the fact that the customers of Espresso House like the concept, which is similar between Espresso House and Starbucks, and wants to try Starbucks when they open up in Gothenburg. We believe that it is at this point Starbucks could gain customers but only if the Starbucks experience for the customers will be something else than their 'normal' experience at Espresso House.

The respondents that stated 'Affordable' as an important factor when choosing coffee shop, have lower willingness to pay for a Starbucks coffee than the respondents that do not think 'Affordable' is important (23,71 SEK to 27,25 SEK) (**Regression 7**). This result is interesting because 50 % of the respondents associate Starbucks with 'Expensive'. Their stated mean value of willingness to pay is 25 SEK for a cup of coffee (**Figure 4, Table 9**). There is no significant relationship between the association 'Expensive' and the willingness to pay. This could be due to the intangible values and associations connected to Starbucks, which has a higher positive effect on the purchases than the negative effect of high prices.

Respondents who have chosen option 1 to 3 in question 8 and who thinks 'Affordable' is an important factor are less willing to change to Starbucks than respondents who has not chosen 'Affordable' as an important factor (2, 94 to 2, 22 in a range of 1 to 3 where 3 is less willing to visit Starbucks) (**Regression 8**).

Apart from 'Affordable', 33 % of the customers at Espresso House have chosen 'Broad supply of coffee beverages' to be an important factor, in contrast to 7 % of the respondents that does not visit Espresso House (**Regression 4**). This was not significant for any of the other coffee shops included in the survey. The results from regression 4 and 9 indicates that if Starbucks differentiates themselves by offering a broader range of coffee beverages than Espresso House, or offers it with a new or different concept, they could again, either create new market shares or gain some of Espresso House's customers. 50 % of the respondents

actually associate Starbucks with a large supply of different coffee beverages. If Starbucks chooses a marketing strategy where they market themselves as having a broad coffee supply and specialize in different flavorings, they could potentially attract customers from Espresso House, supplying the customers demand.

Regression 5 shows that respondents that regularly visit Espresso House are more likely to visit Starbucks. The fact that Starbucks and Espresso House are viewed to have a similar concept is also pointed out by respondents in the survey commentaries. This indicates that the respondents like the similar concept and does not only purchase a cup of coffee; they also purchase the concept and an experience. If neither Starbucks nor Espresso House differentiates from each other they risk being seen as close substitutes to each other.

The results from the survey show that the willingness to pay increases for 47 % of the respondents that stated a WTP in question 9, if the coffee is marked with Fairtrade (**Table 17**). 17 % of the respondents have chosen the factor 'Environmental awareness' to be important when buying coffee and **Regression 6** shows that these people are willing to pay 2, 29 SEK more than people who do not think it is important (3, 42 SEK to 1, 13 SEK). 14 % of the respondents chose 'Supply of Fairtrade Goods' as an important factor and are willing to pay 1, 57 SEK more than the respondents who do not think this is important (3, 43 SEK to 1, 86 SEK). The regression also shows that female respondents are willing to pay more than the males (1, 99 SEK to 1, 13 SEK). This shows that there is a demand for Fairtrade coffee and environmental awareness. This result indicates that Starbucks and Espresso House could attract customers by differentiating themselves thru environmental improvements.

4.3 Result

We believe that there is room for Starbucks in Gothenburg, especially in the beginning. The survey shows that there is a demand for their products and that the respondents in general have a positive angle to the fact that they are establishing here. We think that Starbucks will attract customers in the beginning based on their well-known brand and the curiosity of the citizens. However, in order for Starbucks to keep attracting customers they will have to provide an experience that lives up to, or exceeds, the customers' positive expectations.

It has been evident throughout all our contact with the main coffee shop companies in Gothenburg that they believe that the coffee shop market in Gothenburg holds a lot of growth potential. This is mainly shown by the large expansion plans that the companies hold for the future and Starbucks establishment. This indicates that there is, in fact, room for Starbucks.

The main keys to success that will benefit Starbucks when establishing in Gothenburg is; their knowledge and experience in analyzing prospect markets and meeting domestic demand. Other keys that will be to Starbucks' advantage is their high level of vertical integration, which helps them sustain and provide their standard of quality coffee, service and broad supply of beverages that can be experienced throughout the world. This is in the end what makes them attract new customers and keep existing ones.

Even though Starbucks will face competition on the local market, they are a capital intensive corporation, which makes them a strong entrant and enables them to withstand a tough start-up period if that should occur. However, if they do not differentiate themselves in the long run, towards their customers and against their competitors, they will be seen as close substitutes to Espresso House. If they are seen as substitutes, the switching cost between the two will be low and customers will move freely between them. Also, if they will be viewed as close substitutes, the main component that a customer base their decision on which coffee shop to go to will be price or perhaps loyalty. If this will be the case, the competition between Starbucks and Espresso House will be fierce.

The results show that the respondents that usually go to Espresso House are more willing to change to or visit Starbucks at least once, which indicates a low switching cost. This low switching cost puts further emphasis on the importance for Starbucks and Espresso House to differentiate from each other in order achieve a positive sum competition.

The respondents that stated that they will visit Starbucks once or twice might become regular customers if Starbucks make a good impression during their first visit, making the transportation cost worthwhile.

The fact that Espresso House's customers are less price-sensitive indicates that Starbucks' customers also could be less price-sensitive due to their similarities. This statement is supported by the result that 50 % of the respondents associate Starbucks with expensive, but the majority will still visit at least once or twice. Less price-sensitive customers enables Starbucks to put prices relatively high.

As Starbucks states, their mission and vision, is among other things, to serve coffee with high quality thru service-minded employees in a nice coffee shop environment. Out of the respondents, 25 % associate Starbucks with 'Good Quality Coffee', 20 % with 'Good Service' and 12 % with 'Nice Environment'. This indicates that the respondents to some degree

associate Starbucks with what Starbucks in fact wants to be associated with. Although, this is far from a majority as the associations most respondents stated were ‘American’, ‘International’, ‘Broad coffee supply’, ‘Popular’ and ‘Expensive’.

The inconsistencies between the respondents’ stated expected actions, on whether or not to visit Starbucks, and their stated preferences and associations concerning Starbucks, might be explained by the intangible assets in Starbucks trademark. Some of these assets are covered in the survey, but it might not capture all factors that affect the respondents’ consumption behavior. Sometimes these intangible factors weigh more than other more concrete factors, such as price.

The students are willing to pay an average of 25 SEK for a cup of Starbucks coffee. That willingness to pay increases with an average of 2, 10 SEK if the coffee is marked with Fairtrade or is in other ways environmentally approved. This indicates that there is a demand for environmental friendly products.

The found WTP for Fairtrade labeled, or environmentally approved, coffee indicates that Starbucks has placed their prices at a reasonable level. The actual price for a small cup of black coffee from Starbucks at the Gothenburg Central Station is 27 SEK and is 100 % Fairtrade labeled. The respondents’ total WTP has a mean value of 27, 10 SEK, which matches the actual price level.

4.3.1 Conclusion

The main conclusions are that Starbucks will succeed given that they live up to the students’ positive expectations and meet their preferences, and if they manage to differentiate themselves from their competitors, mainly Espresso House.

5.0 Concluding remarks

This subject can be investigated further, either by collecting more survey responses or perhaps doing a follow-up after Starbucks has opened.

5.1 Criticism

In Porters articles, he does not mention search cost, which we believe to be an important factor under the force “Bargaining power of buyers” and which we have complemented with theory from Cabral (2008). We believe search cost makes out an important part when customers purchase goods and with today’s constant access to internet, information is easily accessible at a low cost in a short time.

The questions for the interviews were left opened with the possibility for the interviewee to steer the interview, which gives room for normative notions. There is a risk of subject or biased information and that information was withheld during the interview with Espresso House. There is also a risk of the formulations of the questions influencing the answers given. This has been taken into consideration during the analyses but might still have an influence on the results.

Survey specific critique

Some of the respondents either forgot to, or decided not to, answer all the questions. This might have had an effect on some results. This is most certainly not a problem since there was only one respondent who did not fill in the background information and the people who did not fill in their willingness to pay were those who do not drink coffee. A few of the respondents that stated that they drink zero cups each week still stated a willingness to pay, which can be explained by the fact that they consume less coffee than one cup a week. Since all respondents are students, which usually are somewhat financially constrained, the willingness to pay might have been affected, resulting in a lower stated a lower willingness to pay.

The survey shows that the majority of the respondents are well-travelled and 86 % have had the Starbucks experience. The overall knowledge of the Gothenburg citizens regarding Starbucks might therefore be lower in general than the results indicates. This could lead to the results not being applicable when referring to the population of Gothenburg as a whole. We believe that the fact that the respondents’ knowledge might be higher than for the general population is not a problem. This is because the more experienced the respondent is, does not

necessarily lead to a positive outcome, just more knowledge about Starbucks, even if this is negative since associations and preferences are normative.

If the respondents had randomly been chosen at the Gothenburg Central Station and not at the school it would have led to a more mixed group of respondents. But at the same time, it would have led to respondents with less knowledge about Starbucks. It would also have required significantly more time invested in collecting the results in order to gather a representative example. In addition, the respondents might not have been representative for Starbucks' target group. Therefore we do not believe this to be a problem.

We chose to ask for the respondents' WTP for a black cup of Starbucks coffee because it is something that most people can relate to. It was used to eliminate the risk of respondents not stating a WTP because they could not relate to the type of coffee used in the survey. The price level for Café Latte, Cappuccino etc. are higher than the price for a black cup of coffee, but the WTP for these types of coffee beverages can also be expected to be higher.

Our attempts to get in touch with Le Pain Français and Wayne's coffee were unsuccessful since they were not reachable either by phone or through e-mail.

We were in contact with SSP, who is Starbucks' licensee in Sweden. However, they were unable to answer our questions before the official press conference, which takes place at the end of January. This has led to other sources of information being used to gather sufficient information. We do not view this as a problem since these sources potentially are less biased than a direct source.

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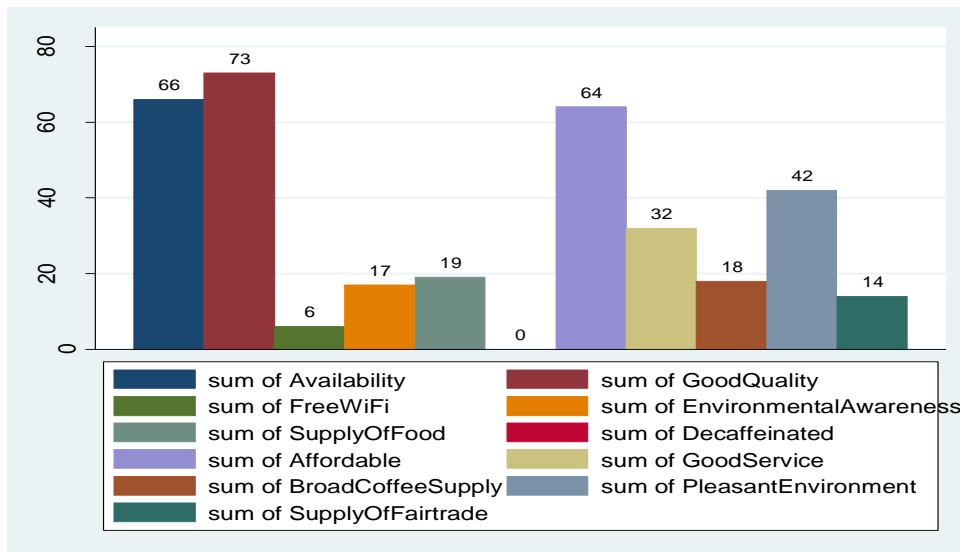
Attachments

Attachment 1 – Econometric results

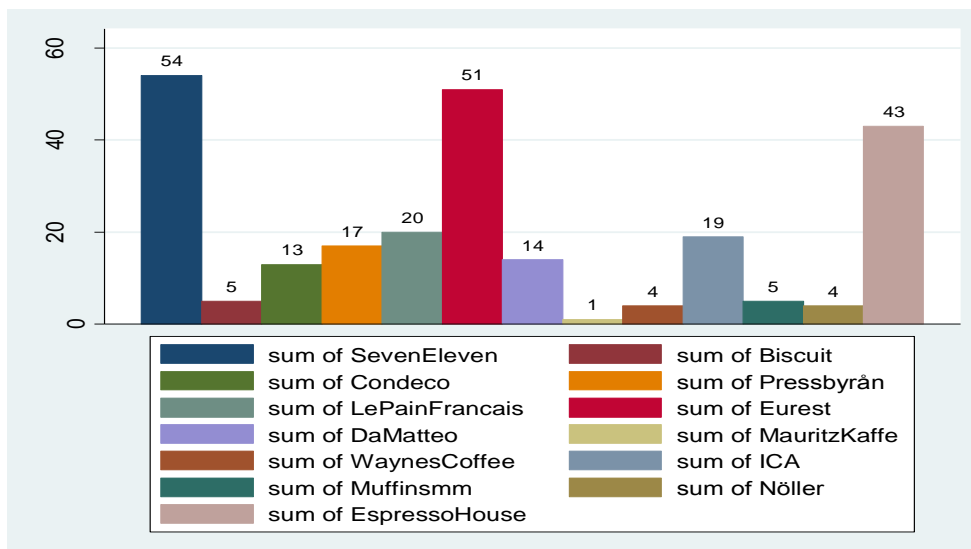
All the following data has been developed through the program STATA and with the book Principles of Econometrics (Hill, 2008). The input for the data and originates from the survey.

1.1 Graphs

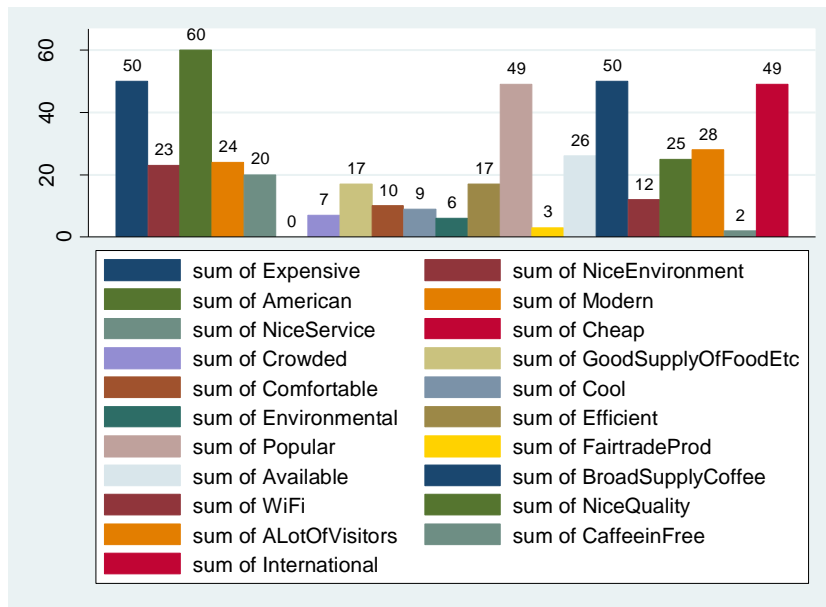
Graph 1. Question 3; “What is important to you when you purchase a cup of coffee?”



Graph 2. Question 4; “Where do you most often purchase your coffee?”



Graph 3. Question 7; “What do you associate with Starbucks?”



1.2 Tables and Means

Table 2. Tabulation of question 1; “Do you drink coffee?”

DoYouDrinkCoffee	Freq.	Percent	Cum.
No	11	11.00	11.00
Yes	89	89.00	100.00
Total	100	100.00	

Table 2. Tabulation of question 2; “How often do you purchase a cup of coffee?”

HowOftenDoYouBuy	Freq.	Percent	Cum.
never	13	13.00	13.00
OneToTwo	21	21.00	34.00
ThreeToFive	38	38.00	72.00
SixToTen	22	22.00	94.00
ElevenToFifteen	5	5.00	99.00
SixteenOrMore	1	1.00	100.00
Total	100	100.00	

Table 3. Tabulation of ranking from question 3, 1st priority

FirstPriority	Freq.	Percent	Cum.
Availability	20	22.22	22.22
Good Quality	32	35.56	57.78
Environmental awareness	1	1.11	58.89
Good supply of food/snacks	1	1.11	60.00
Affordable	24	26.67	86.67
Good Service	2	2.22	88.89
Broad Coffee Supply	1	1.11	90.00
Pleasant Environment	8	8.89	98.89
Other	1	1.11	100.00
Total	90	100.00	

Table 4. Tabulation of ranking from question 3, 2nd priority

SecondPriority	Freq.	Percent	Cum.
Availability	14	15.91	15.91
Good Quality	27	30.68	46.59
Environmental awareness	4	4.55	51.14
Good supply of food/snacks	4	4.55	55.68
Affordable	17	19.32	75.00
Good Service	7	7.95	82.95
Broad Coffee Supply	4	4.55	87.50
Pleasant Environment	7	7.95	95.45
Supply of Fairtrade	4	4.55	100.00
Total	88	100.00	

Table 5. Tabulation of ranking from question 3, 3rd priority

ThirdPriority	Freq.	Percent	Cum.
Availability	21	25.00	25.00
Good Quality	5	5.95	30.95
Environmental awareness	5	5.95	36.90
Good supply of food/snacks	3	3.57	40.48
Affordable	14	16.67	57.14
Good Service	12	14.29	71.43
Broad Coffee Supply	7	8.33	79.76
Pleasant Environment	11	13.10	92.86
Supply of Fairtrade	3	3.57	96.43
Other	3	3.57	100.00
Total	84	100.00	

Table 6. Tabulation of question 5; “Did you know of Starbucks since before?”

DoYouKnowStarbucks	Freq.	Percent	Cum.
Yes	100	100.00	100.00
Total	100	100.00	

Table 7. Tabulation of question 6; “Have you visited a Starbucks café?”

HaveYouVisitedStarbucks	Freq.	Percent	Cum.
No	14	14.00	14.00
Yes, one time	12	12.00	26.00
Yes, many times	74	74.00	100.00
Total	100	100.00	

Table 8. Tabulation of question 8; “Do you think you will purchase coffee at Starbucks when they have established in Gothenburg?”

willYouVisit	Freq.	Percent	Cum.
Yes I will change	6	6.00	6.00
Yes I will Buy there	9	9.00	15.00
I will try Once or Twice	58	58.00	73.00
No	14	14.00	87.00
Dont know	13	13.00	100.00
Total	100	100.00	

Table 9. Mean of question 9; “What are you willing to pay for a cup of black coffee from Starbucks?”

. sum WTP

Variable	Obs	Mean	Std. Dev.	Min	Max
WTP	91	24.8022	6.314392	10	40

Table 10. Mean of question 10; “Does your willingness to pay increase if that cup of black coffee from Starbucks is Fairtrade or environmentally approved?”

. sum WTPFair

Variable	Obs	Mean	Std. Dev.	Min	Max
WTPFair	91	2.098901	2.716431	0	15

Table 11. Tabulation of question 11; “Gender”

Gender	Freq.	Percent	Cum.
woman	63	63.64	63.64
Man	36	36.36	100.00
Total	99	100.00	

Table 12. Mean of Age

variable	Obs	Mean	Std. Dev.	Min	Max
Age	99	23.41414	3.13639	19	39

Table 13. Tabulation of question 13; “How often do you travel via the Central Station/Nils Ericsson terminal?”

TravelViaCentralStation	Freq.	Percent	Cum.
Daily	12	12.12	12.12
Some time each month	44	44.44	56.57
Multiple times a week	12	12.12	68.69
A few times each year	21	21.21	89.90
Once a week	10	10.10	100.00
Total	99	100.00	

Table 14. Tabulation of question 13; “What do you study?”

. tab whatDoYouStudy

whatDoYouStudy	Freq.	Percent	Cum.
Business and Economics - analytical	14	14.14	14.14
Business and Economics - language	10	10.10	24.24
Environmental and social science	4	4.04	28.28
single subject courses	28	28.28	56.57
Master program	21	21.21	77.78
Law program	19	19.19	96.97
other	3	3.03	100.00
Total	99	100.00	

Table 15. Tabulation of question 15; “How long before you graduate?”

TermsLeft	Freq.	Percent	Cum.
1	12	12.24	12.24
2	21	21.43	33.67
3	11	11.22	44.90
4	23	23.47	68.37
5	3	3.06	71.43
6	6	6.12	77.55
7	7	7.14	84.69
8	3	3.06	87.76
9	8	8.16	95.92
10	4	4.08	100.00
Total	98	100.00	

Table 16. Tabulation of “How many have been to the USA” based on question 6, answer 2 and 3.

A	Freq.	Percent	Cum.
No	39	44.32	44.32
Yes	49	55.68	100.00
Total	88	100.00	

Table 17. Sum of question 10 “Does your willingness to pay increase if that cup of black coffee from Starbucks is Fairtrade or environmentally approved?”

. sum WTPFair if WTPFair > 0

Variable	Obs	Mean	Std. Dev.	Min	Max
WTPFair	43	4.44186	2.270959	2	15

1.3 Regressions

The following regressions have all been tested for heteroskedasticity with a Breusch-Pagan test and if heteroskedasticity were found, it has been adjusted for with a robust regression. The regressions will not be tested for autocorrelation in the residuals since we do not have time as a variable in our survey.

Regression 1. The relationship between the factor ‘Affordable’ (question 3) and where the respondents purchase coffee (ICA & Eurest) (question 4).

```
. reg Affordable ICA Eurest, robust
```

Linear regression

```
Number of obs = 100
F( 2, 97) = 9.10
Prob > F = 0.0002
R-squared = 0.1342
Root MSE = .45349
```

Affordable	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
ICA	.3094408	.0931868	3.32	0.001	.1244908	.4943908
Eurest	.2506632	.0908732	2.76	0.007	.070305	.4310214
_cons	.453368	.0736796	6.15	0.000	.3071344	.5996016

Regression 2. The relationship between the factor ‘Availability’ (question 3) and where the respondents purchase their coffee (ICA, Eurest, 7-Eleven & Espresso House) (question 4).

```
. reg Availability ICA Eurest SevenEleven EspressoHouse, robust
```

Linear regression

```
Number of obs = 99
F( 4, 94) = 7.10
Prob > F = 0.0000
R-squared = 0.2125
Root MSE = .42931
```

Availability	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
ICA	.2492005	.0955832	2.61	0.011	.0594179	.4389831
Eurest	.1347125	.086488	1.56	0.123	-.0370115	.3064365
SevenEleven	.3276935	.0953365	3.44	0.001	.1384006	.5169864
EspressoHouse	.045968	.0916502	0.50	0.617	-.1360057	.2279416
_cons	.3507352	.0850189	4.13	0.000	.1819281	.5195423

60 % of the customers at ICA chose ‘Availability’ as an important factor, the same goes for 7-Eleven where 68 % finds it important. ‘Availability’ is not a significant factor for customers at Eurest or Espresso House.

Regression 3. Shows the relationship between the factor ‘Affordable’ (question 3) and where the respondents purchase their coffee (Espresso House, 7-Eleven, Eurest & ICA) (question 4).

```
. reg Affordable ICA Eurest SevenEleven EspressoHouse, robust
```

Linear regression

```
Number of obs = 99
F( 4, 94) = 8.91
Prob > F = 0.0000
R-squared = 0.2163
Root MSE = .43434
```

Affordable	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
ICA	.2767108	.0896526	3.09	0.003	.0987035	.4547182
Eurest	.2129172	.0879981	2.42	0.017	.0381949	.3876396
SevenEleven	.0329866	.0880175	0.37	0.709	-.1417742	.2077473
EspressoHouse	-.2950358	.0962298	-3.07	0.003	-.4861023	-.1039692
_cons	.5938281	.0918811	6.46	0.000	.411396	.7762601

The regression shows that 80 % of the customers at Eurest thinks ‘Affordable’ is important, the same goes for ICA where 86 % thinks it is important. The coefficient for 7-Eleven is not significant. An interesting thing here for Espresso House is that only 30 % thinks ‘Affordable’ is important. 59 % of all other respondents thinks ‘Affordable’ is important when choosing coffee shop.

Regression 4. The relationship between respondents that are customers at Espresso House (question 4) and if they think that ‘Broad supply of different coffee beverages’ is important (question 3).

```
. reg BroadCoffeeSupply EspressoHouse, robust
```

Linear regression

```
Number of obs = 100
F( 1, 98) = 10.23
Prob > F = 0.0019
R-squared = 0.1083
Root MSE = .36647
```

BroadCoffee~y	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
EspressoHouse	.255406	.0798674	3.20	0.002	.0969118	.4139001
_cons	.0701754	.0341777	2.05	0.043	.0023509	.1379999

Out of the respondents who are customers at Espresso 33 % has chosen ‘Broad supply of coffee beverages’ to be an important factor, in contrast to 7 % of respondents visiting other coffee shops.

Regression 5. The relationship between if the respondents are customers at Espresso House and how they will visit Starbucks when they establish.

```
. reg WillYouVisit EspressoHouse if WillYouVisit < 4, robust
```

Linear regression

```
Number of obs = 73
F( 1, 71) = 2.87
Prob > F = 0.0945
R-squared = 0.0386
Root MSE = .6042
```

WillYouVisit	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
EspressoHouse	-.2387387	.1408786	-1.69	0.095	-.5196428	.0421653
_cons	2.833333	.0844989	33.53	0.000	2.664847	3.001819

At a ten percent level the data is significant and tells us that if the respondent is customer at Espresso House, they are more willing to switch to Starbucks than the other respondents who are not customers there.

Regression 6. The relationship between WTP for Fairtrade/Environmentally approved Starbucks coffee (question 10) and the factors female (question 11), 'Environmental Awareness' and 'Supply of Fairtrade coffee' (question 3).

```
. reg WTPFair Female EnvironmentalAwareness, robust
```

Linear regression

```
Number of obs = 91
F( 2, 88) = 5.34
Prob > F = 0.0064
R-squared = 0.1508
Root MSE = 2.5316
```

WTPFair	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
Female	.8571317	.4856713	1.76	0.081	-.1080381	1.822301
Environmental	2.286285	.8756681	2.61	0.011	.5460782	4.026491
_cons	1.125489	.3290114	3.42	0.001	.4716482	1.77933

```
. reg WTPFair SupplyOfFairtrade, robust
```

Linear regression

```
Number of obs = 91
F( 1, 89) = 6.19
Prob > F = 0.0147
R-squared = 0.0440
Root MSE = 2.6708
```

WTPFair	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
SupplyOfFair	1.571429	.6317961	2.49	0.015	.3160631	2.826794
_cons	1.857143	.3155616	5.89	0.000	1.230129	2.484157

Regression 7. The relationship between WTP for a Starbucks coffee (question 9) and the factor 'Affordable' (question 3).

. reg WTP Affordable

Source	SS	df	MS	Number of obs = 91		
Model	242.332418	1	242.332418	F(1, 89)	=	6.45
Residual	3346.10714	89	37.5967095	Prob > F	=	0.0129
Total	3588.43956	90	39.8715507	R-squared	=	0.0675
				Adj R-squared	=	0.0571
				Root MSE	=	6.1316

WTP	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Affordable	-3.535714	1.392664	-2.54	0.013	-6.302908	-.7685207
_cons	27.25	1.158766	23.52	0.000	24.94756	29.55244

Customers who think that 'Affordable' is an important factor are willing to pay 3, 56 SEK less (23, 69 SEK) than people who does not think 'Affordable' is important (27, 25 SEK).

Regression 8. The relationship between if the respondent will visit Starbucks when they open in Gothenburg (question 8) and if they have chosen 'Affordable' as an important factor (question 3).

. reg willYouVisit Affordable if willYouVisit < 4, robust

Linear regression

willYouVisit	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
Affordable	.7226087	.1791326	4.03	0.000	.3654283	1.079789
_cons	2.217391	.1758657	12.61	0.000	1.866725	2.568057

		Number of obs = 73		
		F(1, 71)	=	16.27
		Prob > F	=	0.0001
		R-squared	=	0.3051
		Root MSE	=	.51366

Regression 9. The relationship between WTP (question 9) and if the respondents purchase coffee at Espresso House (question 4).

. reg WTP EspressoHouse

Source	SS	df	MS	Number of obs = 91		
Model	219.168243	1	219.168243	F(1, 89)	=	5.79
Residual	3369.27132	89	37.8569811	Prob > F	=	0.0182
Total	3588.43956	90	39.8715507	R-squared	=	0.0611
				Adj R-squared	=	0.0505
				Root MSE	=	6.1528

WTP	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
EspressoHouse	3.108527	1.29193	2.41	0.018	.5414906	5.675564
_cons	23.33333	.8880806	26.27	0.000	21.56874	25.09793

This shows that respondents who are customers at Espresso House are willing to pay 3.11 SEK more for a Starbucks coffee than those who are not (23, 33 against 26, 44).

Attachment 2 – The Espresso House interview

1. When was Espresso House established?
2. How was it created and where did the inspiration for the concept come from?
3. What makes Espresso House unique?
4. What is the owner condition like for Espresso House?
5. Which is Espresso Houses main target group?
6. According to information on Espresso Houses website you continuously work to gather and process feedback and opinions from customers. How does this influence your work?
 - a. Has this resulted in any significant changes or adjustments?
7. How large is Espresso House's market share in Gothenburg?
 - a. In Sweden?
8. Which factors do you view as Espresso Houses keys to success?
9. Does Espresso House work with social responsibility?
 - a. Environmental issues and sustainable development?
10. How does Espresso House work with research and development?
11. Where does the coffee come from?
 - a. What does the price level look like?
 - b. How large is Espresso Houses bargaining power?
12. What is Espresso Houses annual turn-over and profit?
 - a. Was the business affected by the 2008 financial crisis?
13. What are the prospects for the future?
 - a. Expansion plans?
14. Which other coffee shops are viewed as Espresso Houses' main competitors today?
 - a. What characterizes them?
15. What is Espresso House's viewpoint on Starbucks' establishment in Gothenburg?
 - a. How does this affect Espresso House's strategies?
 - b. What is the main difference between Espresso House and Starbucks?
16. How price-sensitive is Espresso House's customers?

Attachment 3 - Questions

Questions sent to Da Matteo, Condeco and Le Pain Français through e-mail;

- Who is your target group?
- What do you think of the café/coffee-shop market in Gothenburg? Is it expansive or stagnative?
- Do you have any future expansion plans?

Respondent 1: Gard, Pernilla (Manager at Da Matteo)

Respondent 2: Ahlström, Emma (Head of marketing, Condeco)

Respondent 3: No reply (Le Pain Français)

Respondent 4: No reply (Wayne's coffee)

Attachment 4 - The Survey

Survey for Master thesis concerning *Starbucks*

This survey will be used for our master thesis in Economics. The thesis concerns Starbucks and their plans to establish in Gothenburg and Malmö. The new coffee shop in Gothenburg will be located at the Central Station and is expected to open in late winter 2012. Starbucks is established at Arlanda outside of Stockholm since February of 2010. The objective of this survey is to examine your coffee habits and your attitudes towards the existing coffee supply in Gothenburg and towards Starbucks.

We hope you can help us with this!

Box in your answers, please.

1. Do you drink coffee?

Yes No

2. How often do you purchase a cup of coffee (per week)? (To stay or take-away)

0 3-5 11-15
 1-2 6-10 16 or more

3. What is important to you when you purchase a cup of coffee? (You can choose multiple options)

A. Availability B. Good supply of food/snacks C. Broad coffee supply
D. Good quality coffee E. Decaffeinated F. Pleasant environment
G. Free wireless network H. Affordable I. Supply of Fairtrade coffee
J. Environmental awareness K. Good service

L. Other

3.b Which of the criteria in question 3 do you find most important? **-Rank-**

1..... 2..... 3.....

4. Where do you most often purchase your coffee? (To stay or take-away)
(You can choose multiple options)

- | | | |
|---|---|---|
| <input type="checkbox"/> 7-Eleven | <input type="checkbox"/> Eurest (Handelsrätten) | <input type="checkbox"/> ICA |
| <input type="checkbox"/> Biscuit | <input type="checkbox"/> Da Matteo | <input type="checkbox"/> Muffins m.m. |
| <input type="checkbox"/> Condeco | <input type="checkbox"/> Mauritz Kaffe | <input type="checkbox"/> Nöller |
| <input type="checkbox"/> Pressbyrån | <input type="checkbox"/> Wayne's Coffee | <input type="checkbox"/> Espresso House |
| <input type="checkbox"/> Le Pain Français | | |

Other, namely

.....

5. Did you know of Starbucks since before?

- Yes No

6. Have you visited a Starbucks café?

- No Yes, once Yes, multiple times

If *Yes*, what country/which countries?

.....

.....

7. What do you associate with Starbucks? (You can choose multiple options)

- × Expensive
- × Pleasant environment
- × American
- × Modern
- × Good service
- × Cheap
- × Crowded
- × Good supply of food/snacks
- × Comfortable
- × Cool
- × Environmental
- × Efficient
- × Popular
- × Fairtrade
- × Available
- × Broad coffee supply
- × Wireless internet
- × Good quality coffee
- × A lot of visitors
- × Decaffeinated
- × International

× Other

.....

8. Do you think you will purchase coffee at Starbucks when they have established in Gothenburg?

- × Yes, I will move the most part of my consumption to Starbucks.
- × I will continue to purchase coffee where I usually do, but I will also purchase coffee at Starbucks – hence my total consumption will increase.
- × Yes, I will try it once or a few times, but not change completely to Starbucks.
- × No
- × I do not know

Comment (voluntarily)

.....

.....

9. What are you maximally willing to pay for a cup of black coffee from Starbucks?

.....kronor

10. Does your willingness to pay increase if that cup of black coffee from Starbucks is Fairtrade or environmentally approved?

× Yes, it increases with.....kronor

× No, it does not increase (Comment voluntarily).....
.....

Background questions

11. Gender

Female

Male

12. Age

Born year

13. How often do you travel via the Central Station/Nils Ericson-terminal?

Daily

Multiple times a week

Once a week

Some time each month

A few times each year

Never

14. What do you study?

Business and Economics - analytical

Law program

Business and Economics – language

Logistic management

Environmental and social science

Single subject courses in

Master program in.....

Other

15. How long before you graduate?

.....semesters, including current semester.