



Starbucks' Entry into Eastern Europe
Lithuania, Latvia, and Estonia

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EXECUTIVE SUMMARY

Starbucks Corporation is known throughout the world for its exceptional coffee products, and is generally considered to have revolutionized the coffee business. With origins in Seattle, Washington, it eventually became the most widely patronized coffee chain throughout the country. And it has expanded its business across national borders. It currently operates on five continents, in nearly thirty countries.

Starbucks has so far limited its European expansion to Western European countries. Its stores can currently be found in Turkey, Spain, Greece, France, Germany, the United Kingdom, and Switzerland. While these have most likely been safe countries for Starbucks to operate in, they have failed to tap into another area of Europe that has great potential for the coffee market, namely, Eastern Europe.

Although it has recently opened locations in the Czech Republic, Starbucks has thus far avoided the Baltic States, perhaps preferring to remain in more “western” nations. However, in so doing, Starbucks has neglected a region that is rapidly becoming increasingly westernized. It would be in Starbucks best interest to explore the markets of Lithuania, Latvia, and Estonia.

Lithuania, Latvia, and Estonia were all forcibly annexed by the USSR in 1940. All three endured Soviet rule for over 60 years. Once they achieved independence in 1991, after the fall of the Soviet Union, they all seemed eager to form alliances with western countries. For example, Lithuania, Latvia, and Estonia are all now members of both NATO and the European Union. It is not surprising, therefore, that the coffee chain trend would become popular in these countries. Furthermore, citizens of all three companies have enjoyed a stable market economy in recent years, and have disposable income that would allow them to purchase Starbucks products.

It is true that Starbucks has technically missed out on the first mover advantage, primarily to a company called Double Coffee, in Eastern Europe. However, the differences between the two companies are vast, and give Starbucks the opportunity to offer something new to the region. While Double Coffee has more of a restaurant-feel to it, providing full menus complete with breakfast, lunch, dinner, snacks, and dessert, Starbucks is far more focused on its coffee. After all, the name Starbucks is almost synonymous with the word coffee, at least in the United States.

It is our opinion that Starbucks’ entrance in Lithuania, Latvia, and Estonia, using existing networks in other parts of Europe. Starbucks can offer a new coffee-drinking experience that the Baltic States will be able to appreciate. They will open large, cozy, bohemian-like establishments where Eastern Europeans and tourists can come to relax, enjoy an excellent cup of coffee or tea, listen to music, and maybe even do a little reading.

LITHUANIA

Overview of Lithuania

Lithuania is one of the most developed Eastern European countries located next to the Baltic Sea and bordering Belarus (502 km), Latvia (453 km), Poland (91 km), and Kaliningrad, Russia (227 km). The total country's population is estimated to be 3,607,899 of which 553,904 are living in the capital, Vilnius. Other major cities are Kaunas with the estimated population of 361,274, and Klaipeda at 187,316. Lithuania has two major resort cities located next to the Baltic Sea called Nida and Palanga with a current population over 35,000 which doubles over the summer due to tourist inflow.

Lithuania is comprised of four main ethnic groups; Lithuanians (80.6%), Russian (8.7%), Polish (7%), Belarusian (1.6%) and other groups (2.1%). The country's official language, since 1991, is Lithuanian which is closely related to Latvian. More than 80% of the population speaks Lithuanian as their primary language. Minority languages are Russian (8%), Polish (7.7%) and Belarusian (1.5%). Other languages such as Ukrainian and Yiddish make up 2.1%. Most of the people speak English or Russian as a second language, although English is taking over as the most popular second language learned at schools.

Lithuania has a stable legal system due to a democratic system and admittance to the European Union in 2004 and NATO in 2002. What is more, Lithuania's economy is growing every year. Over the past five years, the GDP of Lithuania grew an average of 8%. In a recent study, Kaunas and Vilnius were determined to be the European region of the future by FDI analysts. Lithuania's economic potential, location costs and exceptional FDI promotion were given outstanding marks by FDI analysts.

(REFER TO EXHIBIT 1)

The minimum wage in Lithuania is currently 3.66 LTL per hour. Lithuania provides express regulations for employment contracts. Labor laws offer impressive vacation and family leave, as well as strict regulations regarding maximum weekly work hours. An employee may take up to 28 days of paid vacation a year, and leave is also offered for maternity, child care, and education. Collective bargaining is present in Lithuania, allowing employees a forum through which to advocate for their rights.

Overview of Vilnius

Vilnius is the largest administrative centre in Lithuania with all major political, economic and cultural centers. It is the city of the future, boasting strong economic growth over the past decade. Even though it is home to only 16% of Lithuania's population, Vilnius generates approximately 35% of the country's GDP. Based on these factors, it is estimated that GDP per capita based on purchasing power parity in 2007 was \$16,700. The minimum wage in 2008 increased to \$310 per month which will continue to increase due to rapid economic development. The poverty line is under 4%. The unemployment level in the capital is almost two times lower than the country average which is 3.2%. In 2007, Vilnius accumulated EUR 2,815 billion in foreign direct investments which is estimated to have been at a rate of 18.4% for the entire country. Even though Vilnius is home to over 550,000 inhabitants, this number is growing every year. Approximately 1,000,000 tourists visited Vilnius last year--twice as many as two years ago.

(REFER TO EXHIBIT 2)

MARKET RESEARCH

Climate

The climate in Lithuania is generally mild, but cool and it rains often. With four distinct seasons, the climate is humid continental, with a moderating maritime influence from the Baltic Sea. January temperatures average -5°C (23°F), July, 17°C (63°F). Due to the cold and rainy weather, hot drinks are very popular year round.

Analysis of coffee and tea market

Tea has been more popular than coffee mainly because Lithuania did not have good quality coffee imported over the last century. The trend to drink coffee started with Lithuania's independence and coffee imports from Turkey and Western Europe have been increasing since. In shops and cafés, different tea and coffee selections are widely available. The selection in coffee ranges from northern European brands to French ones. In coffee houses, the average price per cup of coffee is \$ 2.30. Some cafés also offer a variety of special coffees with different prices. Many cafes still make "lazy" coffee, which is simply coffee grounds and boiling water, unfiltered, with grounds at the bottom of the cup, often surprising the drinker. Tea is usually sold at 50% of the price of coffee. In terms of trends within coffee, the continuing success of instant coffee mixes was most notable in 2006. These products are appearing in bigger packaging as well as new flavors, developments which are further boosting their popularity. Within the tea market, the most notable trend in 2006 was continuing success of more options such as flavored green tea, and the popularity of more exotic flavor combinations within the fast growing fruit/herbal tea sub-sector.

Coffee Consumption Survey Results

According to a survey conducted in 2005 through the Lithuanian survey website *www.apklausa.lt*, 784 people were asked various questions about coffee consumption; 75.94% drank coffee and 24.06% drank tea; 14.73% said they consumed one cup a day, 25.77% two cups a day, 33.88%, three or more cups a day and 25.63% did not drink coffee every day. Participants who drank coffee in the morning accounted for 29.2%, during the day, 16.97%, and during various times, 32.95%. Approximately 36.2% said they drank regular black coffee while 63.81% of participants drank flavored coffee or coffee with additives. When asked what participants did when they drank coffee, 20.53% said they socialized, 21% watched TV, 15% just enjoyed it, 15.2% read and 12% listened to the radio and the rest, 16.5%, said they did something else. Approximately 74% of participants agreed “better quality coffee is more expensive”.

(REFER TO EXHIBIT 3)

Coffee and Tea Culture

From early childhood, most Lithuanians start their day with breakfast that includes hot coffee or tea. This habit leads them to consume hot drinks their entire Lithuanian lives. What is more, coffee and tea are social drinks for Lithuanians who tend to sit down and enjoy their drinks at the café. They put more emphasis on the environment and being part of it, due to increased traveling to Western Europe and emigration rates. Lithuanians are well aware of famous world brands and see great value in them. They are bored with Eastern European market offerings and are very susceptible to new products and ideas. They are chasing the best new thing and want to be associated with Western brands as they are perceived as belonging to a higher social class. Starbucks is one of those brands.

RISKS

Corruption Level

Lithuania has a risk score of 4.8 on a scale of 10 in the Corruption Perception Index. Emerging market countries tend to be more susceptible to various corruptive forces, especially in a country that neighbors and used to be a part of the Soviet Union. Corruption is perceived as significant. Lithuania ranks 46th out of 163 countries in Transparency International's Corruption Perceptions Index for 2006. Although the risk score of corruption is high, Lithuania is 21 spots lower than Turkey where Starbucks has already established itself. What is more, Prime Minister Brazauskas favors foreign direct investment. According to the Index of Economic Freedom, "the law provides for equal protection to foreign and domestic investors. No special permit is required from government authorities to invest foreign capital in Lithuania and there are no prohibitions or limitations on investment, provided the investor complies with Lithuanian laws." Also, the European Commission has provided extensive assistance for the development of anti corruption policy, especially for the development of the National Anti-Corruption Strategy. Most of the important international anti-corruption organizations have been ratified by Lithuania. What is more, preventive corruption programs have been incorporated into the educational system in order to teach Lithuanian youth about its negative effects on a social level.

(REFER TO EXHIBIT 4)

Competition

Double Coffee is a large coffee chain that already exists in the Baltic States. Double Coffee differentiates itself as espresso—cappuccino bars which strive for "...high service

culture corresponding to the needs and wishes of guests in all expresso-cappuccino bars under this brand.” It opened its first store on September 26, 2002 in Riga, Latvia. Out of 45 stores located across all Baltic States, seven of them are already located in Vilnius. Double Coffee earned \$3,552,298 in profits in 2007. On average each of the seven Double Coffee stores make about \$507,471. Double Coffee reversed the Starbucks Coffee concept by adding alcoholic drinks and full meals to their menu. Double Coffee bars look more like sit-down restaurants where experiencing coffee and tea drinks becomes a secondary priority because customers are occupied with full meal courses and alcoholic drink options. Other competitors that were found in Vilnius are street cafes and mom-and-pop coffee shops throughout the capital and the entire county. These types of stores do not specialize in providing good quality coffee and tea drinks.

(REFER TO EXHIBIT 5)

ENTRY STRATEGY

Market Segmentation and Targeting

Vilnius is an educated and open-minded city where politicians professionals, students, artists and foreigners blend in together. Two target groups of customers will be potential Starbucks Coffee users. The first buyer profile is an “achiever” who is a young adult with a college degree and higher income and is career-oriented, successful, highly confident and materialistic. Such consumers reward themselves with luxury products and excellent service and are willing to pay higher prices for better product quality. There is an increasing emergence of such people in Vilnius. The second group is called a “striver,” a young or middle-aged person who has a high school degree or some college, earns a middle income and has one or more children. The majority of Lithuanians are

characterized as strivers. Both groups will be targeted as potential Starbucks customers. Over 50% of the population is represented in “striver” and “achiever” groups.

Positioning

Starbucks is a unique coffee brand not only because it provides a product that cannot be easily replicated at home or by another competitor but also because of its unique atmosphere at the stores. Starbucks coffee shops will stand out in Vilnius by providing a unique cozy bohemian design with comfortable couches, old-fashioned fireplaces, brick-fashioned décor walls and a smoke free atmosphere. Starbucks will play jazz and classical music for a great getaway and most importantly it will provide best quality coffee and tea drinks accompanied with the best quality customer service. On Friday nights, stores will have artists performing classical music on piano in order to attract more customers to experience a great atmosphere with a cup of Starbucks coffee.

(REFER TO EXHIBIT 6)

MARKETING MIX

Product

The product line that will be offered in Lithuania will be the same just like in the US or any other Starbucks store in Europe. Besides cappuccinos, mochas, lattes, espressos, frappuccinos as well as other coffee blends and flavors, a good range of tea drinks such as green tea, iced tea shakes, chai and more will be offered. As for food assortment, Starbucks in Lithuania will adapt the menus to meet the current demands. Healthy sandwiches, delicious pastries and great quality chocolates will be some of the products offered at Starbucks along with a great a cup of tea or coffee. Starbucks has been

surprised in the past how quickly other countries accept the kinds of products that they have offered; Lithuania will take off just as quickly.

Price

Starbucks will win over customers by offering a higher quality product line at the pricing similar to that offered by Double Coffee. The prices will vary from \$2 for tall drinks up to \$3.50 for grande cups. The prices will be slightly lower compared to the US because Starbucks needs to readjust to Lithuanian market consumer purchase parity power and increase its prices in the long run when the economic conditions increase. Prices for food products will vary from \$3 to \$5.

Place

Starbucks will open its first store in Vilnius in order to achieve the most profits by reaching a high number of customers. Starbucks will open corporate stores in order to hold full control of a new market rather than creating joint ventures and passing control to other hands. To start off, three Starbucks stores will be open in the busiest and higher dispensable income areas such as the Sv. Stepono Street located in the Old Town, Traku Street located in the Old Town and lastly on the right side of the river Neris next to the new Vilnius Business Centre. Real estate can cost \$300,000 and requires the purchaser to put down 15% with a 4% interest rate. Eventually, Starbucks will increase its store numbers to 10-15. In US cities that had about 550,000 people, similar to the population of Vilnius, Starbucks operated 10 to 20 stores. The initial three Lithuanian stores will be located in the areas mentioned above because they are in the middle of the city where there is high traffic and high visibility, creating a location buzz. Also, Cathedral Square, Gedimo Castle, art galleries and high-end stores attract tourists, artists, students, as well

as government and business officials who may stop in for a cup of coffee. Both locals and tourists can enjoy a cup of Starbucks tea or coffee before heading out to work or exploring the nearby attractions.

(REFER TO EXHIBIT 7)

Promotion

Starbucks will promote itself by focusing on opening stores in highly visible places. In major areas of Vilnius, fliers will be posted to promote the grand opening, locations and hours of service. Large posters on buses and at the bus stops will be another productive promotional tool since many Lithuanians use public transportation. Also, magazines and newspaper critics will be invited to Starbucks to try the products and write their reviews about their experience. Once people become familiar with all three locations and with the brand through word of mouth, promotion expenses will be reduced incrementally. Lithuania is a small country and word of mouth takes no time and is very effective and Starbucks buzz will be created naturally among people.

(REFER TO EXHIBIT 8)

DISTRIBUTION STRATEGY

Starbucks' strategy is to find the closest store located next to Lithuania and extend its distribution to the Vilnius area. The closest Starbucks store is located in Nienburg, Germany just about 1,200 km or 16 hours away from Lithuania. Supplies will be shipped using the road system because it is the most effective and inexpensive way because there are no tariffs between EU countries. Starbucks will use the Lithuanian trucking company "Girteka" which is located just a couple kilometers away from Vilnius and has been

operating ten years in the trucking business. It also provides warehousing services that might be used for temporarily storing Starbucks products until they are distributed to other store locations across Lithuania. Starbucks will be shipping its syrups, tea and coffee beans and also paper cups to Lithuania from Germany.

(REFER TO EXHIBIT 9)

BUSINESS REGISTRATION REQUIREMENTS

First, Starbucks needs to establish a bank account with any Lithuanian bank such as Vilnius Bank or Hansa Bank and get a bank certificate proving availability of funds. Second, it needs to obtain an agreement of incorporation bylaws. Thirdly, it has to register the company at the Company Register, including registration with State Tax Inspectorate (the Lithuanian Revenue Authority) for corporate tax, VAT, and State Social Insurance Fund Board (SODRA). It also has to complete VAT registration which is only for payers whose annual turnover is more than 100,00 LT (about \$50,000). Fifth, Starbucks needs to inform the State Labor Inspectorate of the startup of the company by letter or phone. Sixth, it has to open a settlement bank account in order to handle normal commercial transactions. Lastly, Starbucks needs to obtain an official seal of the company.

(REFER TO EXHIBIT 10)

RECOMMENDATIONS

Starbucks will place 10-15 stores in Vilnius, 8-10 stores in Kaunas, 5-7 stores in Klaipeda, two stores in Palanga and one in Nida. Starbucks should send American managers to give training lessons about excellent customer service and great management

techniques for local employees. What is more, baristas will be invited to Lithuania and provide training on how to prepare excellent quality coffees. Eventually, Lithuania will raise its own management and skillful coffee makers able to train locally. A primary objective of Starbucks in Lithuania is to establish a stable base of loyal customers. “Eighty percent of Starbucks revenues come from loyal customers who go to their stores an average of eighteen times a month”(Rae).

(REFER TO EXHIBIT 11)

LATVIA

Background of Latvia

Latvia is the second largest country after Lithuania in the Baltic States. Located by Baltic Sea and bordering Estonia, Lithuania, Russia and Belarus. The total country's population is estimated to be 2,259,810 as of July of 2007. and the capital Riga has a population of 722,485. Latvia has other major cities such as Liepaja, Jurmala, Rezekne, Jekablis, Cesis, Kuldiga, Debela and Kraslava which have quite low population compared to the capital Riga.

Latvia is comprised of seven main ethnic groups; Latvians (60%), Russians (27.3%), Belarusian (3.7%), Ukrainians (2.5%) , Poles (2.4%), Lithuanians (1.4%), Jews (0.5%) and other groups (2.2%). The country's official language is Latvian which belongs to the Baltic language group of the Indo-European language family. Russian is the far the most widespread minority language.

Latvia has a stable legal system due to democratic system and admittance to the European Union in 2004 and NATO in 2004. What is more, Latvia's economy is growing every year. In 2006 its GDP growth was 11.9% . Unemployment rate was 8.5% but it has

dropped down to 6.1% due to high emigration to Ireland and United Kingdom. Some believe that Latvia's flat tax rate is responsible for its economic growth but universally it is still debatable. The purchasing power parity per capita in 2006 was \$16,000 and the total GDP was \$35,684.

(REFER TO EXHIBIT 12)

The minimum wage in Latvia is 0.474 LVL per hour. Latvian labor laws are clearly laid out with stipulations for employee contracts. Laws have been updated to be compatible with EU requirements. Items such as non-discrimination on a sexual basis and paternity leave, which had not previously been stipulated by law, are now included.

Latvian sick leave policy allows for extended leave with 80% pay for up to a year, but requires a sick leave certificate issued by a doctor. In the past, use false use of sick leave certificates have been a problem.

Overview of Riga

Latvia is the largest administrative center in Latvia with all major political, economic and cultural centers. Riga accounts for about half industrial output of Latvia focusing on financial sector, public utilities, wood processing, pharmaceuticals, printing and publishing, food and beverages, textiles and furniture. 50% of Latvian companies are registered in Riga region.

MARKET RESEARCH

Climate

The climate in Lithuania is mild but with considerable temperature variations during four seasons. Usually in summer it is generally warm. However, winter which can last from November to mid-March, can be extremely cold. Due to cold and rainy weather, hot drinks are popular year round just like in its neighbour country Lithuania.

Analysis of coffee and tea market

Although sales of coffee and tea have decreased slightly in 2007, there is a chance for the increase in future years. The slight decrease was due to price increase in these two main categories within hot drinks. According to Euromonitor International, “ according to trade interviews with major hot drink producers, prices will continue rising during the forecast period, with the soonest increases potentially in early of 2008.” Latvian hot drink producers are highly dependent on foreign resources and in 2006 prices went up due to bad weather conditions in the world which had a direct effect related to tea and coffee production. However, on trade volume sales are expected to increase because in Latvia tea houses , Middle Eastern type of cafes and chained coffee shops have become very popular over the last couple years despite increasing prices of the hot beverages. Such places tend to be popular among both younger and older people.

Coffee and Tea Culture

Since the climate conditions are very harsh during the winter Latvians just like Lithuanians enjoy drinking hot beverages all year around. Many Latvians drink innumerable cups of tea or coffee during the day, usually without milk. They start their mornings with a coffee or tea drink accompanied by a light sandwich with cheese or ham. Most of the time coffee or tea which is purchased at local stores are prepared in a very simple way: both coffee and tea are usually served black and if a customer wants

milk, he needs to ask for it. Latvian consumers lack a selection of great variety of flavors for both tea and coffee beverages. Since most of them enjoy drinking these beverages throughout the day all year around, Starbucks expansion to Latvia would be a great step to gain first mover advantage in this market.

RISKS

Corruption Level

Corruption level in Latvia is perceived as significant to other Western European countries. According to Index of Economic Freedom 2008, “Latvia ranks 49th out of 163 countries in Transparency International’s Corruption Perceptions Index for 2006.” However, Latvia has been trying to solve this problem by overhauling bankruptcy procedures and initiating electronic tax filing system. The corruption problem will not become completely extinct if the rule of law will not be strengthen on a yearly basis.

Competition

The competition among existing brands is growing every year. Foreign companies keep introducing new brands in hot drinks market. Famous coffee brands such as Cellini (Italy), Gevalia (Sweden) and tea brands such as Damman (France), Curtis (Russia) have been introduced in Latvia recently. However, these brands are mostly purchased at local supermarkets for the home consumption. Therefore, there is still left a lot of room for the specialized tea and coffee shops growth which an ideal situation for Starbucks to expand into this market.

ENTRY STRATEGY

Market Segmentation and Targeting

Riga just like Vilnius is a very educated and open minded city where politicians, professionals, students and artists blend together. The entry and marketing strategies will be very similar to the ones imposed in Lithuania. Population aged from 15-64 represent 69.6% of the total population. Since both younger and older generations enjoy drinking hot beverages both age groups will be targeted as potential Starbucks customers. However, younger generation will be most likely buying the product due to higher income and international brand image awareness.

Positioning

Starbucks is a unique coffee brand not only because it provides a product that cannot be easily replicated at home or by another competitor but also because of its unique atmosphere at the stores. Starbucks coffee shops will stand out in Riga by providing a unique cozy bohemian design with comfortable couches, old-fashioned fireplaces, brick-fashioned décor walls and a smoke free atmosphere. Starbucks will play jazz and classical music for a great getaway and most importantly it will provide best quality coffee and tea drinks accompanied with the best quality customer service. On Friday nights, stores will have artists performing classical music on piano in order to attract more customers to experience a great atmosphere with a cup of Starbucks coffee. The positioning strategy will be the same just like in Lithuania.

MARKETING MIX

Product

The product line that will be offered in Latvia will be the same just like in the US or any other Starbucks store in Europe. Besides cappuccinos, mochas, lattes, espressos, frappuccinos as well as other coffee blends and flavors, a good range of tea drinks such

as green tea, iced tea shakes, chai and more will be offered. As for food assortment, Starbucks in Latvia will adapt the menus to meet the current demands. Healthy sandwiches, delicious pastries and great quality chocolates will be some of the products offered at Starbucks along with a great a cup of tea or coffee. Starbucks has been surprised in the past how quickly other countries accept the kinds of products that they have offered; Latvia will take off just as quickly as Lithuania or any other European country where Starbucks currently operates.

Price

Latvia's economic situation is slightly worse than Lithuania's. Therefore, the prices in Riga for Starbucks products will have to be lower than in Vilnius at the introductory stage. Once Latvia catch up and customers get used to the product, it will be necessary to increase the prices. The prices will vary from \$1.90 for tall drinks up to \$3.40 for grande cups. The prices for food products will vary from \$3 to \$ 4.80

Place

Starbucks will open its stores in Riga and specifically the Old Town which is protected by UNESCO just like Vilnius. Currently, in Latvia the situation for buying either commercial or private housing is very beneficial for Starbucks. According to The Baltic Course online magazine, “ housing prices in Latvia for the 4th quarter of last year decreased by 7.1%, which the third fastest decrease in housing prices among countries that are covered by the Knight Frank global house price index.” The prices of some buildings in Riga's Old Town were more than \$1,000,000.

Promotion

Starbucks will promote itself by focusing on opening stores in highly visible places. In major areas of Riga, fliers will be posted to promote the grand opening, locations and hours of service. Large posters on buses and at the bus stops will be another productive promotional tool since many Latvians just like Lithuanians use public transportation. Also, magazines and newspaper critics will be invited to Starbucks to try the products and write their reviews about their experience. Once people become familiar with all three locations and with the brand through word of mouth, promotion expenses will be reduced incrementally. Latvia is a small country and word of mouth takes no time and is very effective and Starbucks buzz will be created naturally among people.

DISTRIBUTION STRATEGY

Since Starbucks first will enter into the Lithuanian market, it will be easier later on to ship goods from Lithuanian Starbucks stores to the Latvian ones. The Lithuanian trucking company “Girteka” will not only ship goods from Germany but it will also store them in their warehouse close to Vilnius. Partial amount of the goods will be directly shipped by “Girteka” from their warehouses to Riga. Syrups, tea and coffee beans and also paper cups will be shipped from Vilnius to Riga to ensure the best quality product and sustainable brand image.

BUSINESS REGISTRATION REQUIREMENTS

First, Starbucks needs to establish a bank account with any Latvian Bank such as Riga Multibanka or Riga Ogres komercbanka and get bank certificate proving availability of funds. Second, Starbucks needs to complete signatories’ cards and companies deeds and get a certification by a notary. Next, Starbucks needs to register at the Ministry of Justice, Register of Enterprises. Forth, it has to register with the State Revenue Service (tax

authority) for the VAT (value-added tax) and lastly it needs to register employees for mandatory state social insurance contribution with State Revenue Service. All of these five procedures are relatively easy to do and should not take longer than 20 business days and cost no more than \$300.

(REFER TO EXHIBIT 13)

RECOMMENDATIONS

Starbucks should only consider expanding its stores in Riga at this time. Up to 10 stores should be placed in Riga to meet the demand of the capital's population. Once the economy gets better, more stores could be added. Just like in Lithuania baristas will come and provide trainings for the local employees, Latvian Starbucks stores will employ the same strategy. Trainings will continue until Latvia will raise its own Starbucks management and skillful coffee makers who will be able to train local employees in future.

ESTONIA

Background of Estonia

Estonia acquired independence in 1918 after enduring the rule of several countries. It was hostilely taken over by the USSR in 1940, but regained independence in 1991 with the fall of the Soviet Union. Bordering Latvia (339 km) to its south and Russia (295 km) to its east, Estonia is a developed country in the Baltic region of Europe. To the north it is bordered by the Gulf of Finland, and to the east by the Baltic Sea and Gulf of Riga. It has a total population of 1,307,605, and has several large cities.

(REFER TO EXHIBIT 14)

The capital, Tallinn, located on the coast of the Gulf of Finland, is also the largest city in Estonia, with a population of about 400,000. It is a major tourist destination due to the fact that it has maintained its history. Part of the city is completely preserved in its medieval form. The other side of the city is a Baltic seaport. This area is far more modern with thriving business, five star and budget hotels, and a great nightlife. The second-largest city is Tartu, located in southern Estonia, with a population of 101,246. Smaller cities include Narva, Kohtla-Järve, Pärnu, and Viikandi (State).

Today, Estonia is an economically prosperous country, with one of the highest per capita income levels in Central Europe. It has a market-based economy, with its major industries being electronics and telecommunications, and GDP of \$29.35 billion

according to a 2007 estimate. It benefits from strong trade relations with Finland, Sweden, and Germany. Estonia has been a member of both NATO and the EU since 2004. Government fiscal policies have been relatively sound, and have resulted in a balanced budget with relatively low public debt. However, the Estonian kroon, which is pegged to the Euro, has recently experienced some pressure due to a large current account deficit and rising inflation.

The population of Estonia is 67.9% Estonian, 25.6% Russian, 2.1% Ukrainian, 1.3% Belarusian, and .9% Finn. Other ethnicities make up the remaining 2.2%. Estonian is the official language of Estonia, although Russian is the native language of nearly 30% of the population. Minority languages include Ukrainian, Latvian, Lithuanian, Belarusian, and Finnish. Approximately three quarters of the Estonian population know a second language, the most widely known being Russian, German, English, and Finnish.

The government of Estonia is a parliamentary democracy. Its constitution, ratified in 1992, was based on the 1938 document that was in place prior to Soviet occupation. There are three branches of government, including the Executive, Legislative, and Judiciary. The Executive Branch consists of the indirectly elected president, and the prime minister. The Legislative Branch is the Riigikogu, or 101 member Parliament, which currently consists of members of five different political parties. The Judicial Branch is the Supreme Court of Estonia.

Labor laws in Estonia are progressive, in some ways similar to or even surpassing those in the United States. The current minimum wage in Estonia is 14.60 EEK per hour. The government has implemented strict employee contract laws, as well as social laws mandating employee health insurance. Estonia also has very defined and extensive paid parental leave, based on the amount that an employee makes. Some employees are even allowed up to 575 days of fully paid leave. Notably, both fathers and mothers are encouraged to make use of parental leave. However, the traditional gender roles in Estonia often prevent fathers from taking advantage of the opportunity.

Overview of Tallinn

As stated before, Tallinn comprises a mix of the old world and modernity. It is one of the major tourist destinations in the Baltic States, due to the preservation of medieval structures. However, it also boasts an impressive seaport, and business district. Tallinn is also Estonia's largest city by far, and a driving force behind the Estonian economy. The city has become accustomed to both foreign and domestic investment. Over 50% of all Estonian companies are based out of Tallinn, and approximately the same number of companies are operating on foreign capital. The population of Tallinn also appears to be slightly wealthier than the rest of the country, as the income differential between Tallinn and the rest of Estonia has increased in recent years. Additionally, Tallinn is known for its highly developed communication infrastructure.

(REFER TO EXHIBIT 15)

MARKET RESEARCH

Climate

Estonia has a maritime climate with four seasons. Winters are generally mild, and summers are cool. Estonia is also very wet, experiencing annual precipitation averages of 50-75 cm.

Analysis of Coffee and Tea Market

Overall, Estonia is a very promising location for investment, as it is considered one of the fastest growing and most prosperous countries in Eastern Europe. It is even nicknamed “E-stonia” due to its leadership in telecommunications. This would certainly be of interest to Starbucks, because it is almost the norm for cafes in Estonia to provide wireless internet. In terms of the market in Estonia, and specifically in Tallinn, coffee certainly is part of the culture. While the coffee craze was slow to move into Eastern Europe in general, it has undoubtedly arrived.

While Tallinn, like the rest of Estonia, enjoys a drinking culture centered primarily around alcohol, the market for hot drinks has been expanding there. The Baltic States are generally more westernized, wanting to rid themselves of any vestiges of life under Soviet rule. The demand for coffee has slowly seeped into the countries, although the

culture is still relatively undefined. It is still quite common in Estonia for people to take their coffee with some liquor. Indeed, many existing establishments have a bar-like feel to them. Furthermore, unlike the United States, it is uncommon in Estonia for a person to sit alone at a café reading or doing work. However, espresso continues to be a popular drink, and cafes have found success in Estonia.

RISKS

Corruption

Fortunately, corruption is not much of a concern in Estonia. According to the 2007 Corruption Perception Index, Estonia is ranked 28th in the world, with a score of 6.5 out of a possible 10. Estonia is therefore perceived to be relatively transparent, though admittedly not as much so as the United States or other western countries. However, it should be noted that it is ranked higher than other eastern European countries, including Lithuania and Latvia. It is ranked far ahead of Russia and Kazakhstan. Estonia is in fact well known for relative lack of corruption. Although corruption does exist in Estonia, particularly among political leaders, the country is the only one in the region to identify corruption separately as crime under criminal law.

Competition

While Starbucks has yet to enter the Estonian market, other companies have tapped into it. Starbucks' main competitor would be Double Coffee, just as in Lithuania. Other competition would include Reval Café. Both Double Coffee and Reval Café have opened establishments throughout the city, but have focused more on the historical district. While other cafes do exist, these are the two chains with whom Starbucks would be competing. However, both of these chains differ greatly from Starbucks in the products that they offer. While they do obviously serve coffee, they also have menus consisting of full meals. This is completely different from Starbucks' strategy of focusing on its coffee and tea. Of course, Starbucks does also sell food, but those options are secondary to the drink menu. Therefore, Starbucks offers a very different experience to its patrons.

Double Coffee and Reval Café, though they both market themselves as cafes are much closer to restaurants than Starbucks is. One example of a smaller café in the historic section of Tallinn is Kehrwieder. This is somewhat closer to Starbucks in that it does provide an atmosphere in which people can sit by themselves and read or do work as they enjoy a drink. However, the ambiance is different from most Starbucks establishments in that it is small and dark, nestled into the medieval architecture. In this way, it is able to cater to the large number of tourists, while maintaining the integrity of the medieval architecture.

ENTRY STRATEGY

Market Segmentation and Targeting

Upon entering Tallinn, Starbucks' target market will be professionals who work in the business district, as well as tourists who visit the historic section. It will offer a convenient location for businessmen and women in the bustling area of the city to enjoy a cup of coffee or tea. These professionals are the perfect clientele for Starbucks, as they will appreciate the high quality coffee that Starbucks provides. Starbucks will focus mainly on the business district, but also have one location amidst the medieval structures, in order to serve the tourists who come through. However, the Starbucks cannot differ too much from the surrounding area, or it will threaten the historic aspect of the district. This particular location will conform to the surrounding architecture on the outside, will maintaining its cozy, bohemian atmosphere on the inside.

Positioning

Starbucks will provide a unique type of experience to Tallinn. Its locations will be generally large, cozy, and bohemian. Starbucks establishments will provide customers with a sense of comfort, allowing them to sit, relax, read a book, or get some work done as they enjoy high quality coffee unlike any they would find elsewhere. Starbucks will hire local musicians to play on the weekends, and at all other times will play soft jazz or classical music. Starbucks will be able to provide a setting for the coffee-drinking experience, which has not yet been done in Estonia. Rather than trying to imitate a

restaurant or a bar, as many other establishments in Estonia have done so far, Starbucks will carve a niche for itself as the ideal location to both purchase and enjoy coffee.

MARKETING MIX

Product

The products that Starbucks plans to offer are very much akin to what it already offers in the United States. It will offer high quality coffee and tea, and a vast array of coffee blends and flavors. In terms of food, Starbucks will continue to sell the same amount, retaining its focus on coffee and tea. However, the food that it will offer will meet the demand in Estonia, incorporating more fish and pork to assimilate to Estonian tastes. Because much of Estonia's food is German-inspired (due to the centuries of German rule), Starbucks will incorporate some of its German menu at its locations in Tallinn. They will be known for offering unmatched coffee drinks, as well as local fare.

Price

The pricing in Starbucks' Tallinn locations will be comparable to that of Double Coffee. Prices will be slightly lower than in the United States to compensate for the lower GDP in Estonia. Coffee will range from around \$2 to about \$3.50. Food prices will range from about \$3 to \$5. However, as time goes by, and Starbucks becomes better known in the area, it will be able to raise its prices.

Place

Starbucks will open four locations in Tallinn to begin with. Three will be in the business district of the city, and will be relatively large. The fourth will be in the historical district of the city, and will be smaller to fit in with the feel of this area. The locations in the business district will be on busy streets, to attract the target market of Tallinn professionals. Real estate prices are rising rather rapidly in this growing city, so it is expected that Starbucks would spend approximately \$500,000 per building.

Promotion

In order to promote its new stores, Starbucks will ensure that it is very visible in the area. It will use flyers and special promotional offers to attract people for the grand opening of each store. Media such as magazines and newspapers will be used, and fliers will be posted at stops along Tallinn's extensive bus route. Just like Lithuania, Estonia is a small country, and word will soon spread of Starbucks' entrance. Before long, Starbucks will make enough of a name for themselves there that they will be able to open more locations in other cities.

DISTRIBUTION STRATEGY

Once Starbucks has opened establishments in Vilnius, Lithuania, it will be relatively easy for products to be shipped to Tallinn, as well. The easiest method of transport would be

by truck from Vilnius to Tallinn. If locations were not opened in Vilnius, however, it would still be simple to ship products from Germany to Tallinn by sea, since Tallinn is a major port city. However, in keeping with our proposal of Starbucks entering Lithuania, Latvia, and Estonia, it is more than possible for products to be shipped from Vilnius to both Riga and Tallinn. Gertika specializes in European transport, and would be an ideal company to use to transport Starbucks products from Germany to the Baltic States, as well as between the Baltic States.

BUSINESS REGISTRATION REQUIREMENTS

The process of starting a business in Estonia is similar to that in Lithuania. The first step is to deposit initial capital into a bank and obtain a bank notice, certifying payment. The second step is to ensure that no existing company has a similar name. This takes one day for the Company Register to check and there is no charge for the process. The third step is to submit the registration application to the Company Register. Next, Starbucks must register for VAT at the National Tax Board. Finally, Starbucks has to register with the Central Sick Fund of Estonia, ensuring that the company will provide the compulsory 33% social tax that goes towards health care for its employees.

(REFER TO EXHIBIT 16)

RECOMMENDATION

Starbucks will eventually open around 15 stores throughout Tallinn, in both the historical district and the business district. We predict that the stores will be so successful there that it will open additional stores throughout the country. Particularly, Tartu would be another ideal location for Starbucks, as it is very welcoming of business, and is a university city. Starbucks may be able to attract a younger crowd by opening around 5 stores there.

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Appendix

Exhibit 1

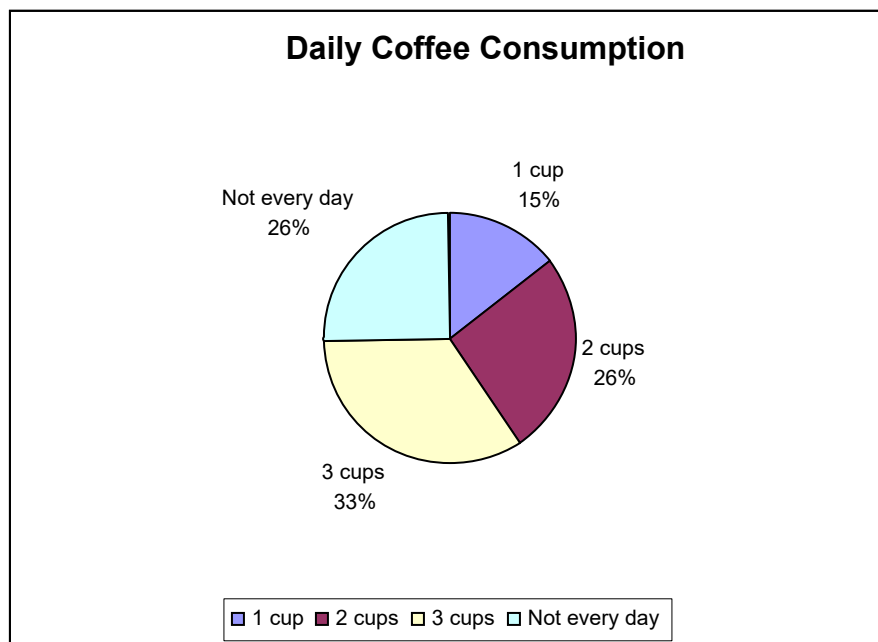
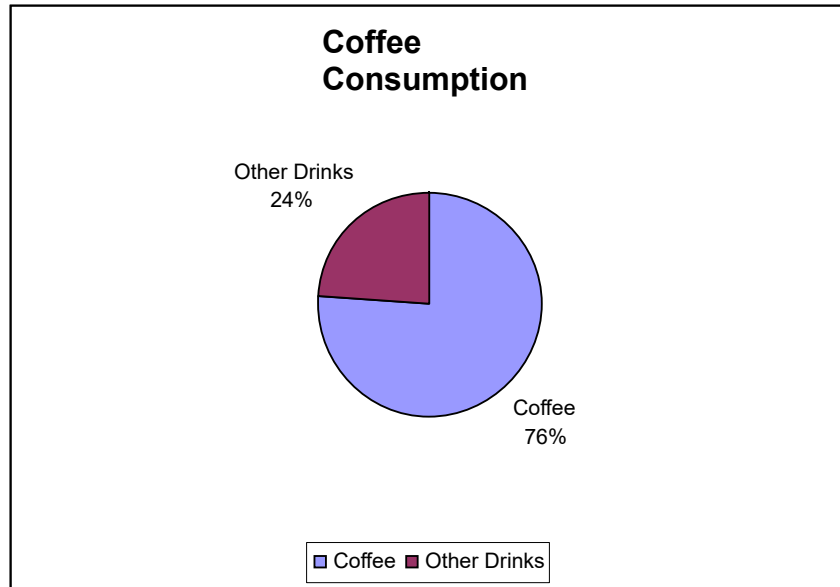


Exhibit 2

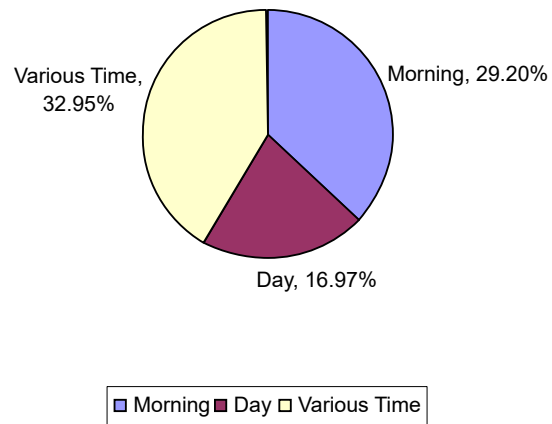


Exhibit 3

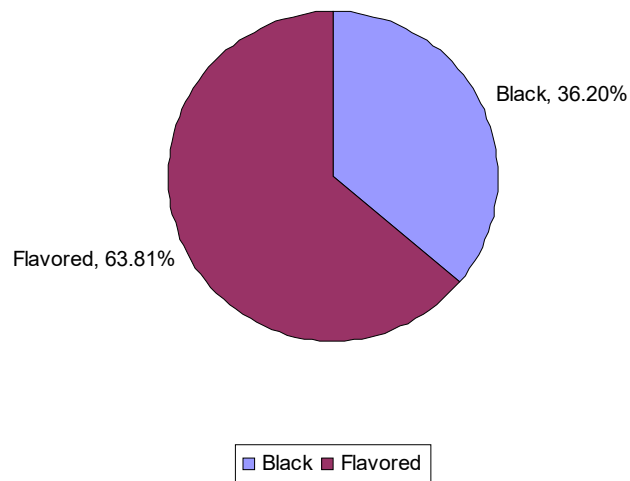
Market Research



Daily Time of Coffee Consumption



Type of Coffee Consumption



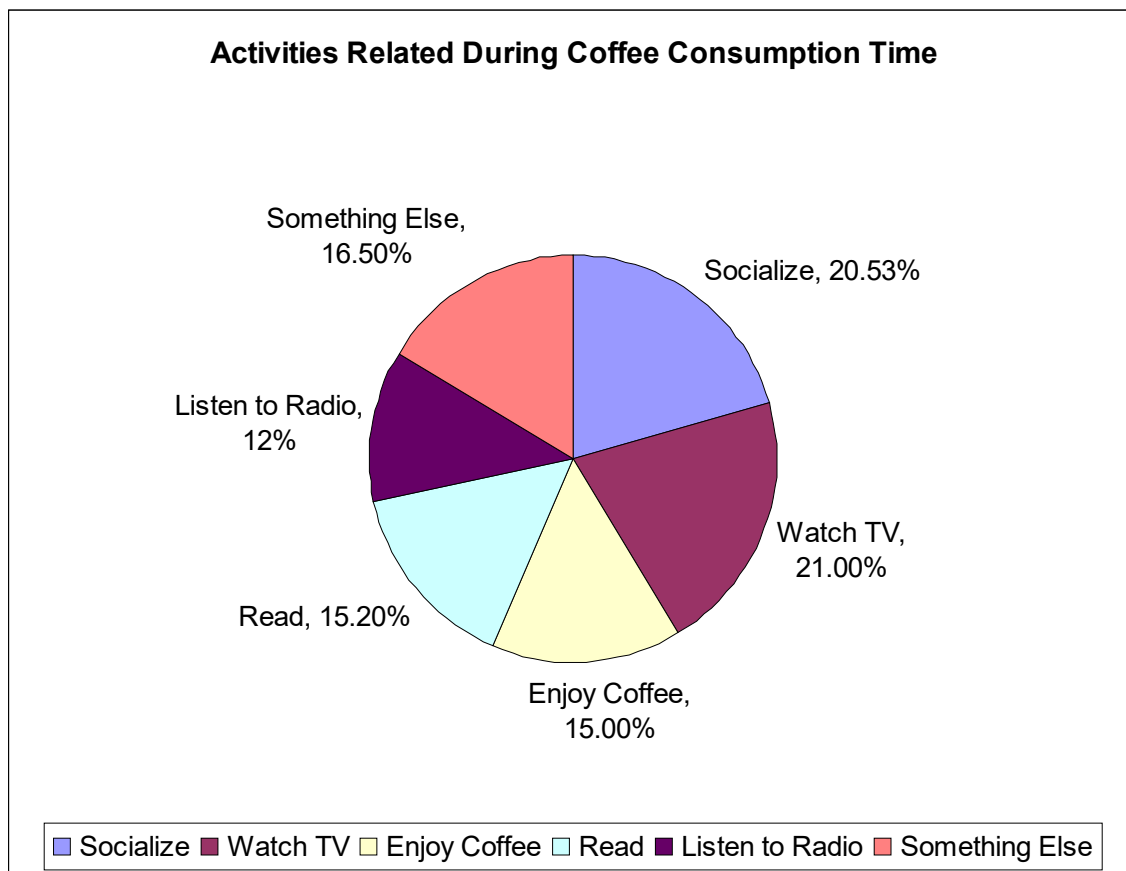


Exhibit 4

Map of Corruption in percentages in Lithuania 2001 according to Transparency International Lithuania


SPHERE	General Public	Entrepreneurs
Justice	39	33
Governance	27	21
Healthcare	21	13
Politics	16	6
Customs	14	18
Privatisation	6	10
Education	5	3
Oil, petroleum industries	4	9
Real estate and ownership	3	2
Tax administration	3	3

Exhibit 5

Double Coffee Menu

[Home](#) | [Global Website](#) | [LV](#) | [EE](#) | [US](#)

[RUS](#)
[LTU](#)
[ENG](#)




[Bonus card](#) | [About company](#)

[Menu](#) | [Vacancies](#) | [Franchise](#)

Menu

- [Coffee](#)
- [Coffee cocktails](#)
- [Tea](#)
- [Sushi](#)
- [Breakfast](#)
- [Salads](#)
- [Snacks](#)
- [Pancakes](#)
- [Soups](#)
- [Pasta](#)
- [Pizza](#)
- [Sweets](#)
- [Ice-cream](#)
- [Fresh Line](#)
- [Drinks](#)
- [Classic cocktails](#)
- [Party time](#)
- [Diner](#)
- [Special menu](#)



Tea

To those, who love tea, we offer green, exotic and black tea, as well as the exclusive mate.

We serve tea in lovely teapots, which are sufficient enough for one and for two.


For tea lovers we have also created latte and cappuccino, where tea is used instead of coffee.

We advise tasting hot grenadine, strawberry, mango and peach teas with fruits.

A special offer for spring and summer! Refreshing cold tea cocktails with fruits.

Enjoy Fresh Lemonade with green tea, peppermint and cucumbers, as well as Banana Spiced Tea with bananas.

And that's not all...



Soon you will be provided with an opportunity to order products from our internet-shop

Exhibit 6

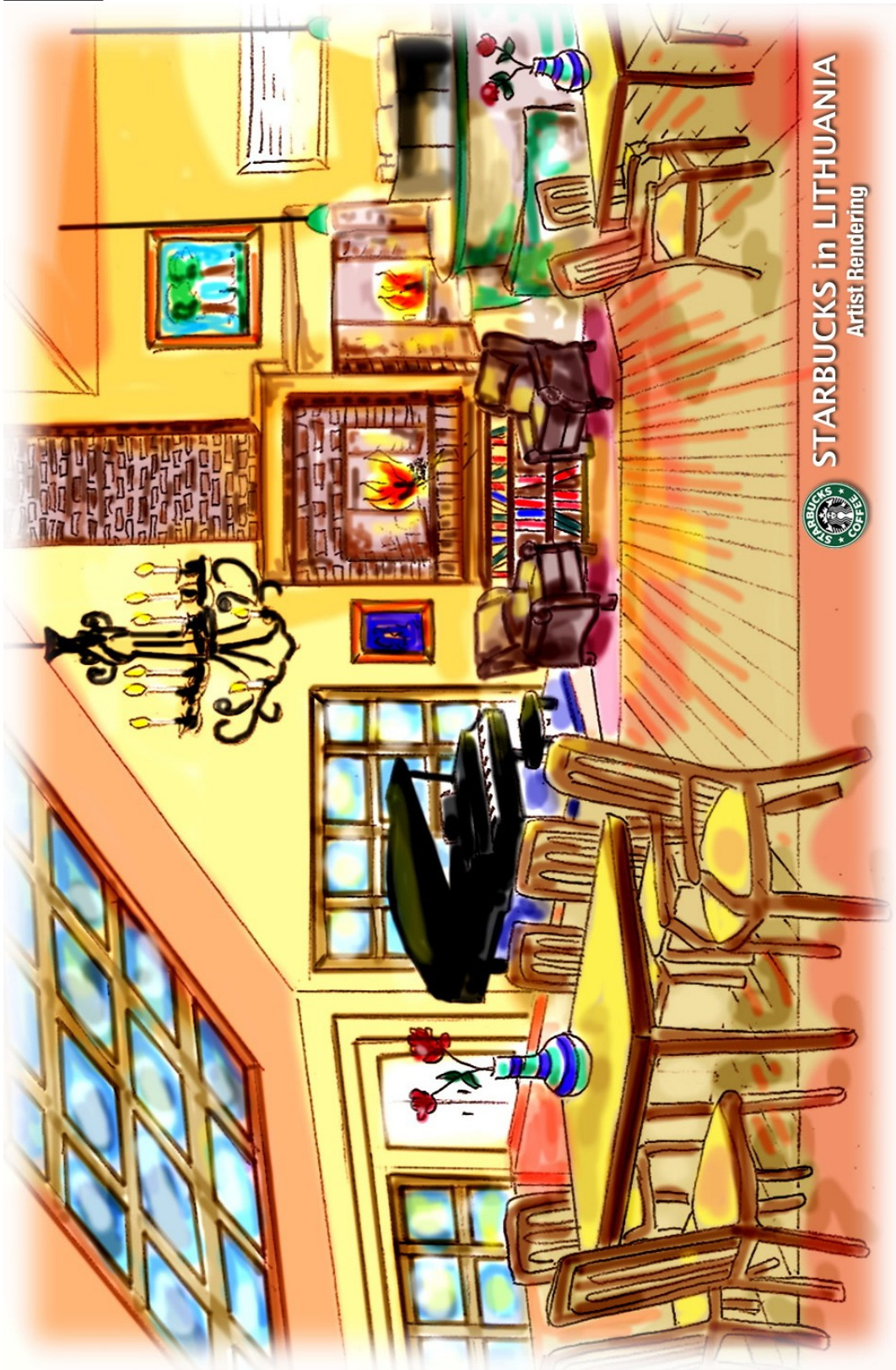


Exhibit 7

Old Town in Vilnius



Commercial Real Estate Prices



Šv. Stepono st., Old town, Vilnius, Vilnius county

Object id: OH90272 **Size:** 137,00 m²
Sale price: 5 000 LTL/m² (1 448 EUR/m²)

For sale 137 m² retail space in new commercial/ living building on Sv. Stepono st., in Old town. Premises are in two levels - basement and ground floor, with big windows, separate entrance. Them needfull to equiped. Price 5000 Lt/sq.m (plus VAT).

[More information on this property](#)

[Print this property](#)



To get more information please contact:
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Office tel: (+370 5) 210 97 38
GSM: (+370 611) 37 304

Working hard at customer satisfaction.



Trakų st., Old town, Vilnius, Vilnius county

Object id: OH100376 **Size:** 23,00 m²
Floor: 1 **Sale price:** 27 000 LTL/m² (7 820 EUR/m²)

For sale 23.5 m² retail space on Traku st., Old Town. Premises are on the 1st floor, require renovation. It is possibility to make separate entrance from Traku st.

[More information on this property](#)

[Print this property](#)



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Exhibit 8

Promotional Advertisement



Exhibit 9

Distribution Route from Nienberg, Germany to Vilnius, Lithuania

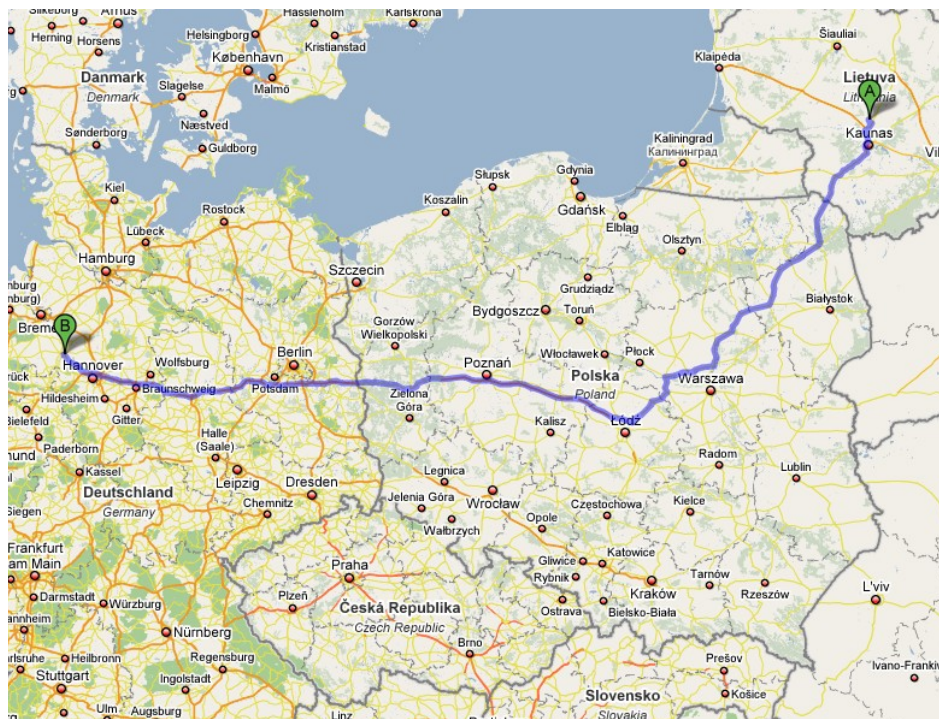


Exhibit 10

World Bank Report of Starting a Business in Lithuania

Procedure	Time to Complete:	Cost to Complete
1.Open bank account with minimum capital, get bank certificate proving the availability of the funds; pay the registration fee and obtain the document evidencing the payment.	1 day	no charge
2.Notarize the agreement/memorandum of incorporation and bylaws; notarize the application for the registration of the private company	2 days	\$176
3. Register at the Company Register, including registration with State Tax Inspectorate (Lithuanian Revenue Authority) for Corporate tax, VAT, and State Social Insurance Fund Board (Sodra)	6 days	\$87
4.Complete VAT Registration	10-15 days	no charge
5. Inform State Labor Inspectorate of the startup of the company by letter or phone	1 day	no charge
6. Open a settlement bank account (to handle normal commercial transactions)	1 day	no charge
7. Obtain the official seal of the company	2 days	\$13-\$40

Exhibit 11

Financial Statements for Starbucks Store located in Sv. Stepono Street

Projected Income Statement
For the Year Ended 2009
(in dollars)

1. Scenario-Paying total building cost

Net Revenues	
Company-operated retail	380,000
Foodservice	<u>30,000</u>
Total Net Revenues	510,000
Occupancy Costs-Purchase of Real Estate	
	301,490
Store Operating Expenses	10,000
Depreciation and Amortization Expenses	2,000
General and Administrative Expenses	40,000
Startup Costs	303
Total Expenses	353,793
Operating Income	156,207

2.Scenario-Paying 15% of the building cost

Net Revenues	
Company-operated retail	380,000
Foodservice	<u>30,000</u>
Total Net Revenues	510,000
Occupancy Costs-Purchase of Real Estate	
	45,224
Store Operating Expenses	10,000
Depreciation and Amortization Expenses	2,000
General and Administrative Expenses	40,000
Startup Costs	303
Interest Expense on Building Purchase	12,060
Total Expenses	109,587
Operating Income	400,413

Exhibit 12



Exhibit 13

Paying Taxes In Latvia- World Bank Report 2008

Tax or mandatory contribution	Payments	Tax base	Total tax rate
Social security contributions	1	Gross salaries	27.2
Corporate income tax	1	Taxable profits	2.2
Property tax	1	Property value	2.1
Fuel tax	1	Included in fuel price	1.1
Environmental tax	1	Per kilo	0.1
Vehicle tax	1	Vehicle weight	0.1
Unemployment insurance	0	Per employee	0
Value added tax (VAT)	1	Value added	
Total	7		32.6

Exhibit 14



Exhibit 15



Exhibit 16

Business Registration Requirements in Estonia:

No:	Procedure	Time to complete:	Cost to complete:
1	Deposit the initial capital in a bank and obtain a bank notice certifying the payment	1 day	no charge
2	Check the uniqueness of the proposed company name	1 day	no charge
3	Submit the registration application to the Commercial Register	1 day	0.2% of share capital (state fee, min. EEK 3,000 max. EEK 20,000)
4	Register for VAT at the National Tax Board	up to 3 days	no charge
5	Register with the Central Sick Fund of Estonia	1 day	no charge