

Starbucks' Successful Negotiation in China

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Abstract

This article analyzes from several aspects which aspects Starbucks coffee company entered the Chinese coffee market, including the negotiation with other Chinese companies and the Chinese government. As an example of negotiations with the Chinese government, the "green roasting project" that Starbucks coffee company wants to launch in 2019. Since Starbucks coffee company entered the coffee market in China, the sales volume in China is very high, and the profit is also very high, even more than many other Asian countries such as Japan. Then the article will explain how Starbucks coffee company has solved one problem after another and how they are successful through the cooperation and business negotiation between Starbucks and three Chinese companies. The essay also gives people 3 skills to negotiate. Which are listen and understand the other party's issues and point of view, be prepared and ask the right questions. Finally, the conclusion will analyze and summarize the negotiation methods and methods used by Starbucks coffee company in these examples, and finally achieve a win-win situation.

Keywords

Negotiation Skills; Cooperating; Win-win Situation.

1. Introduction

Starbucks is the name of an American chain of coffee companies, founded in 1971, is the world's largest coffee chain. Its headquarters in Seattle, Washington, USA. Starbucks retail products include more than 30 of the world's top coffee beans, hand-made espresso and hot and cold drinks, fresh and delicious assorted pastries and a variety of coffeemaker, coffee cup and other products.

When Starbucks tries to enter the Chinese market, cross-cultural or international business negotiations face multiple challenges such as political constraints, sociocultural, economic and financial challenges. Traditionally, Chinese people like tea, so Starbucks seems unlikely to break into the market. But Starbucks is adapting to the Chinese market through a series of measures. Starbucks works with the right partners to effectively understand local consumers and achieve rapid development. This article will dig into the reasons for Starbucks' success in the Chinese market by doing in-depth research on this topic. Over the years, how has Starbucks managed to maintain rapid and sustained growth in the Chinese market? How are our traditional tea-drinking people influenced and changed by coffee culture under the guidance of Starbucks? This article can sort out the development strategy of Starbucks in China in recent years.

2. Research Question

2.1. How Does Starbucks Negotiate with Chinese Government When They Want to Accomplish A Business Goal?

When a company is preparing to negotiate with government officials, executives must know basic negotiation skills. To achieve business goals, executives need to learn to listen and understand the other party's issues and point of view, be prepared to provide information, and ask the right questions [1]:

The basic skills people have to know in the business negotiation.

If businesspeople want to succeed in business negotiations and achieve their goals, it is important to learn more essential skills. The article is called 15 Tactics for Successful Business Negotiations [1]:

Listen and understand the other party's issues and point of view.

Be prepared.

Ask the right questions.

The first thing is listening and understand the other party's issues and point of view. The "learning to listen to others" is an important skill, not only in business negotiations, but also in our daily life. Listening to others first and paying attention to what they say is the most basic politeness to others. Although the purpose of business negotiation is for everyone's benefit, everyone should respect each other, so that you and your team will have a better reputation, and everyone wants to work with a team that respects others.

The second thing is "be prepared". Business negotiation is not about making friends. Be sure to familiarize yourself with each other's basic information and requirements before negotiating, and then help people get to know each other. For businesspeople, time is money. Everyone believes that in the business negotiation, people should not introduce ourselves and our team again, because it is time-consuming. There is another idea. "Preparing" is like preparing for an interview. Remember the most basic information. It's also an act of respect, because if you get to know the person in advance, that person will recognize you. This will effectively promote the efficiency of bilateral communication and negotiation.

The third part is "ask the right questions." People can ask questions during the business negotiation, but they can't ask questions casually. It's easy to feel that you and your team are disengaged and untrustworthy, especially if the topic is boring and strange and not related to the negotiation. Then this will reduce the success rate of the negotiation. So, in order to improve the efficiency of the negotiation and increase the success rate of the negotiation, everyone need to know these three very important points.

2.2. The Mutual Benefit of the Chinese Government and the Starbucks [2]

In the beginning, the Starbucks coffee company with a "green baking project" wants to expand its sales range to China. Chinese government wants a foreign company to come to China and Starbucks wants to increase more international costumers. So this is a win-win situation for Chinese government and Starbucks.

First of all, the company set the location of the project in the Kunshan mountains in China, because "belongs to the state-level development zone, Kunshan economic and technological development zone is located in the Yangtze river delta economic circle, adjacent to Shanghai, has the ideal investment and innovation environment". So, Starbucks was in a good place to start the project.

Business first need to negotiate with governments for permission to enter the market.

Starbucks corp. conducted a statistical survey to illustrate the huge potential of the coffee market in China -- 8 cups of coffee per person per year, compared with 120 cups in South Korea,

210 cups in Japan, and 400 cups in Europe and the United States. This data shows that the coffee market in China can still be broken and improved. So this is a reason that why Starbucks wants to come to China to manage.

Finally, premier Li Keqiang of the state council sent a congratulatory letter, saying that as a productive strategic investment project, "coffee innovation industrial park" is conducive to the innovation of modern industrial chain and supply chain by benchmarking the latest international standards and realizing green production. "The Chinese government also wants to expand the scope of foreign investment and expand China's economic market, which is why Li Keqiang is very supportive of this action.

Business negotiations facilitate discussion that leads to a win-win situation. For example, in the case of Starbucks, the company's goal was to increase their global consumer base. The Chinese government simultaneously desired to expand China's economic market and foreign investment [2]. Thus, negotiations between Starbucks and the Chinese government offered an opportunity for both the company and the government to achieve a win-win situation.

2.3. What Are the Challenges of Intercultural or International Business Negotiations When Starbucks Trying to Enter China?

After the prosperity of Starbucks in America, they decided to enter China market as an international company. In light of the popularity in America, they thought it would be easy to sell coffee in China. However, Starbucks faced tremendous problems. These issues are mainly in two different parts: political restrictions, social-cultural problems.

The first issue is related with the political system. When Starbucks tried to first enter China, they had to get the permission from government. China is a highly bureaucratic country with difficulty process of getting permission to run a company specially for a foreign company early in 1998. In order to address this problem, Starbucks came up with some ideas. Firstly, they need to contact with the government to let them agree to give them permission. Then Starbucks made a \$5 million donation to Soong Ching-Ling Foundation to help children in China's poor region get support to be educated. This approach bridged Starbucks and government. Starbucks began to build a firm relationship with local government, so they can easily get permission to open in China.

One of the primary barriers to negotiations between a U.S. company and the Chinese government is cultural differences. For example, according to the Hofstede Center, there are several cultural differences between U.S. culture values and Chinese culture values. For example, according to the six dimensions of culture proposed by Hofstede, U.S. have a lower power distance which means more people will take part in deciding a project in U.S. than China. In Individualist societies people are only supposed to look after themselves and their direct family. In Collectivist societies people belong to "in groups" that take care of them in exchange for unquestioning loyalty [3]. So, U.S. people have greater individualism. Cross-function integrated product teams is the main way in America to operate a work so subject matter experts in different disciplines can collaborate. The Chinese culture, in contrast, stresses family and kinship relationships when conducting business. Group members are linked by close personal relationships to work with Chinese organizations. Also, the evaluation of people based on their standing in the family, as opposed to how well they perform, is not consistent with U.S. project management practices [4]. Besides, there is a giant difference between two countries' long-term orientation. In China, workers may be boss-oriented instead of the job-oriented in U.S. Chinese workers are highly respect their superior which is quite different from the long-term orientation in America. These cultural differences make a big difference for Starbucks to operate in a new country, China. In order to work sufficiently in China, Starbucks brought a few managers from U.S. and hire most of the employees in local labor market.

The second problem is the hardest one. Actually, China is a country with abundant tea-drinking culture. In other words, Chinese likes drinking tea for thousands of years. Coffee is new drinks for most of Chinese. People in china didn't accept coffee at first, so the selling is not satisfactory as expected. Starbucks made a market research. As a result, they found people were not aware of the coffee culture and Starbucks' culture, so it was hard for Starbucks to attract customers or even employees. In order to gain a foothold in China market, Starbucks decided to initiate a training program and authorize three Chinese food companies to run the China market. Beijing Mei Da Coffee Co. Ltd is their first partner in China. They were responsible for the Beijing. In 1999, Starbucks started cooperating with Uni-President Group and opened stores in Shanghai. Mei-Xin International Ltd managed the operations in southern China. After that, they made some innovation and modification, they changed the menu and renamed their products. They localized the brand name and provided different kinds of tea according to people's choice. As the success of these strategies, people became more and more interested in drinking coffee in Starbucks.

3. The Success of Starbucks and Partner Negotiations

Starbucks has achieved considerable success after negotiating with three Chinese companies. The first company is Beijing Mei da. Mei Da is a company affiliated with H&Q Asia Pacific and also has a Starbucks franchise license. The Mei Da company, at the time, owned 60% of Starbucks retail outlets in China[5]. After two years of negotiations, Starbucks withdrew the franchise license they had issued from H&Q Asia Pacific, and they acquired Mei Da company[6]. This leads the two companies to have a win-win result. Since Starbucks first entered China in 1999 by 2006, Starbucks had more than 60 stores in Beijing and Tianjin, China. One of the reasons for this negotiation is very simple. Starbucks wants to fully control the sales in China so that they can improve operational efficiency and development in China. To carry out this purpose, they need to withdraw the franchise license, but at the same time, they do not want to lose any profit that Mei Da made for them right now, so the best way is to acquire Mer Da company. For H&Q Asia Pacific, it successfully introduced a foreign brand of Starbucks into China and achieved great success. For them, they have completed their purpose. So, in 2006, after the negotiation, Starbucks and H&Q Asia Pacific satisfying with the purchase price, Starbucks implemented the acquisition of Mei Da and successfully regained control of the Beijing and Tianjin markets. In a sense, Starbucks can achieve negotiation success; in fact, it uses some skills. Judging from this case, Starbucks heard and understood what the partners wanted to express, and it gave a solution that satisfied both parties.

After cooperating with the Mei Da company, Starbucks also wanted to explore the Jiangsu, Zhejiang and Shanghai areas in China. They had cooperation with the Uni-President Enterprises Corporation that was influential in Taiwan and mainland China at that time. In 1997, Starbucks first cooperated with Uni-President Enterprises Corporation in Taiwan, China, but the benefit effect was not very significant, so Uni-President set its sights on mainland China, and in 2001, successfully entered Starbucks in Jiangsu, Zhejiang and Shanghai Areas. This development is an unprecedented profit for Starbucks. When Starbucks released its 2017 financial report, for China and Asia, profits increased by 36% [7]. At the same time, the Uni-President has begun profit decline in mainland China, and began to sell some of its group's other industrial chains. Starbucks also apparently discovered some of the situations facing the Uni-President in mainland China, so it had commercial negotiations with the Uni-President. Starbucks wanted to take back the huge Chinese market from the Uni-President, so they first negotiated with Uni-President and promised to sell 50% of the remaining Starbucks shares in the entire Taiwan area to them. And what the Uni-President needs to do is to sell all the remaining shares in Jiangsu, Zhejiang, and Shanghai to Starbucks. Starbucks is smart. It exchanged 50% of the

shares that were not very profitable in Taiwan, China for 50% of the most profitable shares in mainland China. Although it paid a high price of 1.3 billion US dollars, in the long run, this negotiation Starbucks will be of great help to fully grasp the Chinese market in the future [8]. From the success of this case, we can see that Starbucks has made full preparations for this negotiation, fully understood what the partners need, and what areas they want to achieve better development. This is especially so after evaluating the unified group's financial statements started formal negotiations. Because Starbucks prepared well in advance so that the talks can be so successful.

When Starbucks successfully entered the north and east of China, they set their sights on the south, which also has good market development. This time they chose Maxim's Group from Hong Kong, China as a partner to help Starbucks develop in southern China. The effect is the same as in other regions. Starbucks has also achieved great profit success in southern China. Therefore, Starbucks wanted to regain its dominance in southern China, so they also used the acquisition method to negotiate with Maxim Group. So, in 2011, Starbucks and Maxim's Group signed an agreement, Starbucks acquired 30% of the joint venture company's shares held by Maxim's Group, in order to obtain the dominance of Starbucks throughout South China [9]. Of course, if this negotiation just like this, Maxim's group will not simply give up control of the entire South China region, so Starbucks promised to give the Maxim's franchise into Cambodia and other Asian countries. The content of this negotiation clearly moved Maxim's group, so they and Starbucks reached a decisive agreement, then they handed over control in southern China to Starbucks. For this case, Starbucks asked itself and the other party two particularly important questions before the negotiation, "What do we need" and "What does the other party need." When Starbucks asked this question, in fact they were half successful, and the remaining half was actually how they answered the question. And their answers have been obtained after the successful negotiation. So before negotiating, be prepared to ask yourself questions, and then ask your opponent or partner. Try to think of the answers given by each other and the answers they want to hear.

4. Win-win Result

Here can see from the above three Chinese companies that cooperate with Starbucks, Starbucks have adopted the same negotiation skills. Generally speaking, the way for Starbucks to settle in China and then master the dominance of Chinese branches is:

Listen and understand the other party's issues and point of view.

Be prepared.

Ask the right questions.

To master these three skills, in a negotiation, your chances of winning will be greater. At least do this, your logic and organization are clear, and you will not be in a panic during negotiations. It can be seen from Starbucks' handling of these three different company cases how important it is to prepare properly before negotiations.

The success of Starbucks is not enough to use these negotiation skills. They need to know more about their partners and opponents, so as to make some changes in strategies and methods. Our group summarized the way Starbucks negotiated with these three Chinese companies:

First find a local franchisee to cooperate and introduce a brand.

After successful development, recover the franchise license, acquire the partner's subsidiary corporation and buy back the shares.

Analyze what the other company wants the most and then give the other party the most desired conditions in the negotiation to master the initiative.

Starbucks is very clever when they withdraw the shares and take back the initiative, give the other company what they want, and will not affect Starbucks itself interests. Keep a good relationship with the cooperative partner in case that they need to cooperate again in the future.

5. Conclusion

Although there are some challenges of intercultural or international business negotiation when Starbucks was trying to enter the Chinese market, like the issue of a political system, people's flavor, and economic challenge, Starbucks successfully negotiate with the Chinese government and companies. During this negotiation, they both have benefits and get the things they want, since Starbucks who based on the basic elements of business negotiation prepare his works and solves intercultural or international problems timely. Due to this success of the negotiation, the profit of Starbucks of American, from the financial report, is higher than the profit of other Western countries' companies, which can show the importance of an appropriate negotiation to each company or businessman. Therefore, only a great intercultural or international negotiation can bring a majority of interest to the company.

5.1. Recommendation

1. Find a win-win opportunity for both companies before the negotiation. Utilize enough materials or information to convince another party that they both will have some benefits of finance or power. Based on those great points, the negotiation more easily can finish in a satisfactory way.
2. Understand exact local situations about substitute that they want to negotiate. For example, the company of selling coffee can investigate a statistical survey in the market about coffee in the country of another party; also, it can learn current popularity or customers' response to adjust their local products' taste or appearance, avoiding future problems. Those behaviors are good for their negotiation.
3. Analyze what another company wants the most. Through observing another company's requirements, the company gives the other party the most desired conditions they want in the negotiation. Therefore, based on those requirements, the company will effectively finish the negotiation.
4. Strive for local supports to their business negotiation. To be specific, the businessman can donate large sums to charity or high-quality equipment to rural schools, which connect the businessman with the government. Therefore, the great relationship with the government can help them to negotiate.

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