

SOEREN HARS

www.soerenhars.de

soeren@soerenhars.de

London School of Economics - Business, International Relations & the Political Economy



Essay

Adaption and aggregation of Starbucks in Bolivia

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Author: Soeren Hars

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Adaption and aggregation of Starbucks in Bolivia

In 2014 Starbucks expanded into the Bolivian Market (Seattle Times 2014) to “grow retail presence” (CEO Cliff Burrows, *ibid.*). This essay is retracing how Starbucks used the strategies of adapting and aggregating within *the Bolivian Paradox of Globalization*.

As the LSE course material notes (LSE M8 U3 Notes 2018) Ghemawat (2007) developed the *AAA Global Strategy Framework* to describe different generic approaches to global expansion of businesses. AAA stands for adaption, aggregation and arbitrage. While adaption describes alignment of a business to local differences in responding to different needs, demand and culture, aggregation skips those differences by rather exploiting the similarities of regions to achieve economies of scale. And “arbitrage is a way of exploiting differences, rather than adapting to them or bridging them” (*ibid.*). When assessing how Starbucks strategy in entering the Bolivian market aligns to Ghemawat’s AAA framework, it makes sense to draw country and market specifications prior to analyze Starbucks responsive strategies:

- 1. Political and cultural obstacles:** Due to protectionist government policies the Bolivian markets are known to be hard to enter for MNC’s like Starbucks (Lessmann 2010). -> Nevertheless Starbucks could establish on the Bolivian market. Starbucks Bolivia is operated by a joint venture between Grupo Nutresa and Alsea (Seattle Times 2014). Colcafe, operating in Bolivia as part of the huge Colombian enterprise Grupo Nutresa, provides locally produced coffee to the Starbucks stores in Bolivia (*ibid.*). Hence Starbucks used existing relationships to coffee providers to grow its retail presence in the region. Hence, to start off Starbucks obviously used an adaption strategy building “strategic alliances, (...) or networking (...) to accommodate local requirements, lower cost, or reduce risk” (Ghemawat 2007). But still Starbucks strongly held onto their specific product portfolio of coffee and its very corporate identity (pricing, branding and customer service) as known from developed countries (RTT News 2014). Thus, one could say, it didn’t follow a cultural adaption, by, for instance, selling coca tea or other traditional drinks.
- 2. Social change and key market specifications:** Though Bolivia is producing coffee for more than a century (at a small scale though) (Grahams 1912 / Equal Exchange

2018), a decade ago a domestic market for coffee consumption in Bolivia was nearly not existing (Bolivian Express 2015). Before people rather preferred mate in the low-lands and coca tea in the high-land (Lessmann 2010). -> Starbucks entered the country during a time where the coffee consumption market changed dramatically: The growing middle-class followed western lifestyles and coffee became more demanded (Wintgens 2010). The general cultural tendency towards globalization led to the fact that Starbucks could aggregated to an existing trend that created a whole new market similar to those the company origins from (Bolivian Express 2015). Starbucks landing in Bolivia came at a time, where this move was promoting that very same market development it could build on.

- 3. Economic implications on price threshold:** Starbucks pricing is high compared to the average Bolivian earning. Until a decade ago Bolivia was one of the most impoverished countries of the Americas, landlocked and with a small middle-class (Lessmann 2010) and not many would have been able to afford the prices at a Starbucks store. Just as the general consumption of coffee this fact changed significantly as the Bolivian middle-class grew on a large scale during the last 15 years (ibid.), followed by a significant rise in demand of more expensive coffee. Thus, the aggregation of Starbucks was to exploit a new market, emerging similar to western markets where Starbucks operated before.

Conclusion: In general one can survey an interesting *Paradox of Globalization in Bolivia*: The protectionist policies of the government, by many considered to be anti-globalization policies as they often acted against liberalization models, led to an impressive economic growth in GDP per capita in the last decade. This was followed by the growth of a bold middle-class that now changes social life culturally towards a western model of consumption. Thus, coffee – among other products – became stronger demanded than before, creating whole new key markets. As Professor Klaus Mayer mentioned (LSE M8 U4 video transcript) it usually makes sense for a company to focus on one or two of the AAA strategies. So did Starbucks in Bolivia, by adapting and aggregating. This because as the Bolivian market changed more towards a western consumers model, that allowed Starbucks to adapt in a joint venture, while aggregating at the same time by skipping market differences during a process where the market itself overcame the differences, and would have done so without Starbucks.

Resources

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