



UNDERSTANDING VIETNAM'S UNIQUE TASTE AND CULTURE: A KEY TO BUSINESS SUCCESS AS A FOREIGN BRAND (THE CASE OF STARBUCKS VIETNAM)

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Abstract:

Globalization has contributed so much benefits to the world in terms of products, services and many others. Many global brands have expanded their operation in different countries giving opportunity to citizens of different countries to experience their products and enjoy loyalty of their customers. Unfortunately for some other global brands, this might not be the case. It is very crucial to properly analyze the challenges any global brand will encounter in a new market. The success of any global brand is its ability to compete in the local setting wherein local brands offering the same products enjoy the loyalty of local consumers therefore the global brands must be able to offer something unique to gain trust and loyalty from its target market.

Keywords: Business, Culture, Starbucks, Success, Taste, Vietnam.

INTRODUCTION

One of the positive effects of globalization is the opportunity to bring products and services from one country to another. In today's modern way

of doing business, the role of a foreign branch of a business can't be undermined as financially it will bring a significant impact into the total financial structure of the organization. Many global successful brands enjoy the financial benefits these foreign branches bring into their total global sales, but unfortunately, for some global brands, their foreign operations in some locations are not as successful as in other countries like the case of Vietnam.

This article will present some of the important reasons why some global brands like Starbucks did not succeed in Vietnam which is struggling in the country unlike in other Southeast Asian countries like the Philippines or Malaysia. This research article will provide important insights on what went wrong along the way and how Starbucks failed to understand how unique Vietnam is and lead to its failure in the country.

THE HISTORY OF STARBUCKS

Starbucks traces its roots back in 1971 where it started as a roaster and retailer of whole bean and ground coffee, teas and spices in a single store located at Pike Place Market in Seattle,

USA. As of June 2019, there are 30,000 Starbucks locations around the world serving millions of customers each day with a mission: to inspire and nurture the human spirit- one person, one cup and one neighborhood at a time.

In 1981, Howard Schultz (Chairman and CEO) first walked into the Starbucks store and then joined the company a year later. In 1983, Mr. Schultz travelled to Italy where he was captivated by the idea of coffee bars and coffee experience and thus the concept of coffee experience in a neighborhood. Although he left the company for awhile, he returned to Starbucks in 1987 and purchased the company with the help of some local investors. <https://www.starbucks.com/about-us/company-information>

PRODUCTS:

DRINKS:
AT HOME BREW:

Hot Coffees
Breakfast
Hot Teas
Cold Brew
Frappuccino
Cold Coffees
and Sweets
Iced Tea
and Custard
Cold Drinks



FOOD:

Hot
Whole Bean
Bakery
Lunch
Snacks
Yogurt

Today, with 30,000 outlets globally, Starbucks is no doubt one of the leading big corporations in the world with stock price of \$75.49, earnings per share of \$2.82, dividend yield of \$1.64 (2.18%) and market capitalization of 88.19 Billion US dollars. <https://finance.yahoo.com/quote/SBUX/>

The 2019 Investor relations statement of Starbucks reported total assets of \$19.219 Billion, Total Net Revenue of \$26.508 Billion and Operating Income of \$4.077.9 Billion as of Fiscal year September 29, 2019. https://s22.q4cdn.com/869488222/files/doc_fi_nancials/2019/2019-Annual-Report.pdf

Forbes ranks Starbucks as top five global fast food brand with McDonalds being number one, KFC at number two, Subway taking third place and Pizza Hut on the number four spot. <https://www.forbes.com/pictures/feji45hfk/5-starbucks-3/#1c7707644b68>

With Starbucks's huge success internationally and in the USA, one might wonder why it did not do well in Vietnam.

STARBUCKS VIETNAM HISTORY

Starbucks Vietnam started operating in Ho Chi Minh as the first ever branch in Vietnam in 2013 at the bustling junction of Nga Sau Phu Dong in District 1. This venture was in partnership with Hong Kong's Maxim Group, a long time partner of Starbucks in Asia and the Pacific. This new business venture brings excitement and honor to the group to be entering a new market with a world famous unique coffee tradition. Vietnam is among the top producers of coffee in the world next to Brazil and this brings challenge into the organization to be able to compete as a global brand. <https://stories.starbucks.com/stories/2013/starbucks-debuts-iconic-flagship-store-in-ho-chi-minh-city-honoring-vietnam/#:~:text=HO%20CHI%20MINH%20CITY%2C%20Vietnam,with%20Hong%20Kong%20Maxim's%20Group.>

After seven years since its inception, Starbucks has only 46 outlets in Vietnam in comparison to its neighboring countries like the Philippines with 364 outlets, Thailand with 363, Malaysia with 274, Indonesia with 378 and Taiwan with 454 outlets. Just by looking at the number of outlets operating in Vietnam, it is a clear

indicator that the company is struggling in this part of Indochina and the reasons are very clear.

REQUIREMENTS TO SUCCEED AS A GLOBAL BRAND

Gelder (2003) stated that the analysis of external environment of business focuses on understanding how local condition affects consumers' perception of the brand. Understanding consumers' behavior towards the brand is a key element in the internal analysis of the brand and the organization and a key factor in further strategic planning. The brand perception holds the meaning and significance of the brand to the consumers, this is what the organization wants to influence in the global and local context.

An article published at Harvard Business Review entitled "The Lure of Global Branding" written by Aker (1999) discussed very important points to consider before being lured operating globally. The article stated that many brands are tempted to globalize their names because of economies of scale and having a global advertising for all across countries that sometimes are destructive to the brand. Creating a global branding that applies to all is ineffective as it puts everything in a box with the expectation that customers from different countries will be the same as customers of the country of origin. Understanding cultural difference is one important key to operate successfully. Preferences of people across different locations are not the same as buying behavior of people are different from many countries. Failure to understand these differences and adopting one model theme for all is detrimental to a global business. <https://hbr.org/1999/11/the-lure-of-global-branding>

Fabias (2015) in his research "Determinants and the Success of Global Brands and Local Brands in Latin America" indicated that the success of global brands is positively associated with

subscription and local taste. He added that the success is negatively affected by technology and global citizenship. Although there have been several research done that have examined the relationship between brand origin, perceptions and attitudes, there were few research that focused on brand category and choices. His study focused on product category and characteristics affecting choices of local customers and how it contributes to success of global brand in the local setting. Understanding the local taste proved to be a very important key determinant in successful global operation.

Ozsomer (2013) in his research published in the Journal of International Marketing stated that local brands are developed for and tailored to the unique needs and desires of the local markets and therefore local brands have their own strengths, such as perceptions of uniqueness, originality and pride of representing the local market. The local brands enjoy the benefit from high level of awareness and close relationship with their customers. The local brands not only reflect but also help define the character of the local market. Some of these brands are perceived as local icons in their markets insofar as they are associated with symbols of the local culture, heritage and country.

An article published at Forbes.com entitled "Five Things to Do Upfront When Building a Global Brand Is Your Goal" by Robinson (2019) stated that it is important to look at factors that will affect your brand domestically. It involves asking questions like "Who are your top competitors in that area?" What appeals to your target market in that culture? What will work and won't work? ". Many global brands change logo or colors or even names just to better adapt cultures and avoid culture faux-pas as they spread to different countries. <https://www.forbes.com/sites/ryanrobinson/2019/01/14/tactics-build-global-brand/#54503446ef8c>

An article by Roll (2015) published on INSEAD KNOWLEDGE.edu entitled “Five Best Practices of Global Brand Management” reiterated the importance of flexibility and adaptability to succeed. It added that Brand Management is not about rigid enforcement of frameworks, rules and practices but involves balancing consistent brand guardrails with the freedom to adapt to leverage local growth opportunities. Global brands which fail to adapt to local needs and emerging opportunities become obsolete and irrelevant. Any form of brand adaptability such as extension, variants and diversification should not dilute the core values of the brand and to the loss of equity. Constantly evaluating a brand’s strategy against its guardrails, vision and core mission ensures consistency in the global brand promise across countries and regions.

<https://knowledge.insead.edu/blog/insead-blog/five-best-practices-of-global-brand-management-4136>

Entrepreneur.com published an article by Moran (2013) entitled “5 Strategies to Build a Global Brand” suggested the following important points: Global companies must understand how customers behave in different locations. It does not mean that if your brand is widely accepted in the country of origin, it will also be the same in another location. Some cultures or tastes are different from where the brand originally comes from and this may bring a significant impact on your brand when it fails to adjust to the local setting. A good global brand positioning means understanding your competition and knowing your competitive advantage. Who are the providers of similar products and what sets you apart from them or vice versa. Failing to understand your competition is crucial to the business.

<https://www.entrepreneur.com/article/226554>

An Article entitled “Keys to Successful Globalization” published on industryweek.com

stated that the lack of understanding of the local culture is crucial to the success or failure of the business. It is a must to understand and relate to customers, their culture, their needs and buying habits. It is also crucial to understand the demographics of the brand’s target market like age, gender, income level because the lack of understanding of these important factors will lead to the disaster of the global brand. A company is of better position to compete when the company understands its competitive advantage by knowing the local market. <https://www.industryweek.com/the-economy/article/21938770/3-keys-to-successful-globalization>

WHY STARBUCKS FAILED IN VIETNAM?

THERE ARE TWO IMPORTANT FACTORS OF STARBUCKS VIETNAM’S FAILURE:

COFFEE

Coffee has been a long and very important part of Vietnamese culture since coffee was introduced by the French to Vietnam in the 19th century. After the Vietnam War, the government introduced massive production of coffee and today, Vietnam is the second largest producer of coffee after Brazil. Vietnam produces Robusta coffee with distinct and strong caffeine content and a thick lingering taste plus higher acidity. Robusta coffee has been an important aspect of Vietnamese culture. Vietnamese always prefer their coffee to be dripped using aluminum filters to bring its rich flavor and aroma. Coffee preparation in Vietnam is smooth and slow ensuring the right quality and flavor. Vietnamese loves to mix their strong Robusta coffee with condense milk and they drink coffee morning, noon and night. <https://www.lasinfonidelreyhotel.com/guide/detail/197/Vietnamese%20Coffee%20Culture%20->

[%20History%20of%20Vietnamese%20coffee.html](#)

American news agency CNBC conducted an investigation why Starbucks did not do well in Vietnam. The report was published on their website dated 29 December 2019 and enumerated below are their findings:

Starbucks use Arabica coffee while Vietnam produce and consume Robusta coffee. Robusta has a stronger bitter taste and higher caffeine content compared with Arabica coffee and Vietnam has a long tradition of drinking Robusta coffee. Starbucks use Arabica in their global operation because Arabica coffee is perceived to be of higher quality and standards when compared with Robusta coffee which are cheaper to produce and is usually use as main ingredient in instant coffees. Starbucks values quality and image as being in a Starbucks coffee shops, is all about prestige and experience. Unfortunately, the majority of Vietnamese consumers love their own coffee and tradition. Vietnam is a large producer of Robusta coffee and the options are wide all over Vietnam. Many outlets and street stalls are available in the country for fast and strong kick Robusta Coffee.

<https://www.cnb.com/video/2019/12/23/why-starbucks-and-other-chains-struggle-in-vietnams-coffee-industry.html>

Vietnam insider article entitled “Starbucks, Coffee Bean and Tea Leaf losing to Vietnamese Chains. “published in January 2020 stated that Starbucks and other foreign brands lose to the Vietnamese counterpart because of the lack of choices in their menu similar to the local favorite like the espresso brewed from Robusta coffee in comparison to the Arabica coffee which is not usually favored by Vietnamese

people. Founder of Letto Coffee and Tea, Hai Leu, added that local cafes understand the domestic market and flexible in changing their menus to adapt to local demands like Highlands and The coffee House which added bubble Tea in their menu to suit demands of young Vietnamese who love bubble Tea. <https://vietnaminsider.vn/starbucks-coffee-bean-and-tea-leaf-losing-to-vietnamese-chains/>

Vietnam Investment Review article dated 15 January 2020 stated that Starbucks only accounted for 3% of the market share while another foreign coffee brand highlands coffee accounts for 7.2% and the total market share of five biggest names in coffee brands in Vietnam is only 15.3%. This shows that the foreign brands are losing in comparison to the local providers of coffee in the country. The article provided that Vietnamese love to drink their thick, strong and high caffeine Robusta coffee mixed with condense milk while Starbucks does not offer the same to customers. Moreover, local coffee shops understand the taste of Vietnamese customers and offered more variety to suit the taste of local coffee drinkers. Highlands coffee and The Coffee House added bubble tea to their menu which is very popular among young Vietnamese. Unfortunately, Starbucks does not have the same product. <https://www.vir.com.vn/starbucks-coffee-bean-and-tea-leaf-losing-to-vietnamese-chains-73191.html>

The Coffee House business differentiating factor is not renting the best locations but attracting customers with modern, striking shop design that are appealing to younger customers. The drinks offered by The Coffee House are priced reasonably which appeal to a wide range of customer in comparison to Starbucks’s

expensive drinks.
<https://e.vnexpress.net/news/business/industries/which-are-vietnam-s-most-successful-coffee-chains-3835604.html>

A lonely planet.com article entitled “A guide to Vietnamese Coffee” dated February 2020, offered opinion on the uniqueness of Vietnamese preference in Coffee drinking with varieties mixed the local Robusta coffee apart from its coffee with condense milk, Robusta coffee also comes with yoghurt, Egg coffee, Coffee smoothie and coconut coffee which are not found in Starbucks menu. These varieties of coffee are available in different places in Vietnam in small stall and roadside cafes. This makes competition very high as small coffee players are everywhere catering to the local market at very reasonable price.

<https://www.lonelyplanet.com/articles/a-guide-to-vietnamese-coffee>

PRICE

The price of Starbucks coffee is considered to be way too expensive for the Vietnamese market. A Robusta coffee sold in many stalls or local coffee shops may cost only \$.50 while Starbucks coffee can cost up to \$3. This is already a disadvantage on the part of Starbucks coffee as it is difficult to compete with local Vietnamese coffee shops because their price is expensive. Most of those Vietnamese who go to the Starbucks shops are there for the experience of comfort and for curiosity about a foreign brand. A large number of those Vietnamese who patronize the Starbucks brand come from the middle class and above but unfortunately, the middle class and above is only about 13% of the population. The price of Starbucks products and coffee are not attractive to majority of Vietnamese in terms of their income level.

<https://www.cNBC.com/video/2019/12/23/why-starbucks-and-other-chains-struggle-in-vietnams-coffee-industry.html>

According to a Toui Tre News article, Vietnam is the third most expensive country to buy Starbucks with 39 countries being surveyed. The evaluation was done by converting the local price of a Starbucks latte and converts it to US dollars reflective of the purchasing power of the countries being surveyed. It was found out that Vietnam is among four Asian countries where a Starbucks latte cost three times than in the USA. In Southeast Asia, a latte of Starbucks would cost around \$4.70 to \$8.20 when local currency is converted into US dollars in comparison to \$2.75 price of Starbucks latte in the USA. This has put Starbucks in a disadvantage when competing with local cafes offering coffee products where the Vietnamese can only buy for \$.50 cents. Indulging in a cup of Starbucks coffee in Vietnam is considered extravagance as majority of Vietnamese do not pay that expensive amount for a coffee that is not suited to their taste and way too expensive for a lot of Vietnamese who earn meager income.

<https://tuoitrenews.vn/business/40734/vietnam-third-most-expensive-country-to-buy-starbucks-su>

Afridi (2013) stated in his research “The Success of Global Brands: A Quality and Price Perspective” that pricing is the most simple and direct tool of consumers’ evaluation of a product. The price together with the quality of the brand must be given weight-age while deciding the price of the product in order to gain maximum profitability. Davcik and Sharma (2015) added that the economic mechanism suggest that higher prices corresponds higher quality. The premium price represents a

consumers' willingness to pay more than the usual or generally expected price which corresponds to the extra value that the brand offers. Safitri (2018) added that apart from brand image, the price is a significant consideration in purchasing decision of consumers wherein price has a relative effect. Some consumers are sensitive to price while others are not. Djatmiko and Pradana (2015) stated that the brand image and price are strong factors in purchase decisions. Qalati and Yuan, et al. (2019) stated in their study that price is a very important factor in consumer buying behavior especially among young people. Young consumers consider the value of the product they are buying based on the price and they equate customer satisfaction with quality and price.

The income level of people is also another very important factor relative to price and buying behavior of consumers. The average minimum salary in Vietnam in 2019 ranges from \$125 to \$180 and was adjusted in 2020 from \$132 to \$190 according to Vietnam Briefing website. <https://www.vietnam-briefing.com/news/vietnam-increase-minimum-wage-january-2020.html/>

According to Srinivasan, et. Al (2015) the purchase of a luxury brand is associated with income level. It was observed that there is no significant difference on consumers luxury consumption based on variables like age, gender, education but was observed that income or financial capability is an important factor in luxury consumption. As the income increases so does the consumption of luxury goods. Ahmed, Khan and Samad (2016) stated that income level helps the consumer in making a decision about spending, whether the consumer should spend a certain amount over

luxuries or opt to save that amount. People at higher income level tend to spend more as their consumption and needs for increases with improvement in income.

CONCLUSION

Any global brand which plans to enter a new market must conduct thorough investigation and review of the new market it is eyeing to enter. This is vital to the success of the brand in that new market. Understanding the business environment, challenges to be encountered and most importantly the customers of the new market are important factors to be successful in another country. A global brand must be flexible also to adjust in a new market's taste to be able to stay competitive. Failure to do so is fatal to the business. Income level and pricing are highly related as people spend according to their income level. If a global brand decides to enter a new market, it must analyze properly the income level of people. Are the prices of their products affordable to that new market or are they willing to adjust to the local market expected pricing so it can compete locally?

This article has shown the failure of Starbucks in many important aspects of the business and if the brand wants to stay in Vietnam, it must make the necessary changes starting from their main product which is coffee. The price must suit the local market and the variety of coffee it offers to Vietnamese consumers.

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