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The Interplay Between ration and Exploitation

Final Paper

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ABSTRACT

Business environment in the 21st century is getting more and more changeable, unpredictable and competitive. In order to survive and win in these settings modern companies need to be flexible and should focus not only on performance of their day-to-day operations the best possible way but also develop and look for something new constantly that to keep interest of their customers. This means that organizations have to cope both with exploitation and exploration.

In this paper we will consider the interplay between exploitation and exploration from two perspectives. First part of the paper will focus on definitions of exploration and exploitation and make an attempt to draw the line between them. The main issue there is what can be considered as exploration: creation of something new from zero or combining and refining of old ideas and products. The second part of the paper will highlight close interconnection of exploration and exploitation and touch upon the question of balance between them through the examples of Starbucks case. In the light of the above, the third part will analyze the Starbucks in crisis and try to find out how the company deals with exploration and exploitation in that situation.

I. EXPLORATION THROUGH EXPLOITATION

From the Leadership and Organization course and particularly from words of James G. March (1991, p. 71) we have learnt that “exploration includes things captured by terms such as search, variation, risk taking, experimentation, play, flexibility, discovery, innovation”. Whereas exploitation “includes things such as refinement, choice, production, efficiency, selection, implementation and execution” (March 1991, p.71). Exploration, as a notion that we were introduced to during the Leadership and Organization course, was understood by us as creation of new vision, strategy and new

product from zero, while exploitation as we comprehend it, is the further usage of that product after its successful launching. However from the examples of Starbucks company and many other successful modern worldwide known ones we can learn that most of those companies, if not to say all, were not actually creating their products and vision from zero, but they essentially were using old ideas, which were in fact exploited by others long time ago.

In the case of Starbucks the idea was to sell not only coffee beans but also to sell coffee drinks in cups. Howard Schultz – the company’s CEO brought this idea from Italy and implemented it

for the first time in the United States back in 1983. The idea he brought from Italy was popular in Europe, that is having small cafe`s selling different types of coffee drinks. Howard Schultz had a vision that it can become successful to exploit idea of Italian cafes selling coffee drinks made from high quality beans with bringing it to United States market where up until then he experienced that mostly coffee that was sold in cafes was of low quality, namely the ones sold in cans in American supermarkets (Schultz, 1999, pp. 49-53). We see from this example that Howard Schultz did not create a new or to say with other words did not explore anything new from zero, he just used an existing idea that was created and exploited by others many centuries before with a product such as coffee drink. What he did was looking into it from another perspective. Exploration in that case can be seen in the way how he changed the peoples view in the United States and subsequently in other countries, towards such a simple product as coffee, through creation of special service and atmosphere of selling different types of coffee drinks in Starbucks retail stores around the world.

If we will continue to look at marketing strategies used by Starbucks further on with an aim of developing and diversifying its products, then again we will find out that there were as well anything new created or should we say explored by Starbucks. Various type of contracts, such as the ones made for example between Starbucks and Dreyer`s Grand Ice

Cream company in order to sell Starbucks ice-cream or between Pepsi Corporation to sell bottled Frappuccino, as well as the contract with United Airlines to serve Starbucks coffee on board of airplanes in 1993-1994 show us their marketing strategies by developing new products and services which, in fact, were used by other companies long time before Starbucks (Schultz, 1999, pp. 220-229, 267-271).

The same example of exploration through exploitation can be seen as used by another company - Nike Inc. in 1978. It has changed a view of people around the world towards such a simple product as sport shoes. Thanks to Nike the latter are perceived by people not merely as just any product that can be used for sports training but as the one decisive factor that can help to achieve great results in sport and even earn Olympic records. Nike Inc. has improved quality of its sports shoes and in comparison with another companies manufacturing the same type of products by using different marketing strategy of promoting its product through usage of professional athletes in its` advertising and commercials. So when those athletes were achieving great sport results their achievements were connected with Nike shoes they were used. Nike Inc. was continuing to exploit further the idea of using great sportsmen such as tennis player John McEnroe or basketball player Michael Jordan wearing Nike shoes as marketing strategy for advertising company products. The idea of using celebrities, was not created by Nike originally

but was used already at the end of the 50^s and in the beginning of 60^s by the Coca-cola company, which was featuring movie stars, sports champions and heroes as well as popular singers in its advertising campaigns (Nike – Philip Knight's Successful Story).

Two of the above - mentioned examples that were picked up from many other real examples of how successful modern companies were built make us question the meaning of exploration and exploitation. Both examples show us phenomena of using old samples of products, which mean exploitation in order to create new product, thus exploration. There comes confusion with the original meaning of exploration. Can it be called as exploration in case when people create or develop a completely new product which actually is based on old products samples and that new product differ from its "predecessor"? By using March's determination of exploration and exploitation, these two examples can be more characterized as exploitation, rather than exploration. In such case it makes us to conclude that almost all successful modern companies we know have developed their products based on exploration of new through exploitation of old.

In comparison we can show another example of company, which created product from zero, using exploration which was not based on exploitation. One example is Coca-Cola Company, which produces a soft drink that's popular all around the world. It was created 1886 by American chemist John Pemberton. He

sold it in his pharmacy as a treatment against headache, impotence, dyspepsia and neurasthenia. Later in 1888 Pemberton sold the rights for its production to businessmen, one of whom was Asa Griggs Candler who became the founder of what is the Coca-Cola Company nowadays. Candler later acquired complete ownership of the Coca-Cola product and used innovative advertising and marketing system promoting the named beverage not as a medicine, but as a soft drink. The Coca-Cola Company can be seen as an ideal example of pure meaning of exploration that is creating a completely new product from zero, and without having any analogy to it before. This example is the one of pure exploration was made by particular Coca-Cola Company in the end of 19th century beginning of 20th century. However from the middle of 20th century till present time we face with more and more examples of companies creating their products through exploration based on exploitation of products that were already in existence (Cola Marketing History). Moreover, companies not only exploit old ideas in order to create something new, but also use resources gained from previous exploitation that to implement these new ideas. We will consider this in the next part.

II. BALANCE BETWEEN EXPLORATION AND EXPLOITATION

Exploitation and exploration are closely interconnected with each other. We will consider two aspects of this connection. First, exploitation and exploration use the same resources of the organization (money, people, time, etc.) which are always limited. That is why companies always have to find balance choosing how to allocate the resources reasonably between exploitation and exploration. Second, companies should always keep balance between exploitation and exploration in the case of preferences of their customers. The company should feel when its clients get used to the existing products and want to try something new, that is when the time for the company to implement innovations.

1. FINANCIAL IMPACT TO EXPLORATION AND EXPLOITATION

To start some changes within existing business an organization should have financial base for this. In the case of financing without outward investments, exploration completely depends on exploitation. Profit that a company has accumulated from previous activity (exploitation) is spent for development of new ideas and products (exploration). Excluding rare cases when development of new products is possible without infusion of any resources, the situation with

availability of finance from exploitation affects enormously on exploration. On the one hand, the more profit a company make from exploitation, the more resources it can invest into development of something new. On the other hand, troubles with making profit from exploitation can also obstruct exploration. When an organization decides to create something new, it should evaluate how many resources (money, time, people efforts etc.) the new project needs and compare them with the cost of existing activity. There can be several situations.

Cost Exploration

This case presents the situation that stable profit is being made from pre-existent industry, organization is trying to develop new product based on the profit. New product is just an extension on old product category. The leader can divide exploration and exploitation. Operating them as individual departments is effective. In case of small company, the leader should keep focus more on exploitation to assure funds circulate well between exploration and exploitation. Generally speaking, organizations should keep focus on exploitation at first and they should run parallel with exploration after exploitation has been established firmly (Figure 1).

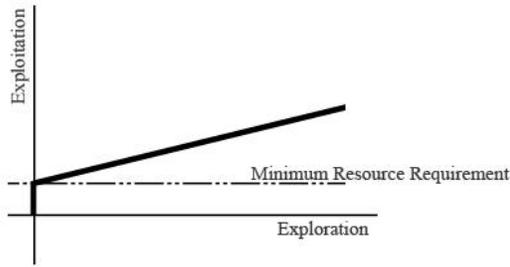


Figure 1 The cost exploration

In the case of Starbucks we can see it from the decision of Howard Schultz to open separate Research and Development department in 1996, when company was already popular all over the United States and had enough financial resources as well as it was ready to explore in more organized way. As a result investments of several millions of dollars allowed the company to invent new products regularly, for example, bottled frappuccino in 1996, ice cream with coffee flavor in 1996, instant coffee in 2009 (Schultz 1999, pp. 220-226; Starbucks VIA Ready Brew). Nowadays, it continuously increases the amount of money allotting for R & D (Starbucks Corporation Fiscal 2008 Annual Report, p. 7).

Same Cost Exploration

The cost of investment to exploitation and exploration can be the same, whether the company stops to exploit the existing product category and explore new product (Figure 2). However it can bring to different results. In that case the company should conduct enough preparatory research in order to choose the right way.

In 2000 Starbucks decided to hire new CEO to improve their products development and strategy. During the period of having new CEO, the company faced with the situation of decreasing its annual income. Howard Schultz came back to Starbucks as CEO in 2007. Howard Schultz retirement can be explained as a choosing to change old leader of the company to a new one, thus it brought to changes in companies' development strategy.

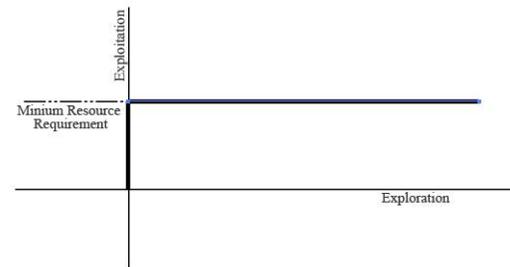


Figure 2 The same-cost exploration

Costless Exploration

Another case presents the special situation that exploration happens without input of any own resources (exploitation) or outside investments. However with the assumption of willingness to launch the new product, the company needs some input of various resources. To say with other words, when organization has managed to invent something without costs, it needs parallel exploitation to implement it (Figure 3).

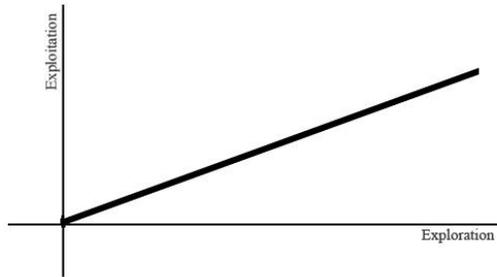


Figure 3 The cost-less exploration

Starbucks understands the importance of routine matters for creative processes and exerts efforts to organize smooth everyday work of the corporation that to release some time for devoting it to new products and new ideas (Schultz 1999, p. 162). One the outcome of such atmosphere is the production of one of the most successful beverages, Frappuccino, which was initiated by the employees of one of the stores without special efforts to invent it (Schultz 1999, p. 206). Nevertheless, for successful implementation of production of the new coffee drink the company had to invest financial resources.

Non-related Exploration

This case presents the situation that an exploring organization gets barely merit from exploitation, since their new business or new product is not related with their existing business category. Sometimes companies decide to start new business which is not related with their previous specialization to expand business area, they would like to operate at. In 1995 Starbucks and Capitol Records produced some CDs which were played in Starbucks stores and could be bought by customers just in cafes in case they like them (Schultz 1999, p. 212).

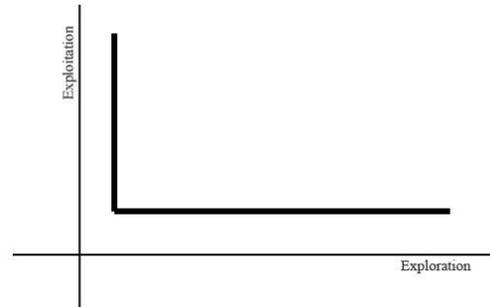


Figure 4 The non-related exploration

2. CONSUMERS AND EXPLORATION

“知彼知己 百戰百勝”

If you know yourself and know your enemy,
even though you fight 100 times you may win 100 times.
-Chinese proverb-

When organization wants to introduce new product, they do research if customers are ready to accept this innovation. For example, when Food Company wants to introduce new types of food product, they need to know how many of your consumers didn't get inertia and are curious on new tastes. They, early adopters are very important factor to grasp first impression of new product.

Number of consumers who wants innovation (n) is number of consumer who are affordable for new product (b) among number of consumers who know about new product (p) and number of consumer who like new product (e)

$$\frac{p + e}{b} = n$$

Consumers’ layer on new product can be expand as following (in case it doesn’t get advertisement)

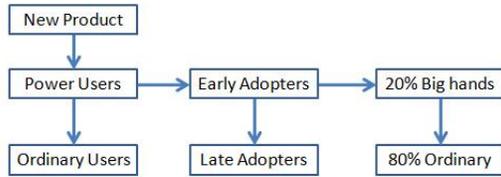


Figure 5 Consumers’ layer expansion model

In fact, there are not many consumers who want to buy new product (or new service) right after they are introduced. General consumers choose to wait until the product settle and be stabilized. This certifies the fact that early adopters are important when organization wants to introduce product or service with new concept.

When Starbucks opened their cafe for the first, their new coffee taste and emotional marketing strategy were kind of shock for American citizen. Especially those group of consumers who were looking for new coffee taste liked Starbucks' coffee taste. This means Starbucks had enough early adopters when they were launching.

Having acquired numerous regular customers who like to come to Starbucks to drink an excellent coffee in a pleasant familiar atmosphere, the company is always balancing between exploitation of initial idea of a nice “third place” to meet with friends and necessity to explore new ways of running business in

order to keep interest of existing followers and attract new clients.

3.EMOTIONAL MARKETING AND EXPLORATION

Success of Starbucks made us to focus on emotional marketing. Emotional marketing is a marketing strategy that research customers’ emotion, make atmosphere and finally get tumble reaction from customers. Starbucks tried to create fresh atmosphere in the store like as urban worker enjoy trip to rural area in the weekend.

Philip Kotler insisted that marketing mix has been changed from 4P to 4C, since customer-centered age has come. Especially the importance of 4E will be emphasized in emotional age (Kotler 2006).

Age	Industrial Age (4P)	Information Age (4C)	Emotional Age (4E)
Marketing Mix	Product Price Place Promotion	Customer Benefits Cost to Customers Convenience Communication	Evangelist Enthusiasm Experience Exchange

Figure 6 Changes of Marketing Mix

As Figure 6 indicates, product is emphasized in industrial age, customer is emphasized in information age and enthusiasm is emphasized in emotional age.

The difference between usual marketing and emotional marketing can be segmented like as Figure 7. Usual stores put focus on transaction and strive to increase total sales. In the opposite, emo-

tional stores have the target to make customers enjoy the time in the store and try to increase brand-value and customers' happiness. To find typical cases from web service providers, there are google and facebook. Google put focus fast and exact search and they disconnect after they finish serving search result. On the other hand, facebook put focus to keep clients longer in their site. They even provide instant messenger to block clients move out to other sites.

	Old Marketing	E. Marketing
Shopper's focus	Buy	Enjoy
Seller's focus	Transaction	Customers' Happiness
Evaluation	Total sales	Brand Value
CASE on Internet	Google	Facebook

Figure 7 Difference between Marketing

It's hard to define emotional marketing exactly, since there are various way to apply.

General keynotes for emotional marketing are following:

- 1) Based on physical store. Especially it can be stronger when store are franchised.
- 2) The leader should take care emotional marketing him/herself. The emotional marketing without leader will only make employees exhausted.
- 3) Based on Brand. The biggest benefit from emotional marketing is brand power. This means, emotional marketing without brand doesn't make big issue.

- 4) To get benefit from emotional marketing, the leader should invest for a long term. And that is why the leader should care emotional marketing him/herself.

Generally speaking, emotional marketing looks like a kind of customer services. However what they call "marketing" is just a strategy to lure customers.

5 senses of emotional marketing

5 senses marketing stimulates human five wits (sight, hearing, touch, smell, and taste) to promote consumption or to give strong impression. And culture marketing manages business culture or campaign to refine company image.

Smell marketing: Starbucks used coffee smells perfume in the store to promote coffee consumption. Some restaurant burn pork in front of restaurant to lure customers.

Color marketing: The main color of Coca-Cola's coke is black and red. The balance of these color is easy to be found.

Music marketing: One famous Korean background sound maker got millions of dollars from coca-cola for the sound of bottle opening.

Once department store/restaurant plays fast music, customers moves/finish foods faster and once they play slow music, customers moves/finish foods

slower (Increase Sales with Color, Sound, Taste, Smell and Touch).

Purple Cow

Purple Cow is a strategy to make business remarkable suggested by Seth Godin through his book “Purple cow: Transform your business by being Remarkable”. He says:

“While driving through France a few years ago, my family and I were enchanted by the hundreds of storybook cows grazing in lovely pastures right next to the road. For dozens of kilometers, we all gazed out the window, marveling at the beauty. Then, within a few minutes, we started ignoring the cows. The new cows were just like the old cows, and what was once amazing was now common. Worse than common: It was boring. Cows, after you’ve seen them for a while, are boring. They may be well-bred cows, Six Sigma cows, cows lit by a beautiful light, but they are still boring. A Purple Cow, though: Now, that would really stand out. The essence of the Purple Cow -- the reason it would shine among a crowd of perfectly competent, even undeniably excellent cows -- is that it would be *remarkable*. Something remarkable is worth talking about, worth paying attention to. Boring stuff quickly becomes invisible” (Seth Godin 2007).

He advises us to create innovative way and be remarkable between competitors who are all similar.

Godin showed us a good sample himself. He delivered his book in purple colored milk pack. And he putted fantastic advertisement on magazine which says “you can’t buy this book from anywhere until Amazon launch it on December. If you want to buy, you should buy 12books/pack.” Finally his book ranked on 1900th bestseller even before Amazon launched the book. (LeeJoohyung, 2006)

Actually company’s core strategy can be “not core strategy anymore” when their

competitors mimic the idea. Starbucks is a good sample. Starbucks created a good purple cow at first when they opened high-quality coffee shops with emotional marketing. However once many coffee shops mimic their strategy, Starbucks is now in tough year. Starbucks’ purple cow strategy has been changed into very good strategy. Chapter 3 (Case-study on Starbucks) will describe this.

Weakness of Emotional Marketing

Emotional marketing seems very effective. However it is not effective on every situation. There are various weakness points on emotional marketing.

1. Emotional Marketing barely works for Power User. For example, most customers of Costco (U.S.) or Netto (Sweden) want to compare exact price and they know general prices. This is quite far from Emotional Marketing. Costco and Netto should lure their customers with cheaper price rather than comfortable shopping way. Because that’s what their customers expecting to them.
2. Customers hesitates to go to fancy Electronic Stores because they think fancy stores may ask more expensive prices. In case of electronic devices, quality difference is based on model, not stores.
3. Since Early Adopters always looking for new, once they get used to product (service), they expect something more creative.

4. If others can mimic your marketing strategy, it is not your core strategy (Lee Kwang-hyun 2003, p. 42).
5. Every cows are purple now. Emotional marketing of Starbucks was great purple cow at first. However once they opened thousands of branches with same interiors and same tastes of coffee, Starbucks' purple cow had been general model. Now Customers want to see pink or red cow.
6. When consumers decrease their consumption for economic crisis or personal reason, they start from pleasure which is not very joyful.

To make a conclusion, even though the strategy was effective at first, once it gets usual, customers get sick to stay in same place. The company should Keep changing or keep various cultures.

For example,

1. Major dish of Nolboo Restaurant, Korea differs by branches. They develop different course menu by chef's ability.
2. Barista can experiment on changing tastes of standard coffee drinks and creating new ones. However barista in Starbucks thought to make the same types of coffee drinks in all Starbucks stores.

III. STARBUCKS IN CRISIS

Starbucks created new taste and new culture when Howard Schultz found Starbucks for the first and this was rec-

ognized as an outstanding exploration to the customers. After that, Starbucks choose to expand franchise branches instead of creating new outstanding culture and menu.

However Starbucks didn't take in to account that customers' loyalty has limit line and economic crisis and Starbuck was still on exploitation when they passed those lines. Most of customers of Starbucks came from creation of new culture (exploration), which means they are early adopter, power users and explorers.

And this drove Starbucks to crisis, as well as the appearance of many competitors mimicking Starbucks. Monopoly market has been collapsed as what Milind supposed.

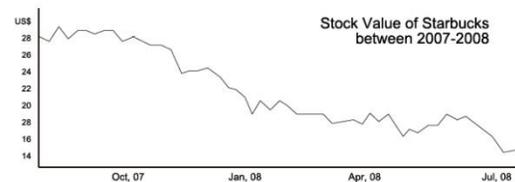


Figure 8 Stock value of Starbucks (NASDAQ, 2009)

Customers of Starbucks got odious at Starbucks' cultures and interior design which is same everywhere and finally left Starbucks for new tastes. Analyst criticized that Starbucks is a coffee selling fast-food branches and stock value declined 42% at 2007 (Money Today).

New York Times analyzed that customers got bored of the same coffee taste and interior in every 20,000 branches for the reason why Starbucks in tough year after fast grown up. It insisted that "they

are not doing anything revolutionary here” saying in the interview “It’s lost its mom-and-pop home-away-from-home feel, It feels more corporate now” (Barbaro, Martin 2008). Many analysts insist that Starbucks is now on too much exploitation.

Based on COST:

Starbucks was struggling to expand branches only, not to make another reason to be remarkable even though they had enough profit as a giant company. Although they tried coffee flavored ice cream and Frappuccino, it couldn’t get focused that much and moreover its value got diluted when competitors made same products. The idea that selling cd or sandwiches in the store even provided analysts another fodder to criticize.

Based on CONSUMERS:

The early adopters who were hypnotized at first periods already left Starbucks in order to find new tastes. There are more than 100kinds of tea in the Chinese tea café that whenever customers want taste new flavor, they can try new type of tea while Starbucks made only several types of coffee.

1. PURPLE COW

Starbucks made a remarkable strategy and was a perfect purple cow at first in US market. However the problem is that every cafés mimicked Starbucks and now every cows are purple. Customers are now expecting pink or red cow.

Gwanghyun Lee insisted that it is not core strategy if other can mimic. Starbucks lost their core strategy already and they need another core strategy what others can’t mimic (Lee Kwang-Hyun 2003, p.42). Once Starbucks tried ice cream coffee and Frappuccino but those ideas are too easy to be taken.

Starbucks’ policy of opening too many branches can be a weakness point when Starbucks has no more remarkable factor to compete with Holly’s coffee or the coffee house except the fact that they have more branches. The leader of the company leads the strategy, which focused more on management than on exploration. Thus companies’ too fast growth can be another weakness point. Starbucks is now under attack by many civic affairs. They suppose that Starbucks’ too fast growth drove the business operating of Starbucks to become unstable.

2. LOCALIZATION

According to Starbucks Australia’s finance report Oct,2007, their net loss between 2005-2007 was about 63million AUD. Accumulated net loss for whole period for Starbucks Australia between 2000-2007 is about 140 million AUD (Wilson, Petrie 2008). According to John Roberts, a professor at the Australian Graduate School of Management at the University of New South Wales. “Quality coffee and a coffee culture were what Starbucks had to compete against in Australia.” Starbucks shut down 61 branches of 84 (75%) in Aus-

tralia 2007. According to Changmin Park who is a special correspondent to Australia, 90% of customers belong to rest 20 branches are international students. He reported that Australians think Starbucks is just an arrogant and stubborn American company who trusts its brand too much (Changmin, 2008). This means before exploring Australian market Starbucks didn't research its coffee culture enough.

Nevertheless Starbucks succeed in Korea and Japan. Starbucks' same strategy worked in Korea and Japan because Korean and Japanese feel friendly to US culture and there was no High quality cafe before Starbucks. However un-localized companies usually failed in many cases.

Following are cases from some well-localized companies.

Hyundai: After Hyundai built Indian branch, they hired Indian engineers to develop new vehicle for India and the new model developed by Indian engineers is being exported to Korea. Now Hyundai is the 1st on rank in Indian motor market

Many Indian think LG is an Indian company. This is because LG hired Indian as a chief managing officer. New Indian manager researched Indian life and developed new product from the first.

On the other hands, Starbucks didn't make anything new in Australia even

though Australian coffee culture is totally different from United States'. From the culture enjoying coffee, to the way to make a cup of coffee is totally different in those two countries. For example, Australian usage of pour soya milk or goat milk instead of just milk to the coffee drink. Australian columnist Andrew criticized that Australian like coffees stronger and straighter and they think coffee as a relationships" (Bolt 2008).

3. MARKETING

The main marketing strategy was emotional marketing. However customers' comparison of Starbucks with others coffee stores doesn't agree with that idea. Starbucks is no more on Emotional Marketing. Customers are already not interested to enjoy Starbucks culture which is the same everywhere. Moreover, Starbucks choose loud and fast music to sell more coffee and this makes customers finish coffee faster and leave the place which means, they are using fast-music marketing. Starbucks is using a typical fast food strategy. The fact that Starbucks is suffering from profit rate also proves that Starbucks is a typical transaction pursuing company.

4. MC-CAFÉ

In Howard Schultz's 1997 book about developing Starbucks, he wrote, "Nothing pains me more than hearing critics compare Starbucks to a chain of discount stores or fast-food operations. It's not

that I don't admire the way Wal-Mart and McDonald's have grown their businesses, for there's much to learn from their success. But the image they project, in their products and design, is far removed from the tone we've cultivated at Starbucks of style and elegance" (Schultz 1999, p. 326).

Reaction on localization was sharply different between McDonald's and Starbucks. While Starbucks was trying to sale American style coffee, McDonald's developed localized hamburger. McDonald's Indian branch even introduced curry taste hamburger.

Reaction on economic crisis also was not similar. McDonald's choose to explore, creating new menu (Mc-café and Mc-Morning) and challenged to Starbucks' empire that advertising "No More Star-Café". On the other hand, Starbucks choose to restructure and price cutting and claimed that Starbucks' coffee is not very expensive. McDonald's succeeded 200 Mc-cafe branches in Australia (Hong Kong Victoria Peak).

Howard didn't like comparing Starbucks with McDonald's but we should compare it with McDonald's. Whether they are elegance or not doesn't matter. the point is whether they keep exploring or staying in exploitation.

To make a conclusion, Starbucks choose exploitation instead of exploration while McDonald's is exploring. However they

already passed customers' royalty limit line. It's time to explore for Starbucks.

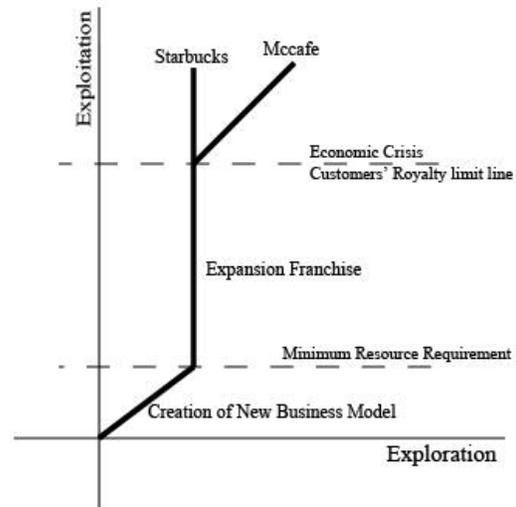


Figure 9 Case of Starbuck and Mc-café

5. SOLUTION FOR STARBUCKS

Starbucks need new core strategy which is others can't mimic. Starbucks introduced an instant coffee "VIA", 2009. Many analysts are skeptical about that product. However VIA's launching can be new step to exploration.

As far as Starbucks keep challenging to the business area which others don't, there is possibility to establish Starbucks' empire. What important thing is that Starbucks is now in front of big challenge to change focus of company from exploitation to exploration.

To get localization, Starbucks need to accept coffee culture from all over the world. In this way Starbucks can get more kinds of coffee on the menu board.

It is not useful to say about the fact that Starbucks need to establish new core strategy

CONCLUSION

This study incites us to analyze exploration and exploitation strategies through interplay between them.

The ability to read the market in order to continue to exploit previous product or explore new one is very important for the company.

Starbucks didn't read consumers' expectation while they were getting through economic crisis. Starbucks always tried to educate their consumers and change their coffee style. However the market barely moves by one company.

The leader should know how to read the movement of market in order to continue exploitation strategy or to explore. Leader can analyze market's movement and consumers' needs with analysis on early adopters and power users. Before decide to explore, the leader should check whether the company has enough resource for it and the customers are ready to accept new product. If leader finds that the answer for one of them is "no", the company should exploit more.

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