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## From Seattle, With Lattes: And Russian Rivals Await

By JANET ADAMY  
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MOSCOW -- When **Starbucks** Corp. founder Howard Schultz's book, "Pour Your Heart Into It," was translated into Russian three years ago, Vlad Lozitsky bought a pile of copies for his employees at Shokoladnitsa, one of Russia's largest coffeehouse chains.

"We ordered them to read it in one week," says Mr. Lozitsky, the chain's general manager. Mr. Lozitsky also watched and rewound scenes from the film "I Am Sam," in which Sean Penn's character works as a Starbucks barista, to study how he makes cappuccinos.

It's all helping Mr. Lozitsky get ready for the arrival next month of the first full-service Starbucks in Russia -- an important market in the Seattle chain's strategy to drive growth by one day having 20,000 cafes outside the U.S., five times as many as it does now.

But local chains say Starbucks already has made a big mistake.

"If I were Starbucks, I would have done it five years ago," says Vladislav Dudakov, president of Coffee House, Russia's largest cafe chain. In parts of Moscow, his 160-store chain has locations every few blocks. Adds Mr. Lozitsky: "They missed their time."




Itar-Tass Photos/NewsCom

Local chains like Shokoladnitsa are growing.

As Starbucks waited -- spending several years trying to win back the rights to its name from a Russian trademark squatter -- local coffeehouses built heavily in large cities, real estate became more expensive, and the labor market tightened, making it difficult for restaurants to find good workers. And Starbucks won't be competing only against homegrown rivals, but against other giant Western chains: **McDonald's** Corp. is putting more McCafe sections in its restaurants to serve cappuccino and dessert.

"We do not spend a great deal of time focusing on our competition," says Martin Coles, president of Starbucks Coffee International, who will start as the company's chief operating officer next month. He adds that the growth of other coffee chains can actually help Starbucks by increasing

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the overall coffee market. "We're at our best when we have some competition."

Starbucks has been touting its international growth prospects to shore up waning investor confidence; its shares have fallen about 30% since their peak in November. But a handful of recent setbacks overseas show how tricky it is to operate in other cultures. In July, Starbucks closed its store in Beijing's ancient Forbidden City amid complaints that its presence was disrespectful. Also that month, the company postponed its entry into India without giving an explanation.

Starbucks's executives stress that the chain has been welcomed in the overwhelming majority of places it has opened. Although Russians historically have drunk tea or, more recently, instant coffee, Starbucks predicts its beverages will appeal to Muscovites' affinity for Western brands. They say the experience of sitting at a Starbucks will attract customers regardless of whether they like the taste of coffee.

"What we've found everywhere we've opened is we become a landmark overnight," Mr. Coles says.

In Russia, Starbucks plans to offer more croissants, sandwiches and other food than in the U.S., since food is typically a bigger draw in its overseas cafes, Mr. Coles says. The chain may adapt its offerings using cinnamon and other flavors popular with Russians.

However, the drink menu will offer most of the same lattes and other beverages as in other parts of the world and will be priced similarly to the U.S. Starbucks even has an employee trying to match the taste of its blueberry muffins for Russia to those sold everywhere else in the world, Mr. Coles says.

While Starbucks's trademark paper cups are a common sight in the hands of U.S. commuters, the company expects that the vast majority of its business in Russia -- as it is in other international locations -- will come from sit-down customers.

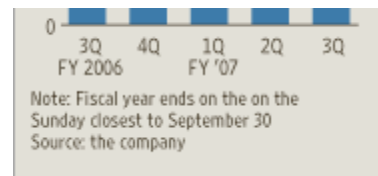
The chain plans to start by building in Moscow, with a goal of having no more than 10 Russian locations by year's end. The first will be in a Mega shopping center on the outskirts of Moscow. Starbucks plans to use the same color scheme and other design aspects as its locations in every other part of the world. A Starbucks spokeswoman declined to comment on other details of the opening.

To enter Russia, Starbucks has joined in a partnership with M.H. Alshaya, a Kuwait retail firm that operates Starbucks locations in the Middle East. Some analysts have questioned why Starbucks picked that company to open in Russia since they're not Russian and specialize more in mall locations than the main-street sites Starbucks typically prefers. Mr. Coles says the company picked Alshaya because it has successfully operated other retail brands in Russia, such as the Body Shop, and because Starbucks has a good relationship with the firm.

To get out in front of Starbucks, Russian coffee chains are adopting



some of its techniques. An old Russian cafe that was revived in 2001, Shokoladnitsa's stately locations cater to sit-down customers with waiters, dark wood chairs, gold-framed paintings and a 14-page menu featuring pancakes with caviar, piña coladas and Marlboro cigarettes.



Mr. Lozitsky made a detailed plan to ready Shokoladnitsa for Starbucks's arrival. It includes prominently displaying paper to-go cups and cutting the price of take-away coffee by 20%. He's adding stations for cream and sugar, trying to speed service, and whittling the menu to make it easier for customers to choose.

Since Russians typically don't walk down the street while drinking, he has walked around Moscow with a cup in his hand to study the reactions of passersby. Shokoladnitsa plans to add about 25 locations by the end of the year for a total of as many as 175 in Russia and Ukraine, outpacing Starbucks's projected growth this year.

Still, Mr. Lozitsky is worried that Starbucks may make it more difficult for his company to get new sites. The cachet of the Western brand is a lure to some landlords: At one big shopping center in Moscow, Mr. Lozitsky says the owner "just denied us completely. They want Starbucks, and they are waiting."

Coffee House is redesigning some of its espresso-hued locations to make them more appealing and adding a line of cups, thermoses, packaged coffee beans and chocolates embossed with the chain's emblem to "get prepared for the Starbucks invasion," says Mr. Dudakov, the chain's president. He's also trying to teach customers how to use to-go cups.

The preparations haven't made much of an impression on Irina Nikanorova, a 31-year-old Moscow resident. She used to visit Starbucks almost every day when she lived near one in London. Starbucks "is much better than this one or the other ones around," the tourist-agency worker said while she sat at a Coffee House one afternoon drinking a cappuccino and smoking a thin cigarette. "It's nice, especially in the morning, when there are croissants."

Other restaurant operators say that Starbucks's Western allure may not hold as much sway in Russia as elsewhere. "The American influence in Russia has diminished," says Rostislav Ordovsky, a Russian restaurant magnate who operates T.G.I. Friday's outlets here. The U.S. "used to be an aspirational place," but because of what he sees as an unfriendly U.S. government, he says Russians are now looking more to countries like Italy for cultural trends.

**Write to Janet Adamy at [janet.adamy@wsj.com](mailto:janet.adamy@wsj.com)**<sup>1</sup>

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