COLUMBIA BUSINESS SCHOOL

Chasing Starbucks Dreams: Trung Nguyen and its Global Expansion

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Introduction

Last year, a new player came to Roppongi, the pulsating, neon-lit nightclub district in the heart of Tokyo. Once the playground of *yakuza* gangsters in postwar Japan, Roppongi has become a high-rent residential and entertainment district located near Tokyo's financial, political and diplomatic hubs. The area still boasts its rough edges, with lap dancing clubs for American military personnel, hostess bars for Japanese *salarymen* and gangsters on the prowl. This is the environment in which a café with humble origins in the forested highlands of central Vietnam opened on a prime piece of real estate this year. With bamboo posts at the door, rattan flooring and conical hats for lamp shades, the café, Trung Nguyen, looks like something out of a mythologized vision of colonial Indochina.[1] That a coffee franchise from a poor, developing country could sprout up in the world's most expensive city is testament to the forces of economic transition in Vietnam, to the sudden, startling arrival of Vietnam on the international coffee scene and to globalization in general. Most of all, though, it focuses attention on a little coffee start-up from a developing country that is chasing Starbucks dreams.

Less than six years after it opened its first café in 1996, Trung Nguyen had expanded to more than 400 franchises.[2] That alone is a significant achievement, for regulatory and financial barriers have restrained private enterprises in Vietnam.[3] There are no other franchises, with the exception of the octopus-like businesses of the People's Army. Vietnam is one of the last countries where one still cannot buy a Big Mac. It is remarkable, then, that a small firm started by four medical students from downtrodden Daklak province could grow so large so quickly.

What makes the case of Trung Nguyen (pronounced choom win) intriguing and far-reaching in scope is its counterintuitive global strategy. Typically, successful enterprises from the developed world reach a saturation point in their home countries and begin targeting locations similar to theirs (other developed economies) or places aspiring to be like theirs (emerging markets). Think of Coke, McDonald's, Pizza Hut, Unilever. As Theodore Levitt writes in the Harvard Business Review: There "is a new commercial reality—the emergence of global markets for standardized consumer products on a previously unimagined scale of magnitude" (1983). These consumer products typically come from the West, the United States in particular. The flip side has been unexplored for the simple reason that there aren't many examples of commercial globalization emanating from a poor country. The barriers to entry are many, but primarily financial: Companies from emerging markets typically have neither the capital nor the expertise to move into a foreign market, replete with differing consumer tastes, regulatory issues and currency considerations. So far, there are but a few examples. Jollibee, the only fast-food outlet in the world to sell more hamburgers in a local market than McDonald's, has expanded from its home base in the Philippines to 28 other countries, including the United States, but with mixed results (*The Economist* 2002).

To believe that a developing country's brand name can indeed go global—that Trung Nguyen can become as ubiquitous as Starbucks—requires more than a suspension of disbelief; it also requires an

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[1] Description based on author's reporting from Tokyo, 1999–2002.

[2] See Trung Nguyen Web site: http://www.trungnguyen-coffee.com.

[3] Based on author's reporting from Vietnam, 1994–98, and in 2002, including interviews with small-business owners. By 1997, just 12 state-owned enterprises (of more than 6,000) had been allowed to even partially privatize by selling minority shares to nongovernment entities.

ability to overcome considerable hurdles. It's not an easy proposition. Four years after opening eight outlets in California, Jollibee has sales that are 30 percent below the original targets (Ballon 2002). To be sure, some obstacles, as well as opportunities, match those of multinationals expanding in the traditional, developed-world-to-developing-world configuration. Success may depend on the nature of the product or service; those that satisfy needs shared across borders are deemed to have the greatest potential for success (Lovelock 1996). The determinant factor can be how the characteristics that differentiate a product—and a firm's strategy for selling it—match new markets that are geographically, culturally and economically distinct from the firm's home base.

The cultural and economic gaps between Trung Nguyen's Vietnam and Tokyo's Roppongi could not be wider. But Dang Le Nguyen Vu, the young entrepreneur behind this fledgling empire, said, "I want to have the Vietnamese brand name of Trung Nguyen well-known in the world. Our coffee is good. There's no reason we can't do it" (Associated Press 2002). His confidence is admirable. But is it realistic? Like the country where he was born, he is up against considerable odds.

1. Emerging Vietnam

Trung Nguyen has prospered in a Vietnam that is shifting from a socialist command system to a hybrid market economy, a transformation not unlike the evolution of Vietnam's giant neighbor to the north, China. Nowhere is it more obvious than in Vietnam that globalization is not exactly a new concept. Geographically nestled dragonlike along the South China Sea, caught between the contrasting cultures of Buddhist Southeast Asia and Confucian China, Vietnam has found itself ensnared in geopolitical chess games for most of its existence, resulting in a polyglot of cultural influences from the Chinese, Khmer, French, Japanese, Americans and Russians.

Coffee came to Vietnam during one of those foreign invasions, so unlike many other Asian societies, its people have long nursed a coffee habit. The French first got the country hooked after Catholic missionaries arrived in the 19th century, and the first coffee trees were planted as early as the 1850s (de Fontenay and Leung 2002). The year-round mild climate, lengthy dry season for harvesting and proper soil conditions in the Central Highlands, a large, untamed, impoverished region in central Vietnam along the country's border with Cambodia, were ideal for growing coffee. The colonial era came to an end when Ho Chi Minh's forces finally defeated the French in 1954. During the four decades following colonialism, coffee remained a niche industry (some less benign colonial influences survived the revolution), serving primarily local consumers who flocked to downscale versions of Parisian sidewalk cafés.

After the Vietnam War ended in 1975, uniting the North and South, the Communist government forced thousands of urban dwellers to migrate from cities like Saigon to underpopulated rural regions like the Central Highlands. This forced relocation moved members of the Vietnamese ethnic majority, the kinh, into a region dominated by ethnic minorities who were among the most diehard supporters of the U.S. military (and CIA). These settlers expanded coffee cultivation, although by 1980, exports still accounted for just one-tenth of 1 percent of the world's volume (de Fontenay and Leung 2002).

The nascent coffee business got a jump-start in the late 1980s, when Vietnam gingerly moved to open its reclusive society, attract badly needed foreign aid and investment and create an export-driven recovery, with its own version of perestroika, called doi moi. With their Soviet bloc patrons in tatters and rumblings of dissent growing louder within the country, the Communist leaders recognized change was in order. The magnitude of the situation is conveyed by the fact that the country depended on China for rice to feed a rapidly growing population. Meanwhile, many of its Southeast Asian neighbors had transformed themselves from rice paddy backwaters into economic miracles. So Vietnam began instituting macroeconomic reforms and structural policy changes in an attempt to catch up.

Initial stabs at market-oriented reforms caught the attention of global investors, who eyed Vietnam's geographic location, its educated, low-wage labor force and its stable political environment as attractive conditions for setting up factories. By the mid-1990s, Washington, whose trade embargo imposed after the war had severely crippled Vietnam's economy, began thawing its diplomatic freeze.[4] This détente gave Vietnam access to the trade, lending and aid organizations that took their cues from Washington. Vietnam attracted millions of dollars of aid and foreign direct investment. The capital infusion helped turn the country into one of the 10 fastest-growing economies in the world, with an average annual growth rate of a feverish 8.4 percent between 1992 and 1998 (World Bank 2000). The Asian financial crisis of 1997 hurt Vietnam as devalued currencies in places like Thailand and the Philippines eroded Vietnam's low-wage labor advantage, and the global economic slowdown of the last two years took a toll on exports. But the government has employed a managed currency devaluation that is making Vietnamese goods more competitive again, and plans for the country to join the WTO by 2006 should also improve its foreign trade.

2. The Coffee Boom . . .

Looking for new sources of foreign currency, encouraged by international advisers and lured by what at the time were historically high prices, Vietnam moved into high gear producing coffee. In 1990, Vietnam had exported just 8,000 tons of coffee, less than 1 percent of the world's volume. Four years later? Exports grew to 430,000 tons (Johnston 2001). Today, it is the world's second-largest exporter, ahead of Colombia and second only to Brazil.[5] Production increased 100-fold from 1980 to 2000 (Doan 2002). The industry now employs an estimated 800,000 workers (nearly 2 percent of the labor force) (Doan 2002), most of them field hands, in a rural region that is one of the country's poorest.

State-run policy engineered the coffee boom, by directing people and resources to coffee production. Land reforms gave individuals rights to use land (although not outright ownership), and those rights could be used to secure credit (Chandrasiri and de Silva 1996). Farmers used more fertilizer to increase production, so not only the amount of land used for coffee increased, but also yields from each parcel of land (Johnston 2001). Coffee cultivation is easily adaptable, although it takes from three to five years for a plant to mature so that it produces harvestable cherries (which are hulled for the beans). So in the mid-1990s, when Vietnam reaped significant rewards from its boosted production and high prices, more farmers in the poor Central Highlands region were inspired to grow coffee themselves. Production increased by 170 percent between 1994 and 2000 (EIU 2002). The country was virtually swimming in the stuff.

3. . . . And the Coffee Bust

Vietnam's gold-rush mentality follows a familiar trajectory among developing countries, which frequently bet the house on a commodity export that is by nature highly volatile. Coffee is rife with

[4] The U.S. lifted a trade embargo in 1994; restored diplomatic relations in 1995; signed a trade agreement in 2000.
[5] See Exhibits 1 and 2.

supply shocks, and like oil and other commodities, exhibits what the economists refer to as a classic "hog cycle"—high prices encourage greater production, but also discourage consumption, culminating in increased supply and decreased demand. These factors eventually result in falling prices. The trouble is that many farmers—in Vietnam and around the world—did the same thing.[6]

What happens three years later when those trees mature? A coffee glut. Vietnam's voracious production spelled doom for the world's other coffee economies. Prices plummeted, reaching 30-year lows in 2001. African and Central American coffee-growing nations have been reeling from the steep slump in prices, which are now at about one-fourth of their peak reached in 1995 (*The Economist* 2001; Wasserman 2002; Mortished 2002; and EIU 2002).[7]

The result is a stunning reversal of fortune. Adjusted for inflation, prices in 2002 were the lowest they have been in 100 years (U.S. Department of Agriculture 2002). The new Vietnamese government policy calls for slashing production, as an attempt at stockpiling beans to manufacture a price hike failed (EIU 2001). At least 30,000 hectares—as much as 10 percent of Vietnam's coffee trees—have been destroyed. Production in 2002 was down 20 percent and is expected to be reduced 14 percent this year (U.S. Department of Agriculture 2002; Doan 2002).[8] At the same time, the Central Highlands suffered a severe drought, and farmers strapped for cash cut back on fertilizer and irrigation water, damaging crop quality and yields. Daklak's provincial government has banned planting new coffee trees. In 1999, farmers were earning $1.40 per kilo; now they are barely earning 40 cents. That doesn't cover production costs, so many irritated farmers are simply burning their small fields (Johnson 2001).

The boom-and-bust cycle has fomented unrest in Vietnam's coffee-rich region of the Central Highlands. The industry is structured so that after the coffee beans leave the farm, they pass through three stages—assemblers, processors and exporters—and those stages all are controlled by state-owned entities. (Beginning in 1999, some private enterprises were allowed.) So power over pricing rested with the processors and exporters, as trading was marred by asymmetric information. The buyers, these government-owned entities, possessed daily information about fluctuating coffee prices that individual farmers, geographically and technologically isolated from the world, didn't have. Transactions were structured so that these processors and exporters had individual contracts with farmers, giving the large, state-owned entities considerable leverage. As noted by researchers, "The apparent 'cartel' amongst the state exporters, state processors and state-licensed assemblers resulted in relatively little revenue going to the small growers, with the latter bearing most, if not all, the risks involved in international fluctuation in coffee prices" (de Fontenay and Leung 2002).

4. Distaste for Medicine, Taste for Coffee

In the early 1990s, Dang Le Nguyen Vu was a medical student in Buon Ma Thuot, the largest city in Daklak, when he discovered he had more of a bent for business than for surgery. There was an infectious entrepreneurial spirit sweeping over the country then. Public sector jobs, valued under the Communist system because of their stability and the access to power they provided, were now less desirable because of their low pay, rigid rules and corrupt hiring practices. The slight loosening of the government's control on markets unleashed a pent-up demand for private enterprise, personified by

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[6] See Exhibit 3.
[7] See Exhibit 4.
[8] See Exhibit 5.

young people like Dang.[9] He and four friends turned to the ubiquitous beverage of their hometown and opened a small processing plant in 1996.

Private firms faced severe barriers for obtaining credit in 1996, and still do. Among state-owned enterprises (SOEs), 80 percent get their financing from banks; just half of private firms do. The contrasts are sharper concerning land ownership. Among SOEs, 70 percent had land-use rights, but only 10 percent of private firms did. In addition, SOEs could lease property from the government at fixed rates lower than market rates. Private enterprises, meanwhile, had to lease from individuals, or from SOEs, at adjustable rates higher than the market rates.[10] With no access to banks or other capital markets for financing, Dang and his partners used a small amount of money they had saved from working at gas stations (less than $1,000 each) and relied on familial connections and hometown networks to persuade farmers to sell them unprocessed beans on credit (Dang 2002). Later, they used friendships with distributors to buy beans on favorable teams and slowly amass enough capital to import roasting machines from the United States and Taiwan (Cohen 2000).

Originally, Trung Nguyen was conceived as a processor and exporter. But a marketing problem inadvertently created an opportunity—one that would become the foundation of Trung Nguyen's phenomenal growth. As it tried to sell processed coffee in Ho Chi Minh City, Vietnam's wealthiest and largest city once known as Saigon, which is the commercial hub of the South, the company realized it hadn't adequately marketed its product. So in 1998, it opened a café, primarily to advertise its brand (Dang 2002). Dang employed a triangular approach, opening three cafés within proximity to one another, a strategy that enabled managers to maintain control over the design, service and quality of the cafés, while also keeping inventory and management costs low. As each café became successful, Dang opened additional outlets, one by one, creating new "triangles" as he expanded.

As the cafés in Ho Chi Minh City thrived, Trung Nguyen decided to expand nationally by franchising. By the middle of 2002, just four years later, there were 422 cafés, at least one in each of Vietnam's 61 provinces. Trung Nguyen established a decentralized network of cafés. Oversight was minimal. The franchising arrangement was simple: In exchange for an upfront investment of about $5,000, a franchisee could use the Trung Nguyen name and its distinctive brown-and-yellow sign with a steaming cup of coffee. Critically, too, franchisees had to buy their coffee, at a 10 percent discount, from Trung Nguyen.[11] The franchising arrangement made expansion relatively easy and required little investment from Trung Nguyen, or from the café operators. This helped Trung Nguyen rapidly grow and quickly sell and promote its coffee across the country. However, the laissez-faire arrangement also surrendered considerable control over the style, quality and service, which put Trung Nguyen at risk of having its name attached to poorly run cafés. Cafés targeted young, upwardly mobile professionals, the new middle class that was emerging in modern Vietnam. In a country with a per capita annual income that still is below $300, Trung Nguyen was focusing on the nouveau riche who thought nothing of paying nearly $1 for a cup of coffee.

The company did not open cookie-cutter branches. Each café has a distinct style and atmosphere, usually reflective of the local community and region. So cafés in the center of Ho Chi Minh City are aimed at a young, hip crowd, with a Popsicle-colored decor and loud, blaring pop music. Cafés in conservative Hanoi, on the other hand, have a more languid, traditional atmosphere with

[9] In Vietnam, surnames appear before the given name.
[10] Japan Bank for International Cooperation, 2001 survey.
[11] Interview with franchisee in Hanoi, Vietnam, May 2002.

waitresses dressed in *ao dai* (the traditional flowing tunic of Vietnamese women), soft flute music and rustic, bamboo-and-rattan decor.

The cafés are a key ingredient of brand stewardship. Trung Nguyen is a well-known name in Vietnam, referring to a geographic subregion within the Central Highlands. (It is as familiar to Vietnamese as, say, "Appalachia" or "Napa Valley" in the United States.) The company devotes considerable energy to cultivating an image of quality, both in the cafés and in the coffee itself. Dang conducted his own research to develop 30 styles of coffee roasts and nine distinctive flavors. The coffee is served in the traditional Vietnamese style, in individual-sized tin filters over espresso-sized cups, often complemented with a sweetened condensed milk in a drink called *ca phe sua da*. (The French introduced this recipe because Vietnam had little refrigeration.)

Trung Nguyen has engaged in extensive vertical integration. It processes, packages, develops product, exports, operates cafés, runs some small farms to grow coffee and even has a training institute for hospitality business workers. Its diversified business and its position as a private enterprise in an industry dominated by the state sector give it both advantages and disadvantages. Because all facets of the industry are dominated by the state sector, Trung Nguyen is in a weakened position: The government can, and does, give preferential treatment to state coffee companies. Overabundant supply mitigates that factor because price declines benefit Trung Nguyen. In addition, farmers (as discussed earlier) have little leverage over negotiating prices. But because of the company's concern for quality, and because the bulk of Vietnamese coffee is not of a high grade, Trung Nguyen pays a slight premium for better-grade coffee to establish loyalties with individual growers (Dang 2002). The company's domestic sales, including its cafés, also are shielded from foreign competition by a 50 percent tax on imported roast coffee (Doan 2002).

The rapid expansion of Trung Nguyen has nearly saturated the market of its target customers, so the company is putting the brakes on further domestic expansion and investing in upgrading its facilities, a defensive posture to protect itself from potential new entrants to the markets. It also is aggressively challenging and shutting down copycats, companies that imitate the Trung Nguyen name and appearance. Issues of trademark protection are a persistent problem in Vietnam, which has not yet developed a sophisticated legal environment (Vietnam News Agency 2002a). "We will be downsizing our strategy for large-scale development and concentrating more on quality control," said Dang. "Our upcoming target is to reaffirm the special identity of each cup of our coffee" (Nguyen 2001). The company hired a New Zealand–based consultant and is investing $5 million to make the franchises operate more professionally and more consistently, to ensure the unity of brand and service (Vietnam News Agency 2002b). The company also is building an instant-coffee factory to diversify its export business (currently just 5 percent of Vietnam's coffee exports are processed) (Doan 2002).

But its founder also thinks Trung Nguyen has outgrown Vietnam. "The key is to invest in brand and overseas," said Dang (Rowse 2002). In 2002, Trung Nguyen opened its first café in Tokyo. "This is a very important step," said Toshihiko Mizuno, managing director of Daitsu Inc., a coffee retailer that is Trung Nguyen's Japanese franchisee. "If we succeed in Tokyo, that will accelerate Trung Nguyen's expansion plans abroad" (*Reuters* 2002).

5. Look Out, Starbucks

Trung Nguyen's global ambition moves it from a closed, protected marketplace into a more competitive environment where it is positioned as the veritable David up against a coffee Goliath, Starbucks, as well as smaller, established coffee chains that operate primarily in single countries. Starbucks, with all its know-how, marketing genius and vast capital, had set up a beachhead in Japan just seven years ago, in 1996. Today, the coffee market in Japan is crowded with 385 Starbucks outlets and 74 outlets of a lesser-known American competitor, Tully's (Chan 2002). The two firms, which both had IPOs in Japan in 2001, reported sales of $406.5 million (Starbucks) and $28.5 million (Tully's) that year. In addition, there are several established Japanese brand coffeehouses, and two domestic coffee retailers have opened cafés that mimic the look and appearance of Starbucks. The coffee retailer Daitsu paid $50,000 for the franchising rights of Trung Nguyen in Japan and will be responsible for up-front investments of retail space rental, equipment, decor and employee salaries. This arrangement minimizes Trung Nguyen's financial risk, but it surrenders considerable control over brand image to the franchisee.

The company's international marketing strategy is focused on selling the image of Vietnam as much as selling Trung Nguyen coffee. Cafés will feature a romantic, idealized vision of a neocolonial Vietnam similar to the one foreigners might be familiar with from such lush films as *Indochine* or *The Quiet American*. The coffee itself differentiates the brand from Starbucks and other coffeehouses; it is a bitter-tasting brew that can be flavored with the sweetened condensed milk and served over ice. Surprisingly, the Japan franchise has priced the coffee 50 percent higher, per cup, than Starbucks and 25 percent higher than domestic coffeehouses.

Dang is nonchalant in his attitude toward Starbucks. "I don't mind competing against Starbucks, because I don't really have to do so. We are all different companies with different characteristics, and there is room for us all in the market," Dang said (Rowse 2002). "Starbucks and Trung Nguyen share some similarities. But we are planning to make our Trung Nguyen coffee shops with typical Vietnamese features, which reflect our culture, design and service style" (*Associated Press* 2002).

In addition to the franchise in Tokyo, Trung Nguyen has opened franchises in Bangkok and in Singapore. It has targeted Shanghai and other cities along the eastern seaboard of China, as well as Australia, Canada, France and the United States. In the latter four countries, Trung Nguyen plans to target the large Vietnamese émigré communities, a strategy employed by the Jollibee hamburger chain when it moved to the United States.

There are lessons to be learned from Jollibee, which is the most high-profile fast-food chain born in a developing country, the Philippines. When it opened eight fast-food outlets to great fanfare in California in 1998, it targeted immigrants from its home country. But with a limited marketing budget, it relied on word-of-mouth, an effective strategy for Filipinos familiar with the brand but ineffective in reaching an audience outside of that community. Although Jollibee had hoped an attraction would be its distinctive menu—it serves spaghetti and hamburgers with sweet sauces—it hasn't been received well by Americans weaned on a traditional hamburger-and-fries diet. Although urban Americans may be more familiar with Vietnamese coffees than they are with Filipino fast food, Trung Nguyen will face the same problem introducing a distinctive coffee to a country accustomed to a Starbucks menu. (Although it should be said Starbucks faced the same problem in redefining consumer tastes in coffee, and it succeeded remarkably.) Jollibee also faced higher wages than it did back home in the Philippines, as Trung Nguyen would, as well. Trung Nguyen, however, faces prickly political issues that could create problems for its proposed American launch. The vast majority of Vietnamese Americans (about 1 million in the United States) immigrated from the southern part of the country and still maintain strong anti-Communist political leanings. They often organize boycotts against any product coming out of Vietnam today, because they consider anything from Vietnam to be tainted by the Communist regime. Over the past two years, for example, Vietnam began exporting catfish to the United States in large quantities, and Vietnamese-Americans, together with catfish farmers in the American South, led a campaign to ban the catfish, in part fueled by anti-Vietnam sentiments (Rushford 2002). Trung Nguyen will have to tread carefully.

While the experience of Jollibee has been mixed, the results of another company useful for comparative purposes, Starbucks, has been nothing short of robust. Fifteen years ago, Starbucks operated 17 coffee shops in Seattle. Today, it has nearly 6,000 outlets in 28 countries (1,200 of them are outside the United States) (*Business Week* 2002). Its sales have grown 20 percent, on average, every year for the past 10 years, to $2.6 billion in 2001. Like Trung Nguyen, it nearly has saturated its home market, and future growth is expected to come from international sales. As Business Week reported in September 2002: "Cup by cup, Starbucks really is caffeinating the world, its green-and-white emblem beckoning to consumers on three continents." Indeed, Starbucks plans to double the number of its outlets, to more than 10,000, over the next three years (Pendergrast 2002).

Trung Nguyen's success at home in Vietnam parallels the Starbucks experience in the United States (except it dominated its home country in just 4 years, while Starbucks took 15). Its "triangular" strategy of setting up outlets is similar to Starbucks's "clustering" of coffeehouses in urban areas to dominate a neighborhood or city and to reduce the operational costs by placing cafés in proximity to one another. Neither business has a nationwide competitor; both introduced a new product "experience" even though there were existing independent cafés. Both businesses experienced phenomenal growth during upbeat economic times; Starbucks took off during the boom years of the 1990s, and Trung Nguyen prospered as Vietnam recorded unprecedented growth. Both have been able to take advantage of depressed coffee prices.

This coffee David-and-Goliath pair departs in terms of their globalization schemes, however. The most fundamental difference is that Trung Nguyen uses franchises (both in Vietnam and outside) to expand, while Starbucks owns and operates its cafés and establishes joint ventures in some countries, like Japan. This approach gives Starbucks greater control over quality and brand image, while Trung Nguyen has diminished control, but even that arrangement cuts into Starbucks's revenues. Having a foreign partner eases the transition into a foreign market, but it also reduces Starbucks's share of the profits to only 20 percent to 50 percent (*Business Week* 2002).

While both companies face the hurdles of introducing a new brand, and, in some cases, a new product category to foreign markets, Starbucks has an established, global identity, while Trung Nguyen is unknown outside of Vietnam. This means the two face different levels of marketing needs. Starbucks spends just $30 million annually on marketing and advertising (about 1 percent of revenues), compared to the $300 million spent every year by McDonald's. Trung Nguyen doesn't have the resources to spend on a vast marketing campaign, yet it does not have the brand-name recognition of Starbucks either. It will have to rely on a word-of-mouth campaign among émigrés and hope that spreads to a wider audience. Brand recognition can work both ways, however. Trung Nguyen's reputation hasn't suffered the beating Starbucks has taken as a symbol of a negative side of globalization. While Starbucks is criticized for profiting off of poor farmers in developing countries, Trung Nguyen is itself from a developing country and has cultivated relationships with growers by paying them higher prices than the government-owned exporters. Both firms face the harsh reality that despite the proliferation of

Starbucks around the world, coffee consumption actually is declining (Wasserman 2002). Also, the fresh, hip appeal of Starbucks, and by extension, its imitators, has lost its luster among younger Americans, who identify the coffeehouse with aging baby-boomers (*Business Week* 2002).

Starbucks also comes equipped with experienced management. After its initial expansion in the early 1990s, it began hiring veterans of the fast-food business who brought expertise to the firm. Trung Nguyen doesn't have that experience. But even with all of Starbucks's experience, capital resources and global image, expansion has not been easy. Over the last two years, Starbucks in Japan had nine straight months of falling same-store sales (*Reuters* 2002). In other markets, such as Great Britain, where Starbucks operates 310 stores, it faces immediate threats from imitators and a backlash from local consumers who bristle at consuming coffee from an American company (*Business Week* 2002).

7. The Global Challenge

As multinational companies like Yum! Brands, Inc. (the operator of Kentucky Fried Chicken, Taco Bell and Pizza Hut, formerly called Tricon Global Restaurants) find as they expand into new markets, six broad tasks must be assessed: operations, marketing, franchising, human resources, product development and finance (Ghemawat and Khanna 2000). Each of those tasks can be influenced by four factors: wealth, culture, administration, geography (Ghemawat and Khanna 2000). While typically this framework is used to assess potential in a country or geographic area, it is useful to apply the framework to Trung Nguyen's international expansion plans as a method of assessing issues it will face. These will vary, of course, from country to country, but there are general factors that can be applied across markets, too, especially because Trung Nguyen is targeting developed countries for expansion.

Operations. Labor costs will be higher in developed countries and infrastructure is typically better developed. Culturally, Trung Nguyen will have to introduce a Vietnamese style coffee. The company will face myriad regulations in countries with more developed legal structures. Already, American expansion plans were sidelined by a trademark fight. Its U.S. partner in its export business applied to register the Trung Nguyen name as a trademark, prompting a legal battle. As Dang said, "I knew that the American market would be difficult to enter, but this blow was totally out of the blue" (Nguyen 2002). Because Trung Nguyen will import its coffee from Vietnam, it will face distribution hurdles as well as tariffs, as Vietnam does not yet belong to the WTO.

Marketing. Trung Nguyen's primary expansion issue is introducing its brand, style of coffee and culture, which are markedly different from the brand, style and culture of the Starbucks-dominated market in the United States and of other existing coffee markets in Western Europe. The initial target audience, immigrant communities, is limited in size.

Franchising. A franchising culture already exists in developed countries, and there is an experienced franchisee network to tap into. From its base in Vietnam, however, Trung Nguyen will have difficulty monitoring operations overseas.

Human Resources. The company has no experience working overseas but can gain knowledge from its relationship with partners and franchisees abroad. As Vietnam has a tightly controlled labor market (with trade unions all associated with the government), Trung Nguyen has no experience dealing with labor laws and contracts prevalent in developed countries.

Product Development. Although Trung Nguyen plans to import its Vietnamese-style coffee, unfamiliarity with the product abroad and the strong possibility that consumers will reject it mean Trung Nguyen may have to adapt its blends or offer new styles of coffee. This is what happened to Jollibee in the United States.

Finance. This is Trung Nguyen's largest barrier. It will rely on franchisees and partners in other countries to provide substantial up-front investments. It also has little legal or accounting experience in more developed and sophisticated financial and consumer markets and will thus have to rely on local expertise.

Conclusion: From Trung Nguyen to "TN"

If determination alone predicted success, then Trung Nguyen, the little Vietnamese coffee company with Starbucks dreams, would no doubt make a mark on the international scene. But the financial, regulatory, cultural and marketing barriers standing in the company's way will be difficult to surpass. The company so far is making the right moves, by linking with local partners who can help them navigate the new terrain of foreign markets, by articulating a clear strategy for how to differentiate its cafés from the dominant players in the market and by investing in its home base to shore up business there and protect itself from new competitors. "There's no reason we can't do it," company founder Dang Le Nguyen Vu says.

Of course, in reality, there are many reasons it might not succeed. The biggest player in the market, Starbucks, has a well-earned reputation for playing tough with imitators and established coffeehouses. For example, Starbucks aggressively ties up prime real estate by paying premium prices to keep competitors away (*Business Week* 2002). If Trung Nguyen begins eating into Starbucks's market share, the Seattle-based behemoth will respond.

The key question for Trung Nguyen is how much it is willing, and able, to adapt its brand image, its product and its organizational structure to align with the new markets it plans to enter. Dang has delivered a symbolic message that he's willing to shake things up if necessary, starting with the company's name. While "Trung Nguyen" falls off a Vietnamese tongue with ease, to nonnatives, it's a mouthful. "So we may have to change it," said Dang (2002). He would change it to something simple, like "TN."

The company may well be young, small, inexperienced and from a developing country, a place that has so far avoided a Big Mac invasion and all its fast-food competitors, but there are some things about the global marketplace Trung Nguyen does understand. Changing a name can be a relatively easy step. More difficult will be adjusting its way of doing business, its product and its style and learning how to compete in open, competitive environments with different languages, cultures, laws and business practices. In its early stages of global expansion, Trung Nguyen is demonstrating a deeper comprehension of a global marketplace than one might expect from a start-up from the rural Central Highlands of Vietnam. How it handles its initial foray outside of Vietnam will be a critical test of its ability to expand, and prosper.

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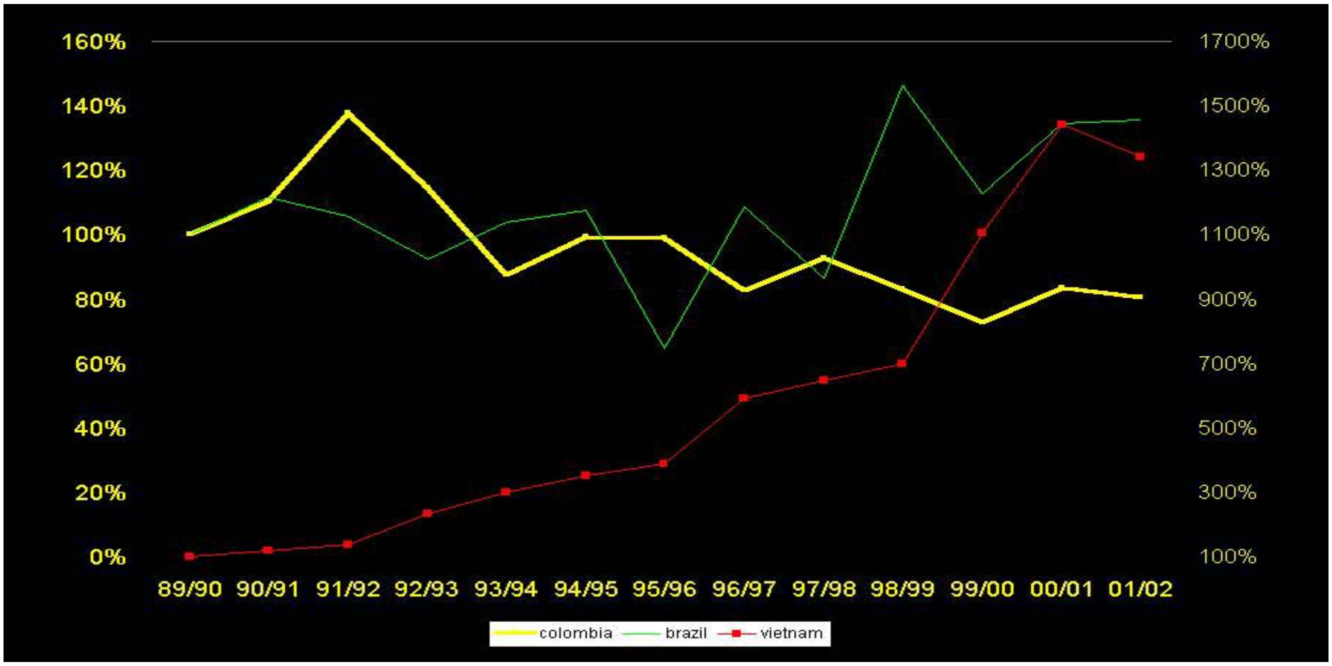
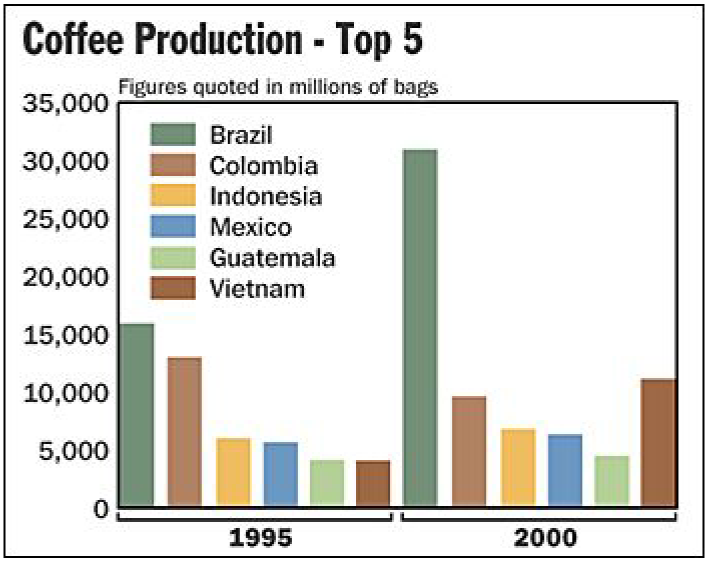
Exhibit 1. Production Changes of Three Largest Producers (Brazil, Colombia, Vietnam)



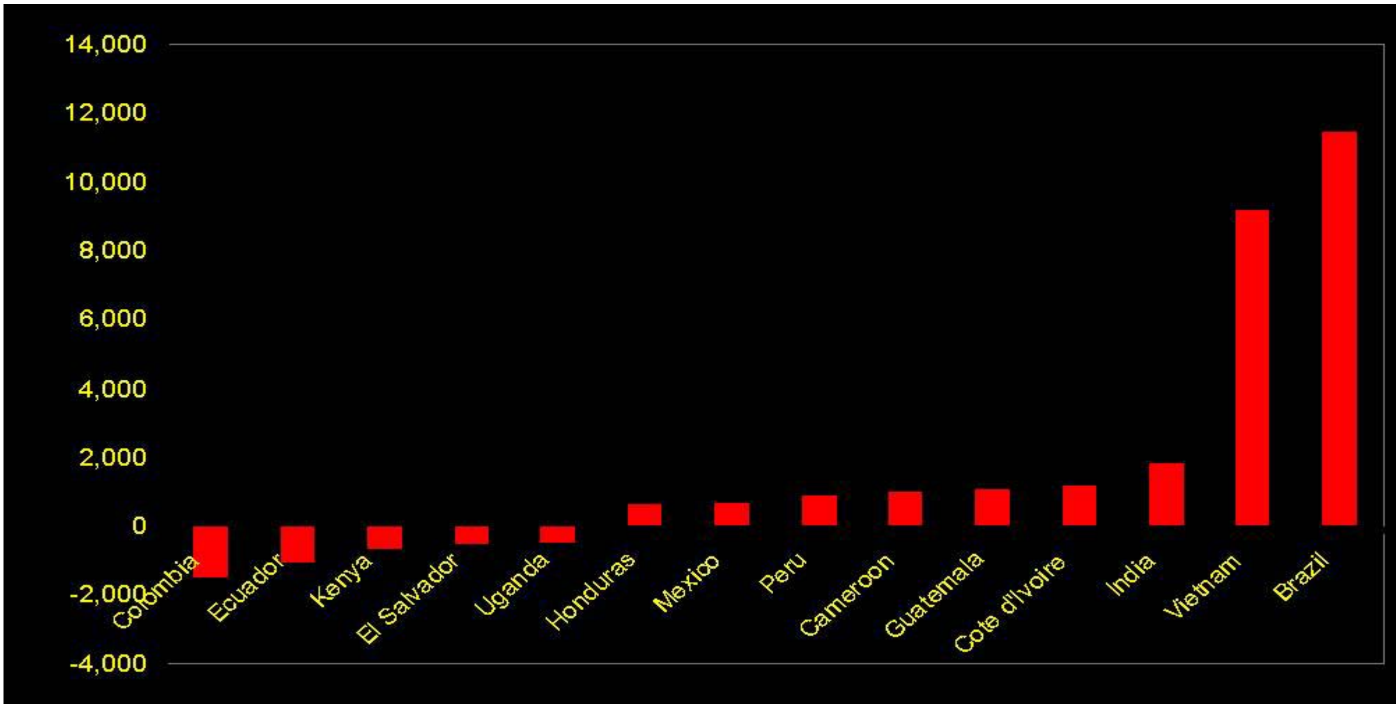
Source: World Bank International Task Force on Commodity Risk Management in Developing Countries.

Exhibit 2.



Source: Christian Science Monitor.

Exhibit 3. Production Changes, 1994–2001, Leading Coffee-Growing Countries



Source: World Bank International Task Force on Commodity Risk Management in Developing Countries.

Exhibit 4. Plummeting Prices, 2000–02

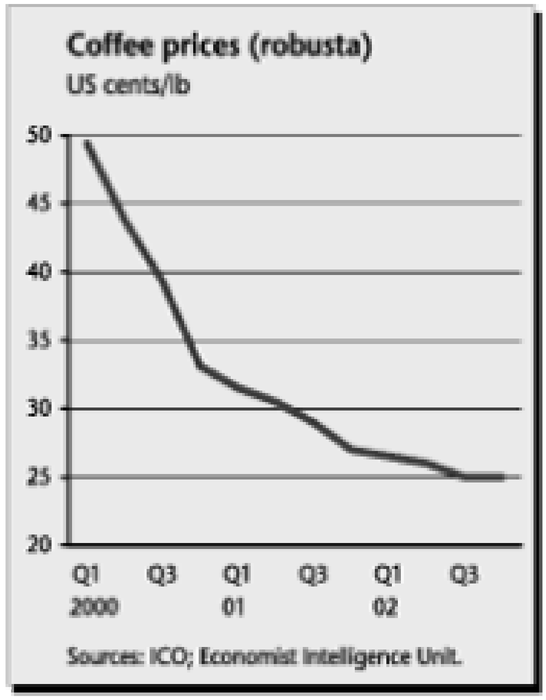


Exhibit 5. Downturn in Vietnam Coffee Production/Exports

	2001	Jan.–May 2002	5-month change from 2001
Coffee volume (tons)	910	326	-32%
Coffee ($ million)	385	122	-45%

Source: UNDP.