

Starbucks opens its first store in Russia

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KHIMKI, Russia: With the hiss of an espresso machine and a note in Russian explaining the meaning of tall, grande and vente, Starbucks opened its first coffee shop in Russia on Thursday in a mall outside Moscow.

The long-awaited opening sealed a victory for the chain, which is based in Seattle, in a fight with a Russian trademark squatter who had barred Starbucks's entry into this market for more than three years, just as a coffeehouse culture burst onto the scene in Russia. Starbucks refused to pay the squatter and eventually won its case in court.

Still, that dispute highlighted the challenges for Starbucks as the chain starts a major effort to expand internationally. The United States will eventually become saturated with Starbucks shops, making future growth at home more difficult.

Starbucks aims to open 20,000 coffee shops outside of the United States, while operating about that number in its home country. During a conference call for investors in August, for example, Starbucks executives announced plans to expand into Brazil and India, as well as Russia.

With the opening of the first Russian café, Starbucks now operates in 43 countries, according to Carole Pucik, a Starbucks spokeswoman. The company plans to open a flagship Russian shop on Old Arbat Street, an iconic address in central Moscow, later this year.

Even with the delay, Starbucks is entering Russia at the height of an oil-driven economic boom as average incomes are rising approximately 25 percent annually in dollar terms, representing many potential coffee purchases. "We see lots of opportunity here," Pucik said.

The menu of basic coffee drinks is unchanged everywhere, she said, while the sandwiches and baked goods are adapted for local tastes. The Russian shop offers a mushroom and cheese sandwich and a honey cake, for example.

The prices also reflected the economic boom in Russia. The most expensive coffee drink on the menu was a vente moca, for 230 rubles, or about \$9.

Starbucks is also betting Russians will take to the carryout coffee culture that boosts sales in the United States, but is all but unknown here. Russians sit down for hot beverages and don't drink tea or coffee in paper cups while on the go. Starbucks will offer its standard paper carry-out cups.

"Moscow is a dynamic city," Pucik said. "They will want a choice of taking their drink with them."

Starbucks first registered its trademark in Russia in 1997, but did not open any coffee shops in the country because of the economic crisis of 1998. But in 2002, as the economy was picking up again, Sergei Zuykov, a former car-alarm salesman, had the Russian authorities cancel the chain's trademark because it had not been

used in commerce. He then registered it in the name of a Moscow company he represents as a lawyer.

Zuykov defended his ownership of the brand for three years while asking Starbucks to pay \$600,000 for its brand name. He lost his case in November, 2005, as Russia stepped up its bid for membership in the World Trade Organization and its intellectual property rights law came more into line with international practices. In the meantime, locally owned Russian coffeehouses proliferated and Starbucks found itself far behind in the fast-expanding market here.

Still, Starbucks said it saw plenty of room for more coffee shops in Russia. Pucik, the spokeswoman, cited data from Euromonitor International, a market research company, showing Moscow has one coffeehouse for every 3,187 people. By comparison, New York has one per 365 people and Paris one per 126 people.