Start with your heart

Romanian Market Opening

Bucharest, June 2008

MARINOPOULOS COFFEE COMPANY

Starbucks Romania

Agenda

Development in Balkans

1 Introduction

2 Evaluate the market potential

3 Action plan

4 Execution

I. Who?

II. What?

Development in Balkans

I. Who?

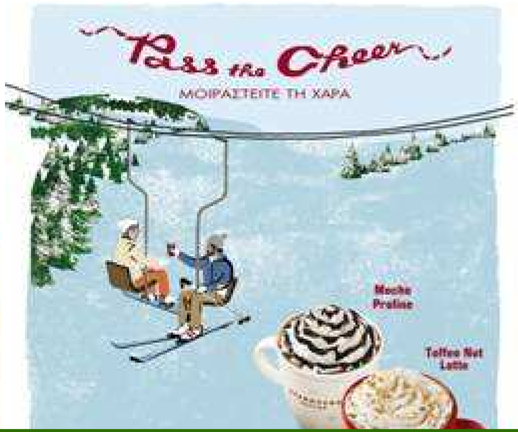
Vicky Tsaklanou

Studies: Chemical Engineer (National Polytechnic, 1990-1995)
MBA (AUEB, 2001-2002)

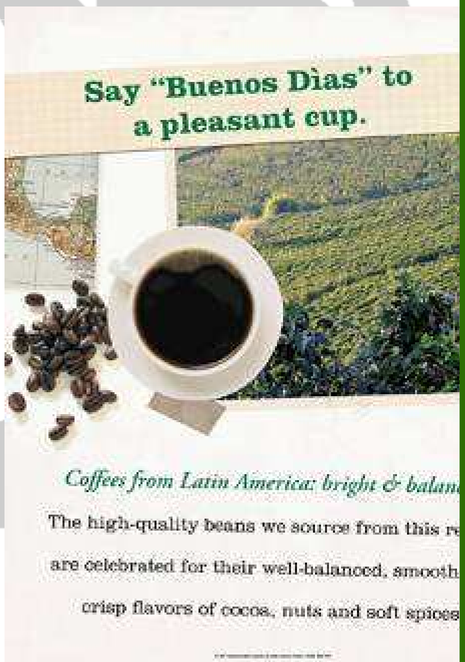
Experience: Production – Production Planning – Quality Assurance – Range management – Supply Chain

Companies: FAMAR, GSK, STARBUCKS

Development in Balkans



II. What?



MARINOPOULOS COFFEE COMPANY

GREECE
Market opening: September 2002
Store count: 75 (Athens, Salonika, Volos, Larissa, Patra, Mykonos, Crete, Rodos, Corfu)
CYPRUS
Market opening: December 2003
Store count: 9 (Leucosia, Lemessos, Larnaka, Pafos)

ROMANIA
Market opening: April 2007
Storecount: 4 (Bucharest, Cluj)

Ανάπτυξη δικτύου στα Βαλκάνια!

1 Introduction

2 Evaluate the market potential

- **I. Demographics**
- **II. Financials**
- **III. SWOT analysis**

3 Action plan

4 Execution

Demographics

Population: 22,276,056 (growth rate: –0.1%)

Romanian 89.5%, Hungarian 6.6%, Roma (Gyspy) 2.5%, Ukrainian 0.3%, German 0.3%, Russian 0.2%, Turkish 0.2%, other 0.4% (2002)

Bucharest	2,800,000
Constanta	348,575
Timisoara	327,830
Cluj	326,017
Brasov	324,210

8% of population under 15 years, 69% are of working age and 13% are aged over 65

Literacy rate: 98% (2003 est.)

More than 2.5 million of Romanians work abroad, their earnings are sent back to Romania (usually undeclared)

Population below poverty line 6.6% (2008 est.)

<u>Future consumption will come from the middle class currently representing 15% of the total population with an estimate of more than 20% by 2008</u>

Economy

GDP (PPP) $274.0 billion (IMF 2008 est.)

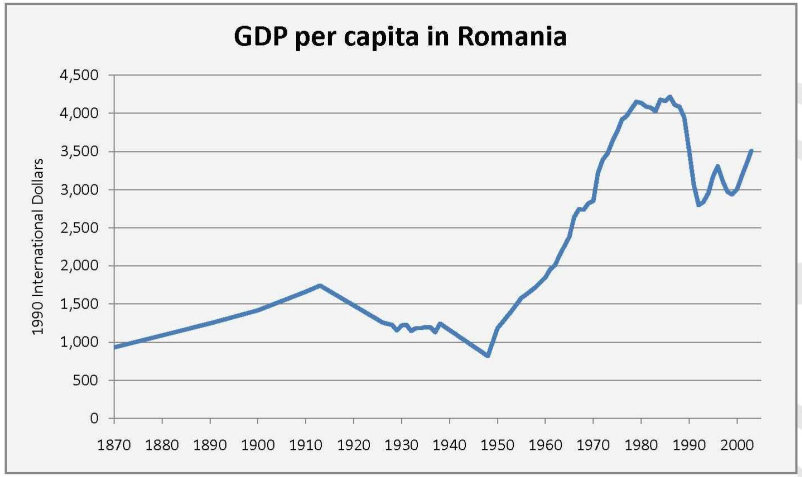
GDP growth 5.4% (IMF, 2008 est.)

GDP per capita $12,285[2] (IMF 2008 est.)

GDP by sector:

agriculture (8.3%), industry (37.1%),

services (55.2%) (2008 est.)



Inflation (CPI) 6.67% (November 2007), around 8% (2008)

70% of companies had increase in net results for the 3 last years

90% of companies expect sales and profits to grow over next 3 years

Profit margins in Romania are higher than in Poland, Bulgaria and Hungary [28]

Growth factors include: private consumption, consumer credit, corporate investment and exports

Second largest consumer market in Central and Eastern Europe

Bucharest produce 21% of GDP, ¼ of industrial production, pays for 1/3 of national tax

GDP per capita in Bucharest is 104.5% of EU average and it’s double of Romanian average

<u>Romania has been referred as a "Tiger" due to its high growth rates and rapid development Romanian economy growth is among EU’s fastest and it may overtake Italy in GDP per capita by 2020</u>

SWOT Analysis

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Strength

Food service sales growth in 2004 by 65% with specialty coffee shops grew by 100% (23% in terms of outlets)
Romanian consumers are attracted by novelty new elements
Low multinational presence
Upsurge in population’s purchasing power
Economic recovery in 2003 & 4
Growing household disposable income
Growing tourism (mostly domestic)
Accession to EU
20 something spend high share of their income on foodservice sector
Increasing popularity of cafes as a meeting place

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Weaknesses

50% of population lives in rural areas
low purchasing power & affordability
Local eating out popular with small part of population (10%)
High rents for prime locations
Lack of QA systems in local vendors

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Opportunities

Business lunch concept growing
Adopt to life style of Romanians i.e cheaper, faster and more convenient
Lunch vouchers
Healthy habits trend with middle aged consumers who are well educated and wealthy
Women have a higher degree of health awareness
Self service
Coffee drinkers

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Threats

Widespread poverty
Corruption and red tape handicap the business environment
Coffee considered unhealthy product as well as chips and carbonated drinks
Changeable legislative environment

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I. Analytical action plan

4 Execution

Action plan

Agreements signed

Local legal entity registered (Company name and address)

Customs and Tax

Custom tariff structure and Impact on P&L

Regulatory

Identification of local regulatory expert
Fill in Regulatory Compliance Questionnaire
Clarity on food regulations and laws
Clarity on required importation documentation
Arrange health certificates & product specs
Prepare food labels according to local regulations
Check all products for local compliance
Apply for local importation documents
Produce food labels

QA

HACCP Plan
Supplier audits

Procurement

Food & Dairy
Other local sourcing (cleaning materials, etc)

Services and Facilities
Sbux supplies - already existing

Logistics

Warehousing requirements specified

Customs broker

Identification of a customs broker
Share SKU list with tariff codes
Inbound freight Sbux supplies (incl. SD)
Identification of freight forwarder and get SLA in place

Store Distribution ambient (incl. SD)

Identification of distributor and get SLA in place

Store Distribution chilled

Identification of distributor and get SLA in place

Store Distribution frozen

Identification of distributor and get SLA in place

Financials

Accounts Receivable set-up

Forecasting

Eable required SKUs in the system
Core retail - first store and ongoing
Promotions
Core merchandise
Locally sourced

Planning

Core retail - first store and ongoing
Promotions & Core merchandise
Locally sourced

Retail TNT Starbucks warehouse set-up

Order and Delivery Schedule
Country requirements - ordering, picking, transportation, communication

Ordering

First order for food
First order for dairy
First order for other locally sourced products

In-store processes

Inventory management and Par levels
Order management
Escalation process

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I. Positive elements
II. Negative elements
III. Result

Execution – Positive elements

1. We were focused on Bucharest for the 1st year of operation that simplified things since it's the most organized city with infrastructure
2. From Jan 2008, Romania is member of EU simplifying customs clearance processes
3. Due to adjacency between Greece and Romania, the risk is limited since Greece can cover needs of unpredictable conditions in supplies
4. Many Greek companies operate in Romania creating a network that can be considered as protected business environment for new Greek "players"
5. Greece can stand as a safe and more organized country that can be used for transferring knowledge, technology, strategy and policies into Romania for accommodating growth coming from new investors
6. Preliminary estimates for 2008 show a real GDP growth of 7.2%, while the forecasts for 2009-10 indicate an average of 6-6.5% per year that consists a strong base for adopting the necessary reformation in infrastructure
7. Starbucks brand is strong in Romania that influences local suppliers to give competitive offers despite the low volumes of the beginning in market

Execution – Negative elements

1. In logistics branch, the local companies were at premature stage without the necessary infrastructure to accommodate developments
2. The investors' interest plus the borders' opening as EU member, happening in parallel, have created a congestion in local companies to facilitate the coming business
3. The Romanian companies want and promise to respond to the new needs but they haven't realized the difficulties to reach the required level, delivering the required results
4. The Starbucks distribution network has complexities due to different needs per replenished item
5. This recent change of getting membership in EU has not been smoothly applied in all fields
6. Due to the new status as EU member, there are unclear fields that leave space for incoherence and insecurity towards government Bad road infrastructure with bad weather conditions (blocked roads due to snow, long transportation time, traffic congestion in cities...)
7. Low volumes in the beginning cannot reflect critical mass for optimizing the Supply Chain processes
8. Corruption at several levels and fields

Result!

STARBUCKS COFFEE

Start with your heart

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Starbucks Romania