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Review

Lack of peripheral vision – How Starbucks failed in Israel

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This study was conducted to discuss the unsuccessful experience of Starbucks in Israel and to show that it was primarily a result of lack of peripheral vision in addition to other factors, including a weak management performance. Relevant information published in Israel and abroad were gathered using the concept of peripheral vision, supported by other concepts, to analyze and offer insight into this case study. Starbucks in Israel made major mistakes, mainly in reading the map of the local coffee shop business and taking for granted success in the Israeli market. There was lack of up-to-date information on the local coffee shop business, and the relevant senior members were reluctant of being interviewed. This study can make a contribution to global corporations considering entering of Starbucks into the Israeli dynamic and competitive business arena. This is the first work in Israel and worldwide on the failure of Starbucks to penetrate Israel.

Key words: Competitive intelligence, marketing intelligence, peripheral vision, predictable surprise, Israel.

INTRODUCTION

In the beginning of April 2003, Starbucks, the world leader in coffee shops with 7000 locations worldwide and total net revenues of $ 4 billion in 2003 (http://investor.starbucks.com, 2003), ended its operation in Israel and closed its six stores after almost two years of a tough struggle to survive (http://www.haaretz.co.il, 2003).

This is the only country where Starbucks surrendered. Starbucks had faced market entry difficulties in countries such as Austria and Switzerland (http://www.haaretz.co.il, 2003) but it had never reached the stage that it did in Israel, when senior management had to admit that the firm could no longer compete successfully.

This article discusses the experience of Starbucks in Israel. This case is similar to the experience of other global corporations in Israel, such as KFC, Wendy's, Pizza Hut, Subway, Dunkin' Donuts, and Hard Rock Cafe (http://www.haaretz.co.il, 2003), and requires competitive intelligence (CI) to understand what went wrong in order to reduce the chances of similar cases occurring in the future. The concept of "peripheral vision" will be used to analyze this case and offer insight on similar ones. When Starbucks first set foot in Israel in May 2001, it was not a complete surprise to its local competitors and to the few international coffee chains already operating in this market. For almost a year the Israeli business press had been intensively reporting about the intentions of the coffee giant regarding the Israeli coffee market (http://news.walla.co.il, 2003). Obviously the local competitors were upset, and some of them tried to become the local partner of Starbucks. However, when it became known that the Delek Group had signed an agreement with Starbucks to become the local partners (80% held by Delek Group and 20% by Starbucks), most of them were relieved.

The Delek Group, a leading Israeli holding company, was among the top 10 investment and holding groups in Israel, with three major subsidiaries: Delek Petroleum Ltd., Delek Real Estate Ltd., and Delek Investments and Properties Ltd. (DunsGuide Israel, 2000). At the time, it was considered a very successful business group, active mainly in energy, real estate and in automotive sector, among others. It was the sole distributor of Ford and Mazda, but had no previous experience in the coffee shop business.

The local competitors carefully analyzed the experience in Israel of other US food giants, like KFC, Wendy's, Pizza Hut, Dunkin' Donuts, Hard Rock Cafe and McDonald's. They found that the key to success in the Israeli market was being able to adjust to the needs and tastes of the local customers (http://www.ynet.co.il, 2004). While the first five aforementioned global brands failed in Israel, mainly as a result of attempts to force themselves and their global standards on the Israeli customers, the local branch of McDonald's moved in a different direction. McDonald's Israel invested significantly in making the appropriate changes to match the local tastes, without compromising on the global experience and the power of the brand name (http://www.haaretz.co.il, 2003). Led by a charismatic CEO, McDonald's Israel received special approval from the international management of McDonald's to change its way of preparing the hamburger meat to comply with the Jewish dietary laws. McDonald's Israel implemented this change successfully together with other adjustments in their menu, and this significantly enhanced its business results as well as its reputation in the eyes of the local customers (http://www.haaretz.co.il, 2003; Yedioth, 2007).

Strabucks assumed that penetration into the Israeli coffee market based only on its global experience will be sufficient for Israel, but when its management realized that this approach was a serious mistake, the owners have already lost their confidence in this business initiative and decided to withdraw.

THE COFFEE SHOP MARKET IN ISRAEL PRIOR TO STARBUCKS' ENTRY

The foundations of the Israeli coffee shop market go back to the 1930s, long before Israel's national independence. New immigrants arriving from Western Europe, mainly from Germany and Austria, imported the coffee culture to Israel. Furthermore, Jewish immigrants that arrived from Middle East countries were extremely familiar with coffee for many generations primarily thought the Ottoman Turk regime that was in control of the Middle East. Until the 1980s this market was considered to be static, and the existing coffee shops were inexpensive and popular. At the time it started growing slowly in the early 1980s; this market was characterized by independent coffee shops serving local coffee of medium to low quality. In the second half of the decade the market started changing, along with socio-economic changes in an Israeli society that generally was becoming more affluent. This was also the period when many shopping malls – a new concept in Israel at the time - were launched, and they reflected new horizons for many retail businesses (http://advertising .themarker.com, 2006). Importers responded to the customers' demand for better quality coffee by bringing in prestigious brands, mainly from Italy, such as – Lavazza, Illy, and Segafredo. The next step was to move towards setting up small coffee chains that offered Italian-made high quality coffee as well as light meals, in addition to various types of cakes and pastries. At this stage it was evident that the local market had already developed a European urban coffee culture (http://www.haaretz.co.il, 2003).

The consumption of coffee in Israel had grown and in the mid 1990's international brands like Arcaffe from Italy and Coffee Bean from the US entered the local market, carefully implementing an infiltration strategy together with a gradually controlled investment policy (http://www.haaretz.co.il, 2003). Special efforts were made to studying the local customer's demands. One of the significant results of the growing competition in the coffee shop business was a more professional attitude, a higher emphasis on marketing and upgraded the service, all in reaction to the demands of the customers (http://www.ynet.co.il, 2004). The successful coffee shop had to have the latest interior design, as well as a broad menu including quality coffee and food at highly competitive prices (http://www.ynet.co.il, 2004). Towards the end of the 1990's the Israeli market was ready for the entrance of a world coffee giant like Starbucks that could upgrade the local market and increase the growth of that segment.

Just prior to the entry of Starbucks into Israel, the situation of the coffee shop market could be described as follows:

(i) After many years of being almost static, the market showed the beginning of significant growth.
(ii) Local customers visited coffee shops more frequently than ever before and remained longer for socializing.
(iii) The market became more competitive, as the customers demanded new types of coffee and quality light meals.
(iv) Customers had already been exposed to quality coffee, mainly imported brands.
(v) Coffee shops were in the early stages of establishing their own identity through improved service, diversity of products, comfortable and stylish furniture and special marketing activities to attract customers and strengthen their loyalty.
(vi) The number of coffee shops in Israel was 750, while the amount of the local coffee chains had reached only 3% (http://www.aradcomm.co.il 2001).

Almost half of the coffee shops were located in Tel Aviv, the business center of Israel and its most affluent city**.** There was, however, a growing demand in other parts of the country for coffee shops of a higher standard (http://www.aradcomm.co.il, 2001).

This information was known and available to those who were engaged in the coffee shop business at the time. It was also probably readily available to the Delek Group (http://www.aradcomm.co.il, 2001).

STARBUCKS INTERNATIONAL OPERATION

The international activity of Starbucks was aimed to move fast in the international arena and it was growing steadily as seen in the figures covering the relevant years based

Table 1. The development of Starbucks – number of stores in the US and international.

	1999	2004	2003	2002	2001	2000
US	1979	6132	5201	4574	3475	2709
International	519	2437	2024	1644	1234	792
Total	2,498	8,569	7,225	5,886	4,709	3,501

Table 2. Growth of international operations 2002, 2003 and 2004 (in some countries).

Country	No. of stores (2002)	No. of stores (2003)	No. of stores (2004)
Japan	534	486	397
Taiwan	136	113	99
South Korea	102	75	53
Philippines	70	54	49
Singapore	35	35	32
United Arab Emirates	31	27	23
Switzerland	18	15	12
Israel	0	0	6
Austria	8	8	5
Greece	25	12	2
Germany	35	25	4
UK	422	373	322
Australia	44	40	33
Thailand	49	38	29
Turkey	15	4	-

on the annual reports issued by Starbucks.

During the fiscal year 2002, Starbucks continued to expand its international presence by opening 410 new international stores, and in 2003 it opened 712 new stores including the first stores in Chile, Peru and Turkey. At fiscal year 2003, the company had a total of 2024 stores managed by the Company's international division (Table 1).

In 2003, the percentage of the international stores out of the total number of stores had reached to 28%. The revenues out of the total activity were 14.8%. In 2002 the percentage of the international activity out of the total number of Starbucks stores was the same – 28%, while in 2001 it was 26% and in 2000 it had reached to approximately 23%. The revenues from foreign countries (in percentage out of all revenues) were as following:

(i)Year 2000 (12.2%)
(ii)Year 2001 (13.1%)
(iii)Year 2002 (13.9%)
(iv)Year 2003 (14.8%)

In Table 2 there is a list of countries and the development of the number of stores in 2002 and 2003 in each of them. It is observed that in various countries including countries in the Middle East, Europe and the Far East the total number of outlets is growing steadily. It is obvious that Israel is an exception; it is the only one that the Starbucks operation was discontinued and it is still an exception in this matter till now. Israel was mentioned (6 stores) in the report of the fiscal year 2002 and is not mentioned in the report of the fiscal year of 2003 because it was closed before the end of this fiscal year.

The number of countries where Starbucks operated its international stores was 28 in 2002, 31 in 2003 and 32 countries in 2004 (Table 2). Its priority was to expand more in the countries it was already existed and to broaden its market share there.

It seems that by the time that Starbucks had opened its first store in Israel, in 2002, 2003 it had already gained significant experience in operating outside the US and was moving strongly in the international arena. We can see that in some countries it was moving slower than the others (Singapore, Austria, Switzerland), but only in Israel it made a decision to close the operation.

STARBUCKS' STRATEGY IN ISRAEL

Market research efforts conducted by Starbucks Israel (SI) (http://www.aradcomm.co.il, 2001) revealed the strength of the local "coffee culture" that had been growing for 10 years. The results showed that 38% of the population said that they visited a coffee shop at least

Table 3. SI's plan to achieve a competitive advantage.

	Resources
Tangible	Excellent locations Strong financial support Quality products High quality service
Intangible	High brand reputation Exceeded customer expectations
Capabilities	Superior technology Comfortable shop design High-end management Fast expansion of shops

Source: based on the information gathered by the author.

once a week. A higher percentage, 55%, mentioned that they had learned to appreciate quality coffee. In addition, the results showed that the awareness of the power of the Starbucks brand was very high. Over 60% of the Israelis had heard about it and perceived it as the highest quality coffee chain in the world. Before arriving in Israel, Starbucks enjoyed high prestige among Israelis, which they thought would make it easier to successfully introduce the chain into this market.

Mark McKeon, president of Starbucks Coffee International for Europe, Middle East and Africa said: "Starbucks will offer to the Israeli customer the choice of a "third place", between home and work and will bring new standards to the coffee culture in Israel". (http://www.ynet.co.il, 2001).

SI seemed to have all the essential ingredients for achieving a remarkable success based on the outline of the plan described on resources list in Table 3. In addition, the timing of the decision to come to Israel was concurrent with the peace process in the Middle East (http://www.mfa.gov.il) that was getting enormous publicity and had a strong influence on the decision of many global forces in different fields to enter the Israeli market, and also on the customers' willingness to spend more on food, leisure and entertainment.

SI made a decision to completely adopt the global standardization of Starbucks at the time. After a strong marketing campaign and public relations activity, the first store opened in Tel Aviv in May 2001.

Tel Aviv customers had the reputation of being early adopters (http://www.ynet.co.il, 2004; http://www.themarker.com, 2007) and as a result many of them came to the new coffee shop. They were also known to be leaders in adopting new fashion trends, and as a result of their high income they regularly travel to foreign countries. Tel Aviv has a strong influence on other parts of Israel, and SI anticipated that success in Tel Aviv would positively affect its expansion to other parts of Israel. The customer early adoption process is discussed in Izraeli (Izraeli, 1980, pp. 58-91).

The launch of Starbucks in Israel was a remarkable success in its early stage (http://www.haaretz.co.il, 2004). SI management was very pleased with the business results and had a strong feeling that it was going to be the outstanding success that they had widely expected (http://style.nana.co.il, 2006). For many Israelis the arrival of Starbucks, a leading global brand, was another illustration that Israel was becoming a country attractive to global corporations. This impression gave an added value to the successful launch of Starbucks that was practically a national event as a result of the intensely favorable coverage by the local media (http://www.haaretz.co.il, 2003).

However, the local competitors were analyzing the same information differently. They found that many of Starbucks' customers in Israel were not really satisfied with the quality of the coffee or the service, and that there was also a sense that Starbucks, the American leading brand, was actually not compatible with the particular needs of the local customers. For example, the shops did not offer enough seating and the feeling was that the customers were expected to leave soon after completing their order. At that time, the notion of "coffee to go" was not popular in Israel, and most customers arrived at the coffee shop to socialize and stay for awhile. Additionally, and maybe more significantly, there was the "buzz" that the quality and the taste of the coffee was inferior to the brands that already existed on the market. In addition, many customers felt that Starbucks was actually trying to dictate its system without listening carefully to the opinions of their customers, and perhaps they were being arrogant, assuming that Israelis not understand the real meaning of first class coffee (http://style.nana.co.il, 2006). In a small country like Israel, with the strong influence of

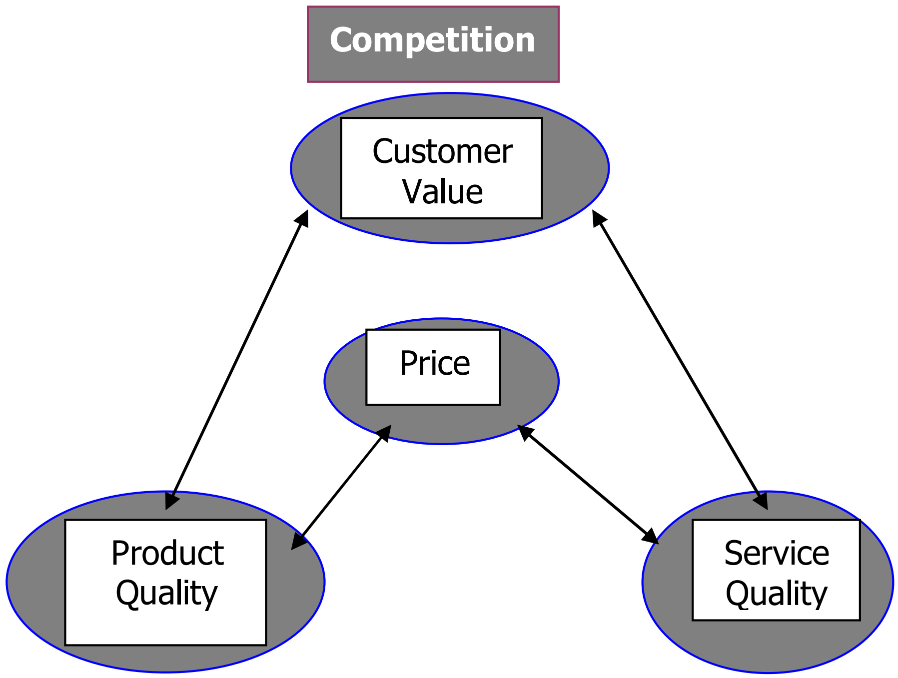

Figure 1. Customer value triad.

the Tel Aviv customers, these opinions spread rapidly through the national press and via word-of-mouth (http://finance.walla.co.il, 2005, http://www.ynet.co.il, 2001).

These early disappointing impressions grew after the grand opening of the second shop in Tel Aviv five months later. The new shop had an improved appearance over the first one, and had more seats. This heightened hopes that Starbucks would being attentive to its customers and make the necessary changes – mainly in the taste of the coffee and the diversification of the menu – were not fulfilled.

Simultaneously, however, the degree of satisfaction of the management of SI was very high. It seems that they were not aware of the underlying expressions of dissatisfaction, and were not aware that many customers did not return. The SI senior management declared that they were strongly committed to quick success and aimed to open 20 shops within the following three years, based on the success that had been achieved (http://www.ynet.co.il, 2001). It may be appropriate to mention that not only did the Delek Group not have any previous experience in the coffee shop business, but the senior management of SI had only limited experience in food service, either in coffee shops or other related field (http://www.haaretz.co.il, 2003; http://style.nana.co.il, 2006, http://archive.newsmax.com, 2003). The former vice chairman of Delek recently said, referring to the Starbucks experience in Israel, that "one has to know to lose, to recover, to close the business and to learn from this experience" (http://www.TheMarker.com, 2007).

CUSTOMER VALUE ANALYSIS

Failing to meet customers' expectations left SI in a position of not having delivered better customer value than the competitors. Customer value can usually be achieved only when the product quality, service quality and value-based prices are in harmony and exceed customer expectations (The Society of Management Accountants of Canada, 1999, p.12). In this situation, as shown in Figure 1, the prices set were too high for a given level of products and services, and left SI in a position of not having delivered good customer value, which almost immediately affected its business results. This was all in comparison to the local competitors. In the perception of the Israeli customers, there was no justification for SI's premium prices (http://www.haaretz.co.il, 2004).

Looking carefully at SI's performance, its failure to secure a competitive advantage seems to be a "predictable surprise" (Watkins and Bazerman, 2003). When this failure was observed it was perceived by many as a great surprise, but when it is considered in retrospect it was predictable, due to the low performance of the senior management (http://www.haaretz.co.il, 2003; Yedioth, 2001). The high expectations could not be met with so many marketing and managerial mistakes.

The use of a customer value map (The Society of Management Accountants of Canada, 1999, p. 14) was based on the evaluation of the competitors' positions and a comparison of the value position of each of the three major coffee groups – SI, the independent coffee shops

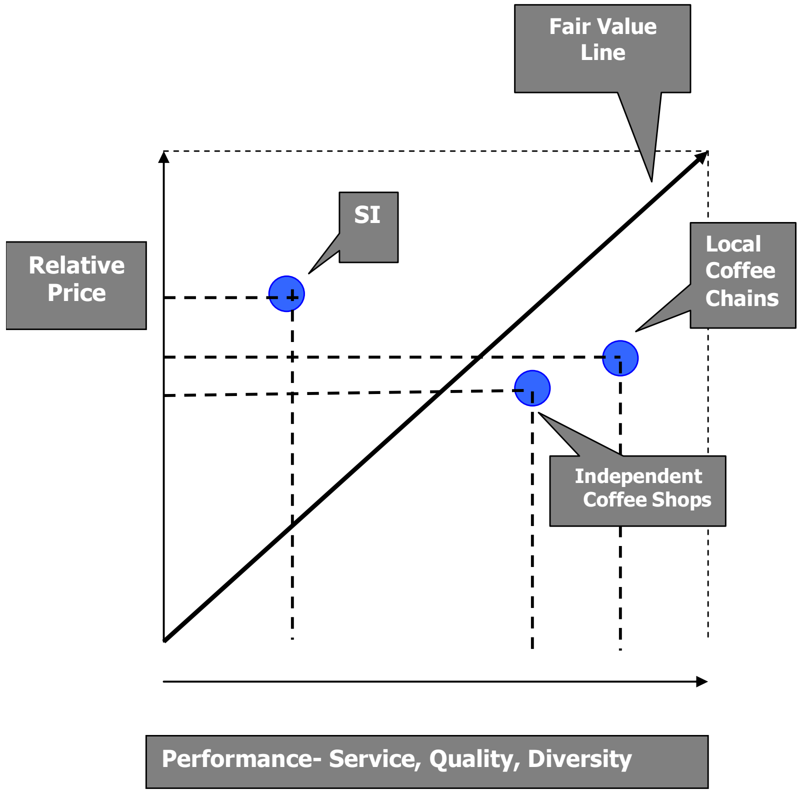

Figure 2. Customer value map.

and the local coffee chains. In Figure 2 the relative performance – service, quality and menu diversity, and the relative price are combined on two dimensions. Running from lower left on the customer value map to the upper right is the fair value line, which indicates where performance is balanced against price. Competitors below and to the right of the line are in a strong market share-gaining position. Competitors above and to the left of the line are in a market share-losing position.

The information for conducting this analysis is based largely on the many articles published in the local business press, which intensively covered the introduction of SI to the Israeli market (http://news.walla.co.il, 2003; http://www.aradcomm.co.il, 2001; http://www.ynet.co.il, 2001; http://www.haaretz.co.il, 2003).

The data gathered clearly showed that SI provided lower performance for its higher prices, resulting in lower customer value than that provided by the independent coffee shops and local coffee chains (http://www.haaretz.co.il, 2004).

LOOKING BACK – WHY STARBUCKS FAILED IN ISRAEL

Table 4 suggests that Starbucks was unsuccessful in becoming part of the local coffee culture and as can be seen in the table its business results were far from their original plans.

There would seem to be five main reasons for the failure of SI:

(a) SI did not succeed in implementing the special buying experience of Starbucks for the local customers. In fact, the customers were very disappointed, and this feeling spread very quickly.

(b) The investment group exhibited only limited patience and vision, and was not prepared to provide strong continuous support to the new initiative. They may not have appreciated that approximately 30 shops were needed to achieve critical mass, perhaps as a result of their lack of expertise in the coffee shop business. The business plan and implementing the strategy were both wrong. The chances for success would be higher with more patience and implementing the needed improvements.

(c) The senior management of SI lacked the necessary experience for running a coffee shop chain in a highly competitive market. The marketing strategy was incorrect (http://www.haaretz.co.il, 2003) and was not updated according to the initial difficulties that surfaced. One of the major obstacles of SI was the lack of understanding of their respective position related to the competitive

Table 4. SI failure to achieve competitive advantage.

	Resources	What happened
Tangible	Excellent locations	Selection of locations was wrong. The first locations were in Tel Aviv, where the competition was the toughest, was incorrect. Being unsuccessful in Tel Aviv effected badly on the success nationally.
	Strong financial support	Lost $5m in less than two years of operation. Investors were not backing as expected.
	Quality products	The products were not perceived as higher quality than those already in the market.
	High quality service	Disappointing customers' service.
Intangible	Brand reputation	Although Starbucks was known, there was a gap between the brand reputation and the performance in the local market.
	Exceeding customer expectations	Did not adjust to the local requirements and tastes.
Capabilities	Superior technology	Local coffee technology was not inferior.
	Designed comfortable shops	Local coffee shops were often more impressive and comfortable.
	High-end management	Inexperienced senior management and many managerial changes in a short time.
	Rapid expansion of shops	Only six shops in two years

Source: based on the information gathered and analyzed by the author.

marketplace and the arrogant manner with which they related to their competitors. One example of this was the decision to deliberately open a branch next to Arcaffe, the most successful coffee chain in Israel, identified by the customers as having the highest quality. This step was perceived by the customers as a weak confidence in the strength of their brand.

(d) Many customers did not like the taste of Starbucks coffee, and it was perceived as being of lower quality compared to the local brands (http://www.ynet.co.il, 2004).

(e) Prior to the arrival of Starbucks, the local competitors prepared themselves in many ways including obtaining new prominent locations, improving their menu, upgrading service, adding new coffee flavors, and making the seats more comfortable.

RESULTS OF A RESEARCH QUESTIONNAIRE

A research questionnaire was sent out to Israeli customers who have been familiar with Starbucks while it was active in Israel. The objective was to validate information that was gathered from the local media concerning the attitude of Israelis towards this global coffee chain. The questionnaire was sent in 2008 to 150 customers approximately 5 years after Starbucks' decision to withdraw from the Israeli market, 47 have replied. 20 of the respondents (43%), were male and 27 female. 15 of them (32%), were under the age 28 and the rest were 28 years and above.

The research questions:

1. How many times have you visited Starbucks store?
2. How do you evaluate the standard of service?
3. How do you evaluate the quality of coffee served?
4. How do you evaluate your overall satisfaction from Starbucks?

FINDINGS AND ANALYSIS

Table 5 shows that most of the respondents (81%) have visited Starbucks no more than two times. Although the intense marketing campaign, most of the customers did not come back to drink coffee at Starbucks.

Table 6 shows that 87% of those who have visited Starbucks were unsatisfied with its standard of service.

The results shown in Table 7 expressed a deep disappointment of Israeli customers by the quality of the

Table 5. How many times have you visited Starbucks store?

1	2	3	5	**More then 5**	**(n = 47)** %
22	16	5	1	3	47
47	34	11	2	6	100

Table 6. How do you evaluate the standard of service?

1 (Lowest)	2	3 **(Medium)**	4	5 **(Very good**)	(**n = 47)** %
10	31	6	-	-	47
21	66	13	-	-	100

Table 7. How do you evaluate the quality of coffee served?

1 (Lowest)	2	3 **(Medium)**	4	5 **(Very good**)	(**n = 47)** %
15	26	6	-	-	47
32	55	13	-	-	100%

Table 8. How do you evaluate your overall satisfaction from Starbucks?

Low	**Medium**	**High**	**(n = 47) %**
30	15	2	47
64	32	4	100%

coffee served in Starbucks. It is likely that the reference to "quality" actually was intended towards the taste of Starbuck's coffee that was perceived of lowest quality coffee comparing to what the Israeli customers were used to.

According to Table 8 two thirds of the Israeli customers showed a negative attitude towards Starbucks coffee chain in Israel. This is information was also accorded with information from other sources disapproving of the prices charged by Starbucks.

It is evident that most of the respondents felt that Starbucks was unsuited for the local taste and during the time it was acting in Israel it did not turn sufficiently to change it. These results are similar to those shown in Table 7. This may mean that Starbucks failed to adjust itself to the local market and its customers who preferred to have their coffee at the shops of the competitors.

Peripheral vision

It seems that the major obstacle to the success of SI was lack of "peripheral vision", in the context mentioned in a recent book by George Day and Paul Schoemaker (Day and Schoemaker, 2006a), which was discussed in their article They see Peripheral Vision as “a portfolio of scanning methods to capture and amplify the weak signals within targeted zones of the periphery: inside the firm, customers and channels; the competitive space; technologies, political, social and economic forces; and influencers and shapers” (Day and Shoemaker, 2006b, p.1). The relevant question to be raised is how good is your firm at sensing, interpreting and acting on signals? Day and Schoemaker (2006b) call this capability "peripheral vision", and their research shows that less than 20% of firms have developed it in a sufficient capacity to remain competitive. It would seem that on the basis of the evidence, according to the analysis of Starbucks' activity in Israel, this was the major problem it faced in its efforts to penetrate to the Israeli market.

Most people, as well as many firms, have "selective vision" and they tend to see what they expect to see or what they hope to see. While sufficient business information has been obtained that by no means guarantees that effective action will be taken. Day and Schoemaker (2006a.) examine the common causes and frequent consequences of what they term a "vigilance gap": the inability of both individuals and organizations to recognize and then act upon "weak signals from the periphery" before it is too late. Day and Schoemaker (2006a) recommend a series of steps to bridge this gap. Actually, they advised that the objective is not to "bridge" the gap, but rather to minimize it. This done by knowing where to look, how to look, how to analyze the data, how to explore more closely, what to do with insights, how to establish and sustain vigilance, and finally, how to set an appropriate agenda and mobilize resources, and then effectively apply them. These are also many of the characteristics used in implementing a quality Competitive Intelligence (CI) discipline (Kahaner, 1996).

There is a distinction between active and passive scanning (Day and Schoemaker, 2006b.). All managers scan, but they often do so passively. They keep their antennae up, and wait to receive outside signals. They are continually exposed to a wealth of data ranging from the vague impression of business rumors to harder evidence from sales reports, trend studies, and behavior forecasts (Day and Schoemaker, 2006a).

Active scanning reflects intense curiosity and the ability to set CI objectives and to emphasize the more remote and fuzzier edges of the periphery. Active, open-ended scans are particularly important in turbulent environments or in new areas of activity, where unexpected, outlying data may later become more important. Ideally, the firm uses both approaches as needed. A discussion of parallels from our human visual system and the CI process can be found in Neugarten (2003).

In the case of Starbucks' entrance into the Israeli market, we can see that the senior management was not doing a serious, active scanning. The business plan did not fit the needs of the customers, the market place and lack awareness of the competitive space. They not only were passive but were unwilling to read the bad news, and maintained an optimist vision when actually the information revealed the opposite. Their over-confidence in the power of the Starbucks' brand blinded them (http://www.ynet.co.il, 2004; http://www.haaretz.co.il, 2003). There was no problem of scanning the competitive dynamic landscape to identify current and potential competitors and other types of competitive environments that could have been a significant challenge to SI. This information was known and available. It was more in the scope of deepening the understanding of the market and the competition that could have led to the necessary changes. Peteraf and Bergen (2003) discuss the framework limits of the ability to predict competitive threats.

Predictable surprises

Predictable surprises occur in the best corporations – they fail to see the business disasters that they should have anticipated. Examples where corporations failed to identify them "ranged from financial scandals to operational disruptions, from organizational upheavals to product failures" (Watkins and Bazerman, 2003, p. 4). The writers present a model for better scanning, and claim that predictable surprises arise out of failures of recognition, prioritization and mobilization, while not acting at any of these three stages will leave the company vulnerable. Although senior executives are familiar with this analysis, they often fail to recognize the threats, to prioritize appropriately and to mobilize effectively in order to avoid this situation. Watkins and Bazerman claim that:

"The bad news are that all companies including your own are vulnerable to predicable surprises" (p.4).

Certain barriers make it difficult for the CI discipline to become an integral part of business management:

1. Psychological: CI is unknown to many executives who do not immediately perceive it as necessary. In addition, there is often the unconscious rejection of implementing new disciplines.
2. Organizational: Not always is CI support an integral component of the organizational structure. The result is lower chances to successfully monitor the external arena and to present the findings to the senior management.
3. Political: Internal objection to CI's participation in routine business activities from those who believe they already provide relevant information and see no need for a further support. CI is defined by the Society of Competitive Intelligence Professionals as a "necessary ethical business discipline for decision making based on understanding the competitive environment" (http://www.scip.org/2_faq.php). Kahaner (1996, p. 23) shares the same definition. Other definition concludes that "CI is the business tool that can make a significant contribution to the strategic management process – driving business performance and change by increasing knowledge, internal relationships and strategic plans" (Priporas et al., 2005, p.660). Prescott and Miller (2001, p. 4) defined that "the roles of CI efforts fall into three categories – strategic decisions and actions, early warning topics and knowledge and learning from key players". Barnea (2004) defined CI as "a systematic activity to gather and analyze information from external and internal sources on the business environment in which the firm competes and use the intelligence to improve the decision making process". CI has the capability to identify predictable surprises earlier and to provide early warning to the management. In this case, it seems that the warnings that SI was moving in the wrong direction were been repeatedly ignored, and the sense of a threat was not felt until the last minute. Relating to the model presented (Watkins and Bazerman, 2003), in the absence of recognition there could have been no prioritization and no mobilization that could have saved the SI operation in Israel.

Conclusions

A discussion on strategic risks is relevant in this case

(Gilad, 2003):

“When a company's strategy no longer fits the emerging reality of the industry and the market in which it competes, risk become a strategic rather than a functional issue in that company overall strategy must be adjusted. Since strategy is a pattern of functional policies and activities, not just one overriding vision, many different adjustments may be needed” (p. 16).

This summarizes what seems to have happened to SI when there was no intensive examination of CI tools at the overall external picture and in the market, while other management tools had almost no effect. In that situation, the senior management could not read the picture correctly and therefore had no desire to implement the required changes in time.

The key points of the SI business strategy were to launch 20 shops in two to three years, mostly in the Tel Aviv area, and to become the largest coffee shop chain in Israel by relying on the standardization of Starbucks as it stood, while investing heavily in advertising and public relations. SI did not believe it was critical to listen to the local customers, and hoped that they would change and rapidly adapt themselves to what the leading global brand was offering.

After a few months there were indications that SI strategy did not work and that the customers were dissatisfied with the food and the service, and especially with the coffee (http:/www.haaretz.co.il, 2003). This was not the Starbucks that the customers hoped for. SI, however, continued with the same strategy, expecting that the awaited change would come soon as a result of a strengthened marketing campaign.

Ashwin Joshi, Professor in Marketing, School of Management, York University, Canada, was interviewed in Israel (The Marker, April 2008), and was asked about the experience of Starbucks in Israel. He replied by saying:

"I was not surprised by the failure of Starbucks in Israel. This is the Middle East where the culture of coffee was born and Starbucks had tried to import a culture that already existed….Starbucks did not have any uniqueness in Israel….I was surprise by the high quality of coffee in Israel, the service and the (coffee)culture".

When SI finally closed the enterprise in Israel, the senior management was still blind to the situation. They had openly admitted that its failure was due to the deterioration of the internal security in Israel and severe recession (http://news.walla.co.il, 2003; http://style.nana.co.il, 2006), but further analysis indicated that at the same time other businesses in this field were growing. The number of coffee shops climbed from 750 in 2001 to 1100 in 2006, while the percent of those shops associated with coffee chains grew from 3% in 2001 to 22% in 2006, and in 2006 the annual revenues reached $450m (http://nrg.co.il/online, 2007).

SI's strategy of providing low quality service, and little diversity of food, and no serious attempt to adjust the taste of the coffee to the local market, while charging high prices, had almost no chance of success. The minor changes that the management tried to make towards the end, such as offering a selection of coffee types, more seats and better food, were too little and too late. At this point there was already negative feedback towards SI, and attempts to capture a share from smaller competitors had no chance of changing the momentum towards failure (Shapiro and Varian, 1999).

The poor results achieved by SI were mainly a consequence of the lack of peripheral scanning and an incorrect reading of the market signals from the early stages of considering entering to the Israeli market. Added to this was the fragile commitment shown by the owners of SI, leading to the conclusion that SI made almost every mistake possible, and therefore could not expect to be successful in the Israeli competitive coffee shop market. It seems that a global brand (often American), has to be prepared to make adjustments to the local culture, known as "glocalization" (http://www.haaretz.co.il, 2003). Glocalization is a term that was invented in order to emphasize that the globalization of a product is more likely to succeed when the product or service is adapted specifically to the locality or culture in which it is marketed (http://searchcio.techtarget.com). Different aspects of Glocalization, local responsiveness and global efficiency have been discussed by Bartlett and Ghoshal (1987). The earlier dominance of a single set of environment forces was replaced by a much more complex set of pressures. To win, it is necessary to achieve efficiency and responsiveness at one time.

It is also possible to look at the failure of SI from another standpoint – the lack of commitment of its strategic intent. According to Hamel and Prahalad (2004):

“Strategic intent implies a significant stretch for the organization. Current capabilities and resources are insufficient to the task. Whereas the traditional view of strategy focuses on the 'fit' between existing resources and emerging opportunities, strategic intent creates, by design, a substantial 'misfit' between resources and aspirations” (p. 4).

Strategic intent requires a desired competitive position in relation to competitors, other players and the market arena as a whole, and defines the path by which the firm will attain that position.

Strategic intent demands a sense of urgency, even crisis and above all a passion and obsession to succeed. Looking at SI, especially after the first few months, shows there was no sense of challenge, no crisis mode. It was characterized more by the fact that it ignored the actions of its competitors, whose clear intent was to secure leadership (http://www.aradcomm.co.il, 2001). Hamel and Prahalad (2004) refer to this as “the process of surrender”. Companies at first fail to see the intent of challengers, who typically adopt unconventional tactics, and then they underestimate their resourcefulness, which results in competitive surprise. They fail to develop a comprehensive strategic response, and instead react tactically and partially, entering a "catch-up trap" and then rapidly losing a series of battles. Finally a sense of inevitability, retreat, exit or surrender occurs. This is exactly what happened to the Starbucks operation in Israel.

Mark McKeon, president of Starbucks Coffee International for Europe, Middle East and Africa said:

"*It was a very difficult decision, following months of serious discussions and market reviews with the Delek Group, but we came to an amicable and mutual decision. Our commitment in the market continues to be strong and long-term, and we will return at an appropriate time.*"

(http://www.archive.newsmax.com/archives, 2003). Since its failure, Starbucks has made no attempt to return to Israel.

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