

# Teavana



What goes up must come down. At the height of its growth, the tea purveyor Teavana (owned by Starbucks) shut down its US business.



In **2004** Teavana was a geographically localized tea-store with two dozen outlets in the Atlanta area. Tea was a growing market – US domestic sales of tea were \$5 billion in 2003 – and it was predicted that specialty retailers, like Teavana, would grow rapidly across the US.

With \$12 million in profit the previous year, the company was valued at \$121 million by 2011 and had grown to 35 states and 161 all-company-owned stores



In the summer of **2011** Teavana went public on the NY Stock Exchange and, on the first day of trading, its shares soared over 60% from their initial opening price. Wall Street analysts predicted the demand was so great, the company could quite easily grow to 600 stores.

Two important notes: All of Teavana's stores were in malls; the company did *not* sell brewed tea.



In November of **2012** Starbucks offered to buy Teavana for \$620 million in cash.

Rather than incorporate Teavana loose-leaf tea into its coffee shops, where it already had a presence (and great success) with its Tazo brand, Starbucks decided to keep Teavana stores (now numbered at 300) as separate retail entities.



Howard Schultz, the president of Starbucks, said at the time of the acquisition, "We see lots of opportunity for Teavana to live in neighborhoods throughout the country and beyond." Schultz also pointed out that when Starbucks was first founded in 1971 it was named *Starbucks Coffee Tea and Spices*, and said, "We are going to transform the entire tea category and we're going to do it with Teavana."

In the spring of **2014** Teavana paired with instant-star-maker Oprah Winfrey to create and brand her own tea to be sold in their stores. It was the first retail product Oprah had attached her name to.

Almost from the moment the ink was dry on the deal, Teavana stores created an on-going operating loss for Starbucks (to the tune of \$10 million to \$15 million per quarter).



In the summer of **2017** Starbucks announced it would be closing all of its 379 US Teavana stores due to dwindling mall traffic; conversely, in 2016, the company opened 575 Starbucks storefronts.

Two important notes: Starbucks has not killed the brand, and is working in partnership with Anheuser-Busch InBev to market ready-to-drink, bottled Teavana tea. Overseas, Teavana is doing quite well: stores in China and Japan saw sales increases of 60% since launching in 2016 and the company predicts to have 5,000 stores in Asia by 2021.

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## Discussion Questions:

Was Starbucks taking a calculated risk or making a blunder by buying a company:

- ✓ With such a narrow niche
- ✓ That was dependent on traffic originated outside of themselves

A cup of coffee is a consumable (people return day after day to buy more) while Teavana's product was a staple (people bought bulk tea leaves to fill their pantry; the average Teavana sale in 2012 was \$36 – much higher than a cup of coffee). Were the two companies really complementary?

Is Starbucks to blame for their loss in US business (wrong product? wrong market? wrong distribution strategy?) or did societal influences impact the company beyond their control?

Oprah Winfrey has made books best-sellers and returned Weight Watchers to profitability through her endorsements – why was her association with Teavana unsuccessful?

So much of success is “seizing the moment” - is it smart to go as fast as you can or be measured and cautious about mergers, acquisitions, and expansions?

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