

Coffee war brewing south of the border

by Diane Lindquist

The world's richest man is bringing Starbucks to Tijuana, Mexico, setting up a possible coffee war between the world's largest coffeehouse chain and the popular Mexican chain D'Volada.

The conglomerate associated with Carlos Slim Helu - the Mexico City billionaire who recently edged out Bill Gates as the wealthiest person on Earth - is opening the first Starbucks in the Plaza Rio Tijuana shopping center, Tijuana economic development director Octavio Corona said.

It's the first of several Starbucks expected to open this year in Tijuana, Mexicali, Ensenada and Rosarito Beach, he said.

"They have a lot of plans to expand in Baja California," Corona said. "They plan to expand in the short and medium term. They'll create an initial 10 this year."

"Starbucks Coffee Co. is excited about the great opportunities that Tijuana presents to the company. We currently have 125 stores in Mexico and look forward to bringing the Starbucks experience to Tijuana later this summer," Starbucks spokeswoman Bridget Baker wrote in an e-mail.

She declined to provide further details, including when and where the Baja California shops will be located or how much the coffee drinks will cost.

"Those are all great questions, but unfortunately I can't share any further information or details with you now," she wrote.

Corona said one of the businesses under Grupo Carso - the Mexican conglomerate created by Slim - wields control of Starbucks outlets in Mexico.

Slim's influence over the telecommunications industry in Mexico and much of Latin America through his Telefonos de Mexico (Telmex), Telcel and America Movil companies, as well as a number of other businesses, recently propelled him to the top rank among the world's wealthiest people, according to Mexican financial Web site Sentido Comun.

Recent gains in the America Movil group boosted Slim's wealth to an estimated \$67.8 billion, compared with \$56 billion for Microsoft founder Bill Gates, said Eduardo Garcia, who does the calculations for the Web site.

Slim opened the U.S. headquarters of Telmex in San Diego in the late 1990s but moved it to Houston several years later. Attempts to contact Slim and Grupo Carso to comment on the Starbucks plans were unsuccessful.

The Starbucks move into Baja California puts the chain with 12,000 locations in 11 countries in competition with D'Volada, a Tijuana-based operation that has just begun its own expansion north of the border in San Diego. It has modern franchises in 64 locations in Mexico, including 43 in Tijuana, as well as new shops in San Diego County.

D'Volada's shops introduced the Starbucks-like concept to the northwestern region of Mexico. With their light wood, Ralph Lauren-hue colors, glass pastry showcases, paper cups and friendly young baristas, the shops do resemble Starbucks outlets.

But there are important differences between the two chains, D'Volada Chief Executive Ricardo Gallegos said. D'Volada coffee has a strong body like that served in Starbucks but a milder taste to appeal to Mexican palates, he said.

Mexicans traditionally have not been considered big coffee consumers. According to a poll taken four years ago, 70 percent of those who drink coffee preferred the instant variety.

But the growth of coffee shop franchises has been significant in the past several years. Companies such as Yellow Cafe, the Coffee Factory, Cafe Moretto and Starbucks have had limited success in the interior of the country.

This allowed D'Volada to gain a hold on coffee drinkers along the border. In the past year it has added two outlets on the U.S. side of the border and is in the process of opening shops in Los Angeles.

"We've only been in business seven years," Gallegos said. "We're moving along as fast as we can."

Tijuana newspaper La Frontera recently asked readers which coffee shop they would choose: 42.3 percent said D'Volada versus 19 percent for Starbucks. The remainder were undecided in the Internet poll.

Gallegos said he is not concerned about the competition that Starbucks might pose to D'Volada.

"I'm not trying to compete. I'm just here offering good products at a good price," he said.

Price might be the issue that D'Volada chooses to emphasize as it goes head to head with the larger Starbucks chain. Starbucks recently announced that it will raise the price of its drinks by an average of 9 cents, following a 5-cent increase last fall. It blamed rising costs for dairy products, energy and fuel.

The latest increase applies only to U.S. company-owned stores, but the affiliated Starbucks shops in places such as airports often raise prices at the same time.

The price increases will vary by region and type of drink. They don't affect bottled drinks.

No information was available on what Starbucks will charge at the Baja California coffee shops. D'Volada's prices for all drinks are less than \$4 on both sides of the border. In the San Diego area D'Volada shops, a large, regular coffee is about \$1.45, compared with \$1 in Tijuana.

"People are afraid of their (Starbucks) prices in Mexico," Gallegos said.

He plans no major strategy moves, besides D'Volada's more affordable prices, to compete with the \$7.8 billion coffee chain.

Retail analyst George Whalin says pricing has long been a complaint about Starbucks, but it hasn't seemed to hurt the Seattle-based company.

"Anybody who operates a coffee chain has one eye on Starbucks," said Whalin of Carlsbad, Calif.-based Retail Management Consultants. "There are a fair number of consumers who don't like Starbucks, but (their coffee shops) are very popular.

"Starbucks seems to have a magic formula, and wherever they go, from China to Europe, they seem to be

successful."

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