

Managing corporate
strategy starbucks
case study marketing
essay



**ASSIGN
BUSTER**

Abstract

Establishing and sustaining a strong corporate strategy is one of the core determinants of success in an increasingly competitive business environment. This paper assessed the challenge of managing corporate strategy through a case study on Starbucks. Starbucks success had been partly due to its controlled expansion that ensured they maintained a quality customer experience thus allowing for premium pricing of its products. With loss of focus on that strategy however the entity overexpansion in the years preceding 2007 lead to lower quality thus pushing customers to its competitors who were offering standard coffee at reasonable rates, and lowering the market prices of the entity's common stock. To transform its business to profitable ways the entity's board appointed Howard Schultz, Starbucks' founder, back to the CEO position to lead the turnaround. With his experience, qualification and exemplary track record, Howard has been able to refocus the business to its initial track thus bettering the future prospects. Such return of the founder to the CEO position however affect investor confidence in future if the success of the entity is associated with a single individual rather than organizational structures present. To better its transition processes the entity thus needs to develop structures that ensure corporate strategy is not significantly altered following a transition that would result in pronounced adverse effects.

Table of Contents

Abstract 2

Table of Contents 2

<https://assignbuster.com/managing-corporate-strategy-starbucks-case-study-marketing-essay/>

1. 0 Introduction 4

1. 10 Company Profile 4

1. 11 Challenge and Thesis Statement 6

2. 0 Starbucks Corporate Strategy Challenge Management 7

2. 10 How the Challenge was Managed and Outcomes 7

2. 11 Aspects Complicating the Challenge Management and How they Were Overcome 11

2. 12 Alternative Approach to Challenge Management 15

3. 0 Conclusion 15

1. 0 Introduction

Developing and sustaining a strong corporate strategy is a core factor to the success of firms in an increasingly competitive global business environment. The corporate strategy and management approach adopted by a firm for instance influences its profitability in the long-term (Bowman & Helfat 2001). Such impacts of corporate strategy may become evident when changes in leadership lead to a fall in the growth in a firm that was initially on an upward growth trajectory (Bowman & Helfat 2001). To develop innovative value-adding business operations that sustain growth in a competitive environment, firms thus need to come up with a corporate strategy that entrenches strong principles for success. One way of building such a winning strategy would be expanding on the strengths of the existing practices while

only focusing on realistic changes needed to achieve competitiveness in a dynamic business environment (Rees & Porter 2006). Through this approach pitfalls such as false assumption on the capacity of the organization to control the external environment are avoided (Rees & Porter 2006). The challenge of sustaining a sound corporate strategy is considered in this paper through a case study on Starbucks.

1. 10 Company Profile

Starbucks Corporation is a premier coffee roaster and specialty retailer headquartered in Seattle (Starbucks Corporation 2009). Its antecedent can be traced back to Starbucks - a firm that opened its first store in 1971 in Seattle's Pike Place Market as a "roaster and retailer of whole bean and ground coffee, tea and spices" (Starbucks Coffee Company 2010a, p. 1). In 1985, Howard Schultz who had served as a director of retail operations at Starbucks from the year 1982 formed Il Giornale which, with the support of local investors acquired Starbucks' assets and changed its name to Starbuck Corporation (Starbucks Coffee Company 2010b). The Corporation opened branches in Chicago and Vancouver, Canada and operated 17 stores at this time which gradually increased to 84 by 1990, the year it expanded its Seattle headquarters (Starbucks Coffee Company 2010b, p. 1). Ultimately in 1992, Starbucks was listed on the Nasdaq National Market (currently NASDAQ Global Select Market) after completing an initial public offering; its common stock trading under the symbol "SBUX" (Starbucks Coffee Company 2010b).

From the humble beginning, Starbucks business expanded through opening stores in new locations, acquisition of a number of entities and diversification
<https://assignbuster.com/managing-corporate-strategy-starbucks-case-study-marketing-essay/>

of the products it offered. By the end of 2009 for instance, the store count had risen to 16, 635 being operated in various countries (Starbucks Coffee Company 2010b, p. 3). The entity's acquisition list includes Tazo (a Portland, Oregon-based tea company) in 1998, Hear Music (a music company based in San Francisco), Seattle Coffee Company in 2003, and Ethos Water in 2005 (Starbucks Coffee Company 2010b, pp. 2-3). With a mission "to inspire and nurture the human spirit - one person, one cup, and one neighborhood at a time", Starbucks has expanded its product range to ensure a customer experience that surpasses those of its competitors in quality (Starbucks coffee Company 2009b).

Starbucks successful establishment and rapid growth was due to a variety of factors. First the entity had successfully created a premium brand by establishing the perception that visitors to its stores were not only purchasing a beverage but making a social statement ('taking on the world' 2004). Secondly the entity's growth was through measured expansion that ensured the quality of service in their stores remained unadulterated ('taking on the world' 2004). Embarking on an experimentation and innovation journey such as provision of high speed internet services in their stores also served to better the customer experience thus creating a better image for their brand ('taking on the world' 2004). Finally the entity had exhibited promotional patience not engaging too much on media publicity thus preventing the risks associated with negative publicity ('taking on the world' 2004). With successful establishment the entity however according to the current CEO's letter to shareholders in the 2009 annual report, became

complacent and embarked on uncontrolled growth that led to the challenge the entity faced in 2007 (Starbucks Corporation 2009).

1. 11 Challenge and Thesis Statement

With increasing competition forcing companies to explore other markets, Starbucks strategy of measured expansion was disturbed leading to massive expansions that have proven costly for the business (Starbucks Corporation 2009). In late 2007 the entity's board chairman, its founder Howard Schultz, had observed that while trying to achieve growth from less than 1000 stores to 13, 000 stores and beyond, the Starbucks experience had been watered down affecting the brand image (cited in Pretorius 2009). Such overexpansion leading to loss of quality (in addition to rising prices of food commodities that had forced the entity to raise its prices twice in 2007) robbed the entity off some of its customers benefiting competitors such as Dunkin Donuts (Economist 2008). The effects of this change in approach according to the January 2008 article in the Economist, was a decrease in the entity's share price by 42% in 2007 that eventually lead to the replacement of the entity's CEO with Schultz (the entity's founder) to rectify the strategy. The challenge the entity faced is thus recapturing its lost brand image and customer experience that would help bring back the customers to its stores even with competitors offering a lower price for standard coffee.

This paper makes an analysis of the change management challenge that faced Starbucks following the decline of its business appeal in 2007. The paper will assess how the challenge was managed, aspects that made such challenge management difficult and how these aspects were resolved.

Further the role of values and relationships in shaping various aspects of the <https://assignbuster.com/managing-corporate-strategy-starbucks-case-study-marketing-essay/>

challenge such as perception and actions, and the outcomes of the change undertaken will be considered. Finally the paper evaluates other factors and approaches that could have brought about a more effective outcome.

2. 0 Starbucks Corporate Strategy Challenge Management

2. 10 How the Challenge was Managed and Outcomes

Starbucks was faced with the most serious crisis in its history in the early 2008. As reported in the Economist, its share price in the preceding year had dipped by 42 percent, a fall that was among the worst performances in the NASDAQ exchange at that time (2008). The investor confidence in the company was falling and the entity faced a bleak future. The entity problem according to the Economist article was mainly due to its overexpansion (2008). Quoting Howard Penney, an analyst at Friedman, the article reported that the entity was growing too rapidly in a mature North American market thus making it struggle with implementing innovative approaches that ensured the quality of customer experience within its stores was maintained (2008). Such a perspective was buttressed in the CEO's letter to shareholders noting that unlike the previous practice where Starbucks decision making and execution processes were nimble and progressive, the success they had achieved had made them become complacent thus losing touch of the competitiveness in the market (Starbucks Corporation 2009). Apart from the self-inflicted problems, other prevailing factors such as increased prices of food commodities that led to the entity increasing its prices twice in 2007 compounded the challenge (Economist 2008). With the increased prices a number of customers found the standard coffee offered at competitors such as Dunkin Donuts preferable to Starbucks' premium coffee

<https://assignbuster.com/managing-corporate-strategy-starbucks-case-study-marketing-essay/>

whose customer experience quality was falling (Economist 2008). Secondly Starbucks' woes in early 2008 were aggravated by increasing competition resulting from change of strategy by competitors such as McDonalds to offer products in a fashion similar to Starbucks coffee bars (Economist 2008). Through such changes in competitor strategies Starbucks faced a risk of losing the status of a place where, as per the founder's words, customer visit should involve "romance and theatre" (Economist 2008).

To manage this challenge Starbucks employed various approaches. First of these was a change in top leadership with the entity's founder, Howard Schultz returning to the CEO position in early 2008 (Starbucks Coffee Company 2010b). Schultz replaced Jim Donald who had been promoted to the president and CEO role in 2005 after the retirement of the then occupant of the position, Orin Smith (Starbucks Coffee Company 2010b). Orin Smith had taken this position in 2000 when Howard moved from the Chairman and CEO's role to the Chairman and chief global strategist role (Starbucks Coffee Company 2010b). Following the leadership change in 2008, Howard announced a renewal of the entity's focus on customer experience and innovation as the strategy through which the entity would retrace its steps to successful business operations (Starbucks Coffee Company 2010b). Such a refocusing of the strategy has been the core approach since the return of Howard as CEO as noted in the CEO's letter to shareholders in the entity's 2009 annual report.

To transform its business to profitable growth while preserving the entity's principles and values various changes have been instituted. According to the CEO letter to the shareholders, the transformation was guided by an agenda <https://assignbuster.com/managing-corporate-strategy-starbucks-case-study-marketing-essay/>

that involved: (a) business state improvement by establishing better training tools and products, (b) renewed attention to economics of operations at the store level, (c) re-establishing the entity's emotional connection with its customers and, (d) realignment of the entity to meet long-term business needs (Starbucks Corporation 2009). In implementing this transformation blueprint the entity first reverted to rigorous assessment of all its business areas emphasizing unit-level economics followed by pursuit of operational excellence all its operations such as in its supply chain, store operations and IT systems (Starbucks Corporation 2009). Such assessment led to the closure of 474 stores in the U. S., a market where the company had been noted to have over expanded in the Economist report (Starbucks Corporation 2009). Further the entity embarked on better customer awareness methods with its go-to-market engine that has effectuated its marketing activities (Starbucks Corporation 2009). The entity also instituted steps in its supply and store operations that have improved its cost structure for instance eliminating \$580 million in costs in the 2009 financial period alone (Starbucks Corporation 2009).

Apart from cost reduction and improving operational efficiency; Starbucks blue print had established that improvement of customer experience, aggressive differentiation and innovation was the key to sustaining growth (Starbucks Corporation 2009). To improve customer experience, the entity embarked on enhancing its beverage quality, store condition and service in its stores (Starbucks Corporation 2009). This approach enhanced the customer satisfaction rating of the entity by 10 percentage points indicating a better future for the entity (Starbucks Corporation 2009). In addition to this

the entity introduced a loyalty card program that provided better value offerings and innovative food pairings to reward loyal customers during the global economic crisis (Starbucks Corporation 2009). Similarly the entity refocused its attention to ensure higher coffee quality by revamping its sourcing, roasting and blending procedures; and renewed commitment to espresso excellence that ensured the stores provided the best quality of customized beverages brewed to meet the taste of individual customers (Starbucks Corporation 2009). Through this approach the company has generated sales of Starbucks® Anniversary Blend coffee in 2009 that were the highest ever in its history (Starbucks Corporation 2009). To align with the changing consumer trends, Starbucks has also had to diversify its product offerings. The demand for healthier food options for instance has led to simplification of recipes and elimination of unhealthy additives such as artificial trans fat, artificial flavors and dyes, and high-fructose corn syrup from its products (Starbucks Corporation 2009).

Other changes developed are to improve communication with customers and enhance the entity's ethical and environmental responsibility. In improving the customer communication process, the entity launched MyStarbucksIdea.com in 2008 that gives its customers the opportunity to share what they would want to get from the entity, view what other customers would also want and view the ideas that are currently being implemented (Starbucks Corporation 2010). Through such an approach, the entity has seen its customer response increase with its brand being ranked as the most engaged brand not only through My Starbucks Idea website but also in social networking sites such as Facebook and Twitter (Wetpaint & Altimeter 2009).

Other technological innovations the entity has established to improve its customer experience are iPhone applications that help the customers to locate the entity's stores, establish the nutrition information of various products and reload their Starbucks cards (Starbucks Corporation 2009). This approach is important to ensuring a sustainable future for the entity because such technological approaches help the entity to connect with its customers outside the store environment thus could be vital for enhancing its network marketing activities (Gronroos 2004).

In ethical and environmental aspects the entity has also made various leaps. The entity for instance became the leading buyer of fair Trade Certified™ coffee enhancing its ethical rating (Starbucks Coffee Company 2010b). Such ethical sourcing by the entity has been one of the strong points of its corporate responsibility approach. Similarly the entity's partnership with RED™ an organization fighting AIDS in Africa has helped it save many lives thus improving its image in areas that form some of its important suppliers of coffee (Starbucks Coffee Company 2010b). In environmental aspects, Starbucks has also enhanced its environmental responsibility rating with the most latest innovation being development of a new store design that will make their company operated stores being constructed in various parts of the world LEED®-certified thus reducing the entity's adverse impacts on the environment (Starbucks Corporation 2009). Such changes also help better the ethical rating of the entity based on environmental aspects; a factor that has previously been of concern and attracted media attention (Leroux 2008).

2. 11 Aspects Complicating the Challenge Management and How they Were Overcome

Organization whose leadership changes to bring about a transformation in business outcomes could be faced with various liabilities making the crisis more difficult to manage. Among these are the liabilities of legitimacy, prior knowledge, data access and integrity and failure to share the vision (Pretorious 2009). Other liabilities would be that of critical mass, feedback control and culture (Pretorious 2009). Irrespective of the leader being introduced being an insider or outsider, one would face almost the same liabilities of change management though to a varying extent. An outsider for instance has to face a complex learning curve of the organization processes and culture in order to achieve better outcomes (Pretorious 2009). Conversely an insider would be hard pressed on the legitimacy aspect especially when he was responsible for the crisis that faced the entity (Pretorious 2009). Though Schultz is the founder and previous CEO of Starbucks, such liabilities were relevant in his second return to save the company from continued decline (Pretorious 2009). Schultz abilities, qualifications, experience and track record however enabled him cope with these liabilities in an appropriate fashion.

The first liability that Starbucks faced regarded legitimacy of the appointed CEO to lead the transformation process. The board's choice of Schultz in this respect was well advised due to his previous history with unions, creditors and shareholders that would help him reestablish the support needed for the transformation of the entity (Pretorious 2009). On realizing that the entity had proceeded in a direction that was contrary to the initial vision, Schultz

had for instance acknowledged the mistakes they had made thus building on his legitimacy as the rightful candidate to lead the transformation process (Starbucks Corporation 2009; Pretorious 2009). In such a situation an outsider would face a daunting task of establishing legitimacy especially among the employees who would become worried of change in their relationship with the entity following such management change (Pretorious 2009). Only when such outsider boasted of a stellar track record in the industry and experience would legitimacy to lead the transformation process be acquired in a timely fashion (Pretorious 2009). The Starbucks board choice with regard to this aspect was thus well informed.

Secondly, liability of prior knowledge exists for any person appointed to lead the transformation of the organization (Pretorious 2009). Prior knowledge is critical in understanding the processes that are needed to be changed to redirect the organization to a growth path. In respect to this, Schultz was not only in possession of prior knowledge but had been with the organization throughout its life thus was in the knowhow of the factors that had helped Starbucks achieve a rapid growth in a short period of time. From this in-depth knowledge of the organization and the industry Schultz appointed many of the leadership team he would be working with thus ensuring a functional teamwork approach to the organization's transformation (Pretorious 2009). Though an outsider could have industry knowledge thus bettering his chance to effectively lead the organization, such an individual may require time to establish the necessary networks for effective change thus affecting the length of time for positive results to be generated (Pretorious 2009).

A third liability that the appointed CEO faced in transforming Starbucks was that of data access and integrity (Pretorius 2009). An outsider in this respect could face problems of data access with lack of knowledge of the existing systems within the entity compounding the liability (Pretorius 2009). Such a delay in data access and required knowledge for full strategy implementation could affect the overall effect of the strategy (Pretorius 2009). Since Schultz had been with the entity all along, this liability was alleviated leading to quick recovery of the entity as noted the improved performance reported in the latest financial statement (Pretorius 2009; Starbucks Corporation 2009). Appointment of Schultz into the CEO position thus was the right one since the entity needed a transformation in the short-term.

The liability of failure to share the vision would also be a challenge experienced irrespective of whether the new leader is an outsider or an insider. Such liability would be aggravated for those individuals whose legitimacy has not been established by various stakeholders (Pretorius 2009). Since Schultz had established such legitimacy, the rallying of different managers to share his vision would be easier as compared to the case where such leadership was assumed by an outsider (Pretorius 2009). Similarly in the liability of critical mass Schultz advantage over an outsider was evident with his having led the organization to success in a previous occasion (Pretorius 2009).

The final liabilities that the new appointee at Starbucks had to contend with were of feedback control and culture. With respect to feedback control the entity needed to engage customers in the right manner before embarking on <https://assignbuster.com/managing-corporate-strategy-starbucks-case-study-marketing-essay/>

a process of closing some of the stores that were in operation. Schultz credibility with regard to tackling this aspect can be evident from the actions that followed his appointment. First was his announcement of refocus on customer experience and innovation which in his earlier communiqué to the board he had noted were compromised by overexpansion (Starbucks Coffee Company 2010b; Starbucks Corporation 2009). Such announcement prepared the customers for improved service and possible closure of some of the stores thus preventing massive loss of customers were the stores to close abruptly. Further to engage the customers in the transformation process a website - Mystarbucksidea.com - was launched the same year to enhance customer feedback and communication (Starbucks Corporation 2010; Starbucks Coffee Company 2010b). To exemplify Schultz role in managing feedback further, the engagement report assessing the most engaged brands noted the proactive approach of Starbucks CEO in engaging customers as one of the strong points ensuring Starbucks brand was the most engaged not only in Mystarbucksidea.com website, but also in social networks such as Facebook and Twitter (Wetpaint & Altimeter 2009).

Schultz appropriateness to lead Starbucks to its turnaround extended to managing the liability of culture. According to Schultz the most important resource of the entity had been its employees who had helped create the magic and experience associated with a visit to Starbucks (cited in Mosley 2007, p. 127). Through such concern of the employee Starbucks established an organization culture that regarded the employee as a partner making them a core function of the business (Starbucks Corporation 2009).

Introduction of an outsider in such a culture and implementation of a new

strategy that would lead to loss of jobs when stores are closed could impact negatively on employee performance. The appointment of an individual who has led the entity to profitability while maintaining the existing culture on a previous occasion thus provided a chance for a new strategy to be implemented without much resistance (Pretorious 2009). From the analysis of the liabilities that face newly appointed managers in driving organization change, the choice made by the board to appoint Schultz as the person to lead the transformation seems to have been well informed and has been proven by short-term improved performance of the company following the change.

2. 12 Alternative Approach to Challenge Management

Reappointment of a previous manager could be vital in achieving short term recovery especially in the case where such turnaround is of a dire need (Pretorious 2009). Such reappointment avoids delays associated with new managers' adjustment to various aspects relevant to the organization functioning that may impede the recovery process (Pretorious 2009). Irrespective of this aspect, new managers may stand a better chance to bring about a firm's transformation especially where the insiders legitimacy is watered down by their having been around during the time of crisis (Pretorious 2009). In the case of Starbucks Schultz still played a role as the chairman of the board hence his legitimacy could have been compromised except for an earlier admittance of the mistakes they had made in trying to achieve growth (Starbucks Corporation 2009). Appointment of Schultz as the CEO may for instance affect future transition in case of retirement if appropriate mentorship is not provided to the successor. An alternative way

through which the crisis would have been managed would thus have been bringing in a new manager with the board providing a close monitoring to ensure the company reverted to its initial focus. Such an approach provides the entity with a good rating on change management based on corporate structures rather than individual occupants thus could establish investor confidence even in the case of a future change in management.

3.0 Conclusion

A sound corporate strategy is important in ensuring the long-run sustainability of growth of business in an increasingly competitive environment. Building a corporate strategy that expounds on the strengths of existing practices could avoid pitfalls such as false assumption on the capacity of the organization to control the external environment. This paper evaluated the challenge of sustaining a sound corporate study through a case study on Starbucks. The way the organization managed the challenge it faced following declining appeal of its business, outcomes from the approach, obstacles faced and what helped the entity overcome the obstacles were assessed. Finally alternative courses of action that would have a pronounced effect were assessed.

Starbucks success was driven by strengths such as measured expansion that ensured the customer experience was maintained at an exemplary quality thus allowing them to charge a premium for its products. Following the competitiveness in the market and the pursuit of growth the entity however lost track leading to overexpansion in a mature market and lowering of quality of service in its stores. With the start of the economic crisis,

Starbucks lost customers to some of its competitors offering standard coffee
<https://assignbuster.com/managing-corporate-strategy-starbucks-case-study-marketing-essay/>

at reasonable prices impacting negatively on its stock prices. To transform the entity to its profitable growth, the CEO at the time was replaced with the founder of the organization in 2008.

The change in leadership has led to the partial transformation of the entity towards a better future. First by refocusing on the strategy to expand in a controlled manner, the entity closed some of its operations in the U. S thus enabling it achieve cost efficiency. Secondly the organization has embarked on innovative approaches which include better technology based methods of engaging customers and Starbuck card that allows customers to get services with minimum delays. Finally the organization pursuit of ethical and environmentally friendlier ways of doing business has endeared it to more customers and helped it to bring back its loyal customers.

In managing the challenge the entity faced various obstacles. Obstacles such as liabilities of legitimacy of the new leadership, access to information, managing feedback and failure to share the renewed vision were relevant. By appointing the founder of the entity to lead the transformation process, the company was however able to overcome these liabilities due to the qualifications, prior experience and commitment of the new CEO. Such appointment however may affect the future transition when the successes of the company are perceived to be determined by individual occupants of the CEO position rather than the organizational structures that the entity has established. To ensure investor confidence in future the entity thus needs to develop strong institutional structures that ensures corporate strategy is not altered significantly with the change in leadership.