

Starbucks – case analysis and problem solving

Business



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Starbucks Corporation is an international coffee company and coffeehouse chain based in Seattle, Washington. In October 2006, Starbucks was the largest global roaster and retailer of coffee with more than 12,000 retail stores in 60 countries, some 3,000 of which are to be found in forty countries outside the United States. Looking forward, the company expects 50% of all new store opening to be outside the United States. In 2006, Starbucks closed a decade of astounding financial performance with increasing sales from \$697 million to 7.8 billion, net profit from \$36 million to 40 million and ROIC was 25.

5%. These superior financial performances resulted from the excellent coffeehouse format with designing stores to create a relaxed, informal, and comfortable atmosphere and selling premium roasted coffee, freshly brewed espresso-style coffee beverages, a variety of pastries, coffee accessories, teas, and other products in a coffeehouse setting. This also resulted from superior customer services through highly trained and progressively compensated employees; the strategy of owning stores rather than making franchising arrangement for the basic formula. Sophisticated location strategy, and successful exploration of foreign opportunities also contributed to the Starbucks financial performance. Case Discussion Question 1: Identify the resources, capabilities, and distinctive competencies of Starbucks ?

Answer:- 1) Resources: Resources of Starbucks include-Tangible Resources: Starbucks Corporation's tangible resources include- 1.

Design of stores: Design of Starbucks coffeehouse store was very much comfortable, relaxed, and an informal third place between Home and Workplace. 2. Premium location: They located their stores in premium

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location as possible before its competitors could. Intangible Resources:

Intangible resources of Starbucks were as follows- 1. Superior brand name, and brand loyalty; 2. Experience and training of employees, 3.

Intellectual property-Basic formula of the product. II) Capabilities: Starbucks Corporation's capabilities include- 1. Good organizational rules and procedures for managing operation; 2. Better hiring system and training program. 3. Service oriented values of the company; 4.

Progressive compensation policy. 5. Differentiated products and sophisticated demographic analysis. III) Distinctive Competencies: The above said resources and capabilities were strengths of Starbucks that allowed it to differentiate its products from those of rivals and achieve lower costs structures than its competitors. Distinctive competencies of Starbucks helped it achieve superior efficiency, product quality, and customer responsiveness which are the basis of competitive advantage in the Coffee Retailing Business. Starbucks Corporation's distinctive competencies are given below- ? Establishment and management of Superior Coffeehouse (Coffee Store): Starbucks Corporation used a very sophisticated location strategy and demographic analysis to identify and capture the premium location for stores as possible its competitors could.

The company designed its store to create a relaxed, comfortable, and informal third place between home and work where customers could spend a very good time. ? Superior Management of Employees: Starbucks used employee hiring and training program that were the best in the restaurant industry. It provides progressive compensation policies including stock

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options and medical benefits which increased the motivation of the employees to provide the best customer services. These various incentive programs and hiring strategy helped them to manage employees effectively.

Preference to Owning Stores rather than Making Franchising Arrangements:

Starbucks prefer owning stores for their own rather than performing franchise arrangements with other companies for the basic formula that appears to work.

? Ability to Provide Superior Customer Services and Best-Known Brands:

Starbucks were able to provide superior customer services in selling its various premium products through highly trained and motivated employees.

This superior customer services had resulted in the creation of the best-known brand name and customer loyalty which generated enormous volume of repeat business for the company. Case Discussion Question 2: Answer:- Starbucks took strategy to sell coffee in a unique way of delivering better service. With their strategy they have built some resources such as unique design of their stores, premier location, superior brand name, experience and training of the employees and basic formula of the product and they have also developed some capabilities such as good organizational rules and procedures, better hiring system, training program, service oriented values and progressive compensation policy. The resources coupled with the capabilities developed by the strategy of the company have given Starbucks to develop some distinctive competencies of unique service delivering process, superior management of employees, preference to owning stores and ability to provide superior customer services. These distinctive competencies are giving Starbucks competitive advantage.

As a result, with these competitive advantages, they have developed a unique brand name and efficient service delivery system. Their efficient service delivery system and high employee productivity have given them economies of scale and have lowered their cost structure. Their products and services are high in quality. Their customer responsiveness is also superior as they have developed their products services according to the need of the customers. The benefit of superior efficiency, superior quality, superior process innovation and superior customer responsiveness has been reflected in the sales of the country and their low customer defection rate helped them to retain their customers. They have now captured a large share of the market and have been able to make their customers buy repeatedly.

This is shown in the following. Competitive advantage to Value creation and superior financial performance: Competitive advantage leads to superior profitability which results in superior financial performance. At most basic level, how profitable a company becomes depends on three factors: (1) the value Case Discussion Question 3: How secure is Starbucks competitive advantage? What are the barriers to imitation? Answer:- The extent of security of Starbucks' competitive advantage: Low | Moderate | High | | Store designing | Employee hiring | Compensation policies | | Customer services | Training program | Product formula quality | | Premium location | Detailed demographic analysis | Exploration of foreign opportunities | | | Very limited franchising arrangements | Low:- Starbucks' comfortable and informal design and premium location of stores are tangible resources so rival groups can easily build these by following them. Where identical customer services can be provided by rivals by easily visiting the stores and following them.

Moderate:- As hiring and training programs are developed by committed executives so it is rare to be copied by rivals.

Most competitors lack the abilities to assess the market and to choose premium location by making detailed demographic analysis. High:- Compensation policies like medical benefits and stock option even for part time employees are costly that everybody cannot provide these. Product formula and quality are protected by limited franchising and strong observation. Exploring foreign opportunities are not feasible for all.

————— Design of stores Premium location Superior brand name
Experience and training of employees Basic formula of the product Good
organizational rules and procedures Better hiring system Training program
Service oriented values Progressive compensation policy Unique service
delivering process Superior Management of Employees Preference to Owing
Stores Ability to Provide Superior Customer Services Strategy Competitive
Advantage Superior Financial Performance