

# Starbucks case analysis analysis



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## Starbucks Case Analysis August 24, 2008 Analysis of Current Situation

Environment 1. Economic Conditions: In a time of inflation when the purchase of nonessential items is down, Starbucks is feeling the effects.

a. 600 Starbucks locations will close by mid-year 2009 b. This represents 8.7% of the stores nationwide.

. affecting 44 states.. 88 locations in California alone.

c. 12, 000 employees will lose their jobs...Starbucks will offer relocation packages to many employees, severances to others. d. Fewer than 200 new US locations will be opened in 2009....

this is in comparison to 900 new US locations projected to be opened in 2008. . Infrastructure realignments of non-store support staff resulted in the reduction of 1, 000 positions. f.

In response to competition and imitators, Starbucks now offers the “bottomless” \$1. 00 coffee. g. Wireless internet is no longer free and the comfortable lounges in the stores are being replaced with less comfortable furnishings. 2.

Cultural, Social values and Trends: a. Starbucks has prided itself on being an experience, not just a cup of coffee. Starbucks has become a social experience. Management focused efforts in becoming the “ third place”.... If you weren't at home or at work, you would be at Starbucks. b.

Starbucks has become a cultural brand such as iPod. c. Starbucks has a Corporate Social Responsibility policy in place to fulfill its commitment to

positively contribute to local communities and the environment. d. Corporate partnerships with over 46 companies such as Barnes and Noble, Apple and Target contribute to its success.

e. Starbucks offers over 30 blends and single origin coffees. f. In addition to coffee, Starbucks sell pastries, sandwiches, salads, music, merchandise such as coffee makers and espresso machines. g.

Starbucks has also entered the entertainment industry by selling music and books from emerging and established talent. h. Employees are referred to as “partners”. 3.

Political and Legal: a. Benefits—Starbucks has a comprehensive benefits package, named “Your Special Blend”, that is recognized nationally. The benefits package includes health, vision and dental benefits, income protection benefits, education reimbursement, employee stock purchase plans, stock options and more. Employees who work 20+ hours weekly are eligible.

b. Diversity is a key initiative in the way Starbucks conducts business, including businesses for minorities and women. . Pay scale—baristas make from \$7.95-\$8.

15/hr. Federal minimum wage is \$6.55 currently. Industry 1. Existing Competitors a.

McDonalds—now offers premium coffee at \$1.07 per cup which is roughly \$.60 per cup less than Starbucks. There are test markets currently in place to evaluate the new coffee bars being opened by McDonalds across the

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country. Cappuccinos, espressos, iced coffees and more comfortable seating are efforts by McDonalds to mimic the Starbucks “ experience”.

b. Dunkin Doughnuts—offers more than 52 varieties of doughnuts. Serves over 2 million cups of coffee daily and not just plain coffee. You can get flavored coffees, espressos made just the way you like it.

In addition to in store sales of coffee, customers can sign up online to have regular home delivery of Dunkin Doughnuts coffee. The average cost for a cup of coffee is \$1. 39. 2.

Potential New Competitor a. Local coffee houses that will offer wireless internet and lower priced coffees. Locally, Courtyard Coffee. 3.

Substitute Products a. Folgers, Maxwell House and Nestle now offer premium coffees in supermarkets at a lower cost to Starbucks coffees. In the current state of inflation, these products could easily be substituted for the Starbucks brands. 4.

Suppliers—Suppliers must be accredited by the “ Starbucks Coffee Accreditation program. Starbucks has a strict responsible business practices policy and suppliers are required to follow the same standards. Suppliers can “ apply” to Starbucks for a fee in order to become accredited. a. Starbucks buys over \$100million of product from diverse suppliers. A diverse supplier is one that is 51% owned, operated and managed by minorities, women and socially, economically disadvantaged individuals.

Firm 1. Objectives and Constraints a. Mission Statement—“ To establish Starbuck as the premier purveyor of the finest coffee in the world while

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maintaining our uncompromising principles as we grow.” b. Constraints:  
Economic conditions, lower cost competitors 2.

Financial Conditions a. Stock (SBUX) –Currently at \$15. 76 per share ...Down  
from the initial public offering in 1992 at \$17 per share i. 52 week  
performance: \$13. 33-\$28.

19 b. Consolidated net revenues increased 9% for the third quarter 2008  
( \$2. 6 billion in 2008 compared to \$2. 4billion in 2007) c. Q3 2008,  
Starbucks reports net loss of \$6.

million compared to Q3 2007 net income of \$158. 3million d. EPS Q3, 2008 =  
\$0. 01 per share..

EPS Q3, 2007= \$0. 21 per share Result of current financial picture: 1.  
Closure of 600 US based stores( loss of 12, 000 jobs) 2. Closure of 61  
Australia based stores 3. Reduction of 1, 000 positions within leadership and  
non-store organization 3.

Management Philosophy Adopts an “ Employee First Policy–employees first,  
customers second. The belief is employee satisfaction will translate into  
excellent service to customers leading to increased customer satisfaction. 4.  
Organizational StructureHoward Schultz has returned as president, CEO and  
chairman of Starbucks after firing Jim Donald, CEO. Schultz’s goal is to return  
Starbucks to it original customer focused experience. b.

There has been a turnover of top executives in the past year. c. US Field  
Operations are being transitioned from two divisions to four in the effort to  
align leaders closer to the customers and partners in the field. Each division

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will be led by a senior vice-president reporting directly to the US president.  
d.

Partners on a divisional level will support Store Development, Marketing, Partner Resources and Finance. . Support functions are being consolidated which will result in a loss of 1, 000 jobs. 5. Organizational Culture a.

Starbucks attributes much of its success on its " Employee First" policy. Satisfied employees= satisfied customers= profits. b. How is this achieved?  
•Generous employee benefits •Employees are called " partners" •Extensive employee training upon hire and on-going education to keep employees informed •Support and goal setting for employees Marketing Strategy 1.

Objectives and Constraints a. The " Third Place" philosophy is the cornerstone of their marketing strategy. If you weren't at work or at home, you were at Starbucks. Memos from Howard Schultz, CEO suggest that Starbucks has become much more of a commodity than an experience and future success means getting back to the basics of the Starbucks philosophy.

2. Analysis of Sales, Profits, and Market Share a.

Estimated 2008 EPS to be \$0. 75/ share compared to 2007 EPS of \$0.

87/share. b. US sales have increased by 9% in 2008 and 24% internationally.

c. 42% market share of the coffee house market 3. Analysis of Target Market

a. 2-4 years ago, the target market was customers between 24 and 55 years who drank coffee.

. Currently, the market is anyone who drinks coffee and those who don't.

Starbucks partnership with Pepsi has allowed them to offer non-coffee

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beverages for the children of the older patrons and for customers who do not enjoy coffee, but enjoy the environment. 4. Analysis of Marketing Mix a.

Product -Starbucks is known for its premium coffee, specialty drinks, non-coffee beverages and teas. In addition to tangible products, Starbucks has built its reputation on the Starbucks " experience". Starbucks will offer free Wi-Fi in partnership with AT&T beginning spring 2008. .

Place—Starbucks places itself to dominate the communities where its stores are located. The stores are not only placed in high traffic areas, but are bunched in each community. For example, in Shreveport on Youree drive, from the free standing store you can see the Starbucks in Target and the Starbucks in Barnes and Noble. Saturation overpowers the competition. c.

Promotion—Historically, Starbucks has not gone head-to-head with competitors such as McDonalds in TV advertising.

It has depended on its " lifestyle" image to carry sales. Recently, Starbucks has changed its logo from green to brown with a more distinct mermaid that is supposed to take Starbucks back to its name sake. This has been a controversial move which has generated attention at the very least. d. Price —Starbucks now offers bottomless \$1.

00 coffee. This has also been a controversial move as well. If the coffee was worth \$2. 00 previously, what has changed? This does put it in line with competitors such as McDonalds, but how does this differentiate them from the competition? The Starbucks brand has always been more expensive as well as more prestigious.

Does the lower price change that?