

# [Starbucks micro and macro environment](https://assignbuster.com/starbucks-micro-and-macro-environment/)

For any organisation survival depends on its surrounding environment located. It means the trends in political, economical, social, technological, environmental and legal environment, which can influence business. Below the environmental factors are described

## (P)olitical Issues:

Taxation policy –If government imposed high tax on farmers in countries producing coffee bean from where Starbucks buy their coffee, than Starbucks needs to pay higher price for their coffee they purchase. This effect will ultimately pass to the customer, because they need to higher price.

Government stability –Starbucks should carefully investigate the political stability of any country before they want to plan for expand to. It can affect in taxation and legislation when the government change.

International stability –The global economy must be carried into attention as it can affect Starbucks’ sales and markets.

Employment law –A decrease in licensing and permit costs in those countries producing the coffee bean for Starbucks will lower the production costs for farmers.

## (E)conomic Issues:

Interest rates –An increase in interest rates means investment and expansion. And also mortgage repayments rate will rise so customers have less money to spend on luxury products such as coffee. Low interest rates have the reverse effect.

Economic Growth –If economic growth is low in the country of location of Starbucks then sales will fall down. Customer incomes tend to go down in periods of negative growth leaving less money to spend.

Inflation rates –Inflation is a term for increasing prices. It is measure by using Retail Price Index (RPI) in the UK.

Competitors pricing –Aggressive pricing and sales from competitors creates a price war for Starbucks, which can drive down.

## (S)ocial Issues:

Population demographics –They need to identify and target their customers to aim their products on them.

Attitude to work –They have to find area where local population have high attitude to work. So their recruitment will be easy, training will be effective and staff turnover will be low.

Standard of education/skills –Creating new premises Starbucks needs to look for standards of education and skills locally. They must be up to date in order to make any business operation successful.

Working conditions/health and safety –They must accomplished high standard of friendly environment and follows health and safety.

Location –this is a major factor it should be in a easy access for both customers and staffs.

## (T)echnological Issus:

IT development –Starbucks is well aware to extend and improve its Internet facilities and also tools to target customers, analyse data, and deliver new features to the market in the shortest time.

New equipment’s and processes –The technology like as coffee making machines and the computers system development that Starbucks use to operate their till registers will enable their staff to work more quickly and efficiently.

Research and Development activity –Starbucks has huge budget and have allocated the resources to have accurate Research and Development data.

## (L)egal:

Trade and product restrictions –Starbucks have to ensure they don’t violate laws e. g., religious laws. Also they have to be attentive on the tariffs have to paid for import / export goods.

Employment law –Each country has some restrictions on employment laws. Like student work law in UK, the public holidays etc. Starbucks have to account these factors.

## (E)nvironmental Issues:

Pollution problems –Customers increase a lot of rubbish that they leave the shop with their cup of coffee and then also leave it in the street. So the packaging for the cup should be carefully accounted to make it environmental friendly.

Work disposal –Starbucks have to carefully consider the process to dispose rubbish as there are strict laws in most countries.

## Micro analysis or Michael Porter’s five forces analysis

Michael Porters has developed a famous model of the five competitive forces in his book. The competitive strategy that techniques he analysed for organizations and competitors. It tends to high light on single, stand along and business or strategic business unit rather than a single product or product range in the market.

Porter has specified these five competitive forces that form every company and every market. These are:

* Threat of new entrance
* Bargaining power of suppliers
* The threat of substitute products
* Bargaining power of customers
* Competitive rivalry

## Threat of new entrance

Economics of scale, high or low entry cost, ease access to the distribution channel; other cost advantages are not associated to the size of the company, whether other competitors will react. There will always be a continuous pressure for Starbucks to respond and regulate these new competitors.

The easier it is for new competitor to enter the market the more competition there is within the market. Although this should not be a problem for Starbucks as they have a large number of market share. Literally, it will be a threat for the new entrants. As a company’s volume increases, so does its experience and knowledge, which tends to increase the potential risk for the new competitors.

## Bargaining power of suppliers

If little large number of suppliers control the market more than large number of fragment sources, bargaining power of supplier is expected to be high. Even suppliers got certain quantities of power that is limited. But for Starbucks being ‘ the most famous specialty coffee shop chain in the world’ reaching sales of $9. 8 billion in 2009 and still increasing they still should be demanding coffee beans for some time. It is legal to say that the Suppliers need Starbucks, just as much, if not more so than Starbucks need their supplies.

The suppliers of Arabica beans were mostly owned by medium-size farm and typically sold their production to process by local markets. (Lee, 2007) Particularly, these farms had been placed in the Pacific Rim, Latin America and East Africa. (Lee, 2007) These farms were various and not related with one another, with separation, providing them small bargaining power. Even there was no straight alternative for the Arabica beans which had been use in special coffee production. Huge group of farms which had been supply the crop processed it easy for buyers to escape burdens to any specific farmer, which was difficult for suppliers. The farmers sold the Arabica beans to specialty coffee retailers who were reliant upon their constant business. Luckily for Starbucks they buy their coffee beans directly from producing countries: Latin America (50%), Pacific Rim (35%) and East Africa (15%).

## Threat of substitute of products

It occurs when there is a product-for-product replacement or substitution of need. For example bald head reduces the need for hair gel, where there is common substitution and finally the attitude ‘ we could always do without ….

An example for Starbucks would be if an alternative to coffee was offered e. g. a customer switching from coffee to tea, coffee to chill drinks or coffee to juice. Competitive rivalry: contribute to strong rivalry between existing competitors in an industry.

## Bargain power of buyers

Buyer power is likely to be high if a number of circumstances are in place. There is an

awareness of buyers, additionally if the volumes of purchases of the buyers are high, the supplying industry includes a large number of small operators, there are substitute sources of supply, the component or material cost is a high percentage of total cost, the cost of switching a supplier is low or engages little risk, there is always a risk of backward integration by the buyer.

## Competitive rivalry

Every day competitions are growing gradually against the Starbucks as the business growth. Competitors taking chance to reduce the price, introducing a rival product, insistent growth of production to enhance the market share. Starbucks significant innovation their products which also competitors start to keep up. It is very hard for Starbucks as a competitor to keep the fixed cost against the variable cost.

Starbucks don’t have any other competitive rivals that are of parallel size to them. So there are not any competitors in the market that would be measured in balance with them. However, they must retain their outstanding standards and always be on the watch out for new advances in order to survive as the market leader.

## SWOT analysis

Aim of SWOT analysis is to identify the main internal and external factors that are very significant to achieve the objective. It is essential to be realistic about the strengths and weaknesses to help differentiate the company’s situation are today, and where it could be in the future. The strengths and weaknesses are named internal factors and external factors are opportunity and threats.

## (S)trengths

* It is a global coffee brand with a high reputation for excellent products and services
* It has around 17, 000 stores in 49 countries.
* It has strong ethical values, commitment towards the environment and community activists.
* It is one of the most Top 100 companies which is work for in 2005
* Starbucks Gift Cards, Starbucks Card and rewards.
* Well-value, well train and well-motivated employees, best working place
* Established logo, developed brand image, copyrights, own trademarks, website and patents.

## (W)eaknesses

* It has majority market share in the USA with more than three quarters of its stores located in the domestic market. In order to reduce business risk, expansion is needed.
* It has a reputation for trying new products development and creativity. But, they always remain vulnerable to the possibility that their innovation can go wrong.

## (O)pportunity

* It has a chance to expand its global operations.
* Co-branding with other manufacturers of food and drink and brand franchising to other manufacturers of other products and services both has high potentiality of success rate.
* Technological advantage
* Emerging multinational markets
* New distribution channels
* Supply agreements

## (T)hreats

* Its success has lead many competitors and copycat brands pose potential threats for market entry.
* Starbucks is exposed to increases the cost of coffee and dairy products.
* Farmers are poorly treated by false publicity in supplying countries.
* Fragile state of worldwide production for specialty coffees.
* Isolation of younger, domestic market segments.
* Cultural and Political factors in foreign countries.

## Marketing objective and strategy

Now we can identify external and internal factors of the company. Starbucks marketing objectives are being consistent with their business objectives. Significantly their marketing objectives should direct to sale. The marketing objectives should follow SMART objectives.

#### SMART objectives are:

Specific: organizations objective need to be identify what they want to achieve.

Measurable: organization has to measure whether they are meeting the objectives or losing to do so.

Achievable: objectives should be set, achievable and realistic.

Realistic: The firm is expected to attain the objectives with the resources available.

Timed: A timescale require being place for achieving the objectives.

The 7th of September in 2010, the company has announced that they expand distribution of Starbucks about 13, 000 stores are available at more than 55, 000 locations around all over the world. Starbucks is increasing its share of the $23 billion international coffee market. (VIA® Ready Brew through international grocery channels in Japan, Canada and the U. K.) Starbucks has stores in forty nine different countries as well as Canada, United Kingdom, Australia, Thailand, and Singapore (Starbucks 2010).

And in the U. K. total 80% coffee are selling every day, the product will be available in 2, 300 grocery retailers including Tesco, Sainsbury and Waitrose, raising the total figure of distribution locations to more than 2, 900 retail locations.

At present, Starbucks has expended stores in forty nine different countries as well as Canada, United Kingdom, Australia, Thailand, and Singapore (Starbucks 2010).

Starbucks consider which is important to have a good relationship with their customers wherever they are situated. That’s why; the company maintain the high quality products and services. This company would not be as successful as they are now. Because they are being considered without diversity as they pride it. They are identified to be recognising of various groups of people because they convey in notes for new growth prospect. Jim Donald, President and CEO of the Starbucks Corporation states, “ When we embrace diversity, we succeed” (www. starbucks. com). Starbucks consider that without change, their company would not have matured into the highly successful global company that it has matured into today.