

Marketing analysis of starbucks: swot, porter's five and value chain



One of the most popular coffeehouses in the United States is Starbucks. This is a company that has had so much success over the years, and this success has allowed Starbucks to become an industry leader. In this report, a business analysis will be conducted on Starbucks. This analysis will cover the following topics: segments of the general environment, the five forces of competition, addressing the forces of competition, external threats and opportunities, the greatest strengths and weaknesses, the company's resources and capabilities and competencies, and the company's value chain.

Segments that Rank Highest in Influence

There are six segments that can affect a company's business: political, economic, social, technological, environmental, and legal (PestleAnalysis.com, 2017). For Starbucks and the coffee industry, the top two segments that have the highest influence on the coffeehouse chain are economic and environmental. The economic factor impacts Starbucks because if the American economy suffers or becomes unstable, it can have a serious effect on how many consumers can afford to continue purchasing and consuming Starbucks products. Also, the economic segment can affect Starbucks in terms of rising costs of supplies, such as coffee beans. With rising costs, Starbucks will have to raise its prices even further, and for a company that is already considered to have high prices, raising them even more could cost the company customers, sales, and generated revenues (PestleAnalysis.com, 2017).

The second segment that influences both Starbucks and the coffee industry, the environmental segment has a major influence. The environmental

segment has such a large influence on Starbucks and the coffee industry because if there are environmental changes, it could compromise either the quality of the coffee beans that are grown or how many beans can be grown. This would have a significant effect on the amount of coffee-based products that Starbucks could offer to its customers (PestleAnalysis. com, 2017).

Five Forces of Competition

The five forces of competition refer to the following five forces: competitive rivalry, supplier power, buyer power, threat of substitution, and threat of new entry (Tander, 2015). The two forces that are the most significant for Starbucks are competitive rivalry and the threat of substitution. The force of competitive rivalry is significant for Starbucks because if companies can offer coffee products at lower prices than Starbucks, it can be likely that Starbucks will lose customers to these other companies. The force of the threat of substitution is significant for Starbucks because if there are substitute products that are developed to combat coffee or the coffee-based beverages that Starbucks offers, Starbucks' sales and revenues could decrease exponentially.

In the past, Starbucks has made minimal efforts to combat these two forces. It cannot do much to combat the threat of a substitute product, but it is trying to distinguish itself from other companies that offer coffee and coffee-based products. If Starbucks can create a good source of competitive differentiation, then it will combat the competitive rivalry that exists and that will only intensify.

Efforts to Address the Two Forces

In the near future, there are things Starbucks might do to improve its ability to address these forces. For the competitive rivalry, what Starbucks can do is to develop a line of lower priced products. With lower priced coffee, Starbucks can help to keep its customers instead of losing them to companies like McDonald's or Dunkin Donuts that are offering lower priced coffee products. The second thing that Starbucks can do is to emphasize the Starbucks Experience to its customers, as this is an experience that its competitors do not really offer to their customers. This will help to set Starbucks apart from its competitors and to help combat the competitive rivalry.

For the force of the threat of substitution, what Starbucks can do is to do as much research as possible to stay ahead of the trends. If there are products that are being developed to combat coffee, Starbucks can find out about them as early as possible. This will help to keep Starbucks ahead of the trends, and this will allow Starbucks to develop the substitute products at the same time as or even ahead of its competitors.

External Threats and Opportunities that Face Starbucks

For an industry leading company, there are numerous threats that exist. One of the most significant threats facing Starbucks is a rise in coffee products from its competitors. Because the prices of Starbucks' products are rather high, there are great opportunities for competitors to offer coffee products at a lower price. This is exactly what companies like McDonald's and Dunkin Donuts are doing as a means to lure some of the Starbucks customers to their businesses because of the lower prices (Dalavagas, 2016).

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The second most significant threat that is facing Starbucks is the volatility of the price of coffee. Since coffee is made with coffee beans, the industry is very reliant upon the farmers who grow the beans and then supply Starbucks with them. When there are increases in the costs of farming, or something such as transporting or taxes, then the price that Starbucks pays for its supplies increases. Increases in costs for Starbucks will cause the company to raise the prices of its products even further to compensate for the increase. Therefore, increases in the supply costs for Starbucks, particularly for coffee beans, will directly affect its customers because they will have to pay even more money for the products they want (Dalavagas, 2016).

To deal with these two most serious threats, what Starbucks should do is to find a way to lower the cost of its products. Even if it cannot afford to lower the prices of all of its products, it should consider offering a line of coffee that is lower in price. This will prevent the customers from leaving Starbucks to go to a more affordable place for coffee, such as McDonald's or Dunkin Donuts. If there is a line of lower priced coffee, it could mean that there are lower costs associated with the beans for these products, and so this would help better control costs for Starbucks (Dalavagas, 2016).

Luckily, for Starbucks, there are opportunities that also exist. One of the most significant opportunities is for international expansion. Because there was very little business that contributed to the overall sales and revenues for Starbucks the past few years, there is plenty of room for international growth. If there is international growth, it would take some of the financial burden or responsibility off of the locations in the United States. It would also

cause Starbucks to have more sales and revenues generated (Dalavagas, 2016).

The second most significant opportunity for Starbucks is for consumer packaged goods. This is something that Starbucks is beginning to take advantage of. Products that Starbucks could sell to consumers would include things like single-serve coffee pods and ground coffee beans. Both of these products would allow customers to brew their own Starbucks coffee at home, either with a coffee maker or a one-cup brewing machine (Dalavagas, 2016). For this opportunity, Starbucks should continue to develop and offer more of these products for its customers to purchase for home use.

The strategy that Starbucks should use to take advantage of these most significant opportunities is a two-part strategy. First, it should continue its international expansion, including both the establishment of more locations and greater marketing and advertising to promote its products in the international markets. The second part of this plan involves developing and offering more consumer packaged goods (Dalavagas, 2016).

Strengths and Weaknesses

As an industry leader, there are so many strengths that Starbucks possesses as a corporation. Its greatest strength is its strong brand. Because of its strong brand, when people see the Starbucks green and white logo, they automatically associate it with the coffee industry powerhouse. Also, because of its strong brand reputation, when people want to go to a coffeehouse, they may be likely to think of Starbucks before any other company. Some people may not even be aware of other coffeehouses other

than Starbucks. The stronger the brand, the more business can be generated through increased sales and revenues (Dalavagas, 2016). This will only serve to strengthen the hold that Starbucks has on its industry into the future.

A second strength for Starbucks is what is known as the Starbucks Experience. This refers to the experience that customers get from being in the Starbucks locations. With the Starbucks experience, there is a warm and welcoming atmosphere for customers to not only purchase coffee beverages and snacks but to also sit down and spend time at the locations. This is why Starbucks offers its customers free Wi-Fi connection, and it encourages its customers to sit and spend time at its tables. It is common to see a Starbucks location filled with customers who are drinking the coffee beverages while working on a laptop, electronic tablet, or some other electronic device (Dalavagas, 2016).

For these top two strengths, Starbucks needs to use a strategy that will allow the company to take advantage of them. The best strategy to encapsulate the top two most significant advantages is for Starbucks to launch more marketing and advertising campaigns to highlight the Starbucks Experience. What this will do is educate consumers who are not aware of the Starbucks Experience to let them know what it is while reinforcing the brand reputation for a high quality coffeehouse that creates a calm atmosphere for its customers to sit and enjoy their beverages and snacks while on their electronic devices and free Wi-Fi connection (Dalavagas, 2016).

Starbucks also has weaknesses, despite its overwhelming success. One of its largest weaknesses is the company's dependence on its segments in the

United States. Because there is such a dependence on the sales and revenues that are generated in the United States locations of Starbucks, it represents a lack of international dominance for the coffeehouse. With a virtual total dependence on the United States, it means that an economic crisis in this country could be very damaging for the entire Starbucks brand and financial success (Dalavagas, 2016).

A second significant weakness for Starbucks is the slow expansion that the company is having in the European and other countries. Research findings suggest that "...the Europe, Middle East, and Africa segment only contributed 6% to revenues in fiscal 2015" (Dalavagas, 2016, p. 1). Without any significant contribution to total revenues coming from international locations, Starbucks cannot be as successful as it wants to be. What is also important about this weakness is that in other countries, especially the European countries, coffee is a beverage that is consumed by many. Therefore, it presents a great opportunity for Starbucks to tap into the international market in these countries, yet for some reason the coffeehouse powerhouse is not performing well or taking full advantage of these countries (Dalavagas, 2016).

To remedy these two significant weaknesses, it is important for Starbucks to use a proper strategy. The strategy that Starbucks should expand its international locations. In addition to establishing a greater number of international locations, Starbucks should also launch better marketing and advertising campaigns to make its presence known in the new international markets. This would be a good strategy because it could help to stimulate

international sales while also decreasing the company's dependence on its sales within the United States (Dalavagas, 2016).

Starbucks' Resources, Capabilities, and Core Competencies

For the Starbucks Corporation, there are important resources, capabilities, and competencies that are used. The resources and capabilities are actually grouped together. The first of these is the prime and strategic locations that Starbucks has. Many of the Starbucks locations are in high-traffic and high-visibility areas. Second, Starbucks is a global brand that is recognized and has equity. Third, Starbucks has a strong aesthetic appeal and concepts within and outside of its stores. This helps to create the warm atmosphere that plays a major role in the Starbucks Experience (Geereddy, 2014).

Fourth, there is the large size and strong global presence of Starbucks. Research states that there are Starbucks locations in more than 60 countries, even though the greatest presence for Starbucks is within the United States. Fifth, there is the resource and capability of its effective human resource management and company culture. Sixth, there is the leveraging technology and mobile outlets that Starbucks has. Seventh, there is strong customer loyalty and cult status associated with Starbucks. Finally, Starbucks has a good corporate social responsibility (CSR) image because of its focus on recycling, using environmentally friendly and responsible suppliers, and reducing waste in all of its locations throughout the world (Geereddy, 2014).

There are also core competencies that are very important to the business that Starbucks runs and how its employees conduct themselves within the

Starbucks locations in front of the company's customers. The first of the core competencies at Starbucks is using a premium product mix of good tasting foods, snacks, and beverages. Second, there is the selling of high quality beverages and snacks to create brand equity in the company. The third core competency is providing supreme customer service to the Starbucks customers at all locations. Fourth, there is the core competency having clean and well maintained stores, as Starbucks knows that appearance means a lot to customers. Another core competency is building a high degree of customer loyalty. A sixth core competency is the strong international relationships with suppliers that Starbucks builds. Finally, there is the core competency of using the long-term strategic objectives to expand its business throughout the world (Geereddy, 2014).

The Starbucks Value Chain

Within the company's value chain, there are ways that Starbucks can create value using resources, capabilities, and core competencies. One of the ways that Starbucks can do this is through maintaining relationships with its ethical suppliers that is currently does business with. This will help to keep the strong brand reputation that Starbucks has (Geereddy, 2014).

Another thing that the Starbucks Corporation can do is to find ways to use technology to make the supply chain processes more efficient. If Starbucks can find ways to make the supply chain processes more efficient, then it can lower its operational costs associated with the supply chain. In being able to lower these costs, Starbucks would be able to lower the prices of its products, should it so desire. This is similar to the pricing strategy that

Walmart uses, which is why the company can offer its products to customers at such low prices (Geereddy, 2014).

A third thing that Starbucks can do to improve its supply chain through maximizing its resources, capabilities, and core competencies is to rely on inbound logistics. This concept is defined as “ Sourcing coffee from diverse coffee beans producers with whom they have great relationships and built up efficient supply chain management system” (Geereddy, 2014, p. 14).

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