

# Starbucks business turnaround case

Food & Diet, Coffee



Identify a company that has overcome a crisis situation

Starbucks is an American global coffee company and coffeehouse chain. It is the largest coffeehouse company in the world, operating across 62 countries and having a chain of 20,891 stores across them. Starbucks serves hot and cold coffee based and refreshment drinks, pastries, snacks and sandwiches. Starbucks is one of the companies that have turned into a symbol of successful business turnaround.

Considering the economical conditions at the time in 2007, and the anticipated economic trends for the coming years, Starbucks took the decision to proportionally start closing stores across most major US markets. Starbucks customers have begun to visit the coffee shops less and less, which drove profits to a strong downturn. Starbucks share price declined by more than 75% in the following two years after 2006. Profits for the first 3 months of 2008 fell with 28% compared to the same period during the previous year. Final quarter revenues for 2008 showed that the company net income was down by 70%. This was the first decline of quarterly net income that the company was experiencing (decline to 64.3 million in comparison to 208.1 in December 2007).

Sales and operating profits of same-stores for 2007 slowed down with 1331.2 million in September 2007 to 1258.7 million in September 2008. In response to those indicators of declining performance the company then decided to employ a business turnaround through preserving fundamental strengths and values of the Starbucks brand, increase value and becoming more innovative with their business. Furthermore they attempted to be more flexible and meet changing market trends, scale cost structure and improve <https://assignbuster.com/starbucks-business-turnaround-case/>

operations efficiency. In 2012 the company had a record of, 13. 29 billion dollars of revenues and 1. 38 billion dollars of net income. Figure 1. Starbucks Business Turnaround

### The economical crises

Strong external factor that has contributed to the Starbucks declining performance was, undoubtedly, the financial crisis that brought a strong impact on the business. Internally, a considerable mistake of the management team at the time was their misjudgment of the strengths of the coffee culture that Starbuck had. They believed that customer would continue to be consistent with their spending even during times of economical crises, which turned out not to be the case.

### Fast Growth

At the time the company was focused on fast growth strategy. During the eight years of Schultz serving as a chairman the company grew from 5000 to 15000 stores. The attempted growth was too fast and resulted in Starbucks' stokes dropping with 42% in 2007. In addition to the unfavorable external climate, the high growth strategy through an aggressive U. S expansion that the business was following until then has led to painful results.

### Increasing Competition

Margins on coffee were high; competition was growing as major fast food chains would attempt to win part of the market. Fast food chains as MacDonald's began to develop their own lines of coffee drinks; those were offered to the customer at strongly competitive prices, lower then Starbucks.

There was also part of the market that continued to favor coffee, but preferred to switch to home consumption.

Overall

Poor management decision such as the Expansion Policy as well as the high price of raw materials, the charge of high prices, the low net margin and the poor differentiation from competition were some of the key contributing factors that led to the decline of Starbucks performance.

Reflect on the measures implemented in response to the crisis Leadership

To stabilize the company at a point of crises numeral measurements were implemented. Alarmed by the critical downturn Starbucks was experiencing the chairman, Howard Schultz, took the decision to step back in as a CEO with a strong desire of running the company and implementing numeral changes. Since his comeback in 2008, Howard Schultz, redirection of the company's strategy has gone further than retrenchment. Schultz determined and energetic leadership was strongly driven by his belief that the company needs to revive and renew the " Starbucks Experience" and restore its relationship with customers. Retrenchment

In relation to the difficulties that the business was experiencing in 2008, Howard Shultz had to take \$850 million in costs out of the business, large part of which was contribution from closing down stores and cutting down on workforce.

In 2009 the America's largest coffee chain announced the closing down of more than 600 unprofitable stores across the country, 80% of which had been opened for a period less than two years. The CEO decided to cut back

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on growth and instead work towards improving cleanliness, services and operations at existing stores.

However, Schultz did not attempt to lower costs through cutting health care benefits of Starbucks staff. As the CEO viewed commitment to employees and the role of Starbucks stores in local communities as a core value, he did not want to take this type of measures even through the difficult financial times that the business was going through. This decision had a high price but was important to sustain the core values of the business. As the recession period stretch through a much longer than anticipated period of time, Starbucks had to close down more stores and lay off more workers than it was initially planned, however they needed to achieve an impact in order to avoid falling into a situation where the business would need to go through a second round of cuts. Strategy Reshaping

At the initial stage of his work Schultz was reconsidering the business strategy and identified that the success of the company lies within the appeal of Starbucks' coffee, and the aim at extensive growth was reliant on the quality. Schultz changed his way of thinking and began to see growth as a result of success rather than growth as a mean of success.

#### Products and Services improvement

The retrenchment plan further included the elimination of sandwiches and in order to bring the company focus on coffee - brewing fresh coffee more frequently throughout the day and offering wider variety and better blend of coffees. Schultz decided to remove sandwiches that were overpowering the

smell of coffee until they were improved to be healthier and with fewer aromas.

Once the new direction was clear on the new strategic direction, he was on his way of action in order to change the way of business. One of the major measures towards the new strategy was the introduction of new upgraded coffee machines and investing in staff training. Schultz replaced coffee machines across stores with the sophisticated Swiss coffee machine-Mastrena. He closed all Starbucks stores for a day in order to train baristas how to make the best espresso. Furthermore supply chain operations were completely reorganized in order to improve inventory and get product to store more efficiently.

#### External Support and Consulting

Moreover, Shultz and his management team reached out for external competence and support from management consultants. His team began to closely observe competition; visiting coffee shops, restaurants and investigating high end selling techniques. The CEO also attained advice from friends such as Costco's cofounder and CEO, Jim Sinegal, who emphasized on the importance of protecting and preserving the core customers at times of downturn. In respect to that advice another action that was taken by Starbucks in their redirection process was to create customer reward cards.

Furthermore the company decided to get customers involved in their turnaround process and offer customers the opportunity to give their opinion. Schultz took the advantage of social media by creating the mystarbucksidea.com website and gave its customers the opportunity to

actively share ideas; creating their own version of drinks and contributing to the improvement of the Starbucks experience. Embracing the creativity of over 250, 000 members that generated more than 100, 000 ideas, many of those suggestions were then developed and implemented.

### Innovation

Innovation has played a major role in the growth and profitability of Starbucks' business. The company introduced new products and extended product lines. For example the Starbucks VIA instant and micro-ground coffee was developed as a result of a Starbucks research & development efforts that resulted in opening new markets and demand. In 2007, 2008 and 2009 the company respectively invested 6. 5, 7. 2 and 7. 0 million dollars in technical research and development activities. Starbucks also introduced a new design of their store where architecture, furniture, light and colours were used to regenerate the soft coffeehouse experience.

### Improving

Communication with Stakeholders Schultz also have invested a tremendous amount of time and energy in communicating and reaching out to all core stakeholders - customers, employees, managers and store managers, the media, analysts and shareholders. The main purpose of his strong communication efforts was to keep constant contact with the various stakeholders, keep them aware of all changes, modifications and important decision, make them feel part of it and ensure that Starbucks functions as an organism. Schultz made personal call to stores across the US to see how they were performing and also encouraged people to personally contact him

through emails. Shultz has dedicated time and exceptional effort to his corporate communication strategy.

### Media and Advertising

A new technology officer was appointed. Chris Bruzzo from Amazon. com, was responsible to develop the company's website and improve the social media presence. For a first time in its history Starbucks launched a national advertising campaign. Commercials were aired during the heat of the presidential election season in 2008 and resulted in 70 million media impressions.