

Course work on strategic and competitive analysis

[Business](#), [Company](#)



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Strategic and Competitive Analysis

1. Using Internet resources identify the product attributes customers seek when buying hot coffee. (10 marks)

A product is something, which can satisfy a need or want that can be offered to the market. Attributes are properties of a given product, service, brand, advertisement or anything of interest. Attributes are inherent in the product and can be either concrete or abstract. They can also be referred to as product features that attract buyers. They are the characteristics by which a product or service is identified or differentiated. They consist of features, benefits, uses and functions of the product (Espresso Business Solutions). A great deal of brand and market study is aimed at understanding the most powerful and influential attributes of a product, service or brand. They may have many attributes including cost, value for money, status, taste, usability, likability and a wide range of image or personality attributes.

Price attribute is one of the main attributes customers look for when buying hot coffee. The price point is an essential feature since customers are of different calibers and therefore, before they choose to buy the coffee, they have to consider the price. Generally, the industry offers two main types of coffee products, specialty coffee and basic coffee. Of the two brands, the former ranks highest and has a different price compared to basic coffee. A coffee statistic shows that 50% of American population equivalent to 150 million people prefer taking espresso, cappuccino, latte, and iced cold coffee. This has created a lot of competition in the industry where there are only 24,000 coffee shops. Because of customer preference, the average Espresso Drive-thru business sells about 200-300 cups of espresso coffee per day (Espresso Business Solutions).

It is also shown that the average price of espresso-based drink goes for \$2.45 while that of brewed coffee is \$1.38. The consumption in industry varies in the sense that men drink much coffee compared to women at an average of 1.6 cups a day. The average cup size that is preferred in the industry is 9 ounces and 30 percent of the populations are considered occasional drinkers. Most drinkers prefer drinking during breakfast where most of them take the creamed or sugared coffee to black one. All these preferences in the industry are motivated by the fact that it helps women to relax and help men to get the job done (Espresso Business Solutions). Another key feature customers look at when buying hot coffee, is the quality conformity specifications. Hot coffee must be of a certain temperature for it to be considered satisfactory to the customer. In addition, most customers prefer hot coffee with some sort of energy derivatives added in it.

The real estate's set up by in the coffee industry to serve hot coffee must comply with these requirements. This is because it forms one of the main attributes that customers consider before buying it (Espresso Business Solutions. Different customers demand different temperatures and employees of Starbucks must ensure that they meet the demands of different customers. For instance, a couple that comes to take coffee accompanied by their small children. They must ensure that the temperature range is within what the children can drink. The parents have their own temperature preference too, and their demands must be met. (Sampson 2010)

Another quality conformity standard that must be ensured is the freshness of the Starbucks's hot coffee. Their employees must ensure this fundamental attribute at all times. In fact, it should take preference over all the other attributes because they will be chasing their customers if they serve a fresh-hot coffee. All dealers of hot coffee in this industry must ensure at all times that, the health of their customers is ensured because the customers regard their health as paramount. The freshness of the hot coffee must be in terms of preparation of instant coffee i. e. the time frame must be considered. Similarly, the hot coffee must be free from any foreign substances. It must be pure for it to serve as many customers as they can handle. This is a crucial attribute that a majority of customers look especially those who have problems with their health. Therefore, the dealers must prioritize the idea of serving pure hot coffee at all times. Hot coffee that contains foreign additives tends to sideline many customers in terms of health. Most customers prefer ready coffee while some have to wait for the hot coffee to

be prepared for them.

Attributes consist of functions of the product and in the case of hot coffee, its functionality of is also considered. Functionality in this case refers to the element valued in the hot coffee. They include how the coffee tastes and the way it is served at the coffee bar or any other place that has designated by players in this industry to serve their coffee. Other overall things customers search for when buying hot coffee are the overall experience they get from taking the coffee, the store ambiance and selection of the hot coffee. All this contribute to the fact that customers look at a variety of things before they settle down to take the coffee. They look at numerous factors that will ensure they achieve maximum satisfaction (Best Cars).

In most cases, a customer desires to gauge their product or brand as supposed by target markets along a number of attributes they consider pertinent to the brand or product. The case is different in a competitive market because, they will sometimes demand to know how they rate against their fellow competitors and their rank in the market. (Gale 2010)

A major mistake in the attribute-based study is for the most outstanding features in the hot coffee served by the dealers to be ignored or missed out during the study. For instance, the process the coffee undergoes before it gets to the market and the quality standards adhered to before procuring coffee beans. Another mistake is for the aspect definitions to be posed in such a manner that they are not clear to the consumer focus pool. The former frequently happens when the hot coffee is product rather than consumer motivated. It is often necessary for the study to aim at unfolding the most prominent features of the hot coffee in relation to the consumer,

rather than the client. In brands where the features are often associated to brand personality, image and brand recognition related variables, can often be uncovered by qualitative and intense analysis techniques. These are some of the tips that can help consumers to select the best quality of attributes for the hot coffee they want in the industry. It can also help all players to disclose salient attributes regarding the hot coffee they offer that are of prominence to their clients.

2. Using the data you developed in question 1, and the data from the Starbucks case, classify the Starbucks hot coffee product. (10 marks)

Using the information above, we can classify the Starbucks hot coffee point. Starbucks is a world Class Company that offers top-quality hot coffee to its customers. Coffee was the second most prominent traded commodity after oil. Therefore, players in the industry had to observe the topmost integrity in order to continue staying relevant in the market. The hot coffee market was highly competitive, and Starbucks Company could not ignore the fact that they needed to provide excellent hot coffee, in order to maintain their customers and even attract new ones. Since Starbucks offered two brands of coffee, basic and specialty coffee, the later was indisputably of higher quality than the former. The competitive nature of the market has made Starbucks to devise a prices Strategy in the sense that a hot cappuccino for prices between \$ 2. 35 and \$2. 65. This has enabled the Company to utilize all the market niches on customers who want both cheap and exclusive prices (Bill Whitaker, 2011). The greatest attributes that have made Starbucks hot coffee the most formal brand among its consumers are; most people had adopted a healthy lifestyle by substituting alcohol taking with coffee taking

(Economics help). Starbucks hot coffee bars and restaurants offered excellent places for meetings especially after work. People had constantly become more knowledgeable about coffee, and the fact that they liked affordable luxuries; specialty hot coffee served the purpose and fitted the bills.

There was a greater population of people taking hot coffee, and Starbucks being one of the companies that offered hot coffee, had to put in mind the large number of customers they were serving (Wegotcoffee. com). The demand for hot coffee was continually increasing, and Starbucks had to put in place several measures to meet the growing demands of their customers. They applied strategies that were aimed at providing quality coffee drinks worldwide (Best Cars). The letter written by Starbucks top managers to its shareholders contained some of the incentives they were applying not only to satisfy their customers but to provide quality hot coffee to the customers. Among them was selecting the finest Arabica beans and hiring highly talented people who ensured that they provide quality to the people. Starbucks coffee products were indeed of world class quality. In their letter, the managers say they are excited about the global possibilities as customers that are more new embraced their business. With the intention to improve quality, Starbucks added 20 Ounce of energy and 200 calories of sugar to its hot coffee thereby attracting some customers (Wegotcoffee. com). The other parameters that can be used to classify a company whose demand for its products are growing so fast and the number of its customers increasingly becoming large. With these indications, it is clear that Starbucks products are of high quality, and that is why their market is fast growing.

They provided other additional services that attracted more and more customers. It was not only a place to drink hot coffee but also an experience. They offered more than the finest coffee, first- rate music, a comfortable and upbeat meeting place and sound advice on brewing excellent coffee at home (Bill Whitaker, 2011). This shows that Starbucks also provided additional services apart from offering coffee. The fact that they provided additional advice on preparing coffee at home, and a calm, relaxing place was enough to attract more customers. They had educated employees who were highly disciplined and maintained the highest standards of professionalism. All these are factors that indicate Starbucks coffee products were of high quality (Daft 2008).

3. Using the data in the Starbucks case, prepare a BCG growth matrix for Starbucks. Be sure you consider the Starbucks Company as a whole; do not confine your analysis to the hot coffee business.

The Boston Consulting Group, (BCG) matrix appears to be a fundamental object when analyzing an organizations strategic management or marketing strategy. In this case, it can be applied in Starbucks Company. It can be used to assist Starbucks in analyzing their business units or product lines. This helps it to equally distribute and allocate its resources. It can also be used as an analytical instrument in portfolio analysis, coffee marketing, product management, and strategic management. The idea behind this matrix precludes that; a company's business unit can be categorized into four units based on the market behavior arising as a result of interaction with other competitors in the industry. The expansion in the coffee market provides for the company to stay awhile longer in the industry while the portion that the

Starbucks holds in the market provides cutthroat benefits. It assumes the raise in the portion held by the results to an increase in the ability of Starbucks to operate profitably. This hypothesis holds since according to the experience curve, increased market share means that Starbucks is forward moving compared to its rivals in the market.

- HIGH
- Market Growth Rate
- LOW
- HIGH
- LOW
- Relative Market Share

Another hypothesis in the industry that, for a market to grow there must be some form of savings in property that increase capacity that have resulted in expenditures incurred by Starbucks. An analysis of Starbucks books reveals that they had a high-market share. Their books reveal a substantial difference in the market capital of Starbucks compared to other companies in the U. S. and Canada. They generate large amounts of cash as a result of their strong market share. This is reflected in their income statement as their net earnings and revenues increase steadily through the years. However, their expenses also increase like their market share increases. They consume large amounts of the money they earn because of their high growth rate. This is a characteristic of a star in the BCG matrix. The BCG matrix contains four categories that can be used to analyze the situation of Starbucks her competitors. They include the question marks, cows, stars, and the dogs.

The question marks: they do not generate many cash because they have a relatively small share of the markets. They grow quickly therefore utilizing much of the company's savings which results to a substantial net consumption. They have the ability to improve market share and become stars and later on cash cows especially during poor market performance. However, if its quest to become a market leader bears no fruit, then it may collapse or become a dog when the growth rate decreases. Therefore, critical analysis must be carried out in order to determine whether they are a perfect opportunity for investment. In the case of Starbucks, it represents the products, which were launched recently by the company as shown in the matrix.

Stars: This category generates large amount revenue to the company because it has a large market share. They also consume a lot of the money they make because their growth rate is high and they must spend and invest in the market to keep up with their size of market share. Starbucks exhibits this characteristic. Stars can become cash cows if they manage to maintain their market share when the growth rate eventually declines. The portfolios of large companies, in this case Starbucks, must develop products of this nature, which will later transform into the source of income.

Sources of income: This is the third stage/category of the BCG matrix. They are the market leaders, and they generate a lot of money and consume less of it. This is because they display a situation where their returns on assets are more compared to the rate at which the market expands. They assist in providing the cash to transform the question marks to become excellent market performers. They also help in the provision of cash to cover the

administration expenses of the business while carrying out studies and improvement to cater for the company's debts and pay dividends to shareholders. Since they generate cash at a comparatively unwavering position, a discounted cash flow analysis can be used to calculate and determine with practical truthfulness the current worth of cash stream (Woods 2001).

Dogs: they have a low-market share and low-growth rate hence they do not consume large amounts of the cash they generate. However, they are cash traps because the money locked up in the business has a remarkably small latent. In this scenario, the product has matured and is even declining in sales. Not much profit is realized and the company uses a lot of money in advertising the brand.

The BCG growth share template provides that industrial maturity and developmental stagnation will either make a product to become a dog or a cash cow. This determined the degree of market leadership achieved in the time of exponential development. In as much as it may have its advantages in the analysis of market structure, the BCG matrix has numerous limitations. These limitations are that the growth share matrix overlooks what can be used to analyze profitability of a company (Starbucks in this case). The market and growth shares are the two major factors that determine the ability to make profit, and the matrix ignores other influential factors.

Another hypothesis put forth is that company entities do not have influence on each other yet there are cases where a "dog" product may help the other product in commanding a bigger market share. Lastly, it is dependent on the size definition of the market. In this case, a market may control its small

environment but have a low-market allocation in the whole business.

4. Using the data in the Starbucks case, develop a five forces (industry) analysis for the hot coffee industry. (30 marks)

A Five-force industry analysis was developed by Michael E. Porter of Harvard Business School in 1979. The coffee industry may be analyzed using the five forces of industry, better known as Porters five forces. Three of them refer to external forces while two are internal. They are as follows:

Threat of new entrants and barriers to entry;

New firms enter a market with profitable markets that yield high returns.

This leads to many new entrants, which eventually will diminish profitability for all firms in the industry. The possibility of new entrants and incumbent rivals pose threats to Starbucks, as it leads to more competition and later on reduced profits. Literally, the market should be free, and anyone can enter or leave the market freely. This will maintain normal profits for Starbucks and avoid other firms from making super normal profits. In the real sense however, industries have characteristics that defend the high-profit levels of firms in the market and restrain additional rivals from entering the market. These are barriers to entry. The coffee industry is quite competitive and majorly restricted by Starbucks. There are no barriers to entry, which is why many companies are choosing to enter the market.

The threat of substitute products or services;

Existence of products from outside the boundary of coffee products or services increases the tendency of customers to exchange alternatives. In this case, alternative coffee and its related products exist in the market. A

threat to these products from outside occurs when demand is affected by changes in prices of a substitute product or service. As more coffee substitutes become available, demand becomes more elastic because customers have more choices. However, Starbucks has been able to maintain its brand of specialty coffee by ensuring its quality in order to keep demand from customers high. A close related product blocks the ability of firms to increase prices. The threats also include products like juices and colas, which are generally sold in all retail outlets. These products present a moderate threat to Starbucks.

Buyer Power

The strength of buyers is the impact that customers have on a production industry. Generally, when customer purchasing power is strong, relationship to the production industry is a situation where a market has many suppliers and one buyer. Starbucks customers have a strong purchasing power, and as a result, they control majority of the market unlike other companies like Brothers and Second cup. Under such market conditions, the buyer has authority to set the price. (Khan 2002)

Supplier Power

Labor, raw materials and other supplies are what production industry needs. This demands lead to buyer-supplier relationships between the industry and the firms that provide it the raw materials used to generate the products. Powerful suppliers can exert an influence on the producing industry, such as selling raw materials at a high price to capture some of the industry's profits. Many suppliers were fighting to supply Starbucks with high-quality coffee

beans because it was the biggest purchaser of high-quality coffee in the world. Since it was also controlling the coffee industry with massive profits, many of these suppliers were anxious to have a share of the profits by supplying coffee to them at a higher price (Brown 2007). Starbucks has in the recent past entered into reasonable contracts with its suppliers and vendors. Price sensitivity has been prioritized in these contracts and the ultimate result is moderation of competition.

The intensity of competitive rivalry

The intensity of competitive rivalry forms a vital determinant of the competitiveness of an industry. Starbucks had numerous competitors both in America and Canada. The coffee industry was highly competitive, and the players in the market had to compete fairly to ensure that they stay longer in the market. It can be achieved through, Sustainable competitive advantage, innovations, proper advertising measures and the level of advertisement, strong, competitive strategies and web design for product visibility. Starbucks had to install a state of the art roasting equipment, develop new channels of distribution, and join hands with other companies, so as to stay competitive in the market. Starbucks enjoys the advantage of being globally famous and this gives it an opportunity to outdo some competitors like Diedrich coffee.

5. Using the data in the Starbucks case, develop and interpret the strategic implications of a strategic group map for the hot coffee industry. (20 marks)

The trends in the coffee industry may make Starbucks to adopt the following strategies in order to ensure that it is competitive in the market. The

strategies to be implemented can be functional, business or at grand levels. The grand level strategies that have to be implemented by Starbucks will be aimed at sustaining growth through concentration and diversification. The company can also opt to retrench some of its employees, or maintain the status quo irrespective of the current market changes and situations. Consequently, Starbucks can also decide to implement a combination of the strategies mentioned above. In order to achieve growth, the company may concentrate on a particular market by using the existing products. It may also decide to expand its operation into new market niches, or divide the markets into segments that enhance product evolution.

Starbucks can also opt to have a joint venture with another company or even diversify its operations. Other strategies that can be adopted by company include retrenchment of some employees in order to cut costs. Some of the business level strategies that can be adopted by Starbucks Company include using low cost retailers like Wal-Mart. It can also employ strategies that can enable it to adapt to the competitive coffee market environment. This can be done through prospecting, or carrying out a market analysis. The company can also adopt some functional level strategies that make it to be certain of a good market share. Some of the strategies include the company carrying marketing exercises for its product, or manufacturing it. Formulation of such strategies can be carried by Starbucks by adopting the seven S models, which takes into account factors like strategy, structure and relationship of the people, shared values within the company, and systems and procedures to be used in the implementation process. Additionally, it includes the skills of the employees, style of leadership within Starbucks, and ways of staffing.

The seven parameters will affect the way the company will be able to successfully implement the strategies formulated (Brown, 2007).

The strategic group map for the coffee industry will appear as follows:

- High
- Medium
- (Price/quality/image)
- Low
- Specialty coffee
- basic coffee
- (Coffee Line)

The two main brands are specialty coffee and basic coffee. Specialty is divided into flavored and non-flavored. Flavored coffee accounts for 25% of specialty that are being marketed. Starbucks however has concentrated in offering non-flavored hot coffee. In the map, illustrated, the price of a commodity can be either low medium or high. In the coffee industry, medium priced coffee is sold to national coffee chain while the most expensive ones are sold to those customers who like exclusivity. Low-priced coffee on the other hand is sold to outlets and shopping malls.

The identification of coffee into the categories provided play a major roles to the company when it is planning to introduce a particular to the market while at the same time identifying the best niche that guarantee profitability. In this case, Starbucks will have to produce much of the non-flavored coffee, which range from medium to high prices. By doing this, the company will be able to sell much of its coffee product to international and regional retailers

where they can be purchased en masse. Consequently, production of low-priced coffee will enable the company to minimize any instance of loss making. This is because such products may even be sold to retailers on credit. This will obviously create an avenue low revenue earnings and the company should therefore produce them in low quantities. This strategic map is therefore important to the company as it tries to identify the product it seeks to produce most.

6. Should Starbucks accept the McDonalds offer? Explain your reasoning. (5 marks)

Starbucks should accept McDonald offer in my opinion. This is because; the McDonalds would not only increase their market share but also increase their profits. The McDonalds had on several occasions requested to enter a contract to serve Starbucks coffee. They should be allowed because they will add on Starbucks customers and increase their market size, which will in turn improve on their profits.

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