

# Free essay on strategic management

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### 1. Introduction

The strategic management of an organization is often responsible for its success. This research will focus on Starbucks Company in an attempt to understand how strategic management is key for the success of an organization. To achieve this aim the report will incorporate appropriate models and concepts to analyse Starbucks Company. The first step will be to provide the company's background, Starbucks's competitive advantage, as well as models like Porter's five forces, SWOT Analysis, Porter's generic strategies and the PESTEL analysis. Finally, the report will offer recommendations that will greatly assist Starbucks to deal with the threats and weaknesses that it is facing.

### 2. Company Background

Starbucks Corporation is a global coffee company and has its headquarters in Seattle, Washington. Gordon Bowker, Zev Siegl and Jerry Baldwin founded Starbucks company on March 30th 1971. Starbucks Corporation is a global company as it retails coffee in over 18, 000 coffee shops across more than 60 countries. The largest numbers of Starbucks shops are in countries such as the US, Canada, South Korea, the United Kingdom, Germany, Mexico, Australia, Philippines, New Zealand, China, and Japan (Flamholtz & Randle 2011, p. 94). The company's stores deal in coffee drinks, teas, roasted beans, coffee accessories, bottled water, juices, and food items like breakfast sandwiches and pastries. In 1982, Howard Schultz was hired to manage Starbucks's marketing and retail sales thus a value addition to the company because he was keen on carrying out research to enhance the

company's performance. Starbucks bought Peet's Coffee in 1983 which was at the time a five-store operational business.

The methods employed by the company were costly because they made use of expensive dark roasting Arabica beans of a high grade to prepare coffee. As such, they suffered the financial consequences that resulted from snubbing the wholesale markets and supermarkets. Even so, Starbucks market grew rapidly from the sales of \$50 million worth of specialty coffee in 1983 to about \$500 million in 1988. SAZABY Inc., a Japanese restaurateur, and retailer helped Starbucks penetrate the Japanese market in 1996. The company's initiative to expand its market into other countries saw it realize sales of \$1 billion in 1997 with a net income of \$57.4 million (Flamholtz & Randle 2011, p. 94). Besides the more than 10,000 stores, it owns in the US, Starbucks has issued franchises and licenses to the tune of 9,575 units across the globe. The company has mostly issued such franchises and licenses to airports and shopping centers so they can attract a large customer base. In fact, as of September 2013, the company operated 10,194 stores and 9,573 licensed outlets.

### 3. Competitive Advantage

A competitive advantage is a scenario that gives a firm a superior or favorable business position that allows it to generate greater margins or sales over other industry players. Starbucks undoubtedly has a competitive edge over its competitors. When the issue of premium coffee arises, "Starbucks" inevitably comes to the mind of most consumers (Jones & Hill 2011, p. 113). Additionally, Howard Schultz's strategic management skills have contributed towards the growth and profitability of the company.

Firstly, Starbucks has a connected customer experience thereby making it possible for them to create and maintain long-term relationships. This move gives the firm a competitive edge because they have a higher ability to retain their clients as opposed to other firms who are mostly keen on selling their products.

The “ Starbucks Experience” provided by the coffee giant makes clients feel at home because their customer service promotes a strong bond and emotional attachment with their target market. Furthermore, the company has designed its stores a wonderful ambiance in locations that are easily accessible. Most coffee companies attach little importance to the surroundings where they sell their products. Actually, many of Starbucks competitors opt to sell their products through supermarkets and wholesale stores. In contrast, Starbucks sell their products directly to their clients and this has afforded them with the opportunity to create a brand image for themselves. Moreover, the employees are treated well especially because Schultz strongly believes that it is the key to harnessing a positive customer experience. In this regard, employees are given benefits like stock option plans, health care, training, stock purchase plans, and recognition. Starbucks was in fact rated as the seventh “ 100 Best Companies to Work For” in the Fortunes annual list of 2008 (Jones & Hill 2011, p. 113).

Secondly, the Starbucks reward card contains a host of benefits that entices a large clientele. The card rewards customers using incentives like bonuses and discounts. In this way, Starbucks is able to encourage repeat purchases thus building customer loyalty. Moreover, the launch of the Starbucks Customer Experience Survey enables customers to give their thoughts

concerning their experience with the company. Evidently, Starbucks is dedicated to building long-term relationships with their clients. Thirdly, Starbucks' makes use of the finest beans in the preparation of its coffee. Usually, the organization's personnel travel to look for suppliers that match their standards. The company purchases organic coffee that has been certified. Moreover, Starbucks coffee is normally brewed using Masrena, a sophisticated espresso machine that is Swiss-made. Therefore, when a client goes to a Starbucks cafe overseas, he/she will be greeted with that pleasant and familiar taste regardless of their location (Jones & Hill 2011, p. 113). The use of high quality beans causes Starbucks products to stand out because of their unique brands which many consumers love.

#### 4. Porter's five Forces

Michael Porter developed the concept of five forces that can be used to understand the particular areas where power lies in a business. The five forces involve the threat of having new entrants come into the market, threat concerning the existence of substitute goods, the presence of serious rivalry amongst competing firms, bargaining power of a company's customers as well as that of their suppliers.

##### 4. 1 Threat of new entrants

This force influences the ease with which other companies can join a particular industry. Starbucks faces a moderate threat of new entrants into the industry. To begin with, the market such as the one in the UK is highly saturated hence it is less likely that there will be new entrants. Furthermore, the cost of entry is prohibitive because a significant amount of financial resources like properties and buildings are required to join the industry.

Alternatively, new firms can incur a moderate level of investment to lease equipment and stores. There is the possibility of a retaliation from well-established companies like Dunkins and Starbucks for resources, brand equity, price competition, and location of prime real estates which are moderately high. Consequently, a moderate barrier to entry is developed for new entrants in the coffee industry. There is also the element of a larger scope and scale that incumbent firms such as Starbucks enjoy. This gives the likes of Starbucks an advantage because they have are able to get raw materials at favorable terms based on the good relationship they have managed to create and nurture with their suppliers over the years (Pradhan 2009, p. 518). As such, new entrants face a moderate threat because they will need time to harness strong relationships with their suppliers so they can access raw materials at favorable terms.

#### 4. 2 Industry Rivalry

The intensity of competing firms in the coffee industry is high. Starbucks operates in the industry with other major players likes Caribou Coffee, McDonald's, Dunkin Donuts, and Costa including thousands of small cafes and local coffee shops. Another reason why there is a high competition is that consumers do not incur any extra costs when they switch to the products of other competitors especially given that they do not have a significant difference and are not highly complex. The coffee industry faces a monopolistic kind of competition, with Starbucks incorporation having a significant market just like other companies. As a result, big companies like Dunkin Donuts pile a significant pressure on Starbucks. Fortunately, Starbucks has managed to maintain a competitive advantage because of its

premium services and products.

#### 4. 3 Threat of Substitutes

Starbucks Company faces a significant threat from substitute goods. Firstly, there are wide ranges of energy drinks and beverages that are coming into the market thereby making it easier for consumers to shift their preferences (Pradhan 2009, p. 518). Some of them include fruit juices, water, sodas, and tea. Furthermore, pubs and bars that provide non-alcoholic beverages could be used to substitute the social experience that is often derived from Starbucks stores. Secondly, the media has greatly focused on the negative effects of caffeine on consumers and this may compel customers to opt for other substitute products that are deemed to pose no health hazards. Thirdly, consumers can also use household premium coffee to prepare their own coffee at half the cost that is paid to retailers such as Starbucks hence a threat to their operations.

#### 4. 4 Bargaining Power of Buyers

The buyers have a bargaining power that ranges from medium to low pressures. This stems from the fact that Starbucks has several buyers who make relatively small purchases. Individual customers often buy a cup of coffee or two and a snack thus eroding their bargaining power. Coffee drinkers further acquire moderate power because they can prepare the product in their own houses instead of buying it. Additionally, the moderate sensitivity of customers towards premium pricing gives them power as they often agree to pay premiums on high quality products but are keen on instances of excessive premiums.

#### 4. 5 Bargaining power of Suppliers

Starbucks's supplier power is low given that its scope and size makes it form a significant portion of the business of suppliers. As such, the suppliers have a lower power because many of them would be eager to work with such a large entity. Starbucks main inputs include things like premium Arabica coffee found in certain regions. In this respect, the cost of switching from one supplier to another would be minimal thus giving them moderately low power. Furthermore, suppliers have low power because they operate under a fair partnership status with Starbucks Incorporation.

#### 4. 6 Summary

The coffee industry is a lucrative one hence the reason for a high industry rivalry. Nonetheless, Starbucks has a good chance of success given that both the suppliers and buyers have a low bargaining power. However, there is need for the company to innovate its products in order deal with the threat of substitute products from competitors.

#### 5. PESTEL Analysis

PESTEL analysis stands for the Political, Economic, Social, Technological, Environmental and the Legal factors that affect a particular business. This tool is believed to be highly effective in analyzing the effect of external factors on a company.

##### 5. 1 Political Influences

The first factor relates to the high level of taxation imposed on most coffee farmers. High tax rates of farmers in countries that play a significant role in the production of coffee beans means that Starbucks has to pay expensive for the coffee they buy (Thompson 2009, p. 76). As such, consumers bear the ultimate burden of tax fluctuation in the coffee industry. Secondly, trade



issues was another factor that was likely to affect Starbucks when importing and exporting goods. When the government of another country imposes tariffs it causes an efficiency loss for Starbucks and even worse is that the company experiences inconsistencies between equity and large transfers of income. Thirdly, the impact of the international economy needs to be put into consideration as they have the ability to influence Starbucks's markets and sales. For instance, the outcome of 9/11 shows of a scenario where the economic downturn had an adverse effect on the world market thereby impacting negatively on the sales of Starbucks Company. Finally, employment laws have a major effect on the profitability of Starbucks. In countries where the minimum wage set by the government is high, Starbucks's profitability is lowered because of the increased wage expenses.

## 5. 2 Economic Influences

The interest rates in a given country are an important factor that Starbucks has to consider when making the decision to invest. As the firm has its operations in more than 62 countries, they have to ascertain that such rates are favorable before they can continually expand their operations in a particular country. There is also the issue of the exchange rates, which affect Starbucks's international dealings hence, the need for the same to be closely monitored. Additionally, the buying power and inflationary tendencies assists the company in making projections concerning the sales and demand for coffee. Thompson ( 2009, p. 76) is of the view that low purchasing power and high levels of inflation in a country often prompt Starbucks to produce a few of their products and even to carry out some of their operations on a small scale because of low demand. Conversely, areas where consumers have a

high purchasing power and low inflation causes the firm to open more retail outlets to meet the high demand for their coffee and other products. There is also the aspect of competitors pricing which Starbucks has to consider.

Several restaurants and cafes offer coffee to their clients and as such, Starbucks has to keep tabs with their pricing strategies. Recession and the pace of growth in a country's economy affect the firm's operations.

Recession and slow economic growth will are likely to cause Starbucks to realize low sales.

### 5. 3 Social Influences

The population demographics are is an essential factor because Starbucks needs to determine their target market. As such, Starbucks will be able to determine the right marketing strategy to use in order to capture the intended population. The distribution of income is another social factor that the company has to assess in the process of marketing and locating their retail stores. Coffee is usually considered as a luxury product and thus Starbucks can only thrive when they locate their retail outlets appropriately. In addition, health consciousness is a factor that cannot ignored because it greatly affects consumers behavior and preferences. Consumers' trends show that there have been significant changes towards products that are healthier. Consequently, Starbucks has to regulate the quantity of their products they bring into the market because many people have reduced their coffee consumption levels.

### 5. 4 Technological Influences

The development of IT (Information Technology) has seen Starbucks continuously develop its internet facilities. In 1998, the company launched

an ecommerce website where customers could access information related to their products (Thompson 2009, p. 76). Furthermore, Starbucks has established ties with Apple so they can provide discount coupons that are app based hence they are able to enjoy the mobile wave with so much ease. Additionally, the firm has successfully introduced Wi-Fi capabilities in all its retail outlets in order to make it possible for their numerous customers to surf the web as they sip their coffee. Starbucks has undoubtedly added value to their brand and enhanced their customer experience using the Wi-Fi capabilities. The company has also embraced the new system of phone payments, which was introduced recently thereby promoting efficiency as it helps reduce queues especially during peak times. The use of social network platforms like Facebook was an important move for the company. Starbucks has managed to communicate with many customers given that a social media site like Facebook has over 500 million users.

#### 5. 5 Environmental Influences

Several concerns have been raised about Starbucks's business practices from international advocacy groups, activists, and consumers. The company experiences pollution problems because of the tendency of consumers to dispose coffee cups along the street. As a result, Starbucks has to consider these concerns if it is to continue enjoying the kind of trust it get from consumers. Starbucks can adopt packaging that is biologically degradable so they can control environmental pollution. Non-Governmental Organizations also possess the ability to coerce companies to change their practices through boycotts and lobbying. Therefore, Starbucks has maintained favorable environmental influences by working with the " Fair-Trade

movement” as well as the accreditation that accompanies such alliances has greatly helped to improve the firm’s image.

#### 5. 6 Legal Influences

Starbucks has the obligation of making sure that it does not violate the laws and regulations set in the countries where it is operating and sourcing its raw materials. Most countries do not openly welcome indigenous firms in a bid to protect local firms from takeovers and unfair competition. As such, Starbucks is faced with national protectionist and monopoly laws due to its large size and expansion strategy. For instance, countries such as India have rules that hinder external companies from having ownership of more than 51% in mergers as a way of guarding against takeover practices. Therefore, legal influences tend to be unfavorable for Starbucks Company.

#### 5. 7 Summary

The PESTEL analysis shows a balance in external influences since the technological, sociological and environmental factors are somewhat more favorable unlike the economic, political, and legal factors, which pose a threat to Starbucks Incorporation. Nevertheless, Starbucks’ is better positioned to counteract the PESTEL factors, which pose a threat to the company. Although the firm has no control, over environmental influences, it is highly flexible to change and this has enabled Starbucks exploit available opportunities.

#### 6. Porter’s generic strategies

Michael Porter is of the view that a business can sustain its competitive advantage using three strategies namely differentiation, cost leadership, and focus. Porter explains that the differentiation strategy involves the provision

of products or services that are unique and valued by customers. Product differentiation forms the core of Starbucks' strategy so that it can obtain a competitive edge over other industry players. The company achieves its differentiations strategy through their well-connected customer experience and their high quality stores (Griffin 2012, p. 217). Additionally, Starbucks good ambiance, well-designed stores and well-trained staff differentiates the company from other independent coffee houses given that the firm has friendlier baristas and a decor that is more welcoming. Furthermore, Starbucks has differentiated features as depicted from their coffees that have varying flavors, which are not offered by any other company. For instance, the company provides the "VIA coffee blend" which has recently been improved with flavors like caramel, vanilla and cinnamon hence they sell very fast.

## 7. SWOT Analysis

### 7. 1 Strengths

Starbucks is one of the few companies that have built a strong brand image in the coffee industry. Due to its focus on consistency, the company has been able to deliver a positive consumer experience by promoting high service delivery (Kurtz & Boone 2011, p. 264). Moreover, Starbucks has been able to win consumer interest through specialty coffee while at the same time preserving the dominance of their brand. Starbucks' unique strategy is another strength the company possesses' as it opens stores in key locations like airports, university campuses, office buildings and suburban retail centers in order to increase their profitability. Motivated and valued employees are also a strong point for Starbucks as depicted by the low

employee turnover. The company harnesses an environment of collaboration and team working by establishing healthy reward systems meant to motivate workers.

### 7. 2 Weaknesses

Starbucks' products are expensive especially because of the premium imposed for their high quality products. During periods of economic recession, consumers prefer to forgo paying such premiums on Starbucks' products and instead purchase cheaper products from competitors. Another weakness is the company's overdependence on the US market. Starbucks has more than 10, 000 retail stores in the US and this makes it extremely sensitive to any kind of prospects involving the American growth and economy.

### 7. 3 Opportunities

Starbucks has the ability to expand its operations into new markets given that it has made a good inroad into several countries with India being the most recent one. According to Kurtz and Boone (2011, p. 264) the company can take advantage of its size, financial prowess, experience, and efficiencies to get into new markets. Technological advancements have further provided the company with new opportunities. Starbucks has embraced the use of mobile applications and developed partnerships with the likes of Square, a mobile payment mode that has been integrated with Starbucks applications. Mobile transactions are a growing field and will thus create more businesses for Starbucks.

### 7. 4 Threats

Starbucks greatest threat is increased competition given that the market is

at its mature stage. Competitors like Costa Coffee, McDonalds, Dunkin Brands, and Pete's Coffee have piled pressure on Starbucks because of the significant market share that they also command (Kurtz & Boone 2011, p. 264). Price volatility is another threat due to major price fluctuations of coffee beans that are of high quality, which is inadvertently beyond Starbucks's control. Changing lifestyle choices and consumer tastes is a threat because some of the customers are moving to products that are healthier.

#### 8. Recommendations

As the consumer lifestyle and tastes shift in favor of beverages and snacks, Starbucks align its products to goods that are considered to be more healthy. For instance, the company can make fresh juice products and tea part of their core products just like is the case with coffee. Secondly, Starbucks can curb the problem of price volatility by implementing a hedging strategy that is effective. In this regard, the company can make use of futures contracts, which will make it possible to lock in inputs that have been estimated at a low price so that the costs incurred in the future can be maintained at minimum levels. Thirdly, it is evident that Starbucks is investing very little on marketing initiatives and investments. It is therefore necessary for the company to channel more of its resources towards marketing initiatives and advertising as a strategy to deal with the stiff competition in the industry. Finally, Starbucks can invest more on Research and Development activities for them to better understand the preferences and tastes of consumers in different markets hence making it easier to expand their client base.

#### 9. Conclusion

Evidently, Starbucks's strategic management is well organized and this is what is largely responsible for the company's numerous successes. Although Starbucks products are more expensive, the company has managed to stay ahead of the competition as depicted from Porter's generic strategy of differentiation employed by the company. The company also has competitive advantages of superior brand image and low employee turnover, which also doubles up as its strengths. The organization's flexibility has made it possible to survive the unpredictable external environment as shown by PESTEL analysis hence the reason for its growth. The company can counteract the threats and weaknesses it is facing by implementing some of the recommendations like engaging in research and development and increased advertising to attract more customers.

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