

# Report on a strategic analysis of starbucks

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



\n[[toc title="Table of Contents"](#)]\n

\n \t

1. [Industry Analysis](#) \n \t
2. [Business Strategies Analysis](#) \n \t
3. [Business Strategy Evaluation and Recommendations](#) \n \t
4. [References](#) \n

\n[/toc]\n \n

Starbucks is currently one of the most successful companies worldwide. With over 16, 850 shops in 40 countries and raking in revenues of \$10. 7 billion, it is clear that Starbucks is a coffee retail magnate. For fourteen straight years, they've maintained a 5% same-store sales growth. (Lepore, 2011). However, one does not climb to such great lengths without a strategic industrial plan. Such success is not a product of circumstance, but of in depth analysis and planning. This paper aims to thoroughly study Starbucks's business plans through a strategic analysis model through its five components: industry analysis, strategy description, strategy evaluation, strategic issues, and strategic recommendations.

## **Industry Analysis**

As a coffee retailer, its main product is clearly coffee. However, its product line is not limited to the variety of coffee products they offer; a variety of fruit juices, tea such as herbal tea and chai and other non-caffeinated beverages are also offered. Since the quality of their drinks is topnotch, so

are their prices. This implies that their target market begins from the upper C bracket to the elite. Within these economical divisions however, there seems to be no more distinction to their target market. Hence, it's safely assumed that most who can afford a Starbucks drink enjoys it. The capacity of the buyers to manipulate the prices is quite limited since specialty coffee is consumed individually and cannot be controlled as a horde. Moreover, purchasing specialty coffee does not dent so much into the budget of a typical consumer. Hence, consumers are not as concerned with the price but more of the quality of product and service (Larson, 2008).

Comparable to Japan's ubiquitous vending machines, Starbucks branches are seen almost everywhere. It has expanded its horizon outside of the United States and caters to customers in Hong Kong, Canada, Philippines and even the People's Republic of China. This expansion led to Starbucks as the premier roaster and retailer of specialty coffee since 1971. A huge capital and proper management of it is necessary to sustain the kind of development Starbucks has reached while maintaining quality of product and service. Not only that, the expansion to several countries also necessitates cultural appropriation for the exporting of products to be profitable. This kind of capacity to improve and develop must be met by adversaries if they wish to compete with Starbucks in the international market.

The structure of the coffee retail industry is supported by several factors. The customer segment is of prime importance. Since the market is of the upper classes, prices are a fairly negotiable matter. The difficulty arises in catering to their tastes. If Starbucks goes out of fashion, there goes their

profit. This means careful evaluation of what the market demands and will demand. The company's marketing strategy and product line must be versatile enough to accommodate the ever-changing wants and needs of its fickle market.

Since the battle for market share is highly dependent on taste and quality, the competitors aim to offer the drink with the best quality at the lowest price. Not only that, they must package the products accordingly. Elegant taste is what the upper classes demand. Another factor is the supplier. Raw materials of good quality is irreplaceable, as demonstrated by the quality of their coffee. " Starbucks purchased only the finest Arabica coffees and put them through a meticulous dark-roasting process to bring out their full flavors." (" Starbucks Company", 1999). To guarantee quality, their CEO Howard Schultz agreed to " acquire The Coffee Equipment Company and its Clover® brewing system." (O'Neil, 2008). A factor to consider is barriers to change set by the company itself. Barriers to new competitors are set to avoid further pressure from competitors. Recently, Starbucks has added a fifth U. S. manufacturing facility, participation in Green Mountain's Keurig Vue™ Brewing System and the likes. (DeGrande, 2012). A final factor in determining the industry structure is substitution of materials. This Starbucks uses effectively, since they've always taken steps to replace their materials with recyclables. Just two years ago, they've demonstrated the feasibility of recycling used cups into new cups (Chisholm, 2010). Not only does this reduce costs, it also contributes positively to the environment.

With the magnitude of success Starbucks experiences now, key factors need to be analyzed to realize how they have achieved so much. The factor of

primary importance is the demands of the customer who look for products of the same value they pay for. They demand that the average \$4.05 they spend on quality coffee will be worth it. This is difficult to argue since at an average, a full meal in a fast food joint is \$4.34. Clearly, in the coffee retail industry, the quality and not the quantity is given premium. With the battle of prices at hand, competition will try to provide a better compromise. A better strategy needs to be outlined: will replacing their current materials with cheaper ones lower quality or will purchasing higher quality products ensure a return of investment? A third key factor is adherence to industry regulations. Sanitation standards must be followed, especially for consumable products. Food poisoning caused by consumables would be devastating to revenues of the company. To avoid this, strict obedience to standards set internationally must be followed. Discussed earlier were the innovative development mechanics of Starbucks. This kind of growth calls for in-depth research and resources which proves to be critical in the competition. Finally, technical requirements are also a strict key factor in the industry. To manage the ever growing demand, technical innovation—even in the coffee retail industry—cannot be neglected. Starbucks takes a bold step in being the exclusive provider of The Next Coffee Revolution - Clover® Brewing System (O'Neil, 2008) which is considered as the standard of coffee brewing. This shows how well-aware they are of how important technical requirements are.

## **Business Strategies Analysis**

The pillar of a company's business strategy is its strategic goal; often found in its mission. For Starbucks, this is "to establish Starbucks as the premier

purveyor of the finest coffee in the world while maintaining our uncompromising principles while we grow” (Khattab, Aziz, and Naguib, 2008). Supporting this strategic goal is their business strategy with the first being their customer targeting strategy. As was previously mentioned, their customers are in the upper echelons of the economic pyramid. Further research shows that this market is interested in brand names, ambiance and customization of drinks. (Larson, 2008) This is evident in their advertising, as print advertisements of Starbucks are hardly seen. Subliminal marketing, such as people—especially those of fame—walking around with a cup of Starbucks drink in their hands, is their preferred method of advertising. Although this method of advertising uses less capital, it is not necessarily less effective. The power of their brand name is what grants this method such immeasurable success. Moreover, the ambiance of the stores is not to be belittled. The warmth emanated by the staff is just like their advertising: subtle, yet effective. Each customer is treated like a personal friend, as the employees always recall the names and favorites of regular customers. Consequently, this provides customers with a sense of bonding with the store and its partners such that maintaining product loyalty is inevitable. Little things such as membership cards that entitle them to freebies such as free drink on your birthday, refills on iced or brewed coffee and tea are free while you're in the store, many flavored syrups on the house, soymilk or breve at your command, free tall (12 fl oz.) drink when you buy a pound of coffee, special offers an coupons and a free drink every 15 stars. The marketing strategy utilized should be oriented towards such demands and applicable to the advertising methods.

Another factor would be its product line and product positioning strategies. This is exhibited well by Starbucks as they offer a wide variety of drinks; caffeinated and non-caffeinated. Moreover, the liberties consumers are offered with combinations contribute to this variety as there are over 87, 000 possible combinations of drinks. (Lepore, 2011).

Various technologies needed to deliver their products are also available and Starbucks leaps in innovating them. Previously mentioned was the different top-of-the-line brewing machines that they exclusively offer. This investment ensures that the quality of brewing they offer is incomparable to their competitors. To implement these investments, Starbucks needs various strategic processes to implement the product market. This includes the saturation of the domestic market and participation in the ever-growing international market leading to its rise as the premium brand of the market. Starbucks is no longer just a name; it is a brand and a culture to young adult coffee-drinkers worldwide (Whitmire, et. al, 2009). To reach their target market, their advertising is the very shop itself. Countless shops are scattered across the United States and worldwide; especially in congested urban areas. All it takes is word of mouth to scatter. (Larson, 2008).

This kind of strategic planning wouldn't be possible without specialized internal skills. Research and development for one, is crucial. New products are offered on a regular basis; not too often as this will cause unfamiliarity with the products among the consumers. Recently, they've released a new line of drink called " Starbucks Refreshers™ Beverage Platform" (Shafer, 2012) which boasts of green coffee extracts. This novelty and innovation is a successful product of research and development. In releasing these

innovations, firms need a time-to-market process. Since Starbucks is able to regularly provide timely innovations, the only limitation they face is production capacity.

Functions and processes aimed to the market aims to serve the market as efficiently as possible. The first function is distribution and Starbucks manages this through their retail stores and partnerships with different groceries, shops, malls, etc. (Larson, 2008). Distribution means selling their products at the closest proximity to their market; meaning the more congested it is, the better. Even with various rivals close by, as long as their retail stores are close to their target customers, their distribution function is still effective. Delivery of products is mainly through their outlet stores; consumers come and go. Occasionally there are varieties such as drive-throughs, but generally the products are marketed through its retail stores. Providing their market with information about their products is done through advertising. Their most useful advertising technique is their customers who hold branded beverages that can be seen by everyone who passes by. This brand marketing is more effective than any flyer or poster they have (“Starbucks Corporation”, 1999).

## **Business Strategy Evaluation and Recommendations**

Although Starbucks is at a relatively successful position now, internal assessments need to be conducted. Their weaknesses must be taken into account lest their demise arise from this. Since their management is centralized, the product line is generally uniform. However, since they are expanding internationally, what applies in one geographical location may not necessarily apply in a different one. A recommendation to assess this



shortcoming would be to apply a “ multi-domestic approach allowing for a regionalized customization as this is in line with their current goals of customization and customer satisfaction” (Whitmire, et al., 2009) This would reinforce the strength of Starbucks which is the liberty of their customers to manufacture their own drink, so to speak; hereby appealing to the culture of individuality of their target market. (Larson, 2008).

External assessment on the other hand utilizes of the SWOT (strength, weaknesses, opportunities, and threats) analysis. In assessing Starbucks this way, we are able to thoroughly pinpoint the capabilities and limitations of the firm. Strengths include their strong financial position, trusted brand name, and their current hold on the market. This brand name encourages customer loyalty and entices other customers to purchase as well. Their financial stance ensures that there are very little price wars with competitors and assures the customers receive a good value of their money. The branding leads to fanaticism: their products also range from tumblers to mugs and to various coffee brewing equipment. Another unique strength of Starbucks is their increasing environmental awareness. Their concern for the farmers who grow their coffee beans is quite apparent as they continue to support and invest in these farms. The combined total of Starbucks investment in coffee-growing communities through various coffee contract was US\$1. 5 million in fiscal 2007. The funds were used to pay for 50 projects located in 11 countries, benefiting more than 50, 000 local farmers, their families and community residents. Environmental causes such as using recyclable materials as much as possible are also highly supported by Starbucks. They also propagated limited edition drinks, especially during Christmas time,

which heightened sales. In some occasions, they also offer planners as an incentive to those who have purchased enough drinks. Funds go directly to their community of farmers who harvest their coffee beans.

Their weaknesses are to be considered as areas of improvement: innovation in beverages, research on technology, overexpansion in various geographical locations, cultural appropriation in these locations and maintenance of quality all throughout. Given the complexity of their business structure, quality could easily be lost and standards be lowered which would cause irreparable damage to revenue. Overexpansion is a double-edged sword and could be more costly than beneficial if not properly managed (Larson, 2008). The opportunities Starbucks face are immense; development of more cost-effective and environmentally-friendly innovations, and expansion of product line. Since cultural appropriation is essential for their international expansion to be successful, various cultural events that may propagate their product line may be seen as opportunities with great benefits.

On the other hand, threats faced by Starbucks are their growing rivals such as Peet's Coffee and Tea and Caribou Coffee Company. These are specialty coffee retailers who consume a good percentage in their market share. Other non-specialty coffee retailers are also seen as a threat: McDonald's, Mister Donuts, Krispy Kreme, and Dunkin Donuts to name a few. Since they're non-specialty, it is well within their means to offer beverages at a cheaper rate than Starbucks which could possibly hurt sales. Although Starbucks's target market is the upper class, a bout of economical recession could scare these customers away. Moreover, the lower classes would obviously choose the lesser cost (Whitmire, et al, 2008).

Although Starbucks is now a financial magnate in the coffee retail industry, they cannot escape critical issues to face. Their most pressing issue is to manage their international retail stores as these are big investments. If they make the mistake of marketing improperly, this could hurt sales which would lead to a poor return of investment. Hence, this pressing issue should be Starbucks's priority. Although they boast of over five thousand retail stores worldwide, it would be a shame if they cannot manage these outlets properly. In the United States, their current market share is still quite strong although there are a number of competitors rising to stake claims.

In totality, the current financial and market stance of Starbucks is quite firmly at the top. But if they are to maintain this position, they need to assess their weaknesses and threats carefully and evaluate their strengths. Being at the top now does not guarantee anything. In the latter part of this paper, the business structure and current stance of Starbucks was analyzed using the SWOT method. Although this is still rather limited, it is outlined how Starbucks is poised to either maintain their current status and improve or plunge into demise. The fate of the company rests not only on Schultz, but also the cooperation of his employees and managers. Further analysis is necessary if he wishes to maintain Starbucks to be the premium coffee retailer in the industry.

## **References**

Chisholm, E. (2010). Starbucks and International Paper Demonstrate Viability of Recycling Used Cups into New Cups. [Internet] Retrieved 5th of April from [http://news.starbucks.com/article\\_display.cfm?article\\_id=472](http://news.starbucks.com/article_display.cfm?article_id=472)

DeGrande, N. (2012). Starbucks Spotlights Connection Between Record

<https://assignbuster.com/report-on-a-strategic-analysis-of-starbucks/>

Performance, Shareholder Value and Company Values at Annual Meeting of Shareholders. [Internet]. Retrieved 5th of April from [http://news.starbucks.com/article\\_display.cfm?article\\_id=638](http://news.starbucks.com/article_display.cfm?article_id=638)

Gates, R., Hogan, M., McCarty, L., et al. (2010). Strategy Analysis MGMT 562. [Internet] Retrieved 5th of April 2012 from <http://www.slideshare.net/Alistercrowe/strategy-analysis-mgmt-562>

Khattab, T., Azis, E., Naguib, B. (2008). Strategic Analysis for Starbucks. [Internet] Retrieved 5th of April 2012 from <http://www.scribd.com/doc/9913996/Starbuck-strategic-analysis-term-paper>

Larson, R. (2008). Starbucks: A Strategic Analysis. [Internet] Retrieved 5th of April 2012 from <http://www.slideshare.net/TL327/starbucks-a-strategic-analysis-rlarson-honors-2008-2607618>

Lepore, M. (2011). 15 Facts about Starbucks that will Blow Your Mind. [Internet] Retrieved 5th of April from <http://www.businessinsider.com/15-facts-about-starbucks-that-will-blow-your-mind-2011-3?op=1>

Moe, D. (2007). Starbucks Statistics. [Internet] Retrieved 5th of April 2012 from <http://selectmetrix.com/blogs/2007/11/starbucks-statistics/>

N. A. (1999). Starbucks Corporation. [Internet] Retrieved 5th of April 2012 from <http://www.mhhe.com/business/management/thompson/11e/case/starbucks.html>

O'Neil, V. (2008). Starbucks Unveils New Strategic Initiatives To Transform and Innovate the Customer Experience. [Internet]. Retrieved 5th of April 2012 from [http://news.starbucks.com/article\\_display.cfm?article\\_id=55](http://news.starbucks.com/article_display.cfm?article_id=55)

Shafer, H. (2012). Starbucks Announces Beverage Innovation Using Green Coffee Extract with Starbucks Refreshers™ Beverage Platform. [Internet]

<https://assignbuster.com/report-on-a-strategic-analysis-of-starbucks/>

Retrieved 5th of April from [http://news.starbucks.com/article\\_display.cfm?article\\_id=639](http://news.starbucks.com/article_display.cfm?article_id=639)

Whitmire, B., Jones, L., Whitehouse, R., et al. (2009). Starbucks Business Plan. [Internet] Retrieved 5th of April 2012 from <http://www.slideshare.net/elektroskop/starbucks-business-plan-final>