

Starbucks – strategic management essay sample

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



Starbucks has positioned themselves well in their industry. They have proven themselves to be a leader, an innovator, and a strong competitor constantly seeking ways to maintain their competitive edge. However, they are not without their areas in need of improvement and revision. This need has brought forth one of the key components of the strategic plan detailed below, that being constant evaluation of the processes in place to meet the objectives of the strategic plan, and adaptation of the plan to the needs of the environment in which they are operating. While present quantitative analyses have shown that they appear to be meeting many of their objectives with great success, I firmly believe they could improve their image by implementing the strategic objectives detailed below. Furthermore, that many of these could be implemented at a cost that when compared to their reported earnings would be minimal. By capitalizing on their many resources already in place they could likely foster new interest in their product while maintaining the customer base whose loyalty they have already garnered. Starbucks has a commitment to not only their customers, but their employees, deeming both to have value that translates into a stellar image and continued customer loyalty. Yet, these successes do not eliminate the need to address potential threats and address some clear weaknesses that this company is facing. They must continually work to develop new products and modify existing ones that will keep the present customer loyal and gain the attention of new customers.

This particularly industry can be a highly competitive one and Starbucks needs to stay one step ahead to maintain their competitive edge. They need to address their marketing strategies and formulate plans that will address

the needs of not just the affluent and educated, but the lower-end members of society as well. While overall they appear to be in sound financial shape that has the ability to change in a split-second and Starbucks would be wise to determine a potential course of action to address the economic climate. Furthermore, I have created a strategic plan that offers flexibility from their “formula”, one that will allow for their expansion into countries with different demographic and socio-cultural needs. Should they address the internal weaknesses and continue to focus future endeavors on minimizing the threats, all while keeping their strengths and opportunities at a level of status quo, I believe they will not only endure for years to come, but they will do so in a profitable manner. Starbucks must continually try to stay ahead of the times, introducing new products, essentially, creating their own substitutes; ones that will present customers with options that will keep them loyal and address their changing tastes. By taking steps to address the variety of customer needs they position themselves not to only maintain a competitive edge, but ensure their long term sustainability.

Internal and External Analysis

In the 40 years since they opened their first store Starbucks has become a household name worldwide. Starbucks has worked hard to develop not only a name, but an image on which they continue to build their reputation, one that is a positive one, associated not only with good, premium, specialty coffee, but with a company that has proven to have a strong commitment to the communities in which they operate. This commitment garners not only loyal customers, but devoted ones who frequent the same stores day after

day, all in search of liquid goodness. One of the factors contributing to this universal brand recognition is their many patents and copyrights, not just on the name Starbucks, but the names of so many of the drinks and products that have helped make them famous, including the Frappucino and Starbucks VIA. All of this is evidence that operationally they have and continue to formulate strategic plans to keep them positioned well in a potentially volatile environment. Additional strengths include research and development, whether in the form of new products and their testing or ensuring that beans are grown, extracted, and blended not only according to the standards that Starbucks has set for itself, but with an eye on the environment and in a fashion that ranks Starbucks amongst the top 5 Green Power Purchasers by the EPA. (Starbucks Corporation, 2011)

Starbucks seeks to enhance the customer experience whenever possible, whether that is through the creation of new roasts, new drinks, or better machines they are continuously seeking new and innovative ways keep up with the demands of an ever-changing and often fickle customer base. One of these changes can be found in their recent change from a relatively set Frappucino menu to the “ Create Your Own” Frappucino option, a blend of their well know brand and a desire to satisfy customers wants for more. Starbuck’s greatest strengths have been their technological advancements and the added customer value that this attention has created. The Starbucks Mobile App is not only a strength, but on opportunity that Starbucks wasted no time capitalizing on with great success. Since its introduction in 2011 Starbucks mobile app has garnered over \$20 million in sales, and to date

they stand as the only retailer in their industry to offer this type of service. The Mobile App allows for expedited payments, reloading your Starbucks card, researching their different menu options, and finding the nearest location, to name a few. All of these features ultimately designed to enhance the customer experience and the Starbucks reputation. Other strengths include their distribution methods and recent modifications made to improve the manner in which their distribution channel operates; the many outside partnerships that they have forged to aid in cost effective expansion and product distribution, and their belief that the human resource is to be valued and appreciated, seeing their employees as partners who, in order to perform well need to be nurtured, trained, and valued for their individuality as much as their devotion to emoting the core values and standards on which Starbucks operates.

To that end, and with this devotion to their employees in mind, we find that a good measurement of this is their overall ranking on the Fortune Magazine top 100 companies to work for poll, coming in 73rd overall, and 24th on the list that consists of only large companies. (CNN Money – Fortune, 2012)

Starbucks for all of its strengths still has several weaknesses to contend with, the first of which is occasional inattention to their surroundings in an effort to generate success based on a pre-existing formula. For example, Starbucks expansion efforts into Israel have proven unsuccessful because of Starbucks unwillingness to maintain kosher standards of operations. While their formula may work well in many of their locations, they need to manage and plan in ways that allow for adaptability to the demographics and socio-

cultural beliefs and traditions prevalent within the communities that surround their stores. (The Future of Starbucks, 2008) Another weakness can be seen in some of their marketing strategies, which granted, appear to be improving. Their marketing strategy has consistently been to target an audience of more affluent, educated, high-end customers, proof of this found not only in their menu items, but their pricing as well. (The Starbucks Weakness) Even through the economic upheaval that the United States has experienced over the last few years, Starbucks has insisted on catering to a higher-end clientele, as Howard Schultz, CEO of Starbucks has time and again expressed, Starbucks is not in the fast-food business and regardless of the perceived threats of businesses like Burger King and McDonalds they are hesitant to make a shift to anything that could be perceived as offering greater speed and convenience. (The Future of Starbucks, 2008)

Of note, while I highlight this fact as a weakness, we have seen a slight trend toward altering this with the introduction of Starbucks VIA and their emergence in the K-Cup single brew market, their answer to instant coffees, but with the quality that has come to be associated with the Starbucks brand. Starbucks seems to have an enormous number of opportunities on which they can and have capitalized. These opportunities include everything from store locations, rewards programs, and product placement to enhanced distribution channels and brands created to effectively compete in various markets. The first of these I will highlight is product placement, as it once again can be associated with the strength of their brand. How many television shows, both scripted and reality utilize something that reminds us

of Starbucks; for example, Starbucks partnering with shows like “ The Voice”, a top rated reality show that garners an average of 10 million viewers a night, all of whom have at some point the Starbucks logo paraded in front of them, typically as the background to an interview. This is just one example of ways in which Starbucks seeks to promote their brand in a manner that can be perceived as adding value, if it is good enough for a television, it has to be good enough for everyone. Next, we consider the over 17, 000 locations worldwide, many of which exist in major metropolitan areas, near college campuses, inside airports, and in the last couple years inside several grocery stores. Many of these locations have afforded Starbucks certain more cost effective expansion opportunities, and while these opportunities highlight good strategic management decisions and operational effectiveness, they also serve to enhance the customer experience by making their product more accessible. Another feature of this accessibility is the inclusion of drive-thru’s in several of their locations, a sign that they are willing to adapt to the needs of their customers on the go lifestyles.

Moving on to their customer base and the manner in which they attain not only customer loyalty but manage to reach new customers on a regular basis. Starbucks seems to be mindful of their customer needs and wants, adapting and capitalizing on the changing trends. Once again, this can be seen not only in the variety of beverages that they offer, those that extend far beyond coffee, to tea, Frappucinos, organic milk, and more recently, juice. They acknowledge the needs of both adults and children, and not just in their beverage options, but their food items as well, all of which seem to

keep nutrition in mind. They offer everything from yogurt and pastries, to breakfast and lunch sandwiches, both hot and cold. (Starbucks Corporation, 2011) Furthermore, these options particularly their coffee beans, teas, and frappucinos have surpassed the boundaries of their store-front locations, reaching retail stores world-wide. This increase in distribution has all been in an effort to address the growing needs of customers. Additionally, they have partnered with various other companies to broaden their distribution, including companies like Arrowhead Water, whom a business can set up an account with and in addition to water, get Starbucks coffee. As a final opportunity we will look at the Starbucks rewards program, with over 3.6 million members and growing, this rewards program not only rewards loyalty, but allows Starbucks a tracking system.

They can utilize the data on customer orders to better gauge emerging trends in various areas as well as changes to their customer base. They then utilize this data to send email updates and offers to those that might most benefit from a certain product or service. However, returning to the overall benefits to the customer, by obtaining membership in their rewards program, loyalty is rewarded, whether that is through a price decrease because you are able to obtain certain beverage add-ons at no charge or as a gold card member, getting every 15th drink for free. (Starbucks Corporation, 2011) Starbucks is not a business or an industry without threats, not only to success, but to their competitive edge. Many of these threats exist in the form of substitute products all of which are plentiful. This is a beverage, a high quality beverage, but by no means one of a kind. This

can be seen with a quick overview of Starbucks competitors, many of which include other specialty coffee houses such as Peet's Coffee or Coffee Bean & Tea Leaf to the more mainstream emergence of McDonalds McCafé menu. This brings us back to the availability of substitute products, which in this industry can be enormous. While there does appear with all of this competition to be a rather high barrier to entry and potential entrants into the industry rather low, it does call for a constant eye on the emerging trends to maintain their competitive advantage.

Another threat to the continued success of Starbucks is the economy, which according to current reports has not affected them thus far, but could as we continue to see rather disappointing economic forecasts. These forecasts indicate that we could see a rise in commodities costs which is likely to impact the cost of everything from coffee beans to dairy products, both of which are essential to Starbucks continued success. These increases could lead to higher prices, which in turn result in a loss of customers who are no longer willing to pay the price instead of seeking a substitute from a less expensive competitor. Next, let us consider buying and selling power, with the aforementioned economic decline and the potential for it to get worse, Starbucks runs the risk of losing their buying power. As it stands right now, the time that Starbucks has taken to develop a product that leaves their suppliers with little room to make demands, from their coffee growers to the suppliers of their cups and various other products necessary for their continued success seems to provide them with the power one sees when they buy in bulk. However, that could change, if stores start to show lower

profits or require closure the volumes being purchased may require adjustment, thereby shifting the power to the suppliers and once again impacting the cost of the product. Strategy Analysis

In order for a company to be successful they must develop strategic objectives that they can use to guide them in their decision making efforts at all operational levels. Often times the most successful strategic objectives are guided by a company's vision and mission. In the case of Starbucks that is exactly what their mission statement does, conveys their broad goal. Their mission statement is: " To inspire and nurture the human spirit – one person, one cup, and one neighborhood at a time." (Starbucks Corp., 2011)

With this mission in mind, I have formulated the following strategic objectives:

- * Maintaining the production of high-quality coffee while remaining cost competitive.
- * Implementing a market strategy that increases brand awareness.
- * Continue investing in R & D to provide customers the best experience possible, while maintaining existing principles of ethical and environmentally sound coffee production.
- * Maintaining a strong global presence with a focus on aiding the communities in which they operate.
- * Increased awareness of the areas in which they are operating and acclimating their stores to the needs of the locations in which they are operating.
- * Continue existing partnerships and alliances while finding new and beneficial alliances to enhance reputation and brand image.
- * Continue to focus and expand on a niche market

* Increase shareholder return through continuous adaptation to market conditions. As important as the strategic objectives are, it is always a good plan to proactively consider alternative strategies that could either enhance the current objectives or be supplemented should the current ones prove unsuccessful. Furthermore, by anticipating and devising alternative strategies it shows a company is efficiently preparing for potential environmental or economic shifts that could impact the proposed strategies. (Renew Your Organization – Use Strategic Planning to Improve Your Performance, 2005 – 2011) Some suggestions for strategic alternatives are listed below: * Continue to seek out new product offerings that will enhance brand image, expanding beyond coffee to offer a wider variety of quality products. * Increase global presences by opening more stores abroad. * Seek insight from in store employees to gauge the needs and wants of customers and adapt to changes in the specific environments. * Enhanced product differentiation to ensure competitive edge can be maintained, particularly in volatile economy. * Open more drive-thru locations to meet the needs of customer base and fast paced lifestyle. Strategy Selection

I believe that the present approach which is a focused differentiation strategy should be refined and refocused in an effort to be a mix of cost leadership and differentiation. (Coulter, Strategic Management in Action, 2008) Starbucks has positioned themselves well in their respective industry and particularly in these trying economic times they should try to capitalize on the reputation they have built to find a means by which to offer their products at a lower cost in an effort to appeal to a larger customer base. At

the same time, they must maintain their differentiation amongst their competitors which can be done through a continued focus on R & D, one that has frequently cemented their position as a first mover in their industry. To Lower cost they must work with their suppliers to find new and innovative ways to grow quality coffee at a lower overall cost. Doing this would allow them to adjust the price, even temporarily in an effort to address the issues surrounding our present economic climate. Additionally, this would create a larger barrier to entry as they will be increasing their competitive edge, likely causing potential entrants to be deterred for fear of failure. Another way to accomplish this would be addressing the issues surrounding their unwillingness to adjust their formulary for stores to better meet the needs of the communities in which they are operating. A prime example would be that the Israeli market has proven difficult because of Starbucks perceived unwillingness to adapt to the needs of the community, yet by making a few modifications to allow for the specific needs of that community they could likely improve their brand image and ultimately increase sales.

In order for them to increase their global presence they must devise a formulary that is easily adaptable to their communities. As a final suggestion, Starbucks has had great success with their alliances and partnerships and they should find ways to utilize those alliances to increase their advertising and garner the attention of new customers without incurring additional advertising costs. One way to do this would be trade-out agreements. Once again, Starbucks has a logo that is highly recognizable; they should be capitalizing on that fact. Another example would be the

television show NCIS, one that constantly shows the lead holding a cup that looks like a Starbucks cup, but you never get a close-up because in reality it is not their logo. Starbucks could easily change this with no additional cost to them. A trade-out agreement is essentially an agreement often used in television and film production that allows a company to use a product in return for a logo shot and screen credit for the company allowing the use of the product. It is essentially a win-win for all parties as the production gets use of the product and the company allowing the use receives free advertising. With the changes to media and the number of shows being developed for the internet and various other mediums Starbucks could easily increase their advertising and market niche by seeking alliances with production companies that could benefit from such an alliance. This advertising will aid in lowering their cost at the same time increasing interest in their company that will allow new customer to try their product and experience first-hand the differentiation their products offer customers.

Strategy Implementation

Now, it is important to consider the most effective methods by which to implement the proposed strategies. It is important to devise a manner by which to communicate the plan to all employees in a manner that fosters teamwork and the motivation and incentive necessary to garner success. With the aforementioned mission in mind we will now consider how to implement the chosen growth and stability strategies in a manner that will address both the people and the organization within which they operate. We will begin by considering the people portion of this topic. Communication is

vital to the success of any organization. Therefore, it will be crucial to convey the objectives and ultimate goals of the strategic plan to all partners within the organization. Aside from the open communication this dissemination of information will foster, this conveyance will allow management an opportunity to obtain the thoughts and ideas of our partners. Additionally, this understanding of strategic plans will allow each department to devise their own interdepartmental strategies, ones that will compliment and assist with meeting the overall objectives I would further suggest that once a month key members of each department meet to go over the strategies they have devised for their departments.

This will, encourage communication and input from all areas of the company as well as allow time to review the overall objectives and ensure that all departments are operating in a manner that serves to meet the company goals in a cohesive manner. The participants can then return to their departments and disseminate the information. What all of this serves to do is ensure and encourage honest and open communication. It allows all partners the opportunity to provide input and feedback, ultimately making this process a collaborative effort at all levels. I would also recommend an intercompany bulletin be distributed once a month; in this bulletin management can once again detail the strategic plans, objectives, and goals of the company as a whole, they will report progress and can highlight areas that have improved. Additionally, within this bulletin will be a website and phone number which partners can call to offer suggestions and provide feedback. All of this will aid in fostering a sense of community and remind all

individuals that both their roles and input are vital and invaluable tools to ensuring the company's ultimate success. The strategic objectives that have been suggested all revolve around the principles behind which the Starbucks mission statement was created.

Maintaining the production of high-quality coffee while remaining cost competitive is a primary objective; this can be done by working with suppliers to ensure that they are constantly improving and refining their coffee growing methods, developing new ways to be efficient and environmentally conscious, while striking alliances that will encourage obtaining this essential ingredient at a lower cost. Once again, by encouraging this communication and collaborative innovation with those outside of the company, Starbucks will not only be able to improve their brand awareness, but reaffirm their commitment to their choice of the term partner for all people involved with their organization, both within and outside. To encourage teamwork I would implement a process by which baristas can suggest ways in which to aid their communities.

These suggestions can be rewarded in a variety of ways. This will serve to not only inspire the ideas of partners at all levels, but further convey their commitment to communication and participation of all. Many of the aforementioned implementation suggestions would serve to accomplish several objectives; all of them with an eye on the company's principles and mission as well as the importance of people to the success of that mission and the strategic plans developed around it. All of them can aid in promoting the brand, enhancing their reputation, and garnering new customers. By

maintaining open lines of communication you are likely to foster a sense of loyalty, not only from those within the company, but customers and vendors as well. All of this, designed to accomplish the main objective of most any company, reporting profits and revenues. Evaluation and Control

The final step involves the constant evaluation of all areas and the measuring of performance, both quantitative and qualitative. Much of the qualitative can be obtained from the input from all of the aforementioned sources. Likewise, the qualitative will require the cooperation and input of a variety of departments, including finance and marketing. These departments can utilize the company systems in place to provide analytical and quantitative data that can be used to not only track the success of the company at meeting their goals, but highlight those areas that may require modification and adjustment. This will give the company the ability to remain at the top of their industry and change to meet the growing needs of the global marketplace at the same time.

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