

Free research paper on how the specific strategic management concept is applied i...

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



Introduction

Starbucks Corporation originated from United States. It is well known as world coffee chains since it the largest globally coffeehouse company. Its more than 20, 000 stores are in 62 countries therefore making the company an active member of World Cocoa Foundation and a beacon for coffee lovers everywhere. The company started in 1971 as a coffee bean roaster as well as retailer, however it has expanded rapidly. Starbucks stores offer cold and hot beverages, snacks, micro ground instant coffee and whole bean coffee. In its development it has been expanding by average of two new stores every day (Fellner, Kim, 65, 2008).

The company had been profitable as a local company because of its expansion to new products and markets. Starbucks is governed by its mission is to inspire and nurture the human spirit. The stores are used as neighborhood gathering where friends and family meets therefore the company ensures quality services and offer an inviting atmosphere for its customers. Starbucks ensures community involvement by establishing new stores that are located near to coffee grown areas (Michelli & Joseph, 74, 2013). The company believes in fostering thriving communities by inspiring change, bringing people together and making difference in people's lives by providing employments.

Starbucks has over the years implemented corporate diversification strategy which has been profitable to the business. Originally created to provide coffee products, the business has continued to diversify its operation in order to compete effectively in the market. On top of the coffee products offered

by Starbucks, it has included large variety of different drinks such as bottled water and soft drinks such as Evolution juice (Blatchford, 1). In addition, the business offers breakfast options such as sandwiches and wraps to complement their high quality coffee. Consequently, the incorporation of these products has increased the business revenues making it capable of exploiting its strong, positive reputation in relation to their coffee products. The greatest secret behind Starbucks success is that it never overshoots its reach. The business incorporates diversification in such a way that it ensures that every step it makes it is on line with the company objectives and within its budget allocation. It achieves its success by producing what is sufficient for its customer and therefore reduces wastage (Cooper, 1). In that accord, the company offers coffee, breakfast pastries, light lunches, sweet snacks and other children healthy foods.

The McDonald's were a failure in the 1990s when they tried to diversify from the production of hamburgers to incorporate pizza. However, the project was a failure in all aspects. People did not shift to buy pizza from the McDonald's because; the company had taken a risk that it was not well informed or prepared to (Payton, 1). Over the years, Starbucks has been successful in diversification projects. The company is profitably diversifying its product range. Despite for it being a risky strategy, Starbucks has been magnificent in this strategy. The firm uses this strategy to tap in new revenue through provision for meals. However, this is only intended as a compliment and not as a major source of revenue.

Starbuck Corporation plans to expand its evolution brand. It intends to introduce Harvest snack bars and evolution fresh juice. Additionally, it is

franchising with Whole Foods which will enable it to store Evolution Fresh Juice and Evolution Harvest snacks. In so doing, the firm increases profits and puts measures in place that will not tarnish its name by portraying these products as junks.

In the United States, Starbuck is the market leader in the coffee industry.

The company is growing internationally and will soon be yielding more revenue from the international market than the domestic one. However, the company has various competitors that it should really be concerned with.

The company targets Brazil, China and India in its desire to build an empire of its own in offering coffee. The company has a dominating advantage in the US market and has strong potential for oversea expansion.

The biggest competitor for Starbucks in the US market is Dunkin Brands which is strongly rooted in the northeastern part. The company is well known for its coffee shops though it has other businesses under its banner. Its major advantage over Starbuck is that Dunkin Brands sells franchises to independent owners while Starbucks manages its own stores (Starbucks, 1). Dunkin has the ability to expand its stores with little capital investment making it a major threat.

In the international market, the main competitor to Starbuck is McDonald's.

This company has the leading fast-food restaurant in the global market apart from China. Its coffee has been a worldwide success and it is increasing changing through diversification providing a competitive arena for Starbucks.

Comparison of Financial statements

The table above indicates the financial ratios of the Starbucks Corporation for ten years since 2004 to 2013. The table also provides a comparative analysis of the financial ratios between Starbucks Corporation and one of its main competitors, Tim Horton.

The profitability ratios of the company indicate that the company has been performing well and earning sustainable profit over the past ten years. For instance, the gross margin ratio has experienced tremendous increase from 21.42% in 2004 to 57.7% in 2011 and later 57.14% in 2013. Compared to its competitor Tim Horton, which achieved a gross margin of 33.48 in 2013, Starbucks has achieved a significant increase in gross margin in 2013. This implies that the amount of revenue left over after accounting of good sold is relatively more sustainable than that of the Tim Horton. The net margin ration of the Starbucks Corporation also indicates a positive performance since 2004 to 2012. However, this net margin has failed to reach that of the Tim Horton Company which achieved 12.91% in 2013 whereas Starbucks dropped to 0.06%. This analysis indicates that there are loopholes in the management that hinders the management to coordinate its strategic policies to maintain and improve sales hence profitability.

Since diversification involves risk management techniques that combined variety of investments that aims to introduce new product in the new markets, it is significant to consider the trend of return on invested capital for the last 10 years (Grant, p. 35).

The below graph indicated the trend of the return on invested capital for a span of 10 years since 2004.

This graphs show that there has been a maximum of return on invested capital in 2011 and a minimum of 0.06 in 2013. For the past years except 2008, 2009 and 2008, the company has been experienced a favorable return on invested capital. This show that the investment made on diversification has been effective in achieving profitability of the company.

How diversification helped Starbucks to create value

Diversification helped Starbucks in creating value by various ways. It emphasizes on market penetration to promote the growth of sales to the products that exists in the market. Currently, the company is writing their customer's name on the cups of coffee. This intends to increase the firms' sales since the clients will be satisfied with the products and services that are offered.

Another way that diversification has helped Starbucks is by product development. This has been as a result of introducing new products in the existing markets (Thompson, 34). The company has gone further to introduce a new type of premium coffee that is made up of rare and exclusive beans.

Diversification promotes market development; this is a strategy that aims at increasing the sales by introduction of the products in new markets. This is true since Starbucks have embarked on opening coffee shops in most parts of the world (Schrage, 56)

Starbucks Company has launched new products in new markets and this has resulted to increased profit generation. The company has launched a new

range of food in the new market and this is a diversification strategy.

Starbucks is paying attention to diversifying into new range of foods so that it can increase sales, spread the uneven demand as well as gain a competitive advantage over the others.

Competitive Advantage

Starbucks produces its products and offer services at a lower opportunity cost than other firms that produces the same products. Competitive advantages help Starbucks to shape company's entire focus (Michelli & Joseph, 214, 2013). The competitive advantages as a result of diversification helps the company to outperforms others competitors in terms of quality, price and productivity. Starbucks competitor includes Dunkin' Brands Group, McDonald's Corporation and Nestle S. A. however, Starbucks Corporation ensure uniqueness and quality of its products from other coffee bar shops. The company ensures that not only wide selection of products but also providing a favorable environment for their customers (Fellner, Kim, 34, 2008). The company withstands competitive advantage by continuously looking for new products, ideas and new experiences for customers. In its diversification the company has manage to introduce entertainment division that offer a selection of music and also an unique designed coffee mugs. The company goes to an instance of hiring qualified designers who comes up with artwork for commuter mugs. Starbucks' strength is integrating distinguished features such as their diverse flavored coffees that no other company offers.

The new designers constantly come up with new features such as VIA coffee

bled in the company. The coffee comes with distinguish flavors such as vanilla, cinnamon and caramel. The company studies every city's personality and how their products can be best fit in the community. In every season the company comes out with promotional flavors and drinks, which attracts additional customers to clarify their drinks before they are gone (Michelli & Joseph, 234, 2013). Price of beverages in Starbucks range very high this is because their customers pay for quality and service and therefore Starbucks makes a lot of profit hence giving them great competitive advantage.

Conclusion

In a nutshell, Starbucks is considered to be a very strong corporation that is really expanding in the food industry. It has dominated the coffee industry because of its strategic goals and objectives. The company has gone further to diversify its products and services so that it can reach new markets (SBUX Basic Chart, 45). At the moment, two-thirds of its products are domestic but its aims at expanding its wings to many more countries. The company handles its transition to international makes in a very smooth way. The executive has implemented the right steps that will transform the firm into success since it will realize its goals. The company has diversified its products into the global market in a way that it matches with the local and cultural needs of the targeted communities.

Work cited

" Growth, Profitability, and Financial Ratios for Starbucks Corporation (SBUX) from Morningstar. com." Welcome to financials. morningstar. com. N. p., n. d. Web. 3 Dec. 2013.

<https://assignbuster.com/free-research-paper-on-how-the-specific-strategic-management-concept-is-applied-in-the-company/>

" McDonald's Triggers Coffee War." koreatimes. N. p., n. d. Web. 3 Dec. 2013.

" Starbucks - Related Diversification." Manifested Marketing - Marketing Blog. N. p., n. d. Web. 3 Dec. 2013.

Blatchford, Josh. " Starbucks - Related Diversification." Manifested Marketing - Marketing Blog. 2013. Web. 3 Dec. 2013.

Cooper, Ted. " Who Can Compete With Starbucks?" The Motley Fool. 24 June 2013. Web. 3 Dec. 2013. .

Fellner, Kim. Wrestling with Starbucks: Conscience, Capital, Cappuccino. New Brunswick, NJ: Rutgers University Press, 2008. Print.

Grant, Robert M. Contemporary Strategy Analysis: Text and Cases. Chichester: Wiley, 2013. Print.

Michelli, Joseph A. Leading the Starbucks Way: 5 Principles for Connecting with Your Customers, Your Products and Your People. N. p., 2013. Print.

Payton, Susan. " Starbucks: Diversify in a Meaningful Way." Small Business Software | Future Simple. 30 Apr. 2013. Web. 3 Dec. 2013. .

SBUX Basic Chart | Starbucks Corporation Stock - Yahoo! Finance. Yahoo! Finance - Business Finance, Stock Market, Quotes, News. Retrieved January 30, 2011, from [http://finance.yahoo.com/q/bc?s=SBUX Basic Chart&t= 5y](http://finance.yahoo.com/q/bc?s=SBUX+Basic+Chart&t=5y), 2011

Schrage, E., Supply and the Brand - HBR. org. Retrieved November 23, 2009, from <http://hbr.harvardbusiness.org/2004/06/supply-and-the-brand/ar/1>, June, 2004.

Srinivas, P S, and Juan Yermo. Do Investment Regulations Compromise Pension Fund Performance?: Evidence from Latin America. Washington, D. C:

<https://assignbuster.com/free-research-paper-on-how-the-specific-strategic-management-concept-is-applied-in-the-company/>

World Bank, 1999. Print.

Starbucks Corporation Swot Analysis. Cleveland: Datamonitor Plc, n. d.. Print.

Starbucks. " Chapter 11: Diversification Strategies." Starbucks.. Web. 3 Dec. 2013.

Thompson, A. A., Strickland, A. J., & Gamble. Crafting and Executing Strategy: Text and Readings. Boston, MA: McGraw-Hill/Irwin, 2007