

Operation
management and
strategies starbucks
and cocacola
marketing essay



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In this present document we are going to analyze several aspects of operation management and strategies considering two companies: One from the service industry, Starbucks and one for the manufacture industry, Coca Cola. We will study their supply chain and assess its impact on both companies' success and profitability. Then we will analyze their operational strategy to determine in which measure it contributes to their competitiveness and we will strive to provide ways in which challenges of the different companies could be overcome so that they can strengthen their own competitive advantage. Finally we will establish a location analysis in order to identify the best place for the companies to implement a new operation.

The supply chain refers to the way that materials flow through different organizations, starting with basic raw materials and ending with finished products delivered (Gaither & Frazier, 2002). This involved many activities and therefore we have to think about the best way to manage it in order for a company to be successful and profitable. We can then define the supply chain management as a set of approaches utilized to efficiently integrate suppliers, manufacturers, warehouses, and stores, so that merchandise is produced and distributed at the right quantities, to the right locations and the right time, in order to minimize system wide costs while satisfying service legal requirement. (Simchi-Levi, Kaminski, & Simchi-Levi, 2003)

The Starbucks supply chain is made of the following activities which are either external or internal to Starbucks' organization: Coffee producing, importing, manufacturing and roasting, distribution to retail shop, marketing, delivering to the consumer.

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Supply Chain Starbucks

Activities involved from the coffee production to the roasting are external to the company. They can involve many counterparts such as the small coffee producer, the processor, the exporter, the broker and the importer. To optimize these activities Starbucks manage them in many ways emphasizing its commitment to ethical coffee sourcing and fair-trade and global responsibility. Starbucks establishes relationship with growers and distributors and deal directly with farmers. It offers high prices to ensure that poor coffee growers have enough money to cover their production costs and their family needs. It uses fixed prices purchase commitments to limit its exposure to price fluctuations and purchase future contract to provide price protection. Moreover, to spread company's risk linked to the weather and the political and economical issues, Starbucks sources bean from multiple geographic areas. Starbucks's commitment to ethical sourcing (it introduced the C. A. F. E program – Coffee And Farmer Equity in 2004) allows having a better quality of product, a greater visibility in the supply chain and better relationship with farmers which contribute to reach success and profitability, that is to say to reach its objectives and generate wealth.

Activities involved from the roasting to the delivery to the consumer are part of internal elements to the supply chain. They involve many activities such as the manufacturing, the planning, the inventory, the transportation and distribution. The key to reach success and profitability for Starbucks is to set an integrated supply chain operating system based on managing the flows. They manage the materials flows through DRP (Distribution Resource Planning) and TRP (Transportation Requirement Planning). They also put the

emphasis on the information flows management to share the relevant information and to detect the supply chain opportunities at different level.

The management of the marketing plays also an important role in developing the awareness of the fair trade initiative that helps justify Starbucks premium prices.

The Coca Cola supply chain involves many activities namely, the supplies of raw materials and packaging, the manufacture and production of beverage concentrate, the sales to the bottlers and distributors, the Research and Development and the delivery to customer and ultimate consumer.

Supply Chain Coca Cola

The internal activities of the companies are limited to the manufacture of the concentrated syrup, the selling to the bottlers, the owning of the brands and the consumer branding initiatives. Therefore the companies can focus on its core competencies such as the production of syrup and the brand development to achieve its objectives and reach success. The fact that the bottling is outsourced allows the company to focus on its core competences and therefore ensure certain profitability.

The others activities are part of the external supply chain but Coca Cola strives to integrate all the supply chain activities developing a strong partnership with its bottling partners. They are in charge of manufacturing the final product, packaging, distribution and merchandising the beverage to the customer and vending partners who then sell the product to the ultimate consumer.

The supplies of raw materials are mostly linked to specific nutritive and non nutritive sweeteners which are available either within the United States or outside. There are numerous sources of raw materials and they are often subject of prices fluctuations. So Coca Cola has a wide choice of raw materials suppliers so that it can spread the prices fluctuation among them and therefore control its supply chain. The procurement suppliers and bottler partners have to meet certain standard to deal with Coca Cola Company and have to commit to guide principles and incorporate sustainability.

Consequently Coca Cola can achieve its objective of quality and control.

The Coca Cola supply chain organization allows to enhance customer service and to optimize cost and investment.

How does each company's operational strategy improve its competitiveness?

According to the Competitive Advantage Model of Porter, a competitive advantage refers to the adoption of offensive or defensive action to create defendable position in an industry in order to cope with competitors and generate a superior return on investment. The basis of above average performance within an industry is sustainable competitive advantage which can be either cost leadership or differentiation. Both of the companies we are analyzing have adopted the differentiation strategy. Furthermore the operation strategy is aimed at providing competitive advantage through its performance at the five competitive objectives namely, the quality, the speed, the dependability, the flexibility and the cost.

Starbucks' operational strategy improves its competitiveness through different ways.

First of all Starbucks has understood that developing successful partnership would be a strength to develop competitive advantage first to ensure quality of product and secondly by adopting fair trade and ethical sourcing of coffee. Indeed Starbucks used to develop relationship with the countries it exports the coffee beans from. For example it collaborated with a small town of Pasto where they set up a special operation to grow the particular Narino Supremo bean and Starbucks committed to buy the entire yield which allow to be the exclusive Narino Supremo , one of the best coffees in the world and therefore to build a competitive advantage. The ethical commitment is a strong part of the operational strategy to develop specific partnership with small farmers and strengthen competitiveness. Starbucks has developed a shared planet program where it establishes environmental, social, economic and coffee quality principles to comply with C. A. F. E (Coffee And Farmers Equity) principles guidelines. This program enables Starbucks to differentiate from its competitors.

Secondly Starbucks operational strategy tends to expand its market through a number of channels such as licensing stores but also with hospitals, bank, office buildings, supermarkets, shopping centers, hotel and airlines. The strategic operation model of Starbucks is to blanket an area completely even if one store cannibalizes another one because the Starbucks' every-where approach cuts down delivery costs and increase the foot traffic in the area (Mr. Coffee, 2003). It develops partnership using local partner licensee who have experience in retail and restaurant in order to provide a good service to <https://assignbuster.com/operation-management-and-strategies-starbucks-and-cocacola-marketing-essay/>

customer and fit the corporate culture of the company. Starbucks strives to develop good relation with the partner licensee to help it recruiting talented employee and put the emphasis on the customer service to build sustainable competitive advantage. The key to successful partnership for Starbucks is to share relevant information and communicate on supply chain opportunities to optimize processes. Added to this Starbucks' operational strategy focuses on developing a strong corporate culture which enable to strengthen its competitiveness. Starbucks strategy is to empower employee culture through benefits program, employee stock ownership plan and staff and management training. The management staff is trained to understand how every activities of the supply chain fit together so it can be more effective and competitive.

Finally Starbucks' operational strategy aims at putting the emphasis on the marketing operations in order to differentiate the format. Indeed Starbucks' marketing actions have to develop a given image of a small scale and high quality roaster in ethnic culture enclaves who sells not only quality coffee but also an atmosphere, a personality, an escape, the self esteem and therefore an interpersonal relation. This image reflects Starbucks' personality and consequently enables the differentiation.

Coca Cola's operational strategy is aimed at building its competitiveness in many ways.

First its operational strategy is customer focused striving to take into account customer needs and providing a response to it in a right way and in a right time. The company sustains its success and competitive advantage

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by creating new ways to deliver value through innovation responding to customer and consumer needs in a fast way. For example Coca Zero refers to a new consumer need.

Secondly Coca Cola put the emphasis on the differentiation to strengthen its competitiveness by building global brand. It invests in marketing campaign to develop a strong image, improve its fame and impose its brand in a global basis. Therefore consumers have developed a loyalty to the brand and Coca Cola owns several brands that consumers are willing to pay a premium price for it. More over it has developed so much economies of scale through global networks that the emphasis on marketing and advertising fix important barriers to entry for potential competitors.

Coca Cola also improves its competitiveness by adopting a collaborative approach to work with their suppliers to green their supply chain. It invests in new technologies and innovation to help their suppliers who do not have the ability to do so, for example in investing in new technologies vending machines which are better for the environment. Therefore it gains competitive benefits not only because of the energy savings but also from a corporate social responsibility point of view.

Coca Cola has understood that integrate its suppliers would lead to supply chain excellence and therefore to sustain a competitive advantage.

Consequently the Company has created Coca Cola Supply which invites all the bottlers' partner to participate. The purpose is to provide a system wide leadership to control supply chain through integrated planning, joint initiatives and best practices processes. According to Coca Cola Supply, they

are transforming “ the supply chain from a series of discrete, inconsistent activities to a single, harmonious and sustainable system” (Coca-Cola Supply Created to Drive Supply Chain Innovation, 2009).

Polar diagrams performance objective of Starbucks and Coca Cola

What challenges do the operational strategies present and suggest ways in which they can be overcome.

Operations strategy is the decisions which shape the long term capabilities of the company’s operations and their contribution to overall strategy through the on-going reconciliation of market requirements and operations resources.

Regarding Starbucks’ operational strategy many challenges could be addressed according different issues in order to be more profitable and to sustain a competitive advantage.

The first thing is to always meet the customer needs for value and quality in identifying the best ways of quality processes. This implies that Starbucks has to find more suppliers quality and stability by developing partnership with different coffee farmers in order not to be dependant of only few suppliers. The quality implies also to control more and more of independent vendors, partners and licensees. Indeed the quality is one of the core value of Starbucks and reach it allows first the differentiation and secondly the conformance with customer expectations and avoid customer complaints. Starbucks has to keep developing ethical sourcing which benefits to the company’s quality and image.

Starbucks should assess the risk of its supply chain especially in raw materials procurement in the different countries and assess the political, geographical, natural, infrastructural risk of each country. Indeed if an incident happens in one of the procurement places Starbucks must not be dependant on few suppliers and should react quickly. It is therefore really important to develop the partnership with different countries in order to prevent late delivery and save costs.

One of the challenges Starbucks will have to face is a potential saturation of the US market. Consequently a global expansion in key markets is an operational strategy Starbucks has to develop. The international expansion of the concept involves prospecting efficiently new markets and assessing the potential of success in each market. The key is to find local partners to grow the number of licensed stores and impose Starbucks as a global brand. The partners have to share the same values as Starbucks and the company has to help them find the best talent and train them in order to strengthen more and more the corporate culture.

Developing new products is also an important challenge for Starbucks. Indeed the concept is mostly based on a few products which do not allow very much flexibility. Reaching flexibility will enable Starbucks to be more reactive in case of potential change from the market. Consequently the company has to develop innovative products and services while keeping its strong value of quality. For example it should be interesting to develop co-branding with other brands which present the same values as Starbucks in order to launch new products like the company did in 2004 with Hewlett Packard when they created a CD service in a store in California.

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Coca Cola is one of the biggest brands in the world but even if its renown and profitability is well established there remain important challenges that the company has to cope with.

First of all Coca Cola Company possess many brand but one of them generates around 50% of the total revenue. Therefore the company is in way dependent of one brand which can be a limit to its flexibility even if the customer loyalty to the brand is well established. Indeed Coca Cola needs more flexibility in case of market change and especially in case of consumer behavior changes. Besides we can notice a new trend where people become more and more health consciousness and look for nutritive drinks without calories. Therefore a threat of substitutes appears. In order to cope with the potential market change Coca Cola has to put the emphasis on innovation with new brands, products and packaging more adapted to consumers needs and demand.

Secondly Coca Cola have to develop ways to be always more and more profitable and efficient. The key is to reduce the cost in order to increase the margin. The areas where the company could reduce these cost is the transportation and the production. Consequently Coca Cola has to identify the best places to buy, make and distribute the product. It has to monitor each region and each country comparing different parameters which will affect the supply chain such as the weather, the port and transportation, the fuel prices, the labor rates and the internal regulations of each country which can provide opportunities.

Finally Coca Cola Company has to continue the effort put on green and environmental development. Indeed the company has often benefited from a negative image of a multinational company which tries to reach profit to the detriment of the planet well being. Therefore it has to keep investing in green technologies and support sustainable development with the suppliers in order not only to save energy costs but to benefit from a corporate social responsible company.

Each of your company is considering locating a new operation in one of Japan, Thailand and Singapore. Source information on each of these three countries and based on the information found and using the relevant location analysis tools select which country to locate in and support your choice. You need to define why they wish to locate an operation there i. e. what market are they servicing. You should include demographic, infrastructure, cultural, geographic information, etc.

Starbucks wants to locate a new operation in Japan, Thailand or Singapore. Indeed the company wants to expand its market on a global basis to cope with a potential saturation of the United States market. Therefore Starbucks wants to develop licensed stores operation in one of these countries. The key factors in such operations are the demographics, the branding and the potential revenue that each country could offer to the company.

Therefore the main factors in the decision factors are the following:

Quality of life issues in the community: indeed Starbucks targets a relatively high living standard consumer.

Worker education and skills: the emphasis of the quality of the staff is really important to strengthen Starbucks Corporate Culture.

Site costs: The rent is part of the profitability of the stores.

Cultural abilities to modern changes: Starbucks is an American company, and its values have to fit with those of the country choose.

Labor availability: It is important for Starbucks to find available talent.

Coca Cola Company would like to improve its competitiveness and reduce the cost of transportation and production. Consequently the company would like to set up a new manufacture of syrup in Japan, Thailand or Singapore to reach this objective. Therefore Coca Cola has to monitor each country to assess the potential opportunities it could offer. The main factors in the choice of the location are the following:

Proximity to raw materials and suppliers: As a manufacture of syrup, it is important to be closed to the suppliers to reduce costs and improve efficiency.

Labor costs: The cheaper is the workforce the greater is the margin.

Transportation availability: The products have to be imported to the different bottlers and it is therefore important to optimize the transportation cost.

Site costs: The fixed cost linked to the rent should be the least in order to increase profitability.

Government fiscal policies: all incentives or taxes impact on the cost.

In order to compare each country we will set up a brief overview of each country's characteristics.

Japan has a population of 128 million of inhabitant and is one of the most densely populated countries in the world. With a nominal GDP of about \$4, 9 trillion in 2008, it is the second richest country in the world. Moreover, with an HDI (Human Development Indicator) of 0. 96 it is the tenth highest standard living country. The government is a parliamentary democracy and put the emphasis on the environmental and sustainable development. The infrastructures are well developed and Japan is open in the world. According to the Big Mac Index Japanese people have the highest salary per hour in the world and the unemployment is low with a rate of 4%. Education is quite competitive and 75% of high school graduates attend a university. The culture has seen deep change from a very traditional to contemporary one. It influences by Europe and North America. Japanese people are quite open to modern changes.

Thailand has a population of 64 million of inhabitants and a nominal GDP in 2008 of about \$273 billion and a medium HDI of 0. 783. Thailand has been ranked by the Global Competitiveness Report of 2008 34 out of 125. The quality of education is medium but tends to improve through the private education. The cost of labor remains quite low and unskilled. The government has seen many changes since the last few years but tend today to be stable. It supports today through the National Science and Technology Development Agency the research in science and technology and encourage foreign private investment in this field. Thailand remains a very traditional country where tradition is strongly established.

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Concerning Singapore, with a population of 5 million of inhabitants and a nominal GDP of 182 billion in 2008 it presents a high standard of living with a HDI of 0.944. It is the least corrupt country in Asia and is a highly market based economy (one of the four Asian Tiger). Singapore has developed free trade agreement with USA in 2003. The unemployment is low and is about 5% and we can notice a shortage of skilled workers. Manufacturing constituted 26% of Singapore's GDP in 2005. Singapore has one of the busiest ports in the world and is the world's fourth largest foreign exchange trading center. Singapore is a major international transportation in Asia. Singapore's culture is still very traditional society.

In order to choose in which country we will operate we are going to use the Factor rating method which is useful for service and industrial location and which is one of the most widely used location technique.

(C1= Japan, C2= Thailand, C3= Singapore)

STARBUCKS FACTOR RATING METHOD

Factors

Weight

Rate C1

RateC2

RateC3

ScoreC1

ScoreC2

ScoreC3

Quality of life issues in the community

30

90

60

75

2700

1800

2250

Worker education and skills

20

80

50

65

1600

1000

1300

Site costs

15

60

70

65

900

1050

975

Cultural abilities to modern changes

25

80

50

60

2000

1250

1500

Labor availability**10**

85

60

70

850

600

700

Total**8050****5700****6725**

According to the Factor rating Method, Starbucks should implement its new operations in Japan in order to be successful, profitable and therefore achieve its objective of expanding in new markets.

COCA COLA FACTOR RATING METHOD

Factors

Weight

Rate C1

RateC2

RateC3

ScoreC1

ScoreC2

ScoreC3

Proximity to raw materials & suppliers

25

60

55

65

1500

1375

1625

Labor costs

20

55

80

70

1100

1600

1400

Transportation availability

25

70

55

85

1750

1375

2125

Site costs

20

60

70

65

1200

1400

1300

Government fiscal policies

10

60

60

70

600

600

700

Total**6150****6350****7150**

According to the Rating Factor Method Coca Cola should implement its new manufacture in Singapore in order to reduce its costs of production and transportation. Indeed that is the country which offers the most opportunities to do so in term of proximity to suppliers, transportation costs and labor costs.