

# Porter's five forces study of starbucks



**ASSIGN  
BUSTER**

## **Executive Summary:**

Given case study maps the situation of the company in 2009. In this assignment we will date back to a timeline of about 25 years and see how Starbucks developed their business. We will also see the strategies applied and the present situation of the company with the application of Porter's five competitive forces. Finally we will have a look at the future recommendations to reap a profit from the business

Part: 1

## **Starbucks Coffee Company**

Founded in year 1971

First headquarter in Seattle USA

Business in 37 countries

Expansion started 1982 with Howard Schultz joined

Starbucks has evolved from being a \$. 50 million business to a business that worth \$6. 4 billion

Howard Schultz is the Chairman, President & Chief executive officer

## **History:**

1971: Pike Place Market in Seattle was the first place where Starbucks store was settled

1982: Howard Schultz joined the company as marketing and retailing head

1985: Espresso bar concept

1987: Schultz purchased Starbucks and merged his business Giornale Coffee House with Starbucks

1987: Expands Business in the American market by starting outlets in British Columbia and Chicago

1992: With a business comprising of 165 outlets, Starbucks gets listed with its first public stock offering.

1996: Expands business to Japan, Tokyo was the first place.

2003: Starbucks expansion continues at a robust rate and it translates into a company with 6400 outlets worldwide.

2008: Global economic meltdown resulted loss in profitability, Starbucks decided to shut down 600 outlets across the world and also exits the Australian market.

## **Howard Schultz**

Chairman, President

**&**

Chief executive officer

## **VISION, OBJECTIVES AND MISSION**

### **Vision Statement:**

" To establish Starbucks as most familiar and appreciated brand in the world and become a national business with values and guiding principles that employee could be proud of"

The vision statement clearly describes the dream or the future of the company that is to be the world's most well known coffeehouse and also to be the most appreciated and positively graded brand by all levels of people around the world. The company also focuses its vision to employee satisfactions, so that the employees will be happy.

### **Objectives of Starbucks:**

Is to grow by making employees feel valued

Is to recognize that every dollar earned passes through employees' hands

### **The Six principles are:**

Respect and dignity

- Quality
- Diversity
- Profitability
- Satisfied customers
- Commitment

### **Corporate Values and Business Principles:**

Building a Company with Soul

Opposing Franchising because of Quality Control and Culture

Only selling coffee beans without artificial flavors.

Satisfy customers by all means.

Employees contribution and involvement in making Starbucks a better company

### **Corporate Social Responsibility:**

Establish the Starbucks Foundation in 1997

A major contributor of CARE, worldwide relief and development organization (Health, Education, and Humanitarian aid)

Participate in local charitable projects.

Provides financial support to community literacy organizations

2004 EnviroStars Recognized Leader Award for its community service and environmental activities

### **Value Chain:**

Starbucks do not have a vertically integrated supply chain. It always works at increasing its relationship with its suppliers through the fair trade initiative

### **Success Factors for Starbucks:**

Factors which helped Starbucks to gain success

Starbucks were the first coffee makers in business

Starbucks started their operation in the year 1987 under Howard Schultz

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Within the first five years they had 150 stores.

First specialty coffee retailing chain in the market.

First move advantage gave Starbucks a reason to establish a value proposition within customers and comes with a unique brand positioning.

Profits were huge enough to allow them invest in their expansion plans.

Market Research: Starbucks performed comprehensively study for expansion and enter into new markets. 1991 was the year in Starbucks moved to California resulted after a lot of market research. The reason why California people adapt quickly to changing lifestyle and that is the reason of choosing California.

Employee Satisfaction & Motivation: Starbucks played a major role in this aspect. Highly motivated and well trained staff resulted the high level of employee satisfaction. Starbucks offered health benefits to their employees for employees who worked more than twenty hours in a week.

## **Starbucks Strategies**

### **(1983- 2008)**

Schultz restored the old and honest employees of Starbucks to give the best service to the customers.

Dave Lawrence was hired as a executive vice president and charged with leading operation, finance and human resources.

In order to increase the market share, Starbucks has differentiated itself in providing a unique experience to its customers. In order to create a unique

value proposition, Starbucks have created stores with specific themes.

Secondly they have a focus on different flavors of beverages to suit people's needs.

Starbucks have developed the market for specialty coffee industry for America. In this context, Starbucks have created brand awareness and henceforth have created a demand for coffee stores amongst American population. Therefore, they have taken coffee from a commodity market to a specialty item.

New logo was invented to match the culture of the Starbucks and Giornale.

New espresso machines were equipped and look more Italian than old world nautical

Chicago store opened in October 1987 as per expansion strategy

Identifying inability of the customers for having a cup of coffee in the winter season in Chicago, Schultz solved the problem of freshness and quality assurance by putting freshly roasted beans in special flavor lock bags that used vacuum packaging technique.

Portland, Oregon was the next market the company entered. Entered in L. A in late 1991.

Opened 15 new stores in 1988, 20 in 1989, 30 in 1990, and 53 in 1992, producing a total of 161 stores in US.

Also went for franchising concept to retrieve the cost for new store expansion.

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In order to make Starbucks a great place to work Schultz accepted to expand healthcare coverage to include part-time workers.

To oversee the expansion process Starbucks created zone wise vice presidents to direct the development of each region and to implant the Starbucks culture in the newly opened stores.

Starbucks had created a new subsidiary, Starbucks coffee international, to orchestrate overseas expansion and build the Starbucks brand name globally via license.

To accommodate its strategy of rapid store expansion. In august 2002 Starbucks teamed up with T-mobile USA, the largest carrier-owned Wi-Fi services, to experiment with

Providing internet access and enhanced digital entertainment to patrons at over 1200 Starbucks locations.

Part 2

## **Starbucks Performance (Fiscal 2009 Annual Report)**

### **Stores Open :**

### **Store Sales Growth:**

(1) Store openings are reported net of closures.

(2) Of the approximately 800 total US stores identified for closure, 566 stores and 205 stores were closed in fiscal 2009 and 2008, respectively.



(3) Starbucks restructured its Australia market by closing 61 stores in fiscal 2008. Of the approximately 100 International stores (incremental to the Australia closures in fiscal 2008) identified for closure, 41 stores were closed in various markets in fiscal 2009.

## **Net Revenues:**

### **Operating Cash Flow & Capital Expenditures:**

Company revenues decreased from fiscal 2008, primarily attributable to a 6% decline in comparable store sales, comprised of a 4% decline in transactions and a 2% decline in the average value per transaction. Foreign currency translation also contributed to the decline with the effects of a stronger US dollar relative to the British pound and Canadian dollar. The weakness in consolidated comparable store sales was driven by the US segment, with a comparable store sales decline of 6% for the year. The International segment experienced a 2% decline in comparable store sales. The Company derived 16% of total net revenues from channels outside the Company-operated retail stores, collectively known as specialty operations. The decrease in Foodservice and other revenue was primarily due to the softness in the hospitality industry.

### **Schultz's Actions in 2008/2009**

Retrained all the store employees

They reduced operating costs by \$600m per annum

Simplified the product range

They Closed 1, 000 worst-performing stores

Introduced Fairtrade coffee

Started advertising

## **Porters Five Forces**

### **Potential entry of Competitors (Low).**

Differentiation:

Coffee industry companies tries to achieve differentiation in their service qualities through stores' ambience, staff and complimentary products. Hence it becomes difficult for new players to imitate the existing business models.

### **Potential development of substitute products (Low)**

Companies such as Pepsi and Coca Cola have been a threat to specialty coffee retailing from a substitute perspective. In the current situation this threat has been lowered considerably

### **Bargaining power of suppliers (High)**

Trade Policy

Farmers associations that practice the fair trade policy. In US this initiative is called the TransFair initiative. Users of these are certified coffee beans are regarded as more reputed by customers and hence most companies such as Starbucks are forced to buy from these farmers. This increases the bargaining power of suppliers.

Differentiation

Because of the taste differentiation companies need to procure an assortment of different varieties of coffee beans from different specialized farmers. This results the increase in the bargaining power of suppliers.

### **Rivalry among competing firms (High)**

It faces tough competition from local baristas due to price factor. Starbucks is priced higher than these local players. Starbucks faces stiff competition from McDonalds, Dunkin Donuts and a number of players. Overall the industry is growing but at a slow rate and there are lot of players.

Cost:

In terms of switching cost, consumers do not pay a high amount when they needs to switch their preferences from Starbucks to other coffee shops. Starbucks have lost a number of its customers because of the high prices. Customers opine that they get the same coffee in other places at lower prices.

### **Bargaining power of consumer (Moderate)**

Loyalty Programs:

Repeated purchases from a single customer become guaranteed customers are bounded to the organization through Loyalty Cards

Low Switching Cost

It usually plays a negative factor to the company's growth by increasing the bargaining power of buyers.

## **SWOT Analysis**

### **Strength:**

Starbucks has proven to give an outstanding performance in customer service and experience. It has its own unique playback songs system which can be used to listen to your choice.

Starbucks have changed coffee to a recognized beverage. One of the major strategies of Starbucks is that it has never used expensive television advertising campaigns or brand ambassadors to advertise, instead it has relied more on its universally present cafes, word of mouth publicity and the ambience of its stores. It has maintained a high level of service through which it has achieved a consistent level of customer satisfaction.

### **Weakness:**

Customers are never loyal to a single store and keep on changing their stores, because when ever Starbucks enters any international market it opens a large number of stores within close vicinity

Sales of individual stores are never stable.

Because of the recent recession, the levels of same store sales and margins have come down. The fourth quarter results have shown a loss of 70% in the company's net income and share prices have fallen by 33 cents. There has been a closure of 600 stores and lay off for 6700 stores.

### **Opportunities:**

Along with coffee Starbucks has also branched out to produce DVDs, CDs, t-shirts and other proprietary food product offerings. The market for these

products has grown considerably and gives a great opportunity to Starbucks for leveraging their brand.

Starbucks should also look at exploring some of the emerging economies in South Eastern Asia such as India where the economy is stable.

### **Threats:**

The economic recession is a threat for Starbucks since they had to close down a large number of stores leading to declining profits and large level of unemployment.

McDonald's and Dunkin Donuts serve high quality green coffee also which is an impending factor on Starbucks growth. Starbucks is facing major challenges from competitors such as McDonalds and Dunkin Donuts.

### **Strategic Synopsis:**

Starbucks faces an extremely challenging fiscal 2009 due to the ongoing economic slowdown. It noted that its customers may have less money for discretionary spending as a result of job losses, foreclosures, and bankruptcies. Any resulting decreases in customer traffic or average value per transaction will negatively impact the company's financial performance as reduced revenues result in sales de-leveraging which creates downward pressure on margins. The company also said it expects negative comparable store sales for fiscal 2009 and that additional restructuring measures may be needed in the future if Starbucks is unable to improve its financial performance.

PART: 3

## **Customer, Market, & Market Segment:**

### **Customer Segment:**

It's is well known for its coffee as well as the relationships formed with its customers. This targets college students and business people in general, as well as individuals.

### **Target Market**

Starbucks us always adult -focused and look forward to aim to connect with their customers, children's and communities through different types of advertisements tactics. College age group and post graduates are the big growing market.

### **Market Attraction**

Targeting adults and young adults is a good mechanism for Starbucks because this age level has the same interests as the foundation that promotes arts, culture, education, and the environment (starbucks. com). The company satisfies their customers through their advertising, support programs and, of course, their coffee.

### **Resources and Capabilities**

#### **A: Resources, capabilities and Strategic Assets:**

Every company or organization needs and owns certain resources, capabilities or competencies and also assets which are a necessity to endure and prosper globally.

## **The resources consist of:**

### **Creating Competitive Edge**

#### **Intangible Resources**

Recipe

Employee relationship

Large customer base

Reputation of products and services

#### **Tangible Resources**

Large number of outlets

Machinery & equipments

Operations in 37 countries

#### **RESOURCES CATEGORIES**

#### **STARBUCKS RESOURCES**

#### **PHYSICAL RESOURCES**

Operation in 40 countries

Conventionally taste and environment.

Effective segmentation.

Supply chain management.

Large number of outlets.

#### FINANCIAL RESOURCES

Turnover of £46. 56 billion in 2009.

Gross margins of £4. 13 billion in 2009.

Profit of £2. 1 billion in 2009.

#### HUMAN RESOURCES

Greatly competent labour force.

Young and prosperous.

#### INTELLECTUAL CAPITAL

Reputation for excellence

Brand image built as taste, environment.

### **Strategic capability of Starbuck:**

#### CATEGORIES

#### STARBUCK RESOURCES

#### THRESHOLD RESOURCES

solid supply chain.

Young and affluent workforces.

#### THRESHOLD COMPETENCIES

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Quality.

Reliability.

Dealings and relationship with its employees and customers.

#### UNIQUE RESOURCES

Hi-tech coffee machines & equipments.

Extraordinary labour force

#### CORE COMPETENCIES

Technology.

Speed of production.

Known as “ The Best coffee provider”

### **B: Structure, Culture and organizational knowledge**

There are very less companies who can boast to be as consistent as Starbucks in terms of attracting the customers which is always adjusting itself for the demand of the time with seamless quality and efficiency. The adjustment which is the company is willing to accept all the time is what makes it different from the rest.

Their philosophy of the Starbucks is to provide product which are marvel of taste but also come with value and satisfaction.

## **B: STRATEGIC CHOICE**

### **Identification of Strategic Options**

#### **“ Ansoff’s Product/Market Matrix”**

Considering the approach of STARBUCKS they should continue to go with what they are doing currently. It means stick to what they do best. I think that they do need to enter new markets for themselves and in particular ASIA. Currently STARBUCKS is not one of the most commonly used or known brands in ASIAN region. To pin point the region the areas to focus must be China and South Asian markets.

STARBUCKS has set its sights on Chinese Niche market with view of the massive growth in Chinese economy and the wealth generated. Working in China would also mean that they will be able to work with the best available technology and also the fast growing consumer market that exists within China.

Other region of interest can be South Asian emerging markets and in particular India who are enjoying a massive boom in economy and also buying power.

In my opinion the strategy used needs to be Business to Customer or B2C as this strategy has already served STARBUCKS Group very well in the past.

The benefit of the strategy will be that it will be Product driven and will also maximize the value of the transaction and plus they will have larger target markets. This will also ensure that there will be a single step buying process and will enhance brand identity and also the brand image will also work as

an extra helping hand for the company. B2C strategy will ensure the brand loyalty and also will promote emotional buying decisions which will base on status, price or may be desire.

## **RECOMMENDATIONS FOR ACTION**

Starbucks should continue with its operation in the growing economies and markets and diversify themselves to new markets where ever possible. As most of markets of Europe and America are at a stage of maturity, the realistic option for growth is diversion to new markets. The markets of Europe and America are older and also are very established for the Starbucks and it also has developed a brand loyal segment of customers behind them. That is the reason they need to consolidate the work they have so far put in to the emerging markets and consumers.

To put the strategy into action STARBUCKS needs to consider the below stated aspects so that the transition or change over to new markets is as smooth as it can get.

The timing is one of the major aspects which need to be taken care off or estimated beforehand. Since company already has its plants based in INDIA and CHINA; they still need to develop them further to enhance production and meet the growing demand of a growing market and also a growing consumer base. The time it will take for them to either acquire or go into further and further of franchise growth model. The other important type of strategy in which STARBUCKS has been largely successful is by creating their 100% subsidiaries in the emerging markets so that it becomes a strategic asset for the company and would usually mean that it will be cost effective

manufacturing by producing it in developing countries; which means that they will have relatively less expensive labour at their disposal in comparison with already developed countries and markets.

The constraints for company can be the rise in prices of raw materials will definitely impact pricing and positioning of the brand.

They will also have to work extensively to keep up to date with taste of consumers and also their preferences' in terms of product. Another factor can be the potential of the markets suggested will definitely appeal to the competition and it might trigger a price war and fierce rivalry amongst the industry players.

The fluctuation in international business will also affect STARBUCKS in particularly the international currency market.

This strategic plan may be able to help STARBUCKS achieve a safer journey ahead and they will be able to sustain a strong foothold in the world.

Starbucks should continue to open new locations worldwide. Starbucks is extremely dependent on its domestic success, and yet has a variety of countries it has not explored opportunities in. However, it is recommended that Starbucks tread lightly and with caution, insuring proper social and cultural analysis before plunging into a country. This is apparent in the fact that Starbucks was forced to close three retail stores in Singapore last year.