

Identify the
controllable and
uncontrollable
elements for
starbucks



establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles while we grow” (p. 80, Kotler et al. 2005) Furthermore the mission statement emphasizes work environment, diversity, high standards of excellence to every aspect of the core product as well as “...commitment to a role of environmental leadership in all facets of our business”. (p. 80, Kotler et al. 2005)

at the speed Starbucks are expanding their business there is risk that some of these missions will be ignored when entering new markets.

As I realized from the case, when Starbucks entered global markets, controllable elements that Starbucks has encountered entering the global market are similar to those in their domestic market. These include product, price, place and promotion. The Starbucks’ name and image connect with millions of consumers around the globe. Internally, Starbucks is able to make adjustments to fit a country’s cultural tastes and expectations regarding their product, its price, where it is available and how it is marketed. Starbucks is also able to take part in market research to be sure their product has the right fit for each of its international locations. According to the company’s website, they maintain a high level of success internationally by choosing international partners who share their values and commitment to bringing the Starbucks’ experience to customers worldwide

I would like to bring a good example about price as controllable elements. Italian coffee bars prosper by serving food as well as coffee, an area where Starbucks still struggles. Also Italian coffee is cheaper than US java say,

Italian purists, much better. Americans pay about \$1.50 for an espresso, on the other hand northern Italy the price is 67 cents in the south just 55 cents.

Also the company has encountered some uncontrollable elements in global market. In Italy it needs to adjust to changing market conditions, consumer tastes, and corporate competition with local coffee houses. Italian coffee bars prosper by serving food as well as coffee (an area where Starbucks still struggles). Italian coffee is also less expensive than U.S. coffee and is also considered by locals to be superior. Another uncontrollable element is a nation's economy. At the writing of this article, Japan had been experiencing a depressed economy and Starbucks's Japan profits were down 14%.

Competition is another factor between rival shops. Other one is political and legal bindings that change from country to country, as labor benefits. Also culture, Starbucks is something new in different countries and young are always enthusiastic about the new and they embrace the new, as in Vienna.

What are the major source of risk facing the company and discuss potential solutions?

Being very well managed by a well seasoned management team which is known as H2O from the combination of 3 names: Howard Schultz (Chairman and Chief Global Strategist), Howard Behar (Head of North American Operations) and Orion Smith (CEO), this first chain of Starbucks was successfully popular on that time.

Since it went public in 1991, the company has expanded colossally. But it also encountered many problems. It was faced with the problems that it had mounted in home and abroad.

Risks facing the company;

- Due to its global dominance it has created a powerful brand image around the world it has evoked strong emotions in people's mind so much that it leads to street protests. Starbucks has a store at every corner in some parts of U. S
- Global recession led to shift consumers to less costly brands e. g. The future generation and people within their 20's & 30's are not ready to pay High prices.
- Employees have a low morale at Starbucks leading to " Employee burnout" i. e. a psychological problem.
- Low wages is another issue employees and managers deal with.
- Lawsuits have been another reason for Employers and Managers leaving frustrated. Costed the company around 18 Million dollars to cover it leaving them with decreasing in their profit share.
- Starbucks market is saturated in U. S.
- Rising prices of Commodities have triggered the consumers spend less
- Expansion and Cannibalization risk. Expanding aggressively growth in stores around the world. Culture difference has been a major problem for E. g. (Italy felt a threat from changing their lifestyles of drinking coffee).

Solutions:

- Investing more capital in Advertising campaigns to improve their public image.
- Concentrate on International Expansion on BRIC countries which have the highest growth in the world.
- Product differentiation. For e. g. (Adaption of Starbucks products to country standards)
- Instead of Targeting the Higher-Income crowd they should re-position their products and focus on Middle class.
- To avoid Cultural issues the company should create Global Strategies depending on locations to achieve success through researching the country's culture and belief's and introduce products according to their likings.
- Focus on improving Quality of coffee and services by keeping their employees happy.

Critique Starbucks overall corporate strategy.

Some of the methods Starbucks have used to expand and maintain their dominant market position, including buying out competitors' leases, intentionally operating at a loss, and clustering several locations in a small geographical area have been labeled anti-competitive by critics. Company used its capital and influence to obtain different locations, some of which operated at a financial loss. Critics claimed this was an unfair attempt to

drive out small, independent competitors, who could not afford to pay inflated prices for premium real estate.

As this rapid growth continued, the company began to be needled by late night talk show hosts for its seeming Starbucks-on-every-corner expansion strategy, while a number of owners and patrons of local coffee shops began speaking out and demonstrating against what they considered overly aggressive and even predatory moves into new territory. Critics complained that the company was deliberately locating its units near local coffee merchants to siphon off sales, sometimes placing a Starbucks directly across the street.

As I read from article the corporate strategies and customer's expectations differentiate from each other, and for these Starbucks are incurring losses.

- They believe that the more the outlet the more the sale. Basing on this strategy they are increasing their outlets day by day in their domestic region as well as abroad. Without satisfying the customers need, by increasing the numbers they will not be able to succeed in their mission.

- Starbucks's target customers are the Baby boomers or older generation, it has no

Differential pricing for the Generation X or younger generation.

- Though Starbucks fully control its business in the USA, but it has franchisee outside the USA. Depending on the franchisees' undermines the strength of Starbucks outside the USA. Starbucks is about to become a global company.

But its spending does not match with its status. Starbucks only spends 1% of <https://assignbuster.com/identify-the-controllable-and-uncontrollable-elements-for-starbucks/>

its revenue as advertisement; whereas most companies its size spend at least 10% revenue. Low spending on advertisement hampers Starbucks's brand building outside the USA.

- By aggressive marketing strategy they have created entry barrier for the competitors

Through “ predatory real-estate strategy”.

- Starbucks pay does not come close to match the work load of their employees that created dissatisfaction among them affecting sterling service and even the coffee itself.

- Schultz should be more cautious to various cultural and ethnic affairs. As a Chair of Starbucks and having market in Muslim dominated regions, he cannot make any scathing comment against Palestinian.

How might Starbucks improve profitability in Japan?

Japan's coffee culture revolves around the Kissaten, a relatively formal sit down coffee house. Two of Japan's well established coffee chains are the Doutor coffee company and the pronto corp., which focus on speed of service and quick turnover of costumers. Both of them sell coffee \$1 less than Starbucks.

In order for Starbucks improve profitability in Japan and to become a strong competitor it must gain consumer recognition, and to bring the prices in the same level as competitors. Starbucks hopes to cultivate the same kind of coffee in Japan as the one it has created in North America. However,

Operating costs in Japan, such as rent and labor, are extremely high and Starbucks will also have to pay for coffee shipment from its roasting facility in Kent to Japan. Retail space in downtown Tokyo is very expensive. Starbucks plans eventually to open a roasting plant in Japan to help keep cost down.

The Japanese are less conscious about the price. According to the present cultural trend in Japan, younger generation is inclined towards spending their time in a constructive manner. The source from internet says that the Japanese youth have very less time for their leisure. Besides sipping a cup of coffee in a coffee shop they love to learn English Language.

- Starbucks and its competitors in Japan are providing the same fare. As a result competitors can easily eat up Starbucks's share. So, Starbucks should either reduce the price or increase benefits in Japan.
- Starbucks can introduce US style online system in Japan, so that busy Japanese can provide their order in the internet.
- Starbucks can introduce various cultural campaign or entertainment campaign in Japan, so that Japanese youth feel attraction to come Starbucks. In times of economic recession extra activities are necessary to boost up sales.

So, for attracting the Japanese market in addition to coffee, arrangement of internet facility and other amenities should also be provided.