

# Starbucks supplier value chain analysis



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### Introduction:

Starbucks is not afraid of innovation and change, in fact the company encourages it. From the beans to the barista sprinkling cinnamon, Starbucks intently monitors what it is doing well, where improvements need to occur, and areas for innovation or expansion. It has come a long way from a single cafe in Oregon to become a multinational titan. Starting with production, to technology, and operations, Starbucks has organized itself to maximise effectiveness of its supplier value chain through monitoring and keeping tight control of results.

### Production:

Production begins with the farmers and the beans. There are clear rules and regulations for suppliers, to the point that Starbucks has created its own certification program for them. After distributing the green coffee beans to plants for roasting and mixing flavors, the company ships their product to their restaurants and stores. In 2010 James Cooke explains how Starbucks is continually seeking sustainability and beneficial processes for not only profit margin, but for employees. Keeping efficiency in mind, the company sought to keep manufacturing in the area that the end product is sold by opening a fourth manufacturing plant. Now the product spent less time in transit, which not only diminished distribution costs, but also carbon emission of transportation while assuring a fresher product. In addition to the environmental impact of distribution time, carbon emissions were further reduced by going to a five day a week operational plan. As one might

imagine, the reduced work week had a positive affect on employee job satisfaction and reported work-life balance.

#### Technology:

Technology is essential to branding and marketing. Starbucks has a strong presence on social media. It should be noted that most content that is shared is from consumers, not from the company itself. For example, on Twitter there is almost no content that originates from the company. Twitter is used mainly to monitor consumer experience- and to quell any dissatisfaction with alacrity. Travis Huff explains that Twitter and hashtags are monitored throughout the day and the representatives encourage “dissatisfied customers to get in touch with the company for follow-up using a Twitter-specific email address.” (2014) Taking a less is more approach to their own postings on Facebook, Instagram, and Pinterest, the company allows the consumer to be interactive and brings more attention to the posts they do update- for their rarity.

What the company does share is geared towards humanizing the production process. On its own website and across Starbucks third party platforms the company introduces the everyday consumer to individual farmers and scientists working to improve the company’s supply chain and reduce negative environmental impact. Launched only this past week on January 23, 2019, “ Starbucks Stories” combines previously separate platforms of Starbucks News, The former Starbucks Channel, and 1912 Pike. While, as discussed above, Starbucks is very present on third party technological

platforms, this website appears to be a proprietary conglomeration of a blogging platform, Facebook, and YouTube. As the website touts:

“ A quick tour across the top navigation will guide you to the stories you’re looking for in the areas that we care deeply about: Coffee, because we are a premium coffee company; Community, because humanity is at our core; Social Impact, because we believe in our responsibility as a different kind of for-profit company; and News – because we will be on top of the Starbucks stories that are breaking, that matter, that are relevant in your life today.”  
(2019)

A third aspect of technology bridges production and operations. Starbucks drafted a universal and unified logistics system to support its comprehensive global market. In order to reduce delivery costs and streamline administration, Peter Gibbons created a global map of all transportation costs. (Cooke, 2010) Technology allows for streamlined communication across all levels of the corporation and is wielded effectively from CEO Howard Schultz to individual store management.

Operations:

The matrix organizational structure that Starbucks employs is a strong component of their success. According to *The Fundamentals of Management* by Robbins, Coulter, and DeCenzo, “ The primary strength of the matrix is that it can facilitate coordination of a multiple set of complex and interdependent projects while still retaining the economies that result from keeping functional specialists grouped together.” (2017, P 179) There are four segments to the Starbucks matrix: their functional hierarchy, geographic  
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divisions, product-based divisions, and teams. The functional portion of the hierarchy separates management segments into business functions such as human resources, finances, marketing, and so forth. Next, since the company is so extensive, many functional managerial positions need to have unique divisions in each locality. Product based divisions specialize in commodity branding and teams are the employees of any particular store location. The store teams interact the closest with customers. For the Starbucks brand to remain at its current pinnacle, frontline employees have to evince a consistent high level of customer service. In a case study posted in the Journal of International Management Studies, Andrew Mason, Tracy Cole, and Nina Goza posit that “ By providing education for its employees and investing in its human capital, Starbucks has gained a competitive advantage in attracting and retaining qualified, productive, motivated employees.” (2017, p 46) Starbucks can therefore assume that day to day operations will have a customary level of excellence stemming from their investment in human capital.

#### Supplier Value Chain:

Value chain management is an externally motivated process that takes into consideration ingoing materials and outward bound services and products. Also known as VCM, value chain management has an aim of resulting in the paramount benefit for consumers. This results in the customer having predominance over defining the terms of and assessing the success of VCM. This process is an aggregation of the various participant teams of a company or organization. Each segment must interact seamlessly to add elements of value to the process. In the end, the more effective the teams are, the more

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value is created for the consumers, and the more benefit is filtered back along the chain. Starbucks is an exemplary model of effective value chain management.

Two of the business benefits of VCM are an improved process to acquire goods and improved process of systemization. The company propagates and roasts superlative coffee beans, operating in more than 24, 000 stores across 75 markets (Starbucks Coffee International Company Information, 2019). To look at the Starbucks' mode of product acquisition, it becomes clear that the company considers the benefits to be one and the same. " Starbucks exerts management influence over the quality of its raw materials ... processing... and retail operations because of a well-executed integration strategy. The management strategy of vertical integration allows Starbucks greater control over the value created by its production chain." (Mason, Cole, & Goza, 2017) There can be no question as to Starbuck's expectations. Explicit terms and conditions with 36 line items, with 16 concretely defined terms and up to seven sub points each. Furthermore, there are 33 pages to the document describing the minimum requirements that need to be met to be considered to be a supplier for Starbucks.

#### Monitoring and Control:

Without monitoring, a company would not be able to say for certain if it was meeting the requirements of the law or progressing along stated goals. In a case study in chapter 15 of *The Fundamentals of Management* , a store manager observed just her own location and made small adjustments of day to day activities of her employees to increase efficiency. The minute

adjustments she initiated raised the number of transactions they were able to complete by 10% in two months. (2017, P 478) After a certain level of expansion, it is difficult for a company to exert consistent control over frontline employees. CEO Howard Schultz is unafraid to make drastic decisions, such as closing every single store in the North American market for three and a half hours on the same day for training, as after a much publicized incident of racial bias.

To guarantee consistency, suppliers must sign a code of conduct agreement which communicates that all suppliers must not only assess and report upon how they are fulfilling the requirements, but also asserts that suppliers will be subject to audits to verify compliance. The agreement furthermore delineates consequences of noncompliance.(Starbucks, 2019) Suppliers are explicitly informed that if they do not follow the guidelines, they will no longer have a contract with Starbucks

Analysis:

Starbucks is a time-tested conglomeration that has weathered recessions and bloomed through expansions of both product lines and geographies. It has a well defined supplier value chain. The company obsessively monitors and tracks processes and procedures to verify that it is operating at the best capacity. “ Best” for Starbucks is more than merely “ most”. With a strong corporate responsibility program, Starbucks not only takes into consideration the consumer, but also production sources and employee needs.

There are few recommendations that could be given to such an all encompassing empire. The 2018 racial profiling incident brings forward an

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ugly truth that no company is without some flaws. While the initial response was swift and widespread, the company needs to take a moment to look more strongly at regional biases. They need to proactively look for prejudices to educate workers on best practices interacting with customers. In addition to the teams at the forefront of customer interaction, employees all along the supply chain could benefit from this education.

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