

# Environmental factors affecting the starbucks company



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The Starbucks is being affected by the environmental influences/factors and to analyze these influences, we need to apply the Pest Analysis and Michael's Porters Five Forces:

PEST ANALYSIS1:

POLITICAL2:

The Starbucks business environment especially in Middle East and South Asia was changing rapidly and unpredictably towards worse for the company, due to the declaration of the war on Iraq in early 2003 by the United States. In July 2002, the Arab students called for a boycott of American goods and services, due to the close relationship between United States and Israel, caused the U. S Company Starbucks sales swift downwardly.

Moreover, the Starbucks was boycotted at the top list due to Shultz close relationship to the Jewish Community and the rumours sponsoring the Jewish Community against the Palestine crisis. Thus, cause the Starbucks to closed down six stores in Israel for security threats.

Starbucks had two class action suits pending since 2001. The lawsuits entitled Carr (Store Manager) and Sheilds (Assistant Manager) at California as exempt employees under California wage and hours laws. The Starbucks is ignoring all its liabilities in these cases, but the company has accepted to the settlement in regards to take care of all of the plaintiffs' claims without involving in any protracted litigation.

Starbucks is based on importing all their coffee beans, so other possible threat could be change in import laws, could affect the various areas of process and production for the company and could finally lead to change in price, which might impact the level of consumption or sales for the company.

#### ECONOMICAL:

The Starbucks also experienced the criticism from Non Government Organizations that wanted the company to get certified beans and those coffee beans should be grown and marketed under some economic and social conditions.

In addition, the economic recession in European countries such as Switzerland, Germany, and Japan in the early 2000s and worldwide financial crisis affected the sales and revenue declining for the company.

#### SOCIAL:

In regard to the Starbucks Environment Mission Statement that “ Starbucks is committed to a role of environmental leadership in all facets of our business”

On the basis of their objective, the Starbucks has announced a list of principles that reflects the company’s willingness to make sure its impact on the environment is positive as possible. These principles are:

Understanding of environmental issues.

Sharing information with our partners.

Developing innovative and flexible solutions to bring about change.

Striving to buy, sell and use environmentally friendly products.

Recognizing that fiscal responsibility is essential to our environmental future.

Instilling environment responsibility as a corporate value.

Measuring and monitoring our progress for each project and encouraging all partners to share in our mission.

The above Environmental principle reflects that the company is more conscious and interested in utilizing their resources in regards to the friendly environment operations.

#### TECHNOLOGICAL:

The Starbuck, to earn the profit rapidly and serve more customers quickly rather than focusing on the quality enables the management to replace labour operated machine La Marzocco (which required barista's to grind & press coffee for every cup) with the Verismo automatic machine (where the barista's work was reduced to pressing a button) and later barista's grinding complained of being de-skilled. Thus, the coffee quality result in poor coffee house experience, customer experience and overpriced coffee than competitors led existing and potential customers coming through its doors felt down rather than rising. Shultz to achieve the best result spend ten millions of dollars on new coffee machine namely "Clover" (for making brewed coffee that requires both more beans and more labour) and another machine namely "Mastrena" (smaller and prettier than the Verismo

machine, for making espressos where baristas are still required to push a button for grinding and for each fresh cup of the coffee). The Starbucks needs to re-evaluate what the brand stands for, what it sells and what the consumer experience and values should be.

### MICHEAL PORTER'S FIVE FORCES OF COMPETITIVE STRATEGIES<sup>3</sup>:

#### THREAT OF NEW ENTRANTS:

Starbucks is the leading retailer, roaster and brand of specialty coffee in the world operating about 40 countries in the world. The Starbucks key success is innovating, modernizing, aggressive store openings and strong product differentiation in the coffee industry that limits the new entrant's entrance in the coffee industry. For instance,

free Wi-fi access to enable customers to surf internet<sup>4</sup>, prepaid Starbucks card, card rewards and Starbucks gold card<sup>5</sup>, improving its coffee line to offer smaller, cheaper cups<sup>xiv</sup> w, using new technology that create one cup at a time individually so that the taste remains the fresh<sup>xv</sup>.

Whereas the Starbucks has the major threats from fast food chain like McDonald's, Burger Kings and Dunkin Donut's where the capital requirements are not the big problem could be the potential entrants. The economies of scale within coffee industry have risen as the size of fast food chains has varied. The fast food chains (McDonald's, Burger king, and Dunkin' Donuts) have very low cost national distribution channels in comparison to the new entrants whose distribution system is not such developed. This group of fast food chain is able to maintain its economies of

scale by negotiating long term contracts with farmer & buying the coffee beans in the large quantities at discounted prices. There is various cost disadvantages for the new entrants. For instance, the stabilized company in the market tries to get the high quality coffee beans and for new entrants to access those distribution channels is very difficult. The favourable larger metropolitan store locations have already been occupied by the current specialty coffee industry (Adamy, Venti Changes at Starbucks, 2008).

The specialty coffee company primary objective has entirely changed from their root direction and distinct in terms of taste of the coffee, stores availability everywhere and charging prices. Ambience of the store, social responsibility and brand identification are now the traits of the company. Due to these new traits the company have gained the loyal customers from their past experience, customer service and fulfilment of the objective i. e. product differentiation and aggressive opening of the store. Thus, all these factors make difficult for new entrants to gain customer loyalty (Gulati, 2007).

To conclude, the threat of new entrants is low and barrier is high due to the no substantial capital requirement.

#### **BARGAINING POWER OF BUYTERS/CUSTOMERS:**

Starbucks set the price according to the purchasing power of its customer and the prices at their competitors coffee houses. At Starbucks the prices are not negotiable due to its high product differentiation, enormous selection of coffees, uniqueness and high quality perception perceived power. This is the

reason the opportunity for the Starbucks may sell at higher prices (starbucks 2008 another file).

Whereas, there is no switching cost to customers to switch due to enormous selection of coffee houses except the minor indirect cost and may take away the patrons from Starbucks. Secondly, the customers have the ability to make their own coffee and Starbucks is trying to remove this threat by offering directions on how to make the perfect brewed cup of Starbucks Coffee at home, known as the " Four Fundamentals of Coffee" (<http://www.academicmind.com/unpublishedpapers/business/marketing/2002-04-000aag-catching-the-starbucks-fever.html>) or ([www.starbucks.com](http://www.starbucks.com)) OR <http://news.starbucks.com/about+starbucks/global-consumer-products/packaged-coffee-tea/how+to+brew+the+perfect+cup/>.

Starbucks 20% sales lowered by 2008 in the store located within surrounding area of mom-and-pops coffee store. (Review, Is Starbucks a Broken Brand? , 2008) (starbucks08full)

Thus, it is clear that the customers bargaining power have been increased due to the availability of information in regards to market variables and Starbucks should focus on the product competition rather than focusing on the consumer demands to exist in market leadership (starbucks 2008 another file).

#### BARGAINING POWER OF SUPPLIERS:

The Starbucks being the world largest importer of the coffee beans may face the rise in prices of coffee beans due to the unmatched between the twin market forces i. e. high demand and low supply, overcrowded market and <https://assignbuster.com/environmental-factors-affecting-the-starbucks-company/>

high quality coffee sought may result in favour of suppliers bargaining power. There is no substitute for the coffee beans that Starbucks may buy. For Starbucks, this is the huge threat because coffee quality sought by the Starbucks is high and previously Starbucks has paid premium on green coffee about \$1. 20 per pound (starbucks. com). In 2001, Starbucks announced coffee purchasing guidelines for suppliers, developed in partnership with The Centre for Environmental Leadership in Business (starbucks. com) and were based on the grounds of the quality baselines, environmental concerns, social conditions and economic issues. Recently in 2005, the company paid 23% more than the market price for the coffee xvii to abide by the rules and commitments in purchasing the Fair Trade Certified™ Coffee (Farmers who sells the coffee are united by an initiative known as Fair Trade Certified Coffee, organized by the TransFair USA to assess the farmers are paid fairly for their crops and that has exert more bargaining power over the buyers). Thus, there are more substitutes available in the competitive saturated market for the coffee beans except the technological innovations (such as automated coffee machine, latte and espresso machines has more bargaining power) if Starbucks agrees to buy at different rates and this is true that the Starbucks power lies in the hand of the suppliers.

#### THREAT OF SUBSTITUTES:

The Starbucks has quite good range of competing substitutes in beverages and food product line like soda, juice, smoothies, fruit, beer, alcoholic drinks, burritos, sushi, burgers and snack food etc. It is necessary for the Starbucks to innovate and differentiate its coffee, beverage and food product line <https://assignbuster.com/environmental-factors-affecting-the-starbucks-company/>



simultaneously in the competitive landscape. Whereas the majority of coffee consumer does not easily substitute away from coffee or coffee related beverages like blended drinks or espresso and the closest substitute of coffee is the tea which is being sold out by Starbucks under Tazo Tea Brand. Moreover, the Starbucks is offering its own branded coffee at many grocery stores locations to hedge the threat of substitutes. The recent study has shown the consumer preference that the beverages like carbonated soft drinks consumption has declined in contrast to the coffee. This gradually gained preference over carbonated soft drinks shows the health concerns and coffee is healthier choice (Harding, 2000). To conclude, Starbucks focus on fresh and tastier baked goods and Starbucks does not need to diversify its food selection as its enough to satisfy the customers (starbucks 2008 another).

#### COMPETATIVE RIVALRY:

Porter's first force that Porter describes is current rivalry among existing firms. In the specialty eateries industry, Starbucks' current and direct U. S competitors are Diedrich Coffee, Seattle's Best Coffee, and Einstein/Noah Bagel Corporation (hoovers. com). The competition, however, is not equally balanced. Diedrich Coffee operates 370 coffeehouses in 37 states and 11 countries (hoovers. com). Seattle's Best Coffee operates 160 coffee cafes and 20 Italian coffee cafes in 17 states and 8 countries (hoovers. com). Einstein/Noah Bagel Corporation operates 460 bagel cafes in the U. S (hoovers. com). Starbucks has 4, 709 locations in over 20 countries (hoovers. com). It is clear that Starbucks has few major competitors, and the competition has nowhere Starbucks' volume of operations. Starbucks is the <https://assignbuster.com/environmental-factors-affecting-the-starbucks-company/>

leading retailer, roaster and brand of specialty coffee in the world. Smaller competitors, however, pose potential threats to the company. For example, the average Starbucks location draws on a population base of 200, 000 (msn. com). In San Francisco and Seattle, Starbucks draws on population bases between 17, 000 and 19, 000 (msn. com). In cities where Starbucks does not draw on small population bases, smaller competitors can attract some of Starbucks' 200, 000 person population base. A slowing industry market growth is another threat facing Starbucks. According to the market research firm Allegra, compound market growth between 1997 and 2001 was 57% (hoovers. com). From 2002 to December 2004, the market it estimated to grow 14%. (hoovers. com). Competitors are selling similar products, including specialty coffees as well as high quality foods. In this slowing market, competition is high.

â€ Other coffee chains. Examples include Coffee Bean & Tea Leaf, Gloria Jeans Coffee, Peet's, and San Francisco Coffee House

â€ Smaller privately owned coffee houses

â€ Secondary coffee providers. Examples include McDonalds, Burger King, Dunkin Donuts

As the specialty beverage industry only grows more competitive, Starbucks' dominant positioning with a large market share is continuously under pressure. Since its inception,

Starbucks has stimulated the overall market, creating a positive spill over effect that increased the demand for quality coffee beverages. Therefore,

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even though Starbucks has rapidly expanded, so have local coffeehouses and 'mom and pop' stores. Thus, elasticity has increased with the variety of substitutes available to consumers offering the same product: premium coffee, friendly staff, and a comfortable milieu. For this reason, recent trends indicate industry stagnation within the domestic market as coffeehouses are now ubiquitous. Though the trend has peaked domestically, coffee and coffeehouses are still ingrained in the American culture leaving this market profitable.

Fragmented rivalry is due to the nature of the industry, which is split between national, regional, and local competitors domestically and abroad. Within the U. S., key national competitors include Dunkin' Donuts, McDonalds, and other fast food chains sprucing up and diversifying their beverage menu. However, the targeted customer base differs as Starbucks caters to high end customers with its gourmet drinks. Nonetheless, the Starbucks Corporation must be conscious of its price point, so as not to exclude too many potential patrons. Regionally, the industry may be divided as follows among top rivals:

West coast: Coffee Bean & Tea Leaf and Peet's Coffee and Tea

Midwest: Caribou Coffee and Panera

East coast: Tim Hortons

These companies are better direct competitors to Starbucks than the national fast food chains as they appeal to the same consumer base and offer similar product selections. Caribou Coffee is the second largest

corporation within the domestic specialty beverage industry. However, as of September 30, 2007 Starbucks operated 6,793 stores domestically and 1,712 stores internationally while Caribou Coffee operated 447 stores domestically and 17 internationally. Lastly, local competitors such as site-specific proprietorships and 'mom and pop' coffeehouses vie with Starbucks as well. While they are not threats to general empire Starbucks has created, they do reduce profit margins as they appeal to many coffee drinkers with their more personal character. These smaller proprietorships are Starbucks' greatest competitor abroad, which is Harkness Consulting 6

why recent expansion plans have focused on capturing international markets. Clearly, there are a large number of rivals within the specialty beverage industry creating a rather competitive landscape.

Customers do not incur a monetary switching cost in the specialty beverage industry; nonetheless, an emotional attachment to image and reputation keep them loyal to certain brand names. Even though only a superficial difference exists between coffeehouses, firms differentiate their products to capture customers from rival brands. The Starbucks name has acquired a significant status and has ranked as one of the most influential brand names in the American culture. With its well-trained baristas, comfortable atmosphere, and quick service, Starbucks has incorporated important characteristics appealing to customers. In the Starbucks business model, customers are more important than product. However, even though Starbucks is able to sell its goods at a higher price point, it must be conscious of the elastic market. For example, after increases in dairy costs - <https://assignbuster.com/environmental-factors-affecting-the-starbucks-company/>

an input good every coffeehouse model- Starbucks stores felt the need to announce the reason for price increases so as not to shock customers. The company informed its customers of the pricing discrepancy because it did not want to lose their future patronage due to the economic circumstances at the time. This example illustrates the point that even though Starbucks has brand name loyalty, the company is still susceptible to the elastic nature of the market.

Starbucks is able to remain competitive within the market due to its sheer size and business model. As Starbucks takes advantage of economies of scale and scope, it follows a different cost structure than other corporations in the market. First, Starbucks pays less for the products it is able to buy in bulk such as dairy goods, syrups, paper goods, etc<sup>xii</sup>. For this reason, the company reaps higher margins with its specialty drinks, which also help differentiate itself from other coffeehouses. As customers know they can customize their drinks and the quality of the drink is guaranteed based upon reputation, Starbucks is always in their evoke set. Next, as no cooperative pricing exists in this industry, Starbucks prices its drinks based upon the elasticity of its target customer. Appealing to conspicuous consumption, Starbucks prices are higher than its competitors, lending toward its high trend status. Last, Starbucks is able to differentiate itself due to its commitment to reduce its environmental impact. Again, its size enables the company to seek, incorporate and market these environmentally friendly endeavors. For example, the company replaced cups and cup sleeves with ones that used post-consumer recycled materials<sup>xiii</sup>. Also, Starbucks adheres to purchasing guidelines, The Commitment to Origins, which

promote economic transparency in not only buying the best coffee, but also at premium prices to help farmers. These practices further differentiate Starbucks from many of its competitors.

The dynamics of the industry rivalry within the specialty coffee industry has changed dramatically since 1987. Unlike the early days of the specialty coffee industry when Starbucks competed primarily against other small-scale specialty coffee retailers they now compete against companies of varying sizes and different exposures to specialty coffee. Starbucks competes with a variety of smaller scale specialty coffee shops, mostly concentrated in different regions of the country. All of these specialty coffee chains are differentiated from Starbucks in one way or another.

Caribou Coffee is a Minneapolis-based specialty coffee chain that competes with Starbucks. They are similar to Starbucks in their attempt to create a third-place but distinguish themselves by creating an entirely different atmosphere. Where Starbucks strives to create an upscale European atmosphere, Caribou coffee tries to implement a more American feel to their coffee houses. They do this by modeling their coffee houses after rustic Alaskan lodges. (Quelch, 2006) Often they will use knotty pine cabinetry, numerous fireplaces and soft seating. Also they offer a barrage of magazines and newspapers as well as the guarantee of speedy service and free refills. In addition, they offer free WiFi, drive through accessibility and meeting rooms for rent. Founded in 1992, Caribou coffee now operates roughly 500 stores, employs over 6000 people and grosses roughly \$230 million in revenue a year. (Caribou Coffee, 2008) A Canadian-based company, A. L. Van Houtte, operates roughly 100 corporate outlets and franchises, serving <https://assignbuster.com/environmental-factors-affecting-the-starbucks-company/>

nearly 3 million cups of coffee per day. Through their subsidiary VKI technologies, they have become the world leader in the design, manufacture and distribution of coffee making equipment and related products. They also operate the largest coffee services network in North America serving roughly 71, 000 different workplaces in major cities throughout the United States. (A. L. Van Houtte, 2005)

As the original inspiration for Starbucks, Peet's Coffee and Tea Company which originated in Berkeley, California still poses a serious competitive threat. The three founders of Starbucks purchased Peet's Coffee and Tea Company in 1984 from Alfred Peet and later sold the assets of Starbucks to the now CEO, Howard Schultz.

Although much slower to expand than Starbucks, in fact, ironically Schultz originally separated from the then owners of Starbucks, later purchasing the company from them because he could not persuade them to undertake an aggressive expansion, Peet's has recently opened a new roasting plant in Alameda, California which will enable them to double their current annual sales of \$250 million. They currently operate 166 stores in the US and have recently moved into the Seattle metropolitan area, home of Starbucks' headquarters and the original Starbucks' store. (Peet's Coffee & Tea, 2008)

In 2007, the three Peet's locations in the Seattle metropolitan area outperformed all Starbucks' stores in the nearby vicinity in same-store sales, store revenue and total customer receipts per store. Peet's strategy is to differentiate themselves from Starbucks by creating a super premium brand by offering the freshest coffee in the market. They ensure the freshness of their coffee by delivering "roasted to order" coffee, which involves roasting

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small batches of coffee and shipping them to the retail shops within 24 hours of roasting. (Review,

Despite Growth, Starbucks Can't Dislodge Local Rivals, 2007)

In addition to these smaller scale specialty coffee companies, Starbucks must now compete against two of the largest companies in the fast food industry who have recently entered the specialty coffee segment. The first of these competitors is Dunkin Donuts, who claims to be “ the world’s largest coffee and baked goods chain.” Currently, Dunkin Donuts operates about 5, 500 franchises around the United States, 80 stores in Canada and 1, 850 throughout the rest of the world. Dunkin Donuts had revenues of roughly \$5 billion in 2007. In the past couple years the franchise has put enormous emphasis on their coffee beverages. They serve coffee beverages in an assortment of types and styles including espresso, cappuccino and latte. They also serve their coffee in an assortment of flavors including French Vanilla, hazelnut, cinnamon and numerous others. When 37

Starbucks recently temporarily shut down 7, 100 of their stores to retrain their baristas, Dunkin Donuts responded by extending their hours of operation and offering small lattes, cappuccinos and espresso drinks for \$. 99. (Adamy, Starbucks Upgrades Espresso Machines, 2007) The largest industry rival currently facing Starbucks is the McDonald’s restaurant fast food chain. McDonald’s originated from a single San Bernardino, California hamburger stand, which opened in 1948, and has turned into what is now the world’s largest restaurant chain with over 14, 000 restaurants in the United States alone and gross revenues in excess of \$22 billion. The key to

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McDonald's success has been the consistent quality standards they achieve for their food, coupled with their quick service and low prices. (Adamy, McDonald's Takes on Starbucks, 2008) 10 years ago Starbucks and McDonald's were at complete opposite ends of the spectrum in the restaurant industry. However, McDonald's, encouraged by the success of its upgraded drip coffee, began testing numerous drinks sold under the name McCafe. Starbucks meanwhile, with its rapid expansion, was adding drive-through windows and numerous breakfast sandwiches, similar to the Egg McMuffin's served at McDonald's, to their stores. These measures have drawn the two companies closer together as competitors due to an encroachment into the demographic consumer base made by each company. (Review, Is Starbucks a Broken Brand? , 2008)

The McCafe, first conceptualized in Australia during 1993, was brought to the United States in 2001. The concept took a quarter of the typical McDonald's restaurant and added leather couches and a decorative counter on which cappuccinos and sweets were sold. The McCafes did not take hold initially, not making it past their first trial 38

period, primarily due to the poor conditions of the stores in which they were placed. Now, seven years later, McDonald's has invested \$700 million in its "plan to win" strategy, initiated in 2003, which has led to the remodel of thousands of US locations. The project has led to the gutting of many dilapidated franchises by tearing out the molded plastic booths and replacing them with extra large leather chairs. The company has also improved the ambience and atmosphere in many stores by replacing the bright color schemes with more contemporary muted tones and softer lighting. (Adamy, <https://assignbuster.com/environmental-factors-affecting-the-starbucks-company/>

McDonald's Takes on Starbucks, 2008) With a rejuvenated brand image, McDonald's is preparing for the biggest addition to its menu in 30 years. The company will be installing coffee bars along with "baristas" who will serve cappuccinos, lattes, mochas and the Frappe, a knockoff of the Starbucks' ice blended Frappuccino, throughout 2008 and into the beginning of 2009. The initiative is expected to add \$1 billion to McDonald's annual sales.

McDonald's, which has never displayed food assembly devices, will place the Espresso machines at the front counters in an attempt to engage their customers with the theatrics involved in creating mochas and frappes. Unlike Starbucks, the baristas at McDonald's will not steam pitchers of milk and combine them with shots of espresso but rather will wait for a single machine to make all components of each drink. The competitive threat posed by McDonald's can be summarized by referring to the February 2008 edition of the Consumer Reports magazine, which rated the McDonald's drip coffee as better tasting than Starbucks. (Adamy, McDonald's Takes on Starbucks, 2008)

The specialty coffee industry has experienced explosive growth over the past 20 years. As a consequence, many companies have recognized the potential for profit and 39

have tried to capitalize by entering the industry. This has resulted in a drastic increase in competition within the specialty coffee industry. The diversity among these competitors still remains very high but the grounds on which companies are differentiating themselves are changing. As larger and larger companies enter the industry the strategic stakes become higher,

pushing some companies such as Dunkin' Donuts and McDonald's to  
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differentiate themselves through price superiority. (Adamy, At Starbucks, Too Many, Too Quick? , 2007) In summary, the current impact of the industry rivalry force created by the competition between specialty coffee retailers is very high, especially as contrasted to what it was at the time of Starbucks' rapid expansion twenty years ago. The growth of the industry has slowed while the number of competitors within the industry has increased. Both of these factors, in addition to Dunkin' Donuts and McDonald's high strategic stakes in the specialty coffee industry, have caused this change from weak to strong industry rivalry.

The Starbucks is being affected by the following environmental influences/factors:

Customers: Nowadays customers are more fastidious about their needs, requirements, experience and taste. The Starbuck, to earn the profit rapidly and serve more customers quickly rather than focusing on the quality enables the management to replace labour operated machine La Marzocco (which required barista's to grind & press coffee for every cup) with the Verismo automatic machine (where the barista's work was reduced to pressing a button) and later barista's grinding complained of being de-skilled. Thus, the coffee quality result in poor coffee house experience, customer experience and overpriced coffee than competitors led existing and potential customers coming through its doors was falling rather than rising. The Starbucks needs to re-evaluate what the brand stands for, what it sells and what the consumer experience and values should be.

Competitors: The competitors like McDoanld's and Dunkin' Donuts both harmed the Starbucks deliberately by running the websites like dunkingbeatsstarbucks. com and unsnobbycoffee. com to draw the more customers by selling good coffee. Most of the people visited the website and soon Starbucks led to the caffeine withdrawal symptoms.

Declining Sales:

Economic Crisis: The Starbuck's stock price drop to \$7 a share and most of its stores in Australia faced closure and thousands of jobs were lost.

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C.