

# Starbucks case study

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Starbucks in 2004: Driving for Global Dominance Strategic Management

STRA 703 Assignment Prepared by: Sherif Hendi (M1100758) Presented to:

Dr. Gamal Shehata Questions Q. NO. 1 What are the key elements of

Starbucks strategy as of 2004? (What is the store concept, the customer

offerings and differentiators? The expansion strategy? The financial strategy?

The personnel management and social responsibilities? Conduct a five forces

analysis? ) Q. No. 02 What was the original strategic vision and objectives

and how did they evolve? What is your opinion of Starbucks' mission

statement?

What grade would you give Howard Schultz for his job as the CEO Starbucks

and why? Q. No. 3 What is your assessment of Starbucks financial

performance during years 1998-2003? (Growth rates, profitability, control of

major cost categories, financing, ROE, and P/E ratio? ) Q. No. 04 What were

the key issues faced by Starbucks in 2004? Q. No. 05 What

recommendations would you make to Howard Schultz to sustain the

company growth and support strong financial performance in the years

ahead? Q. NO. 1 What are the key elements of Starbucks strategy as of

2004? ANS: Key Elements of Starbucks' Strategy

Starbucks adopted a lot of innovative strategies throughout its journey from

1971 to 2004. These strategies in brief are as follows:- \* The restaurant/store

concept \* The offering of Innovative product line \* Differentiation from

competition \* National and international expansion \* Distribution channels

(Pepsi partnership/online store/Dreyer partnership) \* Efficient Financial

management (Centralized Information Systems) \* Capitalizing on enhancing

the people element \* Engaging in socialresponsibilityprograms (CARE).

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Competitive Advantages or Differentiators Their differentiating elements are as follows:- They were the pioneers to introduce espresso bar idea in USA \* Mail order sales \* Word of mouth marketing \* Employee motivation strategies to attain improved employee commitment \* Convenient distribution channels \* Introducing chemical free cultivation process.

Q. No. 02 What grade would you give Howard Schultz for the job he has done as CEO of Starbucks? Be prepared to support your answer based on how well (or not so well) he has performed the five tasks of strategic management discussed in Chapter 2.

ANS: Howard Shultz gets a grade of 95% in his Strategic Management approach.

In my opinion Howard Shultz just didn't do perfect in the area of marketing as he did not spend adequate budgets on advertising and product innovation. Last but not the least is that he did not attempt to study the environment properly while entering into new geographical areas e. g. he opened a store down street in Chicago which was not a good idea due to cold weather conditions. Other than that, he made a great task of performing all the five tasks of Strategic Management

Q. No. 3 What was Howard Schultz's original strategic vision for Starbucks? Is his present strategic vision for Starbucks different from the one he had in the 1980s?

How many times has his strategic vision changed? Is his present strategic vision likely to undergo further evolution?

ANS: Howard Shultz original Strategic Vision " To establish Starbucks as the most recognized and respected brand in the world. " Strategic Objectives \* They wanted to have 15, 000 stores by the year-end 2005. \* They aimed to provide a great work





for modifying the format of Starbucks' store with Baldwin and Gordon Bowker. But instead of winning approval for trying out some of his ideas, Schultz encountered strong resistance but after a year Schultz succeeded in winning the approval from Baldwin and Bowker. \* After sometime Baldwin and Bowker again went against the ideas of Schultz so he became so frustrated and left Starbucks in late 1985 to open his own separate Espresso Bars in high-traffic down town locations. Schultz acquired Starbucks in 1987 and after the 20 months of acquiring, some employees felt unappreciated that there was a feeling of prior management had abandoned them. So, Schultz decided to make building a new relationship of mutual respect between employees and management. \* Starbucks lost its money when it expanded market to Chicago because in Chicago that was the first downtown store opened on to the street rather than into the lobby of the building where it was located; in the winter months, customers were hesitant to go out in the wind and cold to acquire a cup of coffee.

It was expensive to supply fresh coffee to the Chicago stores from Seattle warehouse. \* The challenge to Starbucks, in Schultz view, was how to attract, motivate, and reward store employees in a manner that would make Starbucks a company that people would want to work for and that would generate enthusiastic commitment and higher level of customer service. \* A values and principles "crisis" arose at Starbucks in 1989 when customers starting requesting nonfat milk in making Cappuccinos and lattes (an espresso coffee with frothy steamed milk) So, Starbucks started selling both fat milk and nonfat milk Cappuccinos and lattes. They were facing the issue of Wi-Fi (wireless internet service) in 2002, the number of accesses was in

the millions by T-Mobile; internal research showed that the average connection last approximately 45 minutes. So, in October 2003, Starbucks announced that they will expand Wi-Fi capability to additional locations and would have 2700 stores equipped with wireless Internet access by year end.

\* They were also facing challenges from their competitors.

In 2003 there were an estimated 14000 specialty coffee outlets in the United States but they were not competent enough to exert pressure at Starbucks.

Q. No. 05 What recommendations would you make to Howard Schultz to sustain the company growth and support strong financial performance in the years ahead? Recommendations After analyzing the whole case study, we became able to give few suggestions to Howard Schultz which can be handy to sustain the growth and support strong financial performance in the forthcoming years:-

- \* He should spend more budgets on advertisement of products. He should bring innovations in his products because we saw in this case study that he was inspired by espresso bars so he imitated the whole theme of Italian espresso bars and the idea of dark roasted bean was an older one as well.
- \* Before entering to any new geographical region he should study the market environment of that particular region as we saw that at Chicago there was an issue of cold weather and his store was at down-town-street. Furthermore, the labor rates and rents of building were higher as well.
- \* At the stores Starbucks' technique to teach customers about how to make coffee was not a good idea because it does not support their business model. Therefore, it should be avoided in future.

Above elaborated things were having details about the strategies of Starbucks which drove it for the Global dominance till 2004. Starbucks is in fact the recognized and

respected brand in the world and if it can overcome the shortcomings which we identified then nobody can create bother for it to be successful and there will be no point left as a mistake on its part. Reference [www. starbucks. com](http://www.starbucks.com) Case Study “ Starbucks in 2004: Driving for Global Dominance” written by Arthur A. Thompson, Amit J. Shah and Thomas F. Hawk.