Starbucks case study

Business, Company



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). 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 * Employeemotivationstrategies 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 theenvironmentproperly 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 environment and treat each other withrespectand dignity. * They believed in taking on diversity as an essential component in the way they do business. * To apply the highest standards of excellence to the purchasing, roasting and fresh delivery of coffee. To develop loyal and satisfied customers all of the time. * To contribute positively to their communities and environment, and recognize that profitability is essential to future success of business. How did they evolve? At the earlier stages they promised themselves that they will not leave even a single stone unturned to make Starbucks the most recognized and respected brand in the world. Therefore, they thought that this could only be possible if they will develop these strategic objectives because these are basis to earn the respect and fame for any business. Q. No. 3

In our opinion, it was a quit impressive move to cut down its fixed cost. Secondly they observed that to get the license was too costly for them, so they made contracts with the partners who had license with them. Financing For the financing, Starbucks instead of taking loans preferred raising the equity. It was a better idea to generate capital because they did not have to pay any short term and long term interests against the borrowings. Q. No. 04 What were the key issues faced by Starbucks in 2004? Every company faces major challenges, even companies that are as successful as Starbucks.

Although they have an outstanding reputation, have won many awards like top sustainable retail store award and most ethical company award etc, and even give back to their community, they are still facing challenges like any other company. Following are the most obvious challenges that Starbucks is dealing with:- * Schultz was overflowing with the ideas for the company, early on he noticed that first-time customers sometimes felt uneasy in the stores because of their lack of knowledge about fine coffees and because store employees sometimes came across as a little arrogant or superior to coffee beginner. Howard Schultz when came back from Italy shared his ideas

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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 itsmoneywhen 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 wholecase 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 onadvertisementof 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 ecause 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 Case Study " Starbucks in 2004: Driving for Global Dominance" written by Arthur A. Thompson, Amit J. Shah and Thomas F. Hawk.