

The operational problem area for starbucks marketing essay



Technology: The operational problem area for Starbucks is technology. It has been observed that technology has predominantly become an indispensable component of supply chain rather than a driving force. There have also been very limited significant advances on the physical distribution aspect of the supply chain in years. Systems are harder, more expensive and take a very long time to implement than it was the promise. The pattern seems to be over-committing and under-delivering. The development of systems over a period of 15 years has been from homegrown proprietary systems to impressive ERP environments. But it has been found that the gigantic ERP environments simply lack the adaptability to meet the unique business requirements. Modern applications or solutions are not as good as the proprietary systems that were developed at Nabisco in the 1980s. It was found that even 15 years later, there is an absolute lack of an integrated order management, planning and forecasting environment.

Tom Mullen. (March 2008). Case Study- Starbucks Corporation Pdf. 1-17

Dependence on US market: The company Starbucks derives majority of its revenue from the domestic US market. The company should aim at generating more revenues from the outside of the US market. The problem lies in the fact that, if the US market starts under performing, then the company's performance shall be directly affected.

Dependence on beverage innovation: There are doubts as to how long the beverage innovation idea shall last in the US market. Declining returns from beverage innovation can have an adverse effect on Starbucks's performance in the long run.

Low revenue per employee: It was found that Starbucks's 5 year average returns on equity are lower than the industry average. The company's return on equity was 13.65% when compared to the industry average of 15.09%. This implies that Starbucks need to manage its financial matters in order to ensure that the equity returns are in line or higher than the industry average.

Stiff competition: Stiff competition in the global coffee market is one of the major problem areas for Starbucks. The company has to compete against restaurants, coffee shops and street shops. There is a threat of a giant competitor entering into the coffee market with its comparatively greater financial, operating and marketing resources. This competitor can at any time compete directly with Starbucks.

Volatile coffee market: Another problem of Starbucks's operational area is the volatility of the coffee market. The firm's need for quality coffee production depends on a host of factors like weather, political and economic conditions that might have a detrimental effect on the company's business performance. The prices of green coffee have been affected by organizations that have a role in controlling the prices of green coffee. The activities of these organizations can result in the disturbance of Starbucks's operations.

Slow down of US economy: The expected slow down of the US economy can result in slow US retail sales. This slow down can continue for the next 3 to 5 years. This shall create pressure on the company to justify Starbucks's investment in further expansion.

wordpress. com. (2010). SWOT analysis. Retrieved from <http://brandaudit2.wordpress.com/swot-analysis/>

Describe the nature of a service experience – can this be defined by management?

The Starbucks stores carries a broad range of the company's whole bean coffees and also espresso making equipments and accessories like coffee filters, coffee grinders, travel tumblers and mugs.. In the US market, the company stores have a wide selection of prepared sandwiches and salads.. The company operated stores offers a selection of compact discs, Starbucks Hear Music media bars. This is a service that offers compact disc burning at selected Starbucks retail outlets in Seattle, Washington and Texas. There is also the Starbucks Hear Music Coffehouse which is a music store in California.

Besides these, Starbucks has defined a new vision for enriching customer service experience through in-store digital network. The Starbucks digital network is inspired by the company's passion to create a unique coffeehouse ambience for its customers. The customers of Starbucks have free access to a number of free, premium digital content. This is accessible through free, single click Wi-Fi in Starbucks stores. The company seeks to create a heritage of recommending music, movies, books and other cultural works to its customers. This strategy ofcourse can be defined by management as a brand building and expansion strategy adopted by Starbucks. Through this strategy, the company is creating an increasing worldwide interest by engaging people with the Starbucks brand digitally. It is important to note that there are more than 12 million Facebook followers, a million Twitter fans <https://assignbuster.com/the-operational-problem-area-for-starbucks-marketing-essay/>

and myStarbuckssidea. com fans. This implies the number of Starbucks customers is ever increasing since these customers or fans are sharing, voting and discussing ideas for Starbucks.

The Starbucks Digital Network shall offer immense customer benefits that increases the value of free Wi-Fi and gives the customers free access to multiple paid sites, services, exclusive content, free downloads, important career tools and local news of the community. The most striking feature of this service is that the customers can access these contents via different online mediums such as news, wellness, entertainment, business and careers and My neighborhood and Starbucks. There is more of service experience that shall be enjoyed by Starbucks customers. Rodale, the most trusted source for trusted content in health, fitness and well being has signed to be the major health and wellness contributor for the Starbucks Digital Network. Starbucks customers will also have access to articles, recipes, videos and community engagement across multiple Rodale's brands. These include Rodale. com, men's health, women's health, Runners world, Bicycling, Prevention, Organic gardening and Eat this, Not that.

Starbucks Corporation. (2010). Starbucks Defines Vision for Enhancing Customer Experience Through In-Store Digital Network. Retrieved from http://news.starbucks.com/article_display.cfm?article_id=423

Outline some of the potential operational issues and choices which may arise as the number of stores grows worldwide? Speculate on SBUX OWC.

As the number of Starbucks stores grows worldwide, there are potential issues that arise with its growth. There are issues of recyclable cups, Fair Trade coffees, labour rights issue, corporate social responsibility and over-roasted coffee. The issue with labour rights lies in underpaid labour. The Fair Trade stuff is sold in bean form only and the sales of Fair Trade accounts for an insignificant amount of sales.

Derek Markham. (n. d.) The impact of Starbucks. Retrieved from <http://greenlifestylemagazine.net/issue-5/impact-of-starbucks.php>

Starbucks stores may also close down owing to the fact all stores may not be operating at profits. The Seattle based coffee retailer declared in a conference call with analysts that stores the company decides to close were not profitable. Starbucks had also admitted that it has lost some of its popularity during the long period of rapid store expansion including everything from ready-to-eat sandwiches to movie or music promotions.

Allison Linn. (2008). Starbucks to close 600 stores in the U. S. Retrieved from http://www.msnbc.msn.com/id/25482250/ns/business-us_business/

The SBUX does not maximize transportation at the expense of distribution. They do not even increase the increase the length of the roasting runs in order to maximize throughputs. Rather everything is done based on attaining the best quality product from the company. It has been announced by SBUX that there shall be a \$0. 05 per cup increase in October and a \$050 per lb. price hike on whole coffee bean. This has been the fourth price hike since the year 1998. But this has proved beneficial to store sales. This is because Starbucks has not witnessed any significant slow down in sales at stores as a consequence of its price hike.

Tom Mullen. (March 2008). Case Study- Starbucks Corporation Pdf. 1-17

In order to maintain a high level of quality coffee, it implies that the retailers must consume their opened coffee within a period of seven days. Starbucks coffee has a short shelf life of 26 weeks. Here the situation becomes complicated. The company maintains 3 weeks of finished goods as inventory. The complexity of this issue increases as the number of Starbucks store increases.

Tom Mullen. (March 2008). Case Study- Starbucks Corporation Pdf. 1-17

6. How important do you consider SCM might be in their growth strategy?

Supply chain management or SCM is without doubt a very important part of the business done by Starbucks. As regards the major products offered by

the Starbucks group there is noticed an interesting inventory of mouth watering items comprising of both food as well as beverages. To give example of a few – cold blended beverages, Frappuccino coffee beverages, a good collection of different complementary food items, super premium ice creams, rich brewed as well as refreshing coffee, Italian style espresso beverages, delicious tea products, packaged and roasted whole bean coffee, refreshment drinks, soda, juice, pastries, Starbucks Double Shot espresso beverages etc. that is not all the Starbucks group also has to cater accessories as well as equipments, season specific novelty items, bottled water, travel tumblers, games, logo mugs etc which goes in line with their chief product (coffee) and a series of compact discs at the company regulated retail stores. These stores are generally known as specialty operations. In order to maintain a systematic balance in all these specialty operations, in order to cater to the needs and requirements of the customers paying visits to Starbucks outlets and in order to keep the brand image intact that Starbucks enjoys in the market it is of high importance for the company to look after their SCM or supply chain management activities. It is in other terms integral with the growth strategy initiated by the company.

Starbucks supply chain management procedures mainly takes care of three segments which are integral with the company operations. For example-

Retail business organization that has to take care of the retail stores in order to promote their products

Specialty accounts which are focused on sales as well as marketing supports

Taking care of the replies that the company will be getting straight on the basis of the service it caters

Peter Gibbons, Supply Chain Innovation at Starbucks, available at

[http://www. supplychainbrain.](http://www.supplychainbrain.com/content/home/single-article-page/article/supply-chain-innovation-at-starbucks/)

[com/content/home/single-article-page/article/supply-chain-innovation-at-starbucks/](http://www.supplychainbrain.com/content/home/single-article-page/article/supply-chain-innovation-at-starbucks/) accessed 4th Jan 2011

As a matter of fact, the dwindling economic condition of the global corporate sector posed a great amount of threat even for Starbucks too. It was truly essential to take recourse to superior and enhanced supply chain methodologies in order to improve the conventional practices at the Starbucks retail stores as well as to rope in significant change in the performance management procedures. For example-

Green supply chain management at practice

Utilizing the feasibility of the recycling processes

Enhancing the local recycling

Preserving a very up close and personal rapport with customers, marketers, product development teams etc.

Focusing on demand driven innovation

Kevin O'Marah, 2005, Supply chain-driven innovation, Search CIO, available at <http://searchcio.techtarget.com/news/1154237/Supply-chain-driven-innovation> accessed 4th Jan 2011

7. Starbucks appears to have taken a “ best of class” approach to supplier

management. Do you agree with this approach? From your readings and insights, what

appears to be the relative advantages and disadvantages of using a “ best of class”

versus “ single vendor” approach? What do you think of the suggestion to have a

“ hybrid approach”? Can there be a resolution between both positions?

The ‘ best of class’ approach for supplier management is necessary for starbucks because of its break neck pace of expansion that puts enormous pressure on the supply chain. Securing supplies while ensuring freshness calls for the best.

A ‘ best of class’ approach gives starbucks several advantages:

Putting suppliers in highly competitive pricing situation ensuring significant cost savings not possible in a single vendor situation.

Preferred suppliers go through a robust selection process ensuring best combinations of strenghts and weakness of competing suppliers. This gets neglected in single vendor approach as strengths and weakness of suppliers changes over time and geography.

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Choosing a 'best of class' supplier provides a visible optimisation of operational spending and greater control of the operation.

Rigorous selection process of a 'best of class' supplier automatically ensures full engagement of the supplier. Therefore supply chain partnerships to pursue greater common goals like corporate social and environmental responsibilities become easier.

Investments in supply chain management are strategically aligned in different markets and at different levels in the supply chain.

Hemsleyfraser, (n. d), Global Supplier Management, T: 781-895-9988, Available at <http://www.hemsleyfraser.com/LearningSolutions/ManagedServices/ProviderManagement.aspx>, accessed on 4th Jan 2011

The 'best of class' approach has several disadvantages too as opposed to a 'single vendor' approach:

The Distribution Network Configuration is always changing in a best of class approach – number, location of production facilities, warehouses, distribution centers, cross-docks and related horizontal customers.

Possible partnering to lower Logistical costs eg., two consecutive levels in the supply chain hiring the same transport provider which may not be possible as suppliers change.

Distribution Strategy changes – operating control (centralized, decentralized or shared); delivery scheme; mode of transportation; replenishment strategy; and transportation control.

Cumbersome reintegration of processes through the supply chain to share valuable information, including forecasts, demand signals, transportation, inventory, potential collaboration, etc.

Revising methodologies for fund exchange and payment terms across entities within the supply chain.

Non-standardised terms and conditions.

A ‘ hybrid approach’ to supplier management can be promising as it combines best of both worlds:

control buying decisions and costs

leverage discounts

Robust performance management

fixed contact points for the entire operation reducing administrative burden and allowing focus on core business

suppliers are of consistently high quality

rigorous selection process and procedure

exchange consolidated operational information

The Grafton Employment Group,(n. d), Vendor Managed Solutions, available at <http://www.grafton-group.com/tabid/458/default.aspx> , accessed on 4th Jan 2011

Everyday 3 starbucks coffee open somewhere in the world while moving into new countries almost every month. Its growth strategy and continuing development of contemporary, sophisticated information systems tools and processes in manufacturing, procurement and logistics may call for a ‘ Hybrid’ approach to supplier management which may be achieved if ‘ single vendor’ and ‘ best of class’ approaches are used at different appropriate levels in the supply chain.

9. Which aspects of SBUX operations do you consider are crucial to their future success?

Starbucks have proven that the business operations strategies as well as communication strategies they have followed are quite successful till date. It is a good sign that the Starbucks organization constantly keeps changing the core strategies in its business operations. Since the inception period the company has followed the visionary instinct of Howard Schultz, the creator of the brand. The operations that star bucks takes on have an eye on the fact that it has to earn the most reputed brand image in the coffee beverages catering industry.

Since inception the specific operations of Starbucks have been following a profit centric business design. This operational design that Starbucks has followed all these years is inspired and conceptualized by none other than David Morrison and Adrian Slywotzky. The hardcore operations of Starbucks

are based on systematic balance in the selling systems and production facility. It is a good thing that Starbucks have added variety in its operations. It has not only focused on coffee, though having being a major part in the coffee industry, but it has also added varied stuffs such as grocery, kiosks, equipments, entertainment etc. this kind of an operational style has indeed been able to add zing to the ambiance of Star bucks. The café and kiosk combination in Starbucks is an object of interest to the visitors who frequent the retail stores of Starbucks.

Among all the operational patterns it is the specialty operations which seem to be most lucrative for the visitors. Therefore the company does have a great option of earning huge revenues through these operations. The company has already made a partnering act with Dreyers as well as Pepsi so that they can cater exciting varieties as part of their specialty operations. For example- Frappucino^Ò Drinks, ice cream products etc.

The company also has special catering service focusing the business customer segment. The office beverage services catered by Star bucks are quite famous in the official circles. At the same time they have special food service for the universities, resorts, hotels, restaurants, offices, etc.

Example essays, Star bucks operation management, n. d, anon, available at <http://www.exampleessays.com/viewpaper/95778.html> accessed 4th Jan 2011 accessed 4th Jan 2011

Based on the given facts it strongly feels that specialty operations, to be precise, specialty operations focusing on the business class people is going to earn the maximum amount of benefits. The basic reason for such though <https://assignbuster.com/the-operational-problem-area-for-starbucks-marketing-essay/>

process is that this is a particular operational area which is not that much jammed up by other close competitors. So until and unless other competitors just flock in this particular operational area there are high growth prospects for the company. The top management level officials believe that the helping attitude and ambiance of the Starbucks retail stores will act as a boon.

Andrew Luo, n. d, Operation as a competitive weapon, Starbucks Operations, available at http://www.oppapers.com/essays/Starbucks-Operations/480359?read_essay accessed 4th Jan 2011

10. How unique do you consider this operation? Can you think of other organizations with similar characteristics?

The Starbucks group has been quite skeptical and cautious when it comes to the standard of the specialty operation that they are catering to their business consumers. The business consumers will enjoy complete office beverage services. This kind of service is only provided by Starbucks to some selected companies with gigantic stature and reputation. The business consumers will be entitled with brewing equipment which they need to prepare the coffee. Apart from that they will receive the cups as well as napkins with the logo of the company. The companies truly enjoy the sociality coffee beverages that comes with the other assortments. Starbucks has also some business consumer centric arrangements for the companies which are quite smaller in size. For the smaller companies in stature Starbucks only caters delivery service to the respective destinations. Along with the coffee the company also chooses to serve pastries as well as tea which just go fine with the chief beverage.

This particular specialty operation practiced by Starbucks is unique and novel. Be it the brand image, be it the quality of the coffee and the tea being served, be it the hospitality aspect of this particular food service operation or be it the extra amenities or lavish facilities which are being offered to the priority business consumers- from every aspect this particular operational pattern taken by Starbucks is unique in its way. There are a good number of other companies which are there in the coffee industry. However this kind of an innovative operational pattern is unmatched. This is something that really sets Starbucks apart.

WIKI analysis, Starbucks Corporation (NYSE: SBUX), n. d, anon, available at http://www.wikinvest.com/stock/Starbucks_%28SBUX%29#Specialty_Operations accessed 4th Jan 2011