The internal environment of starbucks

Business, Company

Starbucks is the leading retailer and roaster of specialty coffee in the world. During its early years, Starbucks experienced rapid growth and expanded internationally as they strived to fulfill their mission: " To inspire and nurture the human spirit - one person, one cup and one neighborhood at a time". However, overexpansion led to dilution of its brand equity. After restructuring, Starbucks emerged stronger than ever, maintaining its international presence with more than 17, 000 retail stores in over 50 countries.

Using the COSO ERM Framework Model, we shall examine how Starbucks' internalenvironmenthas contributed to its early successes, eventual shortcomings and how they have emerged stronger. Risk ManagementPhilosophyThe guiding principles of the Starbucks Corporation are synonymous with the " Five Ways of Being": Be Welcoming, Be Genuine, Be Knowledgeable, Be Considerate and Be Involved.

These concepts are explained in The Green Apron Book, a pocket-sized booklet given to every partner1 containing suggestions and ideas on how to create the Starbucks Experience. It teaches partners how to personalize relationship with customers by connecting and elevating customer interactions. Ultimately, partners at every level of the company are taught to place customer service as top priority and work towards creating a unique and memorable customer experience for anyone they meet.

At the store level, Starbucks empowers all partners to make decisions that impact the reputation2. Partners are encouraged to be innovative and do whatever they can to create the Starbucks Experience. For instance, Timothy

Jones, a store manager at the Seattle's University Village Section played his ownmusicthere so as to provide a unique, warm and consistent enrichment to the customer experience 3. Such low cost ideas are usually carried out at the individual store level with approval from the store managers. At the corporate level, Starbucks conducts numerous programmes to instill the " Five Ways of Being" in all partners.

Risk Appetite At the store level, partners place highest priority on creating a consistently high-quality customer experience. Hence, the risk appetite of each individual store is small and much attention paid to every detail that affects a customer's visit. Whenever there is an opportunity to provide services, partners are unwilling to lose them. Be it exchanging spoilt French Presses for free, providing free drinks when opportune, establishing close bonds with regular customers or keeping outlet toilets clean; partners are willing to do anything within their means to make customers happy. Even the store design has to be perfected to achieve a balance of functionality with a warm friendly ambience. Most importantly, partners are unwilling to compromise on the quality of coffee during preparation and thus receive trainings from management.

On a corporate level, Starbucks was willing to accept a variety of risks associated with a strategy focused on local and international expansion, as aligned with their mission. Starbucks was willing to face cultural barriers in tea-drinking nations such as Japan, China and Britain as they believed in the potential for growth in the absent luxury coffee market there. Despite initial resistance and losses, Starbucks was willing to adapt its practices and store image so as to merge into the local community4. However, Starbucks was unwilling to compromise on its brand name. Starbucks eventually withdrew from the Forbidden City when forced to sell coffee under the palace museum brand name in order to maintain operations there5 .

For growth, Starbucks leaders were willing to have multiple business operation models, thus accepting the risk of weak corporate cultures in non-company-operated stores. By 2002, 85% of Starbucks' revenue came from company-operated retail stores and the remainder from licensed stores, key partnerships and specialty operations such as foodservice accounts and mail-order catalogue sales6. To provide a comprehensive Starbucks Experience, Starbucks was willing to accept risks related to product dilution as they introduced new products such as Starbucks VIA(r) Ready Brew, music compilations and licensed merchandise7.

Riding on its belief in innovation, Starbucks accepted risks from not conducting market research or sufficient advertising, choosing to rely on market testing and purely-word of mouth to develop its products. In fact, up till 1996, Starbucks had spent a total of only $10 million on advertising8. Eventually, Starbucks failed to take appropriate risk mitigation processes and faced decreasing incomes in 2008. In order to stay competitive, Starbucks redefined its strategy and changed its risk appetite. Starbucks cut costs of at least $500 million, closed 800 stores in the U. S. and laid off more than 4, 000 employees. Starbucks also conducted more customer research, offered discounts, advertised9.

Board of Directors' attitude Starbucks' Board of Directors consists of 11 experienced individuals from various backgrounds. The management maintained a transparent and close working relationship with the directors, keeping them informed of all news about Starbucks. As such, the directors were able to offer informed advice frequently and providing suggestions for improvement. This was evident in 2008, where the various directors worked closely with Howard Schultz, sharing their experience and offering insights on the Transformation Agenda10.

Integrity & Ethical Values To preserve their corporatecultureand reputation, Starbucks has a Business Ethics and Compliance program that adheres to its mission by providing resources that help partners make ethical decisions at work. Starbucks' Standards of Business Conduct, distributed to all partners, provides clear and concise directives on how partners are expected to conduct their business and make appropriate decisions at work.

It covers conduct in the working environment, acceptable business practices and persuades active involvement in the community. In events of uncertainty, the Ethical Decision-Making Framework provided partners additional guidance. Moreover, channels such as the toll-free 24h Business Conduct Helpline and the Business Conduct Webline provides avenues for partners to seek guidance and raise concerns without fear of retaliation from management. Partners are assured confidentiality and anonymity. Given the close proximity to their managers, partners are also encouraged to seek their managers for help. Easy access to resources for help and a collaborative working environment supports the strengthening of integrity and ethical values.