

Starbucks facing brand culture devaluation and massive layoffs

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Starbucks facing brand culture devaluation and massive layoffs To: Howard Schultz, Starbucks From: Yang LU, Aspire CC: Rui DONG Xiaochen DONG Vanessa BAXTER Pushpak BERIWAL Executive summary The aim of this report is to find out the deep-seated reason for this depression of Starbucks and give a recommendation to the firm to deal with it. Furthermore, this report also suggests solutions to dismiss the panic of the staff and remains the excellent performance.

The key findings include: Finding 1: The over-expansion made Starbucks' unique culture of the "Starbucks experience" devalued and seemed no difference with other fast food restaurants. This caused employees' less well performance and therefore it lost customers' loyalty as well. Finding 2: The employees felt dissatisfied with the rewards and treated customers with less effort while the unacceptable massive layoffs made a panic. The recommendations suggested by this report include:

Recommendation 1: "Decentralization"-- Remove number of outlets away from each other and slow down the pace of opening new stores in the US or concentrate on the unexploited market space in other countries. Recommendation 2: Increasing the compensation given to the members asked to leave and suggesting them do some other suitable jobs. The firm can also make a promise that these employees would be considered first when hiring candidates in the future after the most difficult times. Furthermore, keep the employees' payment stable and hold some activities inspiring to promote people to tide Starbucks over difficulties together.

This report describes the findings after applying theories to analyse the issue which claimed the trouble that Starbucks was facing. For years, Starbucks was famous for its consistent growing and expansion. However, the both share price and sales fell even three times than before since 2008. The “ Starbucks experience” (Michelle, 2007) was widely supposed to have been diluted and the customers complained that the staff seemed to be less complaisant since they found Starbucks Ubiquitous.

A resource from MarketWatch: Global Round-up (2008) reported that Starbucks had been forced to close 600 US stores and axe 12, 000 jobs which took almost 7% of its global workforce which had made negative effect on other employees. The aim of the report is to find out the deep-seated reason for this depression and give a recommendation to the firm to deal with it. Furthermore, this report also suggests solutions to dismiss the panic of the staff and remain the performance. Key issues identified by Aspire | Key issue| Champion| | Over-expansion caused Starbucks’ brand devaluation and massive layoffs. | Yang Lu| 2| Starbucks' two non-payment methods of motivating employees. | Rui Dong| 3| Starbucks changed people-oriented culture into profit-oriented culture. | Xiaochen Dong| 4| Kraft foods taking Starbucks to court over the planned termination of its contract to distribute Starbucks packaged coffee. | Vanessa Baxter| 5| Starbucks is a very command and control driven company which leads to very little flexibility and decision making power at certain regional stores. Pushpak Beriwall| Justification of key issues over-expansion caused culture devaluation and massive layoffs Fast-forward 20 years, Starbucks had more than 10, 000 American outlets till 2008 from only 84 US stores in 1990 (Smale, 2008). This

sharply increased number made Starbucks seem to be omnipresent like other fastfoodstores. As a result, this change took a negative effect that the members in this group feel less proud of their jobs in Starbucks which was famous for its unique culture and therefore had less passion to satisfy the customers.

From Schein's (2004) theory of culture components, Starbucks fell to the basic level of culture instead of the highest one it got before. Starbucks finally cut over 10, 000 jobs which were most in the US in the last two years during the reforming and also cut the employees' compensation and holiday (Kiley, 2009). By Maslow's (1970) " a hierarchy of needs", Starbucks could not make staff satisfied by the physiological needs and de-motivated other members. The dissatisfied emotion would reflect on their performance.

Findings from analyzing issue over-expansion caused brand devaluation and massive layoffs Starbucks was famous for the unique culture that to give all the customers the relaxed feel and atmosphere as a third place out of home and office which called " Starbucks experience". This culture is in the second and near the third level of the " components of cultures" with espoused beliefs and values and basic underlying assumptions which was identified by Schein (2004).

Starbucks published its beliefs and values to make the members love their jobs and enjoy the experience in Starbucks to treat customers with their heart and satisfy them and to attract new members or partners to join in the group through the unique brand culture. Guided by market, Yang (2010) has provided evidence that brand culture was aims at achieving the

maximization of organizations' profits obtained and customers' loyalty by establishing common values which could influence the movements and behavior of the members within a company based on the amalgamation of consumers' value and company.

However, the expansion without limitation made a trouble. Although the purpose at first was to make the " Starbucks experience" penetrate everywhere through the expansion, the company was making stores feel more like hip neighborhood coffeehouse which deviated from its original intention. Starbucks had lost its focus and made a dilution of the " Starbucks experience". For the reason that the worth of a thing is best known by the want of it, the value of the culture and brand image went down.

The " cannibalising" (Smale, 2008) sales between branches only a short distance from each other made employees feel less honored to work in this firm or group and the less enthusiasm to satisfy the customers came as a serious consequence. According to Schein's (2004) theories on culture components, Starbucks only reached the first level of the components " artefacts" which observed the decorative style and visible products to survive the situation with ubiquitous competition instead of making the customers always come first. The " Starbucks experience" was viewed same as McDonald's and other fast food stores who also sold coffee through such a market saturation. Organizational culture sees culture comprising a number of variables, the combination of which lead to observable differences between organizations so that a company can have power to compete with others (Barry et al. 2000). To get back what made Starbucks successful

Starbucks cut a great number of stores and announced massive layoffs for reforming.

However, this would make the employees undertake the responsibilities and suffer the pain. At the same time, the sudden occurrence as the adjustment in the contract with the employees is both inevitable and a source of trouble, especially it made employees feel that they expected far more than they got and worse off (Kolb et al. 1991, p. 6). According to the theory “ a hierarchy of needs” which developed by Maslow (1970), individuals experience a range of needs and will be motivated to fulfill need which is most powerful at that time.

The first level is physiological needs and if this need is dominant for a person they can satisfy it by having a regular job which can keep consistent. But the employees forced to leave Starbucks could not be satisfied by the basic needs. Furthermore, the firm de-motivated the left members at the same time by cutting the employees' compensation and holiday. Vroom's (1964) expectancy model theory of motivation explicitly recognized that outcomes with high expectations and neutral or even unsatisfied achievements would reduce the amount of effort the staff is going to invest.

By understanding Vroom's theory, the firm would get less contribution from its employees by the lower reward, which would reflect the staffs' less enthusiasm when treating the customers. This also made every member in the firm feel upset and panicky. When the employees believed that they were not receiving payments commensurate with their performance, effort or ability then they worked less hard (Hauenstein and Lord, 1989), and

became more selfish (Harder, 1992) and felt dissatisfied with their jobs in this firm (Carr et al. 1996). Conclusion

To sum up, Starbucks faced the trouble that the unlimited expansion has made its famous experience culture diluted and lost a number of customers' loyalty. To make the matter worse, a great number of layoff was claimed so that the firm also lost the loyalty of its members. The main aim of the report is to help Starbucks to revalue the culture and put Starbucks' unique image back to high position into customers' heart. In addition, suggestions are given to motivate employees. Culture is the soul of a firm which gives the company power to survive and compete with other business.

Recommendations

For the first finding that the over-expansion made Starbucks devalue the unique culture of the " Starbucks experience", a suggestion of " decentralization" can be given. Remove number of outlets away from each other and slow down the pace of opening new stores in the US or concentrate on the unexploited market space in other countries. The other finding that the employees felt dissatisfied with the rewards and treated customers with less effort while the unacceptable massive layoffs made a panic can be solved by increasing the compensation given to the members asked to leave and suggesting them some other suitable jobs.

The firm can also make a promise that these employees would be considered first when hiring candidates in the future after the most difficult times. Furthermore, keep the employees' payment stable and hold some activities inspiring to promote people to tide Starbucks over difficulties together.

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