

Starbucks case analysis

[Business](#), [Company](#)



Starbucks corporation| Starbucks Corporation Vision- Founded in 1971

Starbucks vision statement is;” To establish Starbucks as the most recognized and respected coffee brand

inthe world and become a national company with values and guidingprinciple s that employee could be proud of The vision statement clearly describes the dream or the future of the company that is to be the world’s most well known coffeehouse and also to be the most appreciated and positively graded brand by all levels of people around the world. The company also focuses its vision to employee satisfactions, so that the employees will be happy.

It was an abstract vision that reflected the vision of the founders. Mission Their mission statement from the company profile is as follows: “ Our mission is to inspire and nurture the human spirit – one person, one cup, and one neighborhood at a time. ” Their core competencies can be defined as high quality coffee and products at accessible locations and affordable prices, provided a community to share in the coffee drinking experience, and variety of choices. Their mission statement includes six elements which they regard as part of their core competencies. Our Coffee It has always been, and will always be, about quality.

We’re passionate about ethically sourcing the finest coffee beans, roasting them with great care, and improving the lives of people who grow them. We care deeply about all of this; our work is never done. Our Partners We’re called partners, because it’s not just a job, it’s our passion. Together, we embrace diversity to create a place where each of us can be ourselves. We always treat each other withrespectand dignity. And we hold each other to

that standard. Our Customers When we are fully engaged, we connect with, laugh with, and uplift the lives of our customers – even if just for a few moments.

Sure, it starts with the promise of a perfectly made beverage, but our work goes far beyond that. It's really about human connection. Our Stores When our customers feel this sense of belonging, our stores become a haven, a break from the worries outside, a place where you can meet with friends. It's about enjoyment at the speed of life – sometimes slow and savored, sometimes faster. Always full of humanity. Our Neighborhood Every store is part of a community, and we take our responsibility to be good neighbors seriously. We want to be invited in wherever we do business.

We can be a force for positive action – bringing together our partners, customers, and the community to contribute every day. Now we see that our responsibility – and our potential for good – is even larger. The world is looking to Starbucks to set the new standard, yet again. We will lead. Our Shareholders We know that as we deliver in each of these areas, we enjoy the kind of success that rewards our shareholders. We are fully accountable to get each of these elements right so that Starbucks – and everyone it touches – can endure and thrive Competitive advantage

The advantage a business has over its competition which allows it to reap greater profit margins, retain customers and remains sustainable is referred to as its competitive advantage. Businesses have to have some form of competitive advantage to be successful in the long run. Competitive advantage can take one of three forms that reflect basic customer values: customers want goods and services (1) better, (2) cheaper and (3) faster.

These forms of competitive are known as (1) differentiation, (2) costleadership and (3) quick response respectively.

Research has proven that having some form of competitive advantage increases profitability of a firm, having two forms combined leads to highest profitability and firms that have neither form perform poorly or generate just 'normal' profits. Competitive advantages that are gained because the pioneer was on the first to enter a market are sometimes called 'first movers advantages.' The three forms of competitive advantage are described below Differentiation Creating a unique bundle of products and/or services that will be highly valued by customers constitutes competitive advantage based on differentiation.

Product features, after-sales service, desirable image, technological innovation, reputation, manufacturing consistency, status symbol are attributes that can differentiate products. Each of these features can be considered a form of quality. Differentiation allows firms to reap higher-than-typical returns because competitive rivalry maybe lessened as firms successfully distinguish themselves; brand loyal customers are less price sensitive, new entrants entering the market have to overcome the barriers to entry.

However, if many firms adopt a differentiation strategy then they are all perceived as equals and specialists operating in niche markets may be more successful at differentiation and a continuous attempt to stay ahead of customers may result in 'gold plating' (the development of features which are not valued by consumers but add to the price). Successful differentiation

depends on (1) understanding what customers value, (2) being uniquely able to provide that value, and (3) being able to charge a premium price for it.

Cost leadership This competitive advantage requires achieving a low-cost position relative to one's competition. Classic cost leadership strategy involves creating a no-frills product aimed at the most typical customer in a large target market. Standardization of products and services is looked for in cost leadership and targeting a large market segment for these standard products allows for mass production techniques which create greatest possible benefits from economies of scale and experience curve effects.

Cost leadership addresses competitive forces in the following ways; holding the low-cost position convinces rivals to hold a price war, low-cost producers are protected from customer pressures of lowering prices, because of higher margins low-cost producers are better able to withstand pressures from increasing in suppliers' costs, barriers to entry exist for new entrants and manufacturers use price to threaten substitute products. However, cost leadership has some drawbacks namely ; cost leadership can be called an 'all-or-nothing strategy', cost cutting that leads to loss of desirable product attributes can be ruinous, it is easily duplicated by competitors, and dedication to cost cutting limits a firm's abilities to remain competitive in other ways. Use of an effective cost leadership strategy depends on careful monitoring of a firm's internal operations and its customers' need. **Quick response** This form of competitive advantage stresses on the provision of the quality and cost the customer wants faster than the competition does. Quick response refers to the speed with which a new product, a product

improvement, or even a managerial decision that affects the customers can be made.

It is a way of looking at a firm's flexibility. Competitive advantage can be achieved through quick response in which such as faster development of new products, customizing products, improving existing products, delivery of ordered products,, adjusting marketing efforts, answering customers' questions. Firms with quick response can avoid head-to-head rivalry, faster forms can charge a premium pricing, faster firms encourage quick response from suppliers, and quick response deals with the threats of new entrants and substitute products by leading in innovation themselves.

However it must be kept in mind, speed is not equally important to all markets or customers, speed creates stress, and speed for speed's sake does not create competitive advantage. Starbucks Competitive Advantage Starbucks competitive advantage is a mixture of differentiation and quick response. Since their coffee is priced at \$4 a cup; they are clearly not competing on costs here. In fact at Starbucks' it's the opposite. The brand image that has been created due to the strong differentiated marketing efforts, the ambience of their outlets has created a brand loyalty in Starbucks customers.

They are willing to pay a premium price because they feel they are having the best coffee made with the finest quality ingredients. Starbucks achieved the first movers advantage as they were among the pioneers of coffee houses in America, also they have maintained their leadership in the market by launching new variants and varieties faster than competition does and have upgraded their menu from time to time. Their supply chain is <https://assignbuster.com/starbucks-case-analysis/>

integrated vertically and horizontally allowing for a faster response time among suppliers and with customers. They have used celebrities to endorse their brand further enhancing their differentiation strategy. Because Starbucks has successfully differentiated itself, developed a strong brand following, has opened up outlets to cater to their target market both in U. S. A. and globally, has always strived to serve its customers faster, and focused on innovation, it is able to reap higher-than-average returns. They have also been quick in realizing their failures as the case mentions them closing down stores that were not functioning. Thus this shows that the corporation is quite flexible in its operating decisions.

Starbucks Corporate Strategy- how they have used it to create a successful business model The corporate strategy for Starbucks was an expansion strategy based on opening new outlets in U. S. and expanding overseas. Operations: They looked for diversification and vertical and horizontal integration to maximize control over their supply chain and maintain satisfied customers. They launched new products and variants to maintain their leadership in the market. A differentiation and quick response strategy is used. HR: Starbucks looks for diversity in its employees.

They employ people from various backgrounds and give them independence and freedom to make decisions. This has enabled Starbucks to address customers faster and reduced their response time. Also hiring people from diversified backgrounds helps them in their expansion strategy and improves their communication in new countries of expansion. Marketing: Their marketing has always been coffee centric. They have strived to create a strong brand identity and brand loyalty. Starbucks is not just about coffee. It

is about providing that experience of comfort, socializing and happiness. This is what they build on.

The firm has been successful in maintaining premium pricing because of the creation of a brand image that allows for it. Finance: The expansions have been sensible and not based on intangible goodwill or long term debts. The firm has invested a lot in fixed assets and their debt to asset ratio is low. The management started closing down low operational stores; instead of letting them operate at losses, indicating the management's concentration on financial efficiency and having good financial ratios. The following strategies have enabled Starbucks to maximize its reach to its consumers by opening up different outlets globally which have led to market development and increased profitability. Starbucks expansions have all been well financed and done sensibly. Also their quickness to act in areas where they were reporting losses further shows that their Corporate strategy has led to successful business development model. The product variety offered at Starbucks has enabled it to remain market leader thus showing that R&D efforts are paying off. The exceptional customer service due to the employment of a diversified labor force has facilitated business expansion and increased the size of the pie for Starbucks.

Starbucks thus has transformed the image of 'coffee.' The strong brand loyalty supported by a well managed expansion plan which allows them to be present where their customers want them has made the business a success. Need analysis A need analysis is the process of identifying what the users need and want. It related to the goals, inspirations and objectives of the users. Following shows the factors that contribute to customer satisfaction at

Starbucks. Thus Starbucks needs to discover what consumers want regarding the product quality, price and service.

Following are SWOT and PESTLE analysis of Starbucks which give a clearer picture of the strengths and environment within which the firm is operating.

SWOT Analysis Strengths • Brand recognition and consumer loyalty • Diverse product portfolio catering to all tastes and ages, including non-coffee beverages and food items • Excellent customer service and the value of the Starbucks experience • Licensing relationships with top brands such as Pepsi Cola and Kraft that minimize costs and leverage the strategic advantages of those companies • Strong employee relationships Economies of scale providing superior distribution networks and supplier power • Primarily located retail stores • Positive image attributed to social responsibility Weaknesses • Pay 23% more for coffee than market prices • Saturation of the market diminishes long-term growth prospects • No monetary switching costs for consumers • Negative large corporation image • Potential limitations of international expansion due to cultural clashes with American coffee experiences. Opportunities • Have the ability to reduce premiums paid for coffee Room for international expansion (78% of revenues came from the United States in fiscal 2007 and international same-store sales growth is strong) • Room to compete on multiple fronts including quality and price • Increase licensing relationships to further utilize brand strength to capture profits at little cost to the company Threats • Increasing coffee and dairy prices • Intense competition in the specialty coffee beverage business • Unfavorable economic conditions that lower the demand for expensive beverages • Community resistance to store expansion

The possibility that the demand for specialty coffee is a fad • Diverging from the Starbucks experience • Further diversification off fast food restaurants that cuts into market share. PESTLE ANALYSIS The PESTLE analysis of Starbucks. Political: Taxation policy High taxation imposed on farmers in those countries producing the coffee bean will usually mean Starbucks pay a higher price for the coffee they purchase. Any fluctuations in taxation levels in the industry are almost certainly ultimately passed on to the consumer Deregulation A decade ago, the USA pulled out of the ICA (international Coffee Agreement) that set export quotas for producing nations and kept the price of coffee fairly stable. Coffee quotas and price controls ended. Since the deregulation farmers have suffered and their earnings have dropped. Many have struggled to make a living so have given up. International trade regulations/tariffs - Trade issues will affect Starbucks predominantly when exporting and importing goods. When another country's government imposes a tariff it not only results in an efficiency loss for Starbucks but large income transfers can become inconsistent with equity. This extra charge can turn a bargain into a rip-off.

Also, since 9/11, trade relations have been adversely affected between the USA and some other countries. International stability The international economy must be brought into consideration as it can affect Starbucks' sales and markets. The aftermath of 9/11 was an example of an economic downturn that affected the world market. If the world market is in a slump it is not usually the ideal time for a business to look at grand expansion. Employment law A reduction in licensing and permit costs in those countries

producing the coffee bean for Starbucks would lower production costs for farmers.

This saving would in turn be passed on to the purchaser. Economic: * Interest rates - A rise in interest rates means investment and expansion plans are put off resulting in falling sales for Starbucks and their suppliers. Also mortgage repayments rise so consumers have less disposable income to spend on luxury products such as coffee. Low interest rates should have the opposite effect. * Economic Growth - If growth is low in the nation of location of Starbucks then sales may also fall. Consumer incomes tend to fall in periods of negative growth leaving less disposable income.

Consumer confidence in products can also fall if the economic 'mood' is low* Inflation rates - Inflation is a condition of increasing prices. It is measured using the Retail Price Index (RPI) in the UK. Business costs will rise for Starbucks through inflation, as will shoe-leather costs as they shop around for new 'best prices' of materials, menu costs will rise as Starbucks have to create new price lists. Also, uncertainty is created when making decisions not least because inflation redistributes money from lenders to borrowers. Competitors pricing - Competitive pricing from competitors can start a price war for Starbucks that can drive down profits and profit margins as they attempt to increase, or at least maintain, their share of the market. * Globalisation - Globalisation of the coffee market has meant farmers of the bean now earn less money than they used to. This can result in a decrease of people willing to do it for a living, which will mean a decrease in coffee produced, resulting in a drop in Starbucks supply levels and probably profits.

* Exchange rates - Starbucks are affected by exchange rates when dealing with international trade.

If the value of the currency falls in the country of a coffee supplier this enables Starbucks to get more for their \$ or L when importing the goods to their country. This saving can be passed along to the customer. Exchange rates are forever changing throughout the world in today's market. Social: Population demographics - Population demographics are a very important factor for Starbucks as they identify what parts of the population they need to aim their products at or which parts of the population they need to encourage to visit their stores more than they presently do.

Looking at the table in the case study demonstrating the percentage of the age groups that drink coffee or specialty coffee it can be seen that the age groups that Starbucks should be aiming their marketing at are the people between 35 and 54. They should consider targeting the 18-24 age group as they drink the least amount comparatively and by encouraging this segment to choose Starbucks coffee now, there is a chance they may continue to drink it long into the future.

Income distribution - Where income is distributed is another factor that Starbucks should look at as this also demonstrates the ideal place to aim their marketing or to locate their stores. Coffee is more of a luxury product so it is those people/places with the most amount of disposable income to spend that should be targeted the most intensely. * Attitude to work - Starbucks would not want to locate to an area where the local population have a poor attitude to work. Recruitment would be difficult, training

arduous, and staff turnover would be high. Attitudes to work are important in other ways.

A large number of workers in large cities now go out for their lunch rather than use an internal canteen. Starbucks can use this to their advantage and promote the shop as a place where people can meet up and so it will mean that they will get a larger amount of people in their stores at this time of the day.

- * Standard of education/skills - When Starbucks are deciding upon new premises they must look at the standards of education and skills locally. They must be sure there are people who live there with sufficient skills to ensure successful operation of the business, or at least the potential to learn that comes with a good education.
- Working conditions/safety - Those people with the most disposable income, e. g. young single professionals etc, will be accustomed to high standards. Starbucks must ensure its shops are clean and comfortable, service is of the highest order and health and safety issues are fully addressed
- * Location - Transport needs to the premises must be considered for both staff and customers. Easy access is vital to ensure there is no excuse for staff to arrive late or for customers not to visit.
- Age distribution - Research shows the average age of the population is getting older and birth rates are stagnating. Starbucks is presently aiming its product at young people but maybe these views will change in the long-term as the market proportion for young people diminishes. The most profitable way forward may be to widen their target market despite the risk of alienating present customers.
- * Health consciousness - Good health and foodstuffs associated with healthy living are important in today's market place, as this is a trend that is occurring at the moment in western societies.

Starbucks can use this information when deciding the additional products to sell, as well as coffee, as a large number of their customers are looking for healthy alternatives to cakes and biscuits, which have been associated with coffee in the past. Technological: * IT development - Starbucks is always looking to develop and improve its Internet facilities. Starbucks launched its first-generation e-commerce Web site in 1998. In late 1999, Starbucks decided the site needed a major upgrade to enable new functionality and prepare for long-term growth.

To achieve these goals, Starbucks upgraded to Microsoft Commerce Server 2000, one of the key Microsoft .NET Enterprise Servers. As a result, scalability and performance have improved, and the company now has the tools it needs to profile and target customers, analyze site data, and deliver new features to the market in the shortest time possible. * New materials and processes - Developments in the technology of coffee making machines and the computers that Starbucks use to run their cash registers will enable their staff to work more quickly and efficiently.

This will result in customers being served quicker and create the potential to serve more customers in a day. This will prevent customers from having to wait around for long periods thus improving customer relations along with increasing the customer base. * Software upgrades - In the short-term, Starbucks must identify the most efficient software upgrades to use to keep up with the competition. This applies to the improving the accessibility of their website (www.starbucks.com) and also improving the speed and quality of the service provided on the shop floor. Research and Development activity - As a multi-national business empire, Starbucks has the budget and

the resources to have a cutting-edge R+D department. The website is very accessible, the facilities are state of the art but more importantly new ideas are consistently being tried in terms of a constantly updating menu. * Rate of technological change - The rate of technological change in the current world market is high, much higher than, say, thirty years ago. Much of this is down to the Internet and the speed with which information can be communicated around the globe.

Starbucks will need to invest heavily just to stand still in their ever expanding and developing market, and even more so to try to stay ahead of competitors. Legal: * Trade and product restrictions - Starbucks need to be aware of the trade laws in the various countries they occupy and do business with. They need to ensure they are not in violation of e. g. , religious laws. Also, certain countries impose a tariff that has to be paid when goods are imported/exported so this must be taken into account. * Employment law - Each country has varying employment laws.

Some may have a Sabbath day, diwali, some may have a limit on the number of hours an employee may work per week, all will have varying levels of minimum wage. Starbucks should consider these factors when deciding on relocation. * Health and Safety regulations - Starbucks may find these regulations are not as stringent or well enforced in certain countries. It would be wise though to enforce universally high standard of health and safety throughout all it's shops to maintain a good global image and ensure all laws are abided by.

Also, by not maintaining high standards they will be liable for a large amount of civil cases as it is a legal requirement for them to ensure that their staff

and customers are safe when they are in their stores. * Monopolies commission - If Starbucks consider expanding their operations further to control an even larger percentage of the market than they already have they will have to consider the possibility of breaking monopolies legislation as they may have a share of the market that is too large. This would mean that they would have unfair advantage over other companies in the same market.

This would mean that they could benefit from economies of scale and would also be able to charge prices that were not competitive in the market and get away with it due to the lack of competition. * Land use - Starbucks may have to abide by local planning regulations when building shops or altering purchased sites, as certain areas of land may be protected or unsuitable. All matters would be addressed by the local government. Environmental: Pollution problems - Starbucks customers create a lot of waste as they often leave the shop with their cup of coffee and then dispose of it in the street.

The packaging for this cup must be carefully considered to make it as biologically degradable as possible. Certain other materials can be very harmful to the natural environment. * Planning permissions - Planning permission may not be granted if Starbucks wish to build in an area that could be harmful to the environment. The land may be protected. * Work disposal - Starbucks need to carefully consider the methods in which they dispose of their waste as there are strict laws in most countries to ensure a firm trading in their country disposes of the waste that is created in their business in a specific and efficient way.

If they do not follow these laws they may find themselves being sanctioned, which not only affects them financially but also tarnishes the reputation

of the brand name, as most of the waste created will bear the logo of Starbucks. * Environmental pressure groups - Starbucks should be aware of the physical and influential power of groups such as Greenpeace and Friends of the Earth. Any violation of animal or environmental rights by a company is usually followed by a swift and attention-drawing protest from one of the groups.

Brand image and customer bases are often irreconcilably tarnished due to the actions of these groups Porter's five forces Barriers to Entry: Medium-High - Low capital requirement: It can be varied depend on the location, but it would be safe to say coffee industry still requires low capital compared to other industries. - Little product differentiation: It is difficult to establish a certain unique flavor for coffee. - can be offered at restaurants which normally don't serve coffee as a beverage; this will allow for even lesser investment.

Threat of Substitutes: High - Soda, fresh fruit juice, healthy juice for drink and tea are all direct substitutes for coffee. - Alcohol drink- beer, wine, cocktail, and more can be indirect substitutes. (Alcohol drinks will be sold in only a few selected places, so it is too early to get rid of alcohol drinks in the threat of substitution part.) Bargaining power of Buyer: Medium-high - Even though the price goes up, the buyers who like only Starbucks would still come. The brand has generated enormous brand loyalty. Buyers can buy their coffee from various places: Starbucks has their stores all over the nation, so as other major companies do. Buyers have a lot of substitutes to choose from. Supplier Power: Low-Medium - Starbucks is a global coffee chain and many suppliers are eager to work with them. The company has

successfully established vertical integration to make suppliers loyal to its supply chain. - It can be problematic if a certain product suppliers raise the price of their product, such as green tea powder or coffee bean.

Although Starbucks decided to change their suppliers because it still takes some time to inform to the customer and price changes will be inevitable.

Industry Rivalry: High - Many companies: Coffee Bean, Mcdonald's, Dunkin Donuts, and local cafe. - Also; McDonald's had started an advertising attack aimed directly at Starbuck's saying '\$4 coffee is dumb. 'Thus; rivalry was high. - Many people started to look for more healthy and fresh juice instead of coffee, so there is little chance that demand is growing at the same rate as it was earlier.