

# Starbucks choice and evaluation essay sample

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



Starbucks wants to have one of their coffee stores in every neighborhood worldwide – a lofty vision that is not realistically attainable, but speaks to the company's desire for concentrated growth. Facing the challenge of how it should leverage its core competencies against various growth opportunities, Starbucks must convince shareholders that it can continue its phenomenal growth record by leveraging its strengths and opportunities, while minimizing weaknesses and possible threats. Even though Starbucks enjoys strong brand and name recognition, the organization must achieve the desired growth without cannibalizing or saturating the market.

Customers have a strong loyalty and affinity to Starbucks, and the company has attained tremendous market share with no real direct competitors in the specialty coffee market, but it is doubtful that customers will infinitely be willing to pay \$3-\$4 for a cup of regular coffee. Starbucks has added new products and services (e. g., food, music, Starbucks re-loadable card, etc.) to enhance customer and employee experiences. These products and services have been successful in strengthening Starbucks' brand recognition and market position, proving that consumers will purchase more from the company.

Recent acquisitions (Seattle Coffee, Tazo Tea, Ethos Water) and nearly 40 strategic alliances (Pepsi, Kraft, Hilton Hotels, Safeway, etc.) have proven successful. The key is in finding and taking advantage of additional opportunities for more acquisitions and strategic alliances for deeper market penetration, which will stimulate growth. Which is the best strategy position, and why is it the best one? Which strategy position should Starbucks concentrate on, or does the company have the resources to pursue all three

choices, as shown below? Expand the U. S. Market  
Broaden the Product Line  
Expand into China and Eastern Europe

- Do market research on U. S. remote and rural areas
- Design products/services to appeal to this market
- Train company resources to sell in this market
- Consider advertising and promotion
- Continue producing high quality coffee product
- Increase market share
- Do market research on consumer trends
- Introduce hot food and fresh fruit
- Acquire regional coffee stores
- Consider advertising and promotion
- Continue producing high quality coffee product
- Increase market share
- Do market research on China and Eastern European countries
- Trade shows
- Create retail operations from scratch
- Consider advertising and promotion
- Continue producing high quality coffee product
- Maintain U. S. market share

### Strategic Choice

Starbucks has effectively utilized a differentiation strategy to earn above average returns and insulate itself from competition, and brand loyalty has resulted in lower price sensitivity. This has provided an effective

entry barrier to other companies in the specialty coffee market. With the threat of market saturation in the U. S., Starbucks should continue its generic strategy of differentiation by opening new stores in more rural and remote areas. The inherent risk with implementing this strategy is that customer's needs for a differentiating factor could decrease as "buyers become more sophisticated" (Porter, 1980, p. 46).

Because Starbucks' most significant source of revenues originates in the U. S., the company should focus more on growth in China and Eastern Europe. These markets pose the greatest growth potential, which is a perfect match with Starbucks' vision of having coffeehouses in every neighborhood around the world. In order to determine which strategic alternative Starbucks should choose to pursue, we look at several different criteria and rate the positive or negative correlations, as shown in the following exhibit: Criteria Positive(0, +10) or

Negative (0, -10) Expand the U. S. Market Broaden the Product Line Expand into China and Eastern Europe Shareholder Value P879

Revenues P899

Profitability P899

Investment Required N-8-6-8

Degree of Risk N-5-5-9

Culture Change Needed N-2-7-6

Competitive Advantage P8610

TOTAL 131314

Starbucks Strategic Choices, Ranked

Should Starbucks focus on and choose only one strategic growth initiative?

Since the key to Starbucks success is strategic growth that will increase shareholder value, it would appear that expanding into China and Eastern Europe would be the best strategic alternative; however, this is also the riskiest choice. It is this author's opinion that Starbucks, based on its environmental analysis and financial position, has the resources to pursue all three strategic growth alternatives; further, the choice of not pursuing all three would jeopardize the company's opportunities to make its vision a reality. Plan Goals and Implementation

The strategic plan goals are two-fold. First, it establishes the roadmap for how Starbucks will achieve its vision of having a coffeehouse in every neighborhood around the world, and second, it will help Starbucks "produce fundamental decisions and actions that shape and guide what an organization is, what it does, and why it does it, with a focus on the future" (Bryson, 1988). Starbucks' strategic plan stresses the importance of making decisions that will ensure the company will be able to successfully and proactively respond to changes in the environment, with an eye toward ensuring that all strategies and objectives are communicated externally to stakeholders, as well as internally to the organization. With Starbucks' vision, mission, values, objectives, and strategic alternatives chosen, we now focus on perhaps the most challenging aspect: how to implement them.

While there are many discrete tasks that must be performed to implement the strategic plan, the good news is that Howard Shultz, Starbucks' chairman, has already built an organization that has proven the organization

can carry out the strategic alternatives focusing on growth. Both the organizational culture and organizational capability for executing strategy are in place. The key will be in choosing an excellent team that includes all levels of management, assigning the right roles, and letting the team make the right strategic moves. Kathleen Eisenhardt, professor of strategy and organization at Stanford University, believes that “ if you begin with the right people, you can more easily adapt to a fast-changing world because the right people already are adaptable and self-motivated” (Fuller & Green, 2005).

With the strategic plan, initiatives, and team in place, Starbucks needs to develop an implementation agenda that includes specific intent and goals. Specific measurable objectives that must be achieved at specified intervals (i. e., 3, 6, 9, and 12 months, as well as 1, 2, and 3 years) should be defined. Specific programs that need to be implemented in order to achieve the strategies should be spelled out, and should include operational objectives, budgets, and schedules for each program. Each program should have triggers (what could go wrong) and contingency plans (what will Starbucks do differently if that happened), as shown below:

Program to:

Expand the U. S. Market

Trigger

Contingency

- Do market research on U. S. remote and rural areas
- Design products/services to appeal to this market
- Train company resources to sell in this market

- Consider advertising and promotion
- Continue producing high quality coffee product
- Increase market shareIF:

NAIT\* lags projections by 10%

\* NAIT = Net Income After TaxesTHEN:

Starbucks should aggressively tighten control of costs

Program to:

Broaden the Product Line

Trigger

Contingency

- Do market research on consumer trends
- Introduce hot food and fresh fruit
- Acquire regional coffee stores
- Consider advertising and promotion
- Continue producing high quality coffee product
- Increase market shareIF:

Sales lags projections by 15%

THEN:

Starbucks should offer additional incentives and discounts to customers

Program to:

Expand Into China and Eastern Europe

Trigger

Contingency

- Do market research on China and Eastern European countries •Trade shows

- Create retail operations from scratch
- Consider advertising and promotion
- Continue producing high quality coffee product
- Maintain U. S. market share

D/E\* exceeds projections by 2%

\* D/E = Debt-to-Equity Ratio

THEN:  
Starbucks should aggressively collect its receivables and reevaluate expansion project plan

#### Starbucks Implementation Triggers and Contingencies

Each strategic program must have its own implementation plan, clearly showing who, what, when, where, why, how, and resources needed. Each program must have its own objectives and realistic timetables, as well as communication plan directed toward the affected stakeholders, shareholders, and employees.

Financial Projections and Analysis

In a perfect world, Revenues/Sales = Resource Requirements; however, in reality, resource requirements almost always exceed revenues. This is particularly true when undertaking new strategic initiatives focusing on growth - and remember, Starbucks is focusing on profitable growth, so we must plan accordingly. All strategic initiatives and objectives in this strategic plan form the basis for, and flow into, the financial projections and statements below. Starbucks Corporation's Financials for Fiscal Year ending September of each year (All USD figures in millions)

Key Ratio's/Accounts	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Profitability Ratio's						



Revenue 10, 383 9, 775 10, 707 11, 700 13, 300 14, 892

Gross Margin % 19. 2 55. 8 58. 4 57. 7 56. 3 57. 1

Operating Income (USD Millions) 504 562 1, 419 1, 729 1, 997 -325

Operating Income Margin % 4. 9 5. 7 13. 3 14. 8 15 -2. 2

Net Income (USD Millions) 316 391 946 1, 246 1, 384 8

Net Margin % 3 4 8. 8 10. 7 10. 4 0. 06

Return on Equity (ROE) % 13. 2 14. 1 28. 14 30. 9 29. 2 0. 17 Return on

Assets (ROA) % 5. 73 7 16 18. 1 17. 8 0. 08

Earnings Per Share (EPS)

0. 43 0. 52 1. 24 1. 62 1. 79 0. 01

Efficiency Ratio's

Asset Turnover 1. 89 1. 74 1. 79 1. 7 1. 71 1. 51

Inventory Turnover 12. 1 6. 4 7. 4 6. 6 5. 3 5. 4

Fixed Asset Turnover 3. 5 3. 5 4. 3 4. 9 5. 3 5

Days Sales Outstanding 10. 9 11. 2 9. 8 10. 75 12 12. 8

Days Inventory 30. 11 57. 3 49. 4 55. 6 69. 3 67. 3

Payable Period 15. 6 25 22. 5 30. 3 29. 4 25. 4

Cash Conversion Cycle 25. 4 43. 5 36. 7 36. 1 52 54. 7

Liquidity & Financial Health Ratio's

Current Ratio 0. 8 1. 3 1. 55 1. 83 1. 9 1. 02

Quick Ratio 0. 3 0. 6 1 1. 17 1. 14 0. 71

Debt/Equity 0. 22 0. 18 0. 15 0. 13 0. 11 0. 29

Financial Leverage 2. 28 1. 83 1. 74 1. 68 1. 61 2. 57

Year on Year Growth %

Revenue Growth % 10. 3 -5. 9 9. 5 9. 3 13. 7 12

Looking at a six year period ratio & growth analysis of Starbucks's financials from 2008 to 2013, we can see that the revenue growth of the company has experience a drop of -5.9% during the 2008/09 recession but from then on, Starbucks posted a healthy revenue growth of from FY2010 to FY2013 with posting a great growth of 13.7% in FY2012 and currently posted revenues \$14.9 billion for FY2013. The operating income margins have increase substantially from 4.9% in FY2008 to a high of 15% in FY2012. Starbucks posted an operating loss in FY2013 and this resulted in a operating margin of -2.2% for that year and the main reason for that is due to a litigation charge of \$2.8 billion to Kraft Foods for terminating an agreement with them. This charges is treated as extraordinary event and therefore should be discounted from the overall healthy operational performance of Starbucks.

Starbucks ROE and ROA have been impressive with 29.2% and 17.8% respectively for FY2012. Looking at Starbucks efficiency ratios, Starbucks has gained significant operational efficiency with impressive asset and inventory turnover ratios with a low of 1.51 and 5.4 respectively for FY2013. But its interesting to note that the company's cash conversion cycle has increase to high 54.7 in FY2013, which is where Starbucks should concentrate on to reduce to attain higher efficiency. Starbucks boasts good financial health with low debt/leverage with a debt/equity ratio of 0.29 for FY2013 and maintains decent current and quick ratios. Controls and Evaluation

Once Starbucks has implemented their strategic plan, results of the strategy must be measured and evaluated, making changes as needed. This will help

Starbucks ensure that the plan is on track over time. Performance standards are set, the actual performance is measured, and any action necessary to achieve success is taken (NetMBA. com, 2005). Starbucks currently utilizes a business scorecard to measure, evaluate, and control strategic initiatives and programs. Metrics are developed based on the priorities of the strategic plan, which provides key business drivers and criteria for metrics that managers utilize. Processes are then created to “ collect information relevant to these metrics and reduce it to numerical form for storage, display, and analysis. Decision makers examine the outcomes of various measured processes and strategies and track the results to guide the company and provide feedback” (Arveson, 1998). Starbucks business scorecard is shown in Exhibit 11 below.

#### Starbucks Business Scorecard

#### Conclusion

A strategic plan should identify the basic concept and direction of an organization. Starbucks' vision is to have coffeehouses in every neighborhood, while their mission is to be the premier purveyor of the finest coffee in the world and continue to grow. The company's six guiding principles outline the values that Starbucks relies on to fulfill their vision and mission. The completed environmental analysis forces the company to look internally and externally and think critically about their strengths, weaknesses, threats, and opportunities. This sets the stage for creating long term objectives, or a roadmap for how Starbucks is going to navigate through the environment. It is at this point in the strategic planning process that Starbucks analyzes different strategies to achieve their long term

objectives, and the company makes choices about which strategies to pursue.

Once the strategic choices have been made, a plan is created for how to actually achieve the chosen strategies, and an implementation plan is designed to include triggers and contingencies. A detailed financial forecast is created based on the chosen strategies; this will provide many metrics to guide Starbucks in evaluating the effectiveness of their strategies. Critical success factors are analyzed, ensuring that they align with the strategic plan. The final step is in setting controls, or performance standards, measuring results, and taking action based on those findings. Starbucks grew from a small company in the Pacific Northwest selling coffee, to an extremely large company selling beverages around the world. Strategic planning was a key ingredient in achieving Starbucks' success, and will continue to be a critical tool if the company is to achieve its vision of having a Starbucks coffeehouse in every neighborhood around the world.

## References

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