

Starbucks history and background



**ASSIGN
BUSTER**

Starbucks started its journey from a single store in 1971 when three teachers(the English teacher- Jerry Baldwin, Writer- Gordon Bowker and History teacher- Zev Siegel) opened a store by name the Star Bucks Coffee, Tea and Spice in a tourist place Pikes Place Market base in Seattle. The three founders had a passion for coffee and tea and aimed at providing coffee to a large number of restaurants and bars.(starbucks. com, 2010)

In the year 1980, Howard Schultz joined Starbucks as the director of retail operations and marketing. Howard Schultz was the vice president and general manger of Hammarplat (a Swedish maker of stylish kitchen equipments and houseware products). He was inspired by the business philosophy of Bowker and Baldwin and expressed his desire to be part of the Starbucks enterprise.

In the year 1982, Schultz views bought about a change in the direction of Starbucks. Schultz was bubbling over with a lot of ideas, and the biggest one was in 1983 when he was on a business trip to Milan in Italy. As he walked down several espresso bars in Italy he notices that each bar had a different ambiance, its own character and style. This made Schultz realize that there was something missing at Starbucks and recommended to the founders of Starbucks to serve customers with fresh brewed coffee, cappuccino and espresso.(starbucks. com, 2010)

But unable to convince the Starbucks founders about is expanding vision; Schultz opened his own espresso bar by name IlGiornale which meant the “ The Newspaper” in Italian. In the year 1987 Schultz decided to acquire Starbucks and its six stores. He merged the acquired Starbuck stores with his

three Il Giornale bars and changes the name of his enlarged company to Starbucks Corporation. By the end of the year the number stores increased to seventeen and location span to Chicago and Vancouver.

In 1990, the company expanded in Seattle Headquarters and took steps to increase resources opening a new roasting plant. In the early nineties in order to build relationships and expand ventures the company looked forward to development organizations with a vision to progress further. By the end of year 1992, Starbucks had grown to 165 outlets. Starbucks accelerated its expansion from the \$27 million it had raised from the stock. It expanded its location span from Seattle to Vancouver and nationally from US to Canada. The location span expansion had a cluster pattern with a vision to increase awareness of Starbuck's local brand and enabling customers find a Starbuck anywhere in their town.(starbucks. com, 2010)

In 1995, Starbucks had established its name and stand in the market opening the 676th store. It further added compact discs to its store which was the result of the experiment with in-house music.

In 1996, Starbucks entered the international market by opening stores in Japan, Hawaii and Singapore in joint venture with Sazaby Inc which. By the end of year 2000 Starbucks had ventured into countries from England to china to Australia with over 3300 stores and by the last quarter of 2008 the total international stores reached 5113 and 11567 stores in the United States.

Starbucks Mission, Values and Principles

The Starbucks mission is to inspire and nurture the human spirit with one person, one cup and one neighborhood at a time.

Starbucks mission is to establish star bucks as the premier purveyor of the finest coffee in the world while maintaining its uncompromising principles while Starbuck continues to grow.

The following set of principles make Starbucks mission statement a success. These principles govern the decision making process at Starbucks and act as a guideline for the employees to achieve the company's goals maintaining some standard.(starbucks. com, 2010)

To provide a great work environment and treat each other with dignity and respect.

An essential component in business is diversity and to embrace it.

Purchase is an important factor and the highest standards of excellence should be applied to it.

Coffee should be roasted and delivered freshly.

Enthusiastic and satisfied customers should be developed at all times.

Contributing positively to the environment and community and understand that profit is important and essential for success in future.

Starbucks environmental Mission statement is that in all facets of business Starbucks is committed to a role of environmental leadership. The environmental mission is accomplished by a commitment to the following:

Understand environmental issues and share with its partners.

Bring about change by developing innovative and flexible solutions

Environmental friendly products should be bought, sold and used.

To recognize fiscal responsibility as an important part of our future.

As corporate value instill environmental responsibility

Each project should be measured and monitored for progress

Spread awareness among the partners and encourage them to share in the Starbucks' environment mission.

The Starbucks' Strategy and objectives

The objectives at Starbucks that help accomplish its mission everyday is as follows (Starbucks.com, 2010)

Our Coffee

At Starbucks it is always about quality. Coffee beans of high and consistent quality are sourced and passionately roasted with great care in turn improving lives of people who grow them.

Our Partners

To create a place where each one can be himself Starbucks has embraced diversity. They treat each other with dignity and due respect and hold each other to high standards.

Our Customers

at Starbucks it is all about human connection. Although for a few minutes they engage, connect, uplift the lives and laugh with the customers. It just starts with a vow of a perfectly made cup of beverage and continues.

Our Stores

Starbucks stores provide customers with a sense of belonging, a place to meet up with friends. It is place full of humanity which provides a break from the worries of the outside world and enjoyment which is sometimes savored and sometimes fast.

Our Neighborhood

Starbucks considers each store as a part of its community and considers its responsibility to be a good neighbor. They would like to be invited with a positive action of bringing together partners, the customers and the community to contribute wherever they do business. Starbucks as a potential for good and its responsibility is even big when it comes to lead to set new standards.

Our Shareholders

Starbucks prides itself in awarding rewards to its stakeholders and it delivers in each of the areas. Starbucks is completely accountable to each of its stakeholders so that everyone can thrive and endure.

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Starbuck's Present – A snapshot

Starbucks today is a \$5. 58 billion company with its presence in over 55 countries. Starbucks is the dominant small chain retailer in the only global chain in the commodity market. There is global demand for coffee in the market. Due to high price of coffee, the alternatives to coffee are beverages which are less price elastic when compared to coffee.

Seasonal fluctuations affect the company's business and it is during the first quarter which includes December's holiday season that significant revenues and profits are achieved. As per the company around 20 million customers visit Starbucks each week. There is huge scope for Starbucks in the international market. As many major companies are expressing their interest to share a partnership with Starbucks, its aim of becoming a worldwide global brand is not too far from achievement. This will also lead to the achievement of its mission to become one of the best coffee retailers in the world.

Starbucks reported a 4% increase in its net revenues to \$2. 7 billion for the first quarter ending 27 December 2009. It reported that the store sales increased 4% driven by 4% increase in average ticket and 1% increase in traffic. The net revenues were \$2. 5 billion for the same period over a year ago.

Macro environment

Starbucks evolves in US market in a macro environment. This characterization is due to the aging population and increasingly diverse origins. Though the coffee consumption in the US is on a rise, the income is

declining and due to the current economy the disposable income at a risk and a decline is anticipated on the consumer spending.

There is huge scope of growth in the Asian market with huge disposable income and increase in the consumption of Western beverages. A slow and sluggish economic growth is seen in the European macro environment due to decrease in the disposable income.

Overall, on a global scale it can be seen that there will be a threat to the supply of speciality coffee if there is an international coffee crisis.

SWOT Analysis for Starbucks

Analyzing Strengths, weaknesses, opportunities and threats is a very important aspect for a company. SWOT analyses can be used to identify the internal factors (strength and weakness) and external factors (opportunities and threats) for Starbucks in order to achieve its mission.

Strengths

Starbucks has excellent product diversification for example: coffee, baked goods, CDs etc.,

It has a well established logo, website, it has many patents, copyrights and is a developed brand.

It has company oriented retail stores and international stores.

To attract customers it is located in well visible locations

It has a low employee turnover of valued and highly motivated employees

It has very good relations with the coffee suppliers.

It is market leader in the coffee industry and has a strong financial foundation.

Weakness

The increasing number of competitors in the market

Too many shops clustered in a small area- self cannabilization

Cross functional management

Its expensive product pricing

Opportunities

Starbuck has a wide scope for expansion into retail operations

It can launch new products and new distribution channels

It has scope for further international growth such as in Asia

It can make use of technology for its advancement.

Threats

Starbuck faces a threat of competition from other restaurants, supermarkets, and other caffeine products.

The volatility in developing countries in coffee price.

Consumers trending away from coffee to lead healthy life.

Negative publicity by farmers struggling and leading a hard life in the countries which supply coffee.

Porter's Five Force Analysis

Porter five force analysis is an important tool for analyzing the strategic processes in an organization. Porter's five force analysis for Starbucks is detailed below:

Threat of New Entrants in the industry

Starbucks has a threat from new entrants such as the economies of scale, easy access to distribution channels, cost advantages which may not be related to the size of the company. As Starbucks has a very large share in the market and has already established itself it should not be much of a problem to Starbucks from the entry of new entrants which pose as threats. Moreover, Starbucks has many years of experience in specialized coffee roasting; for a new company it will be very difficult to offer the same specialized coffee at a reasonable price and establish itself in the market. The reason behind this is : the cost of the products decreases as company grows bigger in experience and in knowledge.

Power of Buyers

Many small operators constitute to the supply industry, there are various alternative sources of supply and the cost of the material is a high percentage of the total cost, thereby the cost to switch between supplier's is low and involves very little risk. For Starbucks the cost to switch between suppliers is low.

The Power of Suppliers

Starbucks purchases coffee directly from the coffee producing countries such as the Pacific Rim, East Africa and Latin America. The suppliers bargaining power will be high if the market is dominated by few suppliers. Since Starbucks – the specialty coffee shop is continuing to record sales and is still expanding, it still needs the supplies from the suppliers to continue growing.

Threat of Substitutes

Many companies which are producing the same product and satisfying the same consumer needs are posing as a great threat to Starbucks both in the domestic as well the international market.

Competitive Rivalry

Due to its unreasonably high rates Starbucks is facing a tough competitive rivalry in its domestic and international markets. Also the customers in Japan have judged that the taste of coffee Starbucks serves has an artificial taste.

PESTLE Analysis for StarBucks

Political:

Tax policy : in the countries producing coffee, if the government imposes high taxes on the farmers, then Starbucks will have to pay a high price for the coffee.

International tariffs and trade regulations: this is threat to Starbucks if there are changes in the import laws since Starbucks imports all its coffee beans. If the import costs are higher and if the process is made difficult then the direct impact will be on the consumption level of Starbucks coffee.

The business environment is becoming very volatile due to the increasing tensions between US and the rest of the world. It created a serious problem for Starbucks when the United States declared war on Iraq. Due to the close relationship between Israel and US the Arab students boycotted the American goods. Starbucks was one among the boycotted companies. (ihatestarbucks.com, 2010)

International Stability: Starbucks sales and markets are greatly affected by the international economy.

Due to Schultz's closeness with Jews it topped the list of companies to be boycotted. Starbucks has closed down six stores in Israel due to this threat.

Economic

Globalization: the globalization of the coffee market will lead to decrease in the production of coffee with farmers receiving very less amount for their crop. This in turn will affect supply levels and consequently low profits.

Exchange rates: when it comes to the international market this will affect Starbucks

Competitors pricing: Starbucks will face a price war due to the low rates offered by competitors which can ultimately reduce profits and decrease the market share for Starbucks.

Economic growth: Starbucks will face low sales if the location in which it is located has slow growth. Consumer incomes will reduce leaving them with less disposable income. Starbucks faced many problems in countries such as

Switzerland, Germany and the Japan in the 2000's due severe economic recession.

Social

Demographics: one important factor for Starbuck is the population demographic. This will help Starbuck identify which population segment they should be aiming their products.

Income Distribution: identifying the place with income distribution is an important aspect for Starbuck marketing. Starbuck should target places and people with large disposable income as coffee is regarded as a luxury product.

Working Conditions: Starbucks should provide the highest standard to service to its customers ensuring cleanliness, comfort and safety. This is because most of the Starbuck customers are people with high living standards and disposable income.

Standard of Education: Starbucks must consider locations for its stores where there are people with high standard to education and skills to ensure that its business will run into profit.

Location: Starbuck must ensure that its stores are located in locations with convenient means of transport.

Technological

In order to offer good customer service and improve the consumers' experience, Starbucks had introduced the Starbucks card. This gives the company an opportunity to offer better and improved customer service by

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making the customer's visit to the store quick and very convenient. Also Starbucks has introduced Wifi in most of its store to access the internet looking at the customer's need.

Legal

Since 2001 two action suits are pending against Starbucks. Under the California wage and hour laws, the status of the store managers and assistant manager from Starbucks California have been challenged by Starbucks as exempt employees. In these cases Starbucks is denying any liabilities and Starbucks has agreed settlement of all claims without getting into much litigation.

Health and Safety Regulations: in order to maintain a good image it will good if Starbucks maintains high standard of health and safety in all shops across the globe as failure to do this will affect Starbucks as customers will lose confidence in Starbucks

Environmental:

Starbucks environmental mission is to be an environmental leader in all phases of its business. In line with its mission Starbucks has listed out a set of principles to ensure its affect on environment is positive. These principles are listed below:

To understand environmental issues

In order to bring about change develop innovative and flexible solutions

Make partners apart of them by sharing information

Environmentally friendly products are used, sold and bought

As a corporate value instill environmental responsibility.

To recognize that the environmental future is fiscal responsibility

Encourage partners to share in the Starbuck mission together with measuring and monitoring each project's progress.

Stakeholders Power

As per the stakeholder approach in a firm all groups associated with it should benefit at the same time. Starbucks can generate more profit working with its Stakeholders. Owners, customers, employees and suppliers are main stakeholders of starbucks. Due to the lack of sufficient power and the way Starbuck performs will not have much influence on the individual stakeholders? There are chances of influence only if the stakeholders share their grieves and expectations which will ultimately unite them into a stakeholder group.

Competitor Analysis

As Starbucks is growing each year there is an increased threat of competition from rivals in the market. Competitors take advantage by introducing price cuts; bring out a rival product, extensive expansion in order to increase their market share. They also come up with considerable and important modifications to their product that will lead to other competitors to incorporate that modification in order to keep up its place in the market.

Starbucks: The Future

Over the years Starbucks profits have increased considerably, but due to some reasons the company still needs to alert. At the existing stores, though the sales are rapidly growing the rate of growth is slowing. Store cannibalization is main attributed reason for this by the analysts. The main reason for this is in the hope of saturating markets Starbucks has opened stores within a block of each other. This will also lead to competition within the Starbucks stores itself and lead to decrease in performance of the employees and may also damage culture of the company within the workforce. Growth has been severely impacted by poor efforts on merchandising, which has left many products on the display for years.

Financial Perspective for the Future

Starbucks plans to invest in millions of new shares and offer them to its employees and manager. This step is a sign which shows that Starbucks is going to take a major step in expansion and it is a way to compensate its workforce and managers. In the past it has been seen that Starbucks sets up its infrastructure well ahead of time in order to race in to an aggressive growth period. However, there is risk when the growth will slow down, the stock option values will decrease, leading to disappointment in the employees who would be expecting a higher value.

Future Strategic Options for Starbucks

Three future strategic options for Starbucks has been discussed below:

Diversification:

Starbucks should choose related diversification as a future strategy where Starbucks offers new services with some connection or relation to Starbucks activities.

Suitability

Within a short time Starbucks has already launched many diverse products in the market from brewing and serving equipment to sweets and Tea. It also sells books, coffee beverages, music, gifts etc., Starbucks is ready to launch more new products into the market such as the Prepaid Starbucks Card, pre-order products with Starbucks express and also bring about changes in its general stores for example offering high speed Wi-Fi and installing automatic espresso machines.

Starbucks can also introduce to sell savoury products such as pastries. If Starbucks offers products that serve as a substitute for lunch people will stay longer in the shop with no excuse to leave. If the customer spends more time in the shop the better it is for the sales of Starbucks as people will drink more coffee and spend more money. In this way Starbucks has shown that it is successful in diversification but still sticking to its core product which is coffee.

Acceptability

Every new product that Starbucks has launched has been a success in the market. A savoury snack will also appeal the customer particularly the young professionals who rush to the store for a hurried dinner break. This option is

financially viable and also campaign able but it has a threat from competitors in this field who know the market well compared to Starbucks. The company might lose focus on its original function and may not be acceptable to the stake holders.

Feasibility:

The new product should be marketed if it should survive in the market. Starbucks will need to purchase additional equipments such as a heating stand, an oven etc., But this is quite risky since Starbucks may not have the resources and capacity needed to sell the products effectively as more space will be needed in the stores. The stores will need to go through restructuring but this will be very expensive.

Mergers:

The future strategic option of Starbucks is to merge the company with the Internet Cyber Cafes.

Suitability: this option will increase Starbucks market share and increase the synergy between the two companies.

Accessibility: the Starbucks's R&D department has identified internet as a customer need and so this idea will be successful.

Feasibility: This idea of Starbucks is threatened by the government legislation. In countries such as Britain in order to ensure that companies should be not overly dominant strict rules are enforced.

Expansion

Starbucks should globalise itself by expanding itself into new countries. Asian market is a good choice because it is an emerging market.

Suitability: this strategy of expansion is in line with Starbucks goal. The coffee market in the US is reaching its saturation level leading Starbucks to exploit its potential and to expand in new countries. Asian and European countries offer a good market for Starbucks to establish due to the large population size, people with high standard of living and high disposable income. Also people have started accepting and adopting the western lifestyle into their lives.

Acceptability: Starbucks must prove to its stakeholders that this strategy will generate a lot of profits.

Feasibility: Starbucks should have sufficient financial resources to allow international expansion which is a large venture.

Recommendations to Starbucks

In order to further strengthen Starbucks stand in the market and capture a more market share, the following recommendations are made:

Starbucks should pay attention the domestic market in the United States. It should adjust the location of stores in order to achieve profits and try to achieve saturation.

It should offer a good training program for its employees and set up an online training for its international employees.

It should maintain good relations with the coffee suppliers and extend their contracts

It should motivate its employees by rewarding them with benefits such as bonuses; match the workload with pay scale. This will make the employees feel attached to the company.

Starbucks should offer public service and give back the same to the community.

Starbucks should expand into new countries and target new markets for diversification.

Increase its budget on promotion and advertisement.

Conclusion:

The Strategy of Starbucks is very simple. The strategies adopted by Starbucks include: adopting stores to the lifestyle of the customers, the perception of the product of high quality should be increased and cover areas in the market completely, even if the shops affect each other's business.

Starbucks approach is to reduce the costs in the areas of delivery and management. Starbucks has achieved growth in the market and has occupied a large market share with actually no marketing. Starbucks spends only 1% of total annual revenues on advertising.

Starbucks is not just about coffee it offers various other things such as ambience, music, mugs, internet etc to its customers. Starbucks is regarded as the peoples shop and there is scope for growth in the market always.