

Analysis starbucks
operational financial
organisational
marketing capabilities
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**ASSIGN
BUSTER**

The organisation chosen for the task is Starbucks Corp. and the report would compare it with two similar companies, one being Costa Coffee and the other being Caffé Nero.

The report would highlight the frameworks underpinning the competitive position of Starbucks and also would identify and assess the economic and the competitive position of the firm.

A financial model using appropriate ratio analysis would also be presented in a spreadsheet format identifying the industry trends and their impact on the performance of Starbucks vis-à-vis Costa Coffee and Caffé Nero.

Both quantitative and qualitative data would be made available so as to provide an insight into Starbucks sustainable performance and prospects.

Analysis of Starbucks operational, financial, organisational and marketing capabilities would be made available through application of PESTEL analysis and Porter's 5 forces model.

The report would also discuss the issues, the problems, the opportunities and the options available to Starbucks for future business growth, followed by conclusions to draw together all the variables identified.

Recommendations would be provided for the company highlighting the direction it needs to take to ensure business profitability with comments on the suitability, acceptability and the feasibility of the options made available.

INTRODUCTION

The Starbucks Company was founded in Seattle in 1971 by Jerry Baldwin, Gordon Bowker and Zev Seigel with a vision to educate American consumers about the fine coffee drinking experience. In 1987 Howard Schultz took over the Starbucks Group, he wanted to create the Italian espresso bar experience in the States by creating a personal relationship between the customers and their coffee.

In 1995, the company really took off with the opening of its 676th store, and the expansion strategy to Hawaii, Singapore and Japan being very successful. By 2000, 3,300 stores were already in operation and Starbucks had ventured into markets ranging from England to Australia. As standing, Starbucks is number one in the industry, with more than 12,000 shops in more than 35 countries.

Just within a couple of years they grew from a small coffee business house to a multi-million dollar player in the speciality coffee industry by buying only the best coffee available and providing the people with an unmatched store experience.

The Starbucks mission statement is “ To inspire and nurture the human spirit – one person, one cup and one neighbourhood at a time. “

Freshly brewed coffee is the main product offered by Starbucks along with other drinks which include cold and hot teas, cakes and pastries. The Starbucks coffee comes in a many varieties each possessing a different taste, aroma and flavour.

INDUSTRY TRENDS AND MARKET ANALYSIS

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The market right now for gourmet coffee business is hot. All the multi-national fast food chains and street-corner shops want in on the boom. Many big companies are focusing on the supply of specialty branded coffees and the scenario is heating up. Specialty coffee is one of the fastest growing food services markets globally. Growth in the coffee industry is continuously peaking, with many new overseas companies entering the market using policies like special discounts and perks despite the questionable quality of the coffee being used to increase the market share.

A notable trend seen is that often a significant increase in sales occurs every time a café starts to use branded consumables. The consensus is that these coffee drinks would be a long-term trend, with focus on elevating the customer's taste for a product that they are already familiar with and then leading them to coffee houses to get it. Many companies are also tinkering with expanding the food menus as well including an in-store display of fresh baked goods, sandwiches and various confectionary items.

The newest trend is the drive-thru coffee stores. Starbucks has many such stores, all of which are seeing continual growth and long lines. Another trend includes customer requests for organic coffees, which has encouraged retailers to move towards the beans growing environment. The array of products offered has never been as wide, as retailers are adding more flavours to whole beans and creating variations to the basics of espresso and steamed milk. The clever retailers have added iced tea concoctions and coffee shakes to their menus to outdo competitors. Most specialty retailers now also retail whole beans and many such stores have added coffee grinders, espresso machines and other brewing supplies for add on sales.

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STARBUCKS ANALYSIS

This part of the report would analyse the working of the business by application of PESTEL analysis, Porter 5 forces and the BCG Matrix.

PESTEL Analysis

POLITICAL

Taxation policy

High taxes levied on farmers in the bean producing countries, would consequently increase the rate at which Starbucks would buy the coffee beans and any such fluctuations in the taxation policy would certainly be passed on to the consumer, who now would have to purchase the end item at a higher price.

International trade regulations and tariffs

Trade issues would affect Starbucks directly when exporting and importing goods. When the government of the trading country imposes a tariff it would not only result in an efficiency loss for Starbucks but such large income transfers can also become inconsistent with equity. This extra charge would have to be borne by the consumers.

Government stability

A change in government policies has a direct impact on the taxation and legislation framework. Also the countries in political turmoil or civil war should be approached with great caution when considering new ventures.

Employment law

A reduction in licensing and permit costs in the bean producing countries would lower production costs for farmers. This saving would in turn be passed on to Starbucks when purchasing beans and finally to the consumers.

ECONOMIC

Interest rates

High interest rates would mean putting off the investment and expansion plans of Starbucks, which would result in fewer earnings for the firm. Low interest rates should have the opposite effect.

Economic Growth

Consumer incomes would fall in periods of negative growth leaving less disposable income impacting the sales for Starbucks.

Inflation rates

Business costs will rise in times of inflation which would ultimately have to be borne by the consumer.

Competitors pricing

Competitive pricing from competitors would impact Starbucks pricing that would drive down the profit margin as they try to maintain their market share.

Exchange rates

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If the currency value falls in a bean supplying country, Starbucks would get more for the same price, when importing the goods. This saving would be passed to the end consumer.

SOCIAL

Population demographics

Identification of the target population at which Starbucks needs to aim their products is a significant factor in the business operations. The marketing campaign undertaken would focus accordingly.

Coffee is more of a luxury product, so the people with the most amount of disposable income should be targeted.

Working Population

A large number of workers in big cities now go out for lunch and meals. Starbucks can cash this to their advantage and promote the shop as a place where people can meet and eat, boosting the sales.

Location

A good location which is easily accessible is vital to ensure that the customers visit the shop.

TECHNOLOGICAL

IT development

Starbucks launched its first-generation e-commerce website in 1998. As a result, scalability and performance have improved, and the company now has the tools it needs to profile and target customers, analyse 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..

Rate of technological change

The pace at which technology is advancing is astounding. Starbucks would need to invest heavily just to stand still in the ever expanding and developing market, and even more so to try to stay ahead of competitors.

ENVIRONMENTAL

Pollution problems

Starbucks customers create a lot of waste by disposing off the cup and the contents incorrectly. The material for the cup should be carefully considered to make it as biologically degradable as possible.

Planning permissions

Planning permission may not be granted to Starbucks if the construction would harm the environment. The land may be protected.

Work disposal

There are strict laws in most countries pertaining to waste disposal and non-adherence to these could lead to Starbucks being sanctioned, which would affect them financially and also tarnish the reputation of the brand name.

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.

LEGAL

Trade and product restrictions

Starbucks need to be aware of the trade laws in the countries where they have established businesses. They need to ensure they are not in violation of any such laws. Certain countries impose a tariff that has to be paid when goods are imported/exported so this must be taken into account as well.

Employment laws

Each country has different employment laws, like a limit on the number of hours an employee can work per week, varying levels of minimum wage etc. Starbucks should be aware of such factors when considering business expansion.

Health and Safety regulations

By not maintaining high standards they would be liable for damages if found in violation as it is a legal requirement for them to ensure that their staff and customers are safe when they are in their stores.

Land use

Starbucks have to abide by the laws of the building authorities when constructing shops or altering purchased sites and if found in violation of land rules, it can be penalised by the local authorities.

PORTER 5 FORCES ANALYSIS

1. COMPETITIVE RIVALRY

Starbucks is the leading retailer, roaster and brand of specialty coffee in the world. Major competitors include Costa coffee, Caffé Nero, Seattle's Best Coffee and secondary coffee providers such as McDonald's, Burger King and Dunkin Donuts. The competition is nowhere near to Starbucks volume of operations and sales.

Consumption of coffee is not dependent on the price of the product but also on the differentiation between each product and several value adding variables such as the quality of customer services, brand, brand recognition and image of the company. Hence, Starbucks is not majorly sensitive to movements of other firms in this segment.

2. THREAT OF NEW ENTRANTS

Starbucks is the world leader in its industry and has controlled access to distribution channels. Starbucks have exhibited this control over distribution channels by setting guidelines for their suppliers to follow. Starbucks is also constantly innovating and showing strong product differentiation to hamper the possibility of new entrants.

However, the entry barrier for the industry is relatively low and any big firm where capital is not a problem could be a potential entrant. Some of the more current and on-going threats of new entrants include fast food chains such as McDonalds, Burger King and Dunkin Donuts which can become a major problem in the near future.

3. BARGAINING POWER OF BUYERS

A big threat to Starbucks is the absence of switching costs in the speciality coffee industry, customers face no switching costs in switching from Starbucks to Costa Coffee or Caffé Nero for a cup of coffee. Another threat to Starbucks is that their customers have the ability to brew their own coffee. Starbucks has tried to counter this threat by offering Preferred Office Coffee Providers as well as directions on how to make the perfect cup of Starbucks coffee at home, called the “ Four Fundamentals of Coffee”. The perfect cup of Starbucks Coffee includes, of course, Starbucks’ ingredients!

Also with new entrants and competitors such as McDonalds who claim to offer premium roast coffee of reasonable quality for lower price, it is clear that Starbucks customers have some bargaining power in the industry.

4. BARGAINING POWER OF SUPPLIERS

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Coffee is the world's second largest traded commodity. South and Central America produce the majority of coffee traded in the world. Starbucks depends upon both outside brokers and direct contact with exporters for the supply of premium coffee beans.

The quality of coffee beans sought by Starbucks is very high, proving to be a potential threat to the company. Only suppliers who can meet Starbucks coffee standards will be able to supply the giant company. The supplying industry only has few firms which can deliver the quality giving them considerable bargaining powers.

However, Starbucks counters this due to its massive size and being the primary buyer and also because of the importance of Starbucks business to any individual supplier as it would account for a large percentage of the total supplier's sales, thus reducing the bargaining power of suppliers.

THE THREAT OF SUBSTITUTION

Substitute products are the products that can pose as a trade-off for the product being offered by a company. In the specialty coffee industry, substitute products can be soft drinks, tea, energy drinks, fruit juices and other caffeinated drinks.

Here innovation would play a huge role. To counter this Starbucks have given their menus a complete revamp and have differentiated so many of their products which are now part of the main product line. The menu includes various teas, hot and cold coffee, baked goods and various confectionary items.

The only true direct substitute for specialty coffee would be the basic coffee, which is of lower quality than specialty and as such does not present any threat.

STARBUCKS FINANCIAL ANALYSIS

This part of the report would highlight the financial position of Starbucks using the annual reports and comprehensive ratio analysis for the financial years 2008, 2009 and 2010 which are enclosed in the appendix.

2008

In fiscal 2008, Starbucks experienced declining store sales in its stores, primarily due to lower customer traffic. The weaker traffic was caused due to number of on-going factors in the global economy such as the higher costs of gas and food, rising levels of unemployment and personal debt along with reduced access to consumer credit.

In fiscal year 2008, store sales declined a margin of 8%. Consolidated operating income was \$503.9 million in fiscal 2008, and operating margin for the year was 4.9% compared with 11.2% in the prior year.

Approximately 260 basis points of the decrease in operating margin was a result of restructuring charges, primarily related to the significant US store closures.

EPS for fiscal 2008 was \$0.43, compared to EPS of \$0.87 per share earned in the prior year. Restructuring charges and costs associated with the execution of the transformation agenda impacted EPS by approximately \$0.28 per share in fiscal 2008.

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2009

Fiscal 2009 was a challenging year for Starbucks. The difficult economic environment had strained consumer discretionary spending in the US and internationally, which negatively impacted company revenues, store sales, operating income and operating margins.

Starbucks responded by creating a business model that was less reliant on high revenue growth to drive profitability. The primary initiatives of the strategy included rationalizing the global company operated store portfolio and reducing the cost structure, while renewing the focus on service excellence.

Starbucks closed down approximately 1000 stores. Initiatives targeting reductions in the cost structure in fiscal 2009 proceeded as planned, with full year costs of \$580 million removed from the cost structure.

The company maintained a solid financial foundation, with no short term debt outstanding at the end of fiscal 2009 and with cash and liquid investments totalling more than \$650 million. The solid financial position and continued strong cash flow generation provided Starbucks with the financial flexibility to implement its restructuring efforts.

2010

In fiscal 2010, revenues increased to a record \$10.7 billion. Operating income increased by \$857 million from fiscal 2009 to \$1.4 billion. The full-year operating margin of 13.3% represented the highest full-year

consolidated operating margin in Starbucks history. Fiscal 2010 ended with <https://assignbuster.com/analysis-starbucks-operational-financial-organisational-marketing-capabilities-marketing-essay/>

the highest full-year comparable store sales growth that Starbucks have seen in the recent past, while the earnings per share also grew more than double from fiscal 2009.

BENCHMARKING WITH COSTA COFFEE AND CAFFÉ NERO

Starbucks is a US chain whereas both Costa Coffee and Caffé Nero were established in the UK. Costa Coffee was setup in London in 1971 by Bruno and Sergio Costa and acquired by Whitbread PLC in 1995. Caffé Nero was established by Gerry Ford in 1997 in the UK.

The comparison would be carried out using the financial information of the three firms which is available in the appendix. The comparison would majorly be based on the UK market.

There are 1,175 Costa Coffee shops in Britain as compared to 731 of Starbucks and 440 of Caffé Nero. A comprehensive business analysis of Starbucks has already been supplied in the above report; this part would focus on the business analysis of Caffé Nero and Costa Coffee individually followed by a coherent conclusion of the findings.

Costa Coffee

According to the financial data available operating profit grew by 59.5% to £36.2 million; 312 net new stores were acquired or opened and like for like sales increased by 5.5%. Costa operates in 25 countries and is now the number two international coffee shop operator with 1,600 stores: 1,069 in the UK; and 531 overseas. Sales performance improved strongly across the year, confirming the brand's resilience, even in a recessionary environment.

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Caffé Nero

The groups 60% equity is held by the Ford family, the rest 30% by a private equity firm Paladin and 10% with the management. Caffè Nero has recently completed a successful £140m refinancing in a bid to fund the business's future growth ambitions.

The business, which has 500 outlets in the UK and internationally and has registered 54 consecutive quarters of positive like-for-like growth, is forecast to generate £31m in earnings before interest, tax, depreciation and amortisation (EBITDA) for the 12 months to May 2011. Revenue for the same period is forecast to reach £171m, an increase of 11% on the previous year. The new financial structure would provide the Group with a financial platform to support its growth ambitions and expansion plans both in the UK and internationally.

Nero has a lot of ups including strong brand positioning, intensive marketing campaigns and a clear differentiation point. However, there are some weaknesses, one of them being lack of experience in going international, thus some problems could arise while penetrating foreign markets.

Though both the companies Costa and Nero are well established in the UK market, Starbucks is the industry leader in the world and is a major competition to them in the UK. Financial turnover of the Starbucks Group is so massive that it provides them with all the capital requirements to innovate and differentiate their product from the 2 competitors; it already has established a sizeable market share in the UK, but still needs to take over Costa Coffee which it should be able to do in the near future, looking at <https://assignbuster.com/analysis-starbucks-operational-financial-organisational-marketing-capabilities-marketing-essay/>

the financial figures provided and the international global strategy adopted by the group which seems very promising.

ISSUES FACING STARBUCKS

The major challenge that Starbucks is dealing with is the current financial crisis in the world economy forcing them to call closures of many stores around the world.

Another challenge that Starbucks is dealing with is competitors. There are numerous coffee shops all over the world and being able to stand out to generate customers is important. Their main competitors are Dunkin Donuts, McDonald's, and Nestle in the US and brands like Costa Coffee and Caffè Nero in the UK, the two major markets for Starbucks. It is important that for Starbucks to know their competitors and what they are currently doing.

Also Starbucks coffees are priced higher than other market competitors because of Starbucks only purchasing the highest quality coffee beans for their product, thus increasing the price of the drink. As Starbucks have many competitors, this can be a potential advantage to for such competitors.

Also Starbucks inadequate marketing strategy on advertising is a hindrance in the business growth opportunities. They prefer to build the brand by promoting the drinks cup-by-cup with customers. The advertisement ends until they drink the coffee, reducing the chances to attract valuable customers.

Starbucks also does not emphasize on distributing their products to supermarket because of being concerned with the quality of the coffee; if the coffees were packaged into plastic bags.

Also the rigorous expansion strategy followed by Starbucks can take a toll on the firms brand image. As corporations grow there can be a tendency to focus too heavily on increasing output and locations, and less focus on quality and brand image. Starbucks needs to stay with its values and ideals that have made it successful.

Also Starbucks policy of not franchising can be a cause of concern for the firm. Advantages of Starbucks franchising would be to open hundreds of new stores with less risk to the company, and make profits in doing so. In addition Starbucks would have less research and development costs because the franchisee would have greater knowledge of the local market in terms of demographics, psychographics, geographic, and local/state/country regulations.

RECCOMENDATIONS AND CONCLUSION

Starbucks has to effectively pursue a Focus-Based Strategy in conjunction with differentiation and cost leadership based strategy. Being a lower cost store will increase the difference between Starbucks and provide it with a competitive edge. At present, Starbucks competitors are attempting to specialize in the coffee business, therefore Starbucks must pursue focus strategy to increase its strength.

Starbucks must reduce their product price by producing a new product of coffee using cheaper beans or can come out with special discounts and promotions to reduce cost, thus increasing sales enabling Starbucks to enter new low cost markets and increase profitability. Also needs to focus on building alliances in new markets/countries to reduce management focus and benefit from the local and experience curves.

Should focus on advertising the brand through internet services for users to access, do road shows, hand out brochures etc. so that consumers become more aware of the brand's strong international presence and brand name. Market penetration and market development will help increase the sales. Access unexplored distribution channels like making available packaged Starbucks coffee for consumers by displaying it nationwide in various convenience and shopping stores and not only Starbucks stores.

Starbucks must adopt twin policies of Product Development and Product-Market Diversification to counter the stiff competition in international markets. It is important to understand this in the product development phase as they would need to focus solely on making their existing products better. The company can demonstrate product and market diversification through research and development coupled with creativity and innovation. Product differentiation has proven an excellent defence against threats such as bargaining power of buyers. Developing new products will offset such potential risks.

A strategy should be formulated to tackle the competition by entering into agreements, long-term contracts, with the food service companies that they

are competing against. This way their coffee would be sold at these outlets and they would gain access to new markets and increase sales while decreasing competition.

Starbucks should continue to be a first mover into markets with new products and ideas. Being a first mover of new products into new international markets will be an excellent way for Starbucks to build customer loyalty and uphold its image as an innovative company.

Starbucks should continue to locate their operations in high traffic areas, high visibility areas. The company should continue to take excellent care in picking locations. It is extremely important that Starbucks' international stores reflect uniqueness in their location and layout. Having locations in a variety of locations will ensure large market exposure.