

Business overview of starbucks



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Established in 1971, starbucks opened operations in Seattle's Pike place markets with the future aim of providing coffee to restaurants and surrounding bars. In 1982, Starbucks recruited Howard Schultz, who after visiting Italy tried to adapt the same principles in order to a strong bar culture. Schultz who led the marketing and retail efforts of Starbucks utilized companies ability to provide quality coffee beans and opened up a new store called Il Giornale, which brewed coffee from these beans.

In 1987, Giornale took over assets of Starbucks and changed its name to Starbuck Corporation. By the end of year, Company increased the number of stored to 17 and furthered its location span by entering Chicago and Vancouver. After three years in around 1990, Starbucks took further steps in expansions of the Seattle headquarters and an increase in resurces ith the opening of new roasting plant. Starbucks also developed relationships and other ventures during early nineties as it looked for development organizations to further its progress. By 1995, starbucks really established its name with opening of 676th store as well as increasing products in store with the addition of compacts discs, books etc a result of previously popular experiment with in – house music. In the later years, starbucks kept stretching its span by intering into international markets in Japan, Singapore and Hawaii.

In year 2000, Starbucks had progressed so far that 3300 stores were already opened, the company had ventured into countries ranging from England to China & Australia.

At present, starbucks process International stores numbered to 5113 and 11567 stores in United states. In early 2008, Schultz returned to Starbcuks as CEO to attempt a turnaround strategy for the struggling chain as starbucks didn't respond quickly enough when the US and global economy started to weaken.

Current Situation:

“ Fiscal 2008 is a transitional year for Starbucks and, while our financial results are clearly being impacted by reduced frequency to our U. S. stores, we believe that as we continue to execute on the initiatives generated by our transformation agenda, we will reinvigorate the Starbucks Experience for our customers.” – Howard Schultz, Chairman, President and Chief Executive, Starbucks.

Thecurrent international situation seems to be an emerging part of their business and the reorganization of this is proved by their aim tobecome a leading global economy through , aking a difference in people's lives all around the world. This goal isquite close to being achieved as proved the starbucks current locations in international markets and successfulness of these ventures. Currently Starbucks s operated in Australia, Bahrain, hongkong, Canada, Israel, japan, lebonon, Kuwait, Malaysia, new Zealand, Oman, Peoples republic of china, Philippines, Saudi Arabia, Qatar, Singapore, Switzerland, South Korea, Thailand, Taiwan, etc. and have developed further aspiration to develop in emerging economies of India, Brazil and Russia.

Current Performance:

Overall, the Starbucks's Vision of becoming a worldwide global brand seems to be working in favour of the company and is helping it to attract the attention of many major companies who would like to share a partnership. This approach gives much strong holds or strong basis for future development of international markets, where further strengthens the mission to become one of the leading specialty coffee retailers of the world.

Starbucks, the leading retailer, roaster and brand of specialty coffee in the world has been struggling as of faltering economy, its own rapid growth(international expansions, and growing presence in 44 countries) and increased competition from cheaper rivals. In the first quarter of 2008, company's net income fell to \$108.7 million down 28% from the same period of 2007. Starbucks shares have tumbled over the previous two years and the company has struggled to maintain its differentiation in the face of growing competition. It has also suffered to the effects of the crisis in the housing market, which has put a pinch on sales. Company has also suffered from rising costs of storefront space and wholesale prices for coffee and dairy products.

STRATEGIC POSTURE:

Mission:

“ to inspire and nurture the human spirit – one person, one cup and one neighborhood at a time.” – <http://www.starbucks.com/about-us/company-information/mission-statement>

“ The mission of Starbucks is to establish Starbucks as the

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premier purveyor of the finest coffee in the world while maintaining our uncompromising principles while we grow” – <http://www.starbucks.com/about-us/company-information/mission-statement>

To achieve its mission company's has followed six principles which are:

1 - Great work environment where each employee is termed as partners and been treated with respect and dignity.

2- Embrace diversity as an essential component..

3- Highest standards of purchasing to provide quality products.

4- Roasting and delivering of coffee at its best.

5- Develop relationship and satisfied customers all of the time -As a part of its mission Starbucks presented their outlets as the third place between work and home.

6- Contribute positively to our communities and our environment, and recognize that profitability is essential to our future success.

Application of these principles are used as a guideline for all stakeholders to aim to achieve desired goals and maintaining standards.

Objectives and Strategies:

Long Term objectives:

Starbucks has had difficulties in the past but with Schultz back at the helm there appears to be renewed vision and faith by the markets that the

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company can be turned around. In order to develop long term Strategies the current position of strbucks needs to be considered in order to determine long term objectives.

One of the first long term objective that should be considered in linked to profits. Starbucks has seen a general increase in the profit levels, mainly due to international growth, with profit margins declining, the net profit margin was 12.5% in 2005, since then it has been declining. Therefore, first long term Objective for Starbucks is to increase the net profit margin to 12.5% and at the same time increasing the profit level by 15% per annum over the next decade.

Starbucks also needs to remain competitive. One the major problem company faced is difficulty in connecting and attracting younger coffee drinkers and creating a core target market within the younger market. Thus, Second Long Term objective is to develop themselves as the preferred coffee house establishment for the age group under thirties. The Long term objective is that there should be an increase in this target maket without loosing from older consumers. Thus by end of year 2012 the customers under thirties should account for 35% of the total sales.

Customer Loyalty is another very important in terms of the long term sustainable firm, therefore the long term goal is to increase loyalty with average customer visiting the company minimum 2-3 times a week.

Business Strategy:

The Starbucks mission and principles are encompassed by three major strategic stances i. e. –

The Third Place after work and home – Created by Starbuck’s unique ambience

Establishing human Connections – Starbucks strives to maintain this through ecosystem management, sustainable practices, supplier networks maintainance, innovation and firm transparency.

Providing quality experience everyday

Starbuck Corporation External Analysis:

Michael Porter defines five forces impacting a firm’s competitiveness- threat of substitutes, threat of new entrants in the industry, bargaining power of suppliers, bargaining power of customers, and the intensity of competition within the industry.

Suppliers

Starbucks Corporation as big size organization can put significant pressure on its suppliers. As per its goals and values it does not abuse this power as it is not in its best interests. It treats its relationship with supplies as a partnership and possess high operating standards for its suppliers. Starbucks ensures its supplier make reasonable profit so that they can meet companies corporate standards and expectations which include environmental policies such as excessive packaging, energy conservation and farming methods and employee benefits.

Dairy, paper products, Coffee are the major inputs into the Starbucks operation. It is fully dependant on its supply of coffee and demands a high quality bean thus it has developed various programs in the development of farmers and coffee producing regions. Starbucks also grows its supply base as it grows its retail base and to keep its supplies in business and loyal it pays a premium to ensure this.

Overall, the threat pressured by suppliers is moderate due to the instability of green coffee industry and the scarcity of the high quality bean that the company demands.

Customers:

The threat of customers is low for Starbucks because of low likelihood of backward integration, Starbucks differentiated products, diversified customer base and company's ability to shape consumer taste and demand. It is generally been presumed that coffeehouse products are of superior quality than other venues which gives competitive advantage to Starbucks.

Starbucks itself is well established brand worldwide and one of Starbucks' branding strategy of differentiation as third place experience is unique and contributed a lot to its success.

Competitors:

For Starbucks where its products can be found from specialty coffee mainstream to convenience stores and gas stations, defining the basis for competition is difficult. Starbucks competes in two ways i. e. product and venue. But considering both aspects Starbucks faces high competition in

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both segments. Various companies like MacDonalD's McCafe, Dunkin Doughnuts, Costa etc. have emerge and provides better products in low prices and with other meals. Coffeehouses gives tough competition as Starbucks prices are higher in prices and have limited product line. Also in some countries like Japan, Australia, Europe etc. Starbucks faces low sales as people taste preferences are not much likely favoring Starbucks products. In Japan, taste of coffee is considered to be artificial.

Therefore, Competitive threat for Starbucks is from moderate to high due to increasing number of firms penetrating Market and product line.

New Entrants:

There is room for new entry into the market, but new entrants face formidable barriers to entry to compete with Starbucks directly in the coffeehouse segment. Starbucks had developed better skills, networking, brand image and distribution channel which might take years for new entrants to directly compete with Starbucks. Also, Starbucks is able to interact creatively with customers and partner with suppliers by utilizing its knowledge.

Also, Starbucks got its stores located at the best geographic location worldwide thus helping it gain competitive advantage.

As one of the strongest brand, Starbucks products are highly differentiated and provide unique experience. Furthermore, Company has developed loyal customer base that is willing to trust the new products including books, movies and DVDs.

Considering Starbucks's Scale and competitive advantage, it has posed barriers to entry. But Market is difficult to define and changes or innovative approaches may allow a disruption to occur from a low-end player or new channel of distribution which Starbucks may not be prepared for. Thus threat for New entrant is slow but Starbucks need to be vigilant.

Substitutes:

Similar to competitors, Threat of substitute exist in two levels. The first is the coffeehouse experience. The experience customers receive from Starbucks Coffee outlets can also be received from bars and cafes. The experience is providing people a place to hang out and meeting friends. Starbucks projects itself as community place or third place. In this regards various substitutes like community centers, parks, churches, bars etc can be better substitutes.

The second Level is the product level. Even the product can further broken down into the need for a caffeine boost and the need for a special drink. So, considering both of these, substitutes for coffee include tea, soft drinks, energy drinks, smoothies etc. Starbucks address this threat by increasing this product range with non coffee drinks. It also acquired Tazo Tea and blended sodas and Frappuccino drinks were sold too.

However, considering this threat of substitute is low as coffee being iconic product and the environment provided by Starbucks is too unique among itself.

PESTEL ANALYSIS:

Political/Legal:

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1 Increasing tensions between United States and the rest of the world directly effects the business environment operated worldwide.

2. allegations give poor brand image to company. Branding being the strongest competitive advantage can be harnessed by any allegations.

3. Starbucks rely heavily on coffee beans which imported from various countries. So possible threat like change in import laws etc may directly impact the productivity, cost etc affecting the level of consumption for Starbucks coffees.

Economic:

These are the major factor that derives and nurture the direction f the economy firm operates in.

Starbucks have been facing problems due to economic recession in countries worldwide which resulted in various stores to be closed down and decrease in net profit margin. Economic factors directly influence buying power of consumers and thus resulting in direct losses in sales.

Social/Cultural:

Starbucks is committed to a role of environmental leadership in all faces of its business. Company follows stringent standards to develop and maintain social sustainability. Whic creates positive outcome and stronger brand in corporate Social world.

Technological:

Starbucks is very vigilant in adopting and innovating ways to better customers' experience. For example, with the introduction of Starbucks card the company has created opportunity to improve customer service, shorten lines and more better and efficient services. Starbucks tied \$100 million deal with Compaq to provide free wifi services to its consumers needs.

Internal Analysis:

Strengths

Brand Image: Starbucks is among few companies that has successfully created awareness for specialty coffee category while maintaining superior brand. Starbucks is considered to be among strongest brand serving second most traded commodity – Coffee. Starbucks emerged itself as a brand or gateway to western culture which became very popular in China and Japan.

Innovative Business Strategy: Starbucks innovative business Strategy resulting to better staff behind counter, ambience of the store and its fabulous products has enchanted the point of consumer interaction and spending.

Strong Finances: Starbucks after becoming public company has risen high from 2 decades and developed high trust in its investors who believe in Starbucks and giving it independence to develop further. Starbucks possess high capital and high income resulting from sales. Company has its own stores worldwide giving better capital to sign more ventures.

Weaknesses

Reliance on U. S. Market: Starbucks is a global company and has a presence in 37 countries. However major revenue and profit for Starbucks comes from its domestic market ranging to 80% from US only. Company has suffered severe losses in Australia and in Europe in previous 2 yrs. Given its presence globally and the opportunities for further expansion, the company needs to be looking at generating proportion of revenue outside its domestic markets.

Large Corporate image: Starbucks struggles with the backlash despite efforts to seem ore connected with community. They are generally been related as Wal-mart of coffeehouses.

Expensive Price: Starbucks and other coffeehouses has caused the price of coffee to increase up to 300%. i. e \$3 -\$4. Though this price can still be acceptable in markets of developed nations where buying power of consumers are high. However, such prices in emerging economies will represent Starbucks more of luxury good and where limited persons can come and enjoy the its products.

Core Competencies and Competitive advantage:

Human Resource Management: Starbucks creted an environment and an organization around its employees as one of its most important assets and sources of sustainability. The empowering corporate culture, above industry standard employee benfits, and employees stock ownership programs have aided in crafting an exceptional workforce that takes pride in its work and is treated with respect and dignity. Cultures towards employees is laid back and supportive and are empowered by management to make decision without management referral and are encouraged to consider themselves as

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a part of business. This type approach benefitted Starbucks in reducing staff turnover expenses and attracted highly skilled and passionate staff.

Marketing: Starbucks has created a brand that presents an understanding of people's values, lifestyles, and needs. The company's attention to the experiential factor has been pivotal to its success.