

Sources of risk facing starbucks



Introduction

Starbucks was first introduced in Seattle's Pike Place Market in 1971. That time Starbucks was into coffee beans and later they were into retail and outlet business. Since then Starbucks has its 17, 651 stores in all. There coffee is famous around the world. The aromas of fresh coffee beans are loved by the customers. The name Starbucks is after the first mate Herman Melville's Moby Dick. Starbucks logo is also inspired by the sea - a twin tailed siren from Greek mythology. This report tells that the difficulties of Starbucks when it was going to be global (Starbucks Corporation, 2013). For Starbucks it was difficult because of some country taste are different, the local competition and many other factor which are discussed in this report (Ghauri & Cateora, 2010).

What are the major sources of risk facing the company? Discuss Potential Solutions.

Starbucks coffee shop also being well managed by a well -seasoned management team . The management trio is known as H2O form a small group with three names (Orion Smith (CEO), Howard Behar (Head of North American Operations)and Howard Schultz (Chairman and Chief Global Strategist) , At the initial stage of Starbucks was remarked as successful organization during that time.

The company experienced a rapid expansion in the market through the 1990s. But on the other hand it also has experienced many problems to make a strong bond between Starbucks name and image within the millions of customers around the world and to achieve dominance over the market in a home market and new markets.

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Major sources of risk facing the company:

The biggest risk for Starbucks is market saturation in USA.

Starbucks employees have a quite low morale towards their company leads to “ Employees burnout”

Another issue dealing with the low wages and salary to the employees and managers.

In 2001, starbucks was sued by employees and store managers (refused to pay their legally mandated overtime) decreased of \$18 million dollars in their profit share income for settlement of suite.

In a very short span of time Starbucks had a global expansion as it has created a image and brand name around the globe which has evoked the emotions into the people mind and that leads to protest flooded on the street and police riots as the lost of the company as the store was fully trashed.

In the market downturn, customer’s leads to switch on budget brand which is less costly . and for the future generation and age group between 20s and 30s are not ready to pay so high price where they can get \$3 of coffee cup.

Entering into a bigger market is a huge risk and tough competition, as in some countries civilization differences has been major issues . i. e. in Italy changing the people lifestyle and the way of drinking coffee is a sensitive part of those are surrounded with their culture and system.

Increasing price of the products will cause the company as consumers spend fewer amount on daily coffee and breakfast.

Solutions:

Company have to do more investment on advertisement and publicity for bringing the improvement of the starbucks image.

Focus on improving the quality according to the young generation taste and flavours.

Make the staff and managers happy by increment in the salary and keep motivated with incentives and rewards after every six month or on yearly basis.

Starbucks will adapt the product differentiation method so that it will introduce the product according to the standard of the particular country.

Company have to re-arrange their product according to the middle class family and budget oriented people rather keeping the target on the high income categories people . So that the prices of the product will be average that can be affordable by ordinary person.

Starbucks have to develop the business in the other international markets like China, India, Brazil and Russia as these countries they can contribute the high income in revenue and also the growth and success.

Starbucks have to adapt the Global strategies depending on different parts of the countries , as introduced the product after researching and analyzing on their cultures and traditions(help in knowing their liking and disliking) which help to attain success without any culture issues.

Q3

In starbucks corporate strategy they have taken enormous steps to capture both local and international market with different tactics but they are facing problems to meet customer demand and needs which is making them incur losses. In past starbucks have shown tremendous growth rate by adopting Porter's 5 force model where it has developed new strategies for domestic and international market.

As starbucks is trying to capture business territory/cities of U. S. and Canadian markets for dominance with 4247 outlets there are still eight states with no starbucks outlet which are Butte, Mont., and N. D. starbucks has mostly captured business hub states for their brand to gain popularity among the locals, it's a Seattle base company which sells different types of coffee.

According to starbucks strategy their main aim is to increase sales, for that they are opening more and more outlets in their domestic market as well as abroad i. e. they are creating cluster in both the markets where this strategy emphasis on creating dominations to increase sales, revenue and market share (Holmes et al, 2002). This process of " self-cannibalization" has helped the company to cut down competitor's market share and gain profits where there is less increase in number of competitor's outlets this has caused the company to make presence in both domestic and international markets, which has created good opportunity for company to grow and exploit market by not allowing others to come in but this strategy has failed to meet and satisfy consumer needs because they are just trying to cover losses of new stores by the other stores i. e. generating total revenue of having more than

one store is bigger than the revenue obtained by one store where they are ignoring customer and only wanting to generate revenue to gain profits.

Especially youngsters are facing problem in starbucks stores which is only catering to baby boomers or older generation. According to a survey by Mark Barden as described in case study which says that “ younger generation feel uncomfortable because they either can't afford to buy starbucks coffee or and they see their peers behind the counters”. Starbucks has tried to overcome this by attracting youngsters by giving them special facilities like starbucks express card and Wi-Fi network connections at its outlet, but even though they failed because youngsters or generation X couldn't afford to buy coffee at starbucks.

As starbucks is dominating and controlling major territory of U. S. market it has created solid foundation in domestic and has covered large area of the market. As it is going international it's facing problem in both domestic and international market because spending on advertising is low only 1 % where other companies or competitors of this size spend more than 10% to make their brand well known. This low advertising budget has helped the local competitors to gain the market and raise their share where starbucks is having difficulties to establish its brand image outside the U. S. market. Its finding hard to gain customers internationally because it is highly priced and competitors are selling same product at half a rate.

In Manhattan starbucks has opened 124 outlets and still opening it has taken real-estate market to new height, which is a part of its strategy known as “ predatory real-estate strategy” where it has created barriers and restricted

consumer to fewer choices for not allowing local competitors to enter in suburbs, or highly potential market and it's paying double the rent amount as described in the case study it has to pay for leased property where there is no working outlet, just not to allow any competitor to acquire that place this kind of unnecessary payment is causing loss to company.

Employees of starbucks are having hard time at work because they aren't paid according to their work load which is creating dissatisfaction amongst these employees which has caused numerous problems for company.

Employees are complaining that they are working for 20 hours a week but are paid less and in the time of recession it's hard to earn less. In Japan starbucks is also facing the same problem and rebels of employees because of which there was a loss of 70% in sales of first nine months of the year incurring loss for full year.

When a company goes international it has to adjust accordingly to nature and demographics of market and serve them accordingly as Starbucks CEO Howard Schultz is giving a spark to already fueled and tense situation by using inappropriate language to "legitimize" Israel's actions. He has also called on "every Jew in America" to rise up and defend Israel at any cost.

Improving profitability in Japan

The entry of Starbucks in the Japanese market replaced the grab-and-go Doutor coffeehouse model bringing the COFFEE back in the limelight and made the sipping and chatting over a cup of coffee in American style trendy.

Starbucks still lacks in the number of stores when compared to Doutor which is present at far more locations in Japan than Starbucks. The general

demeanor towards coffee being something good for just picking up rather than something to be enjoyed with friends has not changed even after the introduction of Starbucks.

This has led to a small difference in the business approach in accordance to Japanese palate. The coffee bean varieties are limited, flavors are few, and Decaf options are not readily available.

To make a profitable venture Starbucks need to cater to all sets of people, those who drink coffee at leisure and those who prefer to grab it and drink on the go. Any singular business model is likely to fail in satisfying the diverse group of coffee-drinkers. With changing attitudes to coffee being not only a wake up drink but also something that refreshes and rejuvenates after a long day of work, especially for those who drink it after 7 PM (which are on the rise) and then have trouble going to bed, decaf should become more readily available.

In the United States, Starbucks offers what it calls the “ third place.” A place away from home and work, a place people come to just relax and spend some time with friends and family, provide an environment that customer will return to day after day. To enable this “ third place” environment, Starbucks baristas are encouraged to make small talks, remember customers’ drink preferences, and refer to regulars by their first names (Oakland, 2011).

The Culture has not been embraced by Starbucks baristas in Japan. With globalization, along with other things in Japan, the coffee culture also is witnessing a rapid transition. Coffee shop dates and weekend get together

with friends over a cuppa are becoming the norm especially for the youth. Not only it is an environment to de-stress, it also provides an environment to learn English and converse in a foreign language, helping those who travel often, to mingle easily and with confidence outside Japan.

To counter the deflation affecting one of the world's largest economies, Starbucks Japan has increased prices thrice since 2006 (Hyuga & Yamaguchi, 2011).

The need for price inflation reflects the operating costs in Japan which needs to be taken into consideration. The rent and labor are expensive and the shipment of coffee from Starbucks roasting facility in Kent to Japan also reflects as higher coffee cost which the consumer needs to pay ultimately. The places to set up their spacious baristas in happening towns like Tokyo are also not cheap. Most of the Japanese coffee by other brands is shipped from Jamaica which are older beans and do not have the same potent taste and aroma. To help in cost cutting, the opening of a roasting plant by Starbucks which is one of their plans will help.

To summarise;

Starbucks need to focus on the promotion of their brand and freshness it offers without increasing further pricing in Japan.

Catering to the different segments of population and developing tastes, a reconsideration of the flavors in Japan market along with the decaf needs to be done.

For those with hectic schedules, an online ordering system can be put in place to truly encourage the grab and go concept for those who want to avail it.

The strictly non-smoking environment which people savor along with the cup of coffee should continue to provide an environment where people frequent without putting their health in jeopardy.

A free Wi-Fi in the café attracts a lot of student who wish to do productive work in addition to just chilling out.

Different themes, changing ambience according to the local and different global cultures will spike the interest of the people hungry for exposure and learning about other worlds.