

Case study starbucks real estate marketing essay



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Howard Schultz (the CEO) formed a headquarters group to create a store development process based on a six-month opening schedule. Starting in 1991, the company began to create its own in-house team of architects and designers to ensure that each store would convey the right image and character. Stores had to be custom designed because the company didn't buy real estate and build its own freestanding structures like McDonald's or Wal-Mart did; rather, each space was leased in an existing structure and thus each store differed in size and shape. Most Stores ranged in size from 1000 to 1500 square feet and were located in office buildings, downtown and suburban retail centers, airport terminals, university campus areas, or busy neighborhood shopping areas convenient to pedestrian foot traffic. Only a select few were in suburban malls. While similar materials and furnishing were used to keep the look consistent and expenses reasonable, no two stores ended up being exactly alike.

In 1994, Starbucks began to experiment with broader range of formats. Special seating areas were added to help make Starbucks a place where customers could meet and chat or simply enjoy a peaceful interlude in their day. Grand Cafes with fireplaces, leather chairs, newspapers, couches, and lots of ambience were created to serve as flagship stores in high-traffic, high-visibility locations. The company also experimented with drive-through windows in locations where speed and convenience were important to customers and with kiosks in supermarkets, building lobbies, and other public places.

To better reduce average store-opening costs, which had reached an undesirably high \$350, 000 in 1995, the company centralized buying,

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developed standard contracts and fixed fees for certain items, and consolidated work under those contractors who displayed good cost-control practices. The retail operations group outlined exactly the minimum amount of equipment each core store needed, so that standard items could be ordered in volume from vendors at 20 to 30 percent discounts, then delivered just in time to the store site either from company warehouses or the vendor. Modular designs for display cases were developed. And the whole store layout was developed on a computer, with software that allowed the costs to be estimated as the design evolved. All this cut store-opening costs significantly and reduced store development time from 24 to 18 weeks.

Discussions

Corporate Strategy

Corporate strategy provides an overall direction that serves as the framework for carrying out all the organization's functions . It specifies the business or businesses the company will pursue, isolates new opportunities and threats in the environment, and identifies growth objectives.

In order to developing a sound corporate strategy Starbucks has a very good scanning of the environment (the industry, marketplace, and the society), identification of the firm's core competencies and the core processes. The core competencies has been its human resources (Starbucks values its employees and thus provides appropriate compensation and training programs), its tangible resources like coffee beans (it has access to highest quality of coffee beans in the world), its intangible resources like having the reputation of being the best known largest coffee house chain. The core

processes are derived through the company's core competencies. The core processes of Starbucks have been customer and supplier relationship along with service development.

Starbucks corporate-level strategy has been to establish itself as the premier purveyor of the finest coffee in the world, while maintaining their uncompromised principles as they grow. The firm principle of the company are seen with it's maintenance of a great work environment for every staff member in its retail stores. It upholds diversity and promises the highest standards for its products. The company satisfies and gives back to the community and the environment. Also, Starbucks persists to be profitable. They live by a strict slow growth which enables them to concentrate on a specific market and be completely dominating in that market and only then set its sights further abroad. This strategy has gained them the advantage of being one of the fastest growing companies within USA. Starbucks relies on maximizing market penetration. They also look to provide a very social and relaxing atmosphere for their customers.

Operations Management

Operations management is the management of systems or processes that create good and/or provided services. The creation of goods or services involves transforming or converting inputs into outputs. Various inputs such as capital, labor, and information are used to create goods or services using one or more transformation processes. To ensure that the desired outputs are obtained, measurements are taken at various points in the transformation process (feedback) and then compared with previously

established standards to determine whether corrective action is needed (control). The essence of operations function is to add value during the transformation process. Value-added is the term used to describe the difference between the cost of inputs and the value or price of outputs. In for-profit organizations (like Starbucks), the value of outputs is measured by the prices that customers are willing to pay for those goods or services. Firms use the money generated by value-added for research and development, investment in new facilities and equipment, paying workers, and profits.

Starbucks uses the operations management to forecasting such things as supplies and demands for a new or current retail store, to plan capacity of new stores, to manage inventories of such items as beverages, to assure supreme quality in each phase of customer encounter, to motivate and train employees in all phase of operations, to locate facilities according to managers' decisions on which cities to provide services for.

Relationship of Corporate Strategy and Operations Management

The corporate strategy and the operations management of Starbucks are closely tied together. As mentioned earlier, OM of Starbucks deals with customer relationship, providing employees a relaxing environment, providing quality coffee which are pathways to the guiding principles of Starbucks(providing a great work environment and treat each other with respect and dignity, embrace diversity as an essential component in the way they do business, apply the highest standards of excellence to the purchasing, roasting, and fresh delivery of coffee, develop enthusiastically

satisfied customers all of the time, contribute positively to communities and environment, recognize profit is essential to future success). By being congruous to the guiding principles, OM of Starbucks penetrates through the corporate strategy of the company and this the desired relationship of the corporate strategy and the operations management of Starbucks.

Operations Strategy

An operations strategy is done to plan a design and management of operations functions, in ways that supports corporate strategy. The operations strategy is one that associates corporate strategy to operations function. The focus lies on the operation's particular capabilities that give a competitive edge to the company. These capabilities are referred as competitive priorities. By excelling in any of the said capabilities, there exists the possibility of the company to be the frontrunner in a specific market . Invariably, and operations strategies involve the design of new processes or the redesign of existing ones. Starbucks looks for investor of the country of interest while opening a new retail store in a country. The native investor will need an amount of money that is sufficient enough to open at least one retail store, and that retail store is considered a franchise until it reaches a certain profitability level. The store is bought from the investor at a price over his investment costs only after the franchise starts gaining expected profitability margins.. There is no possibility for the investor to keep the retail store as his franchise for this is prohibited by Starbucks Corporation. The result of opening a franchise is a great success (great profitability, franchise buyout) or complete failure (little or no profit, close stores) for the investor

and the corporation. The corporation usually waits two or more years for sufficient profitability before it decides future courses of action.

Any new retail store will have to support the activity, which is selling the concept of a “The Third Place” for customers to enjoy the Starbucks experience with emphasis on quality products, great customer service and good music. In the first years, the new store’s primary activities are three: Productions, Marketing and Sales, and Support service under the direction of a country head that is hired by the World Headquarters (Seattle), and trained for one year in Seattle, Washington, USA. The new store will therefore have an administrative or support entity and a coffeehouse entity. This strategy ensures Starbucks Corporation is in touch with all operations in all retail stores of a certain country and can easily monitor market penetration, from installation to development. In addition to simplifying monitoring, a functional structure will also ensure that roles and responsibilities of each actor are clear: From the president who monitors the overall picture and adherence to Starbucks Corporation, to the manager who monitors the standards of day-to-day coffeehouse management, and to the salesperson who understands that his main focus is customer satisfaction and high standards of service.

Starbucks Corporation uses continuous cross-functional interaction. A Starbucks operations manager collects feedback from marketing department to determine how much capacity should be planned for a new store and the operations manager works with finance regarding the timing and funding of the new store. In identifying the operational capabilities needed for the

future, operations managers work with the managers of other functional areas.

The description of corporate strategy and operations strategy of Starbucks clearly explains us that the operations strategy is absolutely coherent to its corporate strategy. The operations strategy is designed in such a way so that it can achieve a relaxing environment for both customers and staff members, provide quality service to customers and maintain profitability (which is components of Starbucks corporate strategy).

Process Type

Process type of Starbucks is one of a Front Office type where customer contact is high and the service provider directly interacts with internal or external customer. Because of the customization of the service and variety of service options

The process type of Starbucks is of a front office type where the process has high customer contact and the service provider interacts directly with the internal or external customers. Because of the customization of the service and variety of service options, the process is more complex and many of the steps in it have considerable divergence. Work flows are flexible, and they vary from customer to customer. More freedom is allowed or inherent in the steps and sequence of the process. The work involves many exceptions to the usual work pattern. Not only does the process include more steps, but employees find the more difficult to understand, There is more service variety and services are customized. The high-contact service process tends to be adapted or tailored to each customer. The process of Starbucks reflects <https://assignbuster.com/case-study-starbucks-real-estate-marketing-essay/>

its competitive priority which is superior customer relationship. The process pays dividends because of a very well trained workforce.

Layout Design

Starbucks looks to providing an authentic coffee experience that conveyed the artistry of espresso making, a place to think and imagine, a spot where people could gather and talk over a great cup of coffee, a comforting refuge that provided a sense of community, a place that welcomed people and rewarded them for coming, and a layout that could accommodate both fast service and quiet moments . Starbucks has four store layout designs- one for each of the four stages of coffee making : growing, roasting, brewing, and aroma- each with its own color combinations, lighting schemes, and component materials. Within each of the four basic layout templates, Starbucks could vary the materials and details to adapt to different store sizes and settings (downtown buildings, college campuses, neighborhood shopping areas). The company also has two ministore layouts using the same styles and finishes: The breve bar, a store-within-a store for supermarkets or office building lobbies, and the droppio, a self-contained 8-square-foot space that could be moved from spot to spot. Management of Starbucks believes such layout design enables lower store opening and operating costs, find sales locations Starbucks could otherwise not consider.

Facility Design

Starbucks looks upon each store as a billboard for the company and as a contributor to building the company's image and brand. Each detail was scrutinized to enhance the mood and ambience of the store, to make sure

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everything signaled “ best of class” and that it reflected the personality of the community and the neighborhood. The thesis is “ Everything matters”. The company goes to great lengths to make sure the store fixtures, the merchandise displays, the colors, the artwork, the banners, the music, and the aromas all blended to create a consistent, inviting, stimulating environment that evoked the romance of coffee, that signaled the company’s passion for coffee, and that rewarded customers with ceremony, stories, and surprise. Starbuck was recognized for its sensitivity to neighborhood conservation with the Scenic America’s award for excellent design and “ sensitive reuse of spaces within cities”

To try to keep the coffee aromas in the stores pure, Starbucks banned smoking and asked employees to refrain from wearing perfumes or colognes. Prepared foods were kept covered so customers would smell coffee only. Colorful banners and posters were used to keep the look of Starbucks stores fresh and in keeping with seasons and holidays. Company designers came up with artwork for commuter mugs and T-shirts in different cities that was in keeping with each city’s personality (peach-shaped coffee mugs for Atlanta, pictures of Paul Revere for Boston and the Statue of Liberty for New York).

Capacity

Capacity refers to an upper limit or ceiling on the load that operating units can handle. The operating unit might be a plant, department, machine, retail store, or worker. Capacity decisions are among the most fundamental of all the operations decisions that managers must take. Capacity decisions are critical for Starbucks because capacity decisions have a real impact on the

ability of the organization to meet future demands for services, capacity decisions affect operating costs (which is one of the aim of Starbucks), capacity decisions are usually major determinant of initial costs of opening a new retail store, capacity decisions often evolve long-term commitment of resources, capacity decisions are determinant of competitiveness.

Starbucks capacity planning decisions involve both long-term and short-term considerations. Long-term considerations relate to overall level of capacity, such as store capacity; short-term considerations relate to probable variations in capacity requirements created by such things as seasonal, random, and irregular fluctuations in demand.

Starbucks provides the service itself leaving the options of outsourcing behind. The decision to provide the service on its own is basically because of the expertise, quality considerations, the nature of demand, cost associated, and the risk involve with outsourcing.

In deciding capacity Starbucks faces challenge because of the factors: 1. the need to be near customers, 2. the inability to store services, and the 3. the degree of volatility of demand.

Convenience for customers is an important aspect of Starbucks service. Generally, a Starbucks store is near the customers. Starbucks realizes that capacity and locations are closely tied.

Capacity is also matched with the timing of demand. Unlike goods, services cannot be produced in one period and stored for use in later period. Thus,

speed of delivery, or customer waiting time, becomes a major concern in capacity planning.

Demand volatility presents problems for capacity planners. Demand volatility tends to be higher for services than for goods, not only in timing of demand, but also in the amount of time required to service individual customers.

Logistics

Logistics refers to the movement of materials and information in a supply chain. Materials include all of the physical items used in a production process. In addition to raw materials and work in process, there are support items as fuels, equipment, parts, tools, lubricants, office supplies, and more. Logistics includes movement within a facility, overseeing incoming and outgoing shipments of goods and materials, and information flow throughout the supply chain.

Starbucks has smooth movements within the store or the facility. The use of sophisticated software in handling the movement of information flow is done in Starbucks. The process is done in such a way so that the maximal or the optimal use of logistics is maintained.

Supply Chain Management

A supply chain is the sequence of organizations- their facilities, functions, and activities- that are involved in producing and delivering a product or service. The sequence begins with basic suppliers of raw materials and extends all the way to the final customer. Facilities include warehouses, factories, processing centers, distribution centers, retail outlets and offices.

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Functions and activities include forecasting, purchasing, inventory management, quality assurance; scheduling, production, distribution, delivery, and customer service. There are two kinds of movement in these systems: the physical movement of material, generally in the direction of the end of the chain (although not all material starts at the beginning of the chain), and exchange of information, which moves in both directions along the chain.

Starbucks has the depth in its supply chain by securing its future growth by in a way that its suppliers ensured a sustainable supply of high-quality coffee beans. Starbucks felt that the banal objectives in supply chain management – cost, speed, quality, flexibility – would be not enough to secure the ever continuing supply of beans from the small-to-medium-sized family-owned farms in Latin America, the Pacific Rim and East Africa.

Starbucks switched its focus to sustainability. Starbucks built a partnership with Conservation International, an environmental not-for-profit organization, to develop CAFE (Coffee and Farmer Equity) Practices. CAFE Practices is based on the notion that a sustainable supply of high-quality coffee beans depends on a stable source of coffee farmers who are not exploited by their trading partners, have lands that are farmed with environmentally sound methods and who live in healthy, secure environments. Starbucks also offers reasonable credit through different loan funds programs and incentives aimed at motivating the spark of innovation.

The indirect benefits Starbucks grabbed included a better supply capability, greater visibility in the supply chain, better relationships with farmers,

accelerate marketing ability. As a result of all these efforts justifies Starbucks premium prices. This sort of advantage in SCM of Starbucks helped build reputation as a socially responsible company with higher morale. The cost was a short-term reduction in profit.

Starbucks uses Commerce Guard who tracks freight containers as they move through port infrastructure and intermodal rail and road connectors. Shippers and appropriate government agencies then access the information from a secure Internet portal on any personal computer and use the tracking information to secure and smoothing the supply chain.

With all these efforts done on the Supply Chain Management of Starbucks, the gain is high which are: improved operations, lowered transportation costs, beating competitive pressures, facing the challenge of globalization, supreme management of inventory.

Process Design

A key question in process design is whether to automate. Automation is machinery that has sensing and control devices that enable it to operate automatically. If a company decides to automate its process, the next question is how much. Automation can range from factories that are completely automated to a single automated operation.

As automated services are becoming increasingly important, Starbucks realizes the use of automation when it comes to volume purchase by customers. The service availability may also be checked using automation. The warehousing and its safety and the different parts of Supply Chain

Management are done using automated process which is a key feature of Starbucks process design.

Quality and Performance

Quality refers to the ability of a product or service to consistently meet or exceed customer expectation.

Main strategy of Starbucks in maintaining quality and performance is a simple philosophy of strict adherence to high quality of products and services. Therefore company doesn't use franchising. It has total control over products' quality not to fail customer's expectation and avoid careless business operation of franchise buyers, who rarely can disconsider brand and hinder consumers from having Starbucks experience.

Starbucks is very open in receiving feedback from the customers about the quality and performance of Starbucks and make changes or adjustments accordingly. Not only that, Starbucks rewards its valued customers in making any faults clear.

Starbucks has established itself as the TQM benchmark for integration and standardization of service not only within its own coffee/cafe industry but across other industries because of its expansion into music and retail products.

TQM at Starbucks is paying dividends in the sense that it is leading to continuous improvement, competitive benchmarking, employee empowerment, team approach in handling work, taking decisions based on

facts rather than opinions, ensuring supplier quality, maintaining quality at the source.

Starbucks Operations adding value

Starbucks has a wonderful value chain which is described here:

Inbound Logistics: Starbucks looks for the best possible coffee beans to produce supreme quality of coffee. Special operations are set up to single out special beans and guarantees are provided to buy the entire stock.

Operations: Starbucks has special mechanism like coffee roasted in a powerful gas-fired drum roaster for 12-15 minutes while roasters use their senses, experience and computers to judge when the beans are perfectly done. The color of the beans is even tested in an Agtron blood cell analyzer. If the sample doesn't meet standards, the entire lot is omitted.

Marketing and Sales: Starbucks is not relying on marketing on Mass Media like Television, Radio, and Newspapers. The company has gained its popularity through its highly attractive ambience, atmosphere, and word of mouth. They have also developed some unique marketing strategies to new markets, such as its passport promotion (where a customer receives a buyer bonus stamp when they buy a half-pound of coffee and after they collect ten they receive a free half-pound)

Service: Starbucks helps its current customers by educating them to take decisions about beans, grind, espresso/coffee, and some home brewing tips.

Technology: The website of Starbucks enables customers to buy and view through its specialty items and coffee. Customers may also get in touch with products; look up current financial ratios, current Starbucks store locations, and to some of the sites most frequently answered questions.

Human Resource Management: All Starbucks employees require a mandatory 24 hours training (where they are taught to brew the perfect cup). Starbucks also offers its employees benefits packages, with special coverage available as well as stock options. The Starbucks stock plan has been a factor of low employee turnover.

Administration: The firm is organized as a matrix between functional and product divisions. Starbucks has avoided a hierarchical structure and therefore has no formal organizational chart.

OM improvement

The waiting line management should be better at Starbucks retail stores as this could be a significant negative regarding the speed of delivery time and hence resulting in customer dissatisfaction.

The use of water at the stores should be done carefully so that environmentalists cannot take on the issue. Currently, Every single Starbucks store has a cold tap behind the counter for a sink called a 'dipper well' which is used for washing spoons and utensils, and staff are banned from turning the water off under the misguided notion that leaving the tap on stops germs from breeding in the taps. This practice should be stopped.