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Part 1- Starbucks Business Report

Introduction

This research report is based on Starbucks *case 25 Starbucks 2015* and independent research carried out online for a period pertaining to 2017-2019. Therefore, facts and data presented in the report will be time bounded.

Starbucks, a world leading specialty coffee retail has been working since 1971 when three young entrepreneurs decided to invest into coffee business. The company was not always a star in the industry however, experienced slow but consistent growth with a rate of 26% annually under the leadership of Howard Schultz.

He joined Starbucks as Manager of retail sales and marketing, commitment to his job helped him to visualize growth perspective of the business. Despite of unwillingness of Starbucks founders he initiated and executed new business plan which had supported wide range of offerings than coffee and liked by Italian consumers. When the café idea was replicated in US and Canada market it got success bought by Starbucks founders for $4 million.

As a CEO, Schultz envisioned the long term growth and global presence of Starbucks on the basis on supreme quality coffee beans, renowned brand name and high employee productivity and customer service. Schultz believed in maintaining integrity and strong foundations of operations therefore opt for organic growth as significant number (10,700 stores > 50%) of stores are owned and operated by the company. It also follows license strategy to maintain presence in different locations of the world and a source of inorganic growth of the company.

The business scope of Starbucks can be understood with its operations covering 21,000 stores, coffee roasting facility and wholesale business of selling coffee to local restaurants. Starbucks has a presence in 60 countries with a workforce of more than 200, 000 individuals. Starbucks ranks in the list of 500 fortunes for 17 years. It explains that company is effective in maintaining its sustainable competitive advantage and superior profitability.

However, Starbucks faces aggressive and fierce competition in domestic and international markets from local as well as global businesses. If the list of Starbucks competitors are drafted Caribou

Coffee, Peet’s Coffee and Tea are domestic competitors. Whereas, McDonalds and Dunkin Donuts are giving intense challenge to Starbucks business by targeting company’s coffee markets with their global franchise (Hawley, 2019).

Starbucks return on investments is highest in the specialty coffee business segments. Therefore, it possesses a strong competitive position in home markets due to strategic orientation. When it comes to expansion in terms of greater number of stores Starbucks is concerned over licensees and don’t provide easy license. Moreover, the company is particular about the location of its store. Company is successfully maintaining the quality of its offerings for a longer period of time The product it serves and customer service is consistently premium, creating greater value for customers which allowing it charging high – end prices for its cup of Joe.

The report will incisively discuss Starbucks case by analyzing external and internal environment of the company and will provide meaningful insights and recommendations for new growth perspective.

External Environment Analysis

This analysis helps in determining potential opportunities and risks presented by uncontrollable environment to the businesses operating in the industry of specialty coffee retail. Coffee industry can be categorized as fragmented where large number of companies serving the market (Geereddy, n).

It explains that apart from branded stores following licensing strategy and global franchise coffee providers generated 50 percent of the total revenue of specialty coffee industry. Half of the total revenues are generating by the local or small store. It is an opportunity for business growth and penetration (Guttmann, 2019). Such type of industries could offer high rate of returns if the structure and business model of the companies are consistent.

Following analysis will particularly guides about the potential risks and opportunities.

Porter's Five Forces

The model explains the industry – wide forces determining the attractiveness of industry in terms of profitability. In this model powers are assigned to each force high, medium or low and strategists evaluate which force could present favorable and unfavorable situation for the companies in an industry.

Bargaining Power of Buyers

In specialty coffee industry buyers exert high power as only 37 percent of coffee consumed is pertaining to specialty coffee (Sakal, 2018). Buyers have innumerable choices due to availability of substitute products. Moreover, companies need to incur huge cost in quality control and quality assurance to retain the customer base by providing consistent taste, meeting customers' expectation as well as educating customers. This contributed to high cost in maintain required quality. Therefore, businesses serving the segment required to be customer – oriented in order to win their loyalty and sustainable returns.

Bargaining Power of Suppliers

High power of suppliers can be experienced in the industry because for specialty coffee business premium coffee beans are required. Companies' conscious about quality cannot compromise on poor – quality beans suppliers consequently bid high prices in order to win for best quality crops over competitors (Hawley, 2019). It demands companies to involve in production process and active investments in manufacturing sites. Suppliers providing the quality required by the company empowers them to demand high prices. As these suppliers are contributing great value to business and response to grab superior returns.

Threat of Substitute

Threat of substitute is high as innumerable offerings and industries are gaining share in specialty coffee business industry. Specialty coffee is categorized as non – alcoholic beverages but alcoholic beverages are also a substitute to coffee. Moreover, McDonalds, a strong player of specialized fast food business, is actively competing with coffee industry. Businesses in related and unrelated industries could give threats to coffee industry because markets are shared by such industries and can be considered as substitution threat.

Threat of New Entrants

In fragmented industries threat of new entrants are always high. Demand of customers are diverse and can be segmented in number of ways consequently it allows new investors to enter in distinct segment and serve the unmet needs.

Industry Rivalry

By combining the forces of bargaining power of buyers, suppliers, substitute and threat of new entrant become industry rivalry. For specialty coffee industry, these forces are analyzed as high therefore contributing towards intense competition allowing companies serving the industry to earn razor thin margins. However, strategic management theory suggests that companies with their strategic orientation can earn superior profitability irrespective of the average industry returns.

This could be possible with the business – level strategies of the company. It is also called as core strategy. Starbucks, particularly serving the high – end markets and charging premium prices. The perception of value Starbucks coffee creates for customers allow them to charge above average industry prices and despite of low or medium rate of returns on investment Starbucks is earning more than 20 percent returns on assets and more than $16 billion revenues annually. Internal analysis Starbucks will shed more light on core strategy and competencies.

Industry Life Cycle Position

Every industry shares sequential life cycle stage. It is critical to analyze and evaluate the stage of the industry because for each stage companies experience different demand patterns and needs of market. It also requires specific course of action and strategy reevaluation. For example, at embryonic stage demand of a product have not established completely may be due to the reason of customers' unawareness and unavailability of infrastructure. Therefore, companies design products and services with the anticipation of demand growth and characteristics of potential markets (Lombardo, 2019).

Starbucks, however, attained maturity in an industry life cycle stage. Top management observes saturation in domestic markets and slower growth rate. This stage provides opportunity for expansion in domestic markets by expanding product lines and deeper segmentations. It also encourages entering into new internationals market by leveraging the brand and company's competencies.

PESTEL

Once a company decides to enter into new markets it must analyze the forces that could potentially affect the decision. These forces possess significant importance because it is uncontrollable by the control. It can be anticipated with thorough analysis of the environment. Further, for different markets these forces act differently. For example, legal dimension possesses critical importance for a pharmaceutical industry as companies in pharmaceutical industry are generally licensed producers and non – compliance to regulatory and statutory requirements may cancel their license (Starbucks Corporation, n.). Whereas, software industry is greatly influenced by technological dimensions.

Following analysis covers forces that could potentially affect the profitability and growth of specialty coffee retail industry.

Political/Legal

Legal and political dimensions of industry include any factor that is controlled by the government and legislatives. Coffee industry requires coffee beans to produce offerings and commodity to trade. If the government prevents the import of coffee beans due to disputed relations with countries mining high quality coffee beans could affect business adversely (Starbucks Corporation , 2017). Moreover, Starbucks foreign operations have experienced legal pressures for minimum wage and benefits to employees elevating the cost of business.

Economical

It includes interest rates, rate of foreign currency, rate of employment and inflation rates. When companies decided to tap into new markets these factors are required to be analyzed in order to evaluate the demand of the product. For example, Starbucks is charging premium prices for a cup of coffee. The cost structure of the company and value created justify the premium prices strategy. However, markets with low purchasing power will not offer high demands.

Social

Taste and preferences of population is termed as social dimensions. It is very critical dimension because businesses fail to respond to local markets due to insufficient market research about their taste and preferences. Moreover, different demographics and psychographics characteristics of societies offers different risks and opportunities for the same business.

Technological

Technological dimension has become increasingly important for the industries to consider because technology has changed the way the businesses used to operate in past. Now in industries if core activities are not related with innovative offerings management systems are widely utilizing to streamline operations and sleeking down the cost structures.

Management concern to establish effective controls can be maintained by management system. Moreover, it has also transformed the way information is processed. Company by integrating customers' data bases with analytical systems could develop new product lines and desirable offerings.

Environmental

It includes natural calamities and unforeseen conditions faced by the industry. Coffee industry based on high quality coffee therefore, tropical regions and mountainous locations with suitable conditions for coffee productions are necessary to maintain (Harnrungchalotorn & Phayonlerd, n.).

Internal Environment Analysis

This section of the report focuses in Starbucks' sources of competitive advantage using VIRO frame and identifying resources and capacities, distinctive competencies and strategic orientation. It also discusses the strengths and weaknesses Starbucks possesses in relation to its competitors.

VIRO Framework

Classic theories of strategic management suggest positioning perspectives and resource – based view in order to appropriately recognizes the strengths of internal environment demonstrated by a company. VIRO model integrates both theories in order to recognize how a company is creating value and the characteristics of such value whether it is rare, imitable by the competitor. It also focuses on the structure and implementation mechanism followed by the company. This model helps in identifying the length of competitive advantage created by the company. Let's discuss each pillar of VIRO with respect to Starbucks.

Value

Starbucks is creating superior value for its customers. The sources of value are two firstly, the high quality coffee beans translated into an experience for the customer. Secondly, customer service provided by the workforce. Leaders of Starbucks is convinced on the idea of long – term value creation through consistent offerings rather than short – term profits on a single transaction. Starbucks as adopted high quality approach to make its business customer driven and focused. Moreover, employees' productivity is given top priority as their services translates into higher customer satisfaction (Sakal, 2018).

Rarity

This principle offers companies to ask a simple question whether the resource and competence possesses by the company is shared by small number of competing firm. Starbucks is exceptional in providing benefits and training to employees. Starbucks provides unilateral benefits and compensation plans to full and part – time employees (Starbucks Corporation, 2018).

Other players of industry are astonished to observe the practices of company benefiting part – time employees. However, Starbucks does this due to the philosophy that part – time employees are customer facing unit. For the greater satisfaction and repeat purchase it is essential to treat customers well every time through positive and financially secured workforce (Tikson & Hamid, 2018).

Imitability

This component requires a company to answer that the competencies possesses by the key performer company in the industry requires exceptional resources to develop the same competencies. If the answer is yes than companies competencies are hard to imitate and allows company to attain sustainable competitive advantage. Starbucks in order to wining the bids from European competitors started procuring Columbian crops. It allowed Starbucks to get access to the Narino Supermo Bean Crop. Access to such high quality required company to invest significant resources in order to maintain consistent quality. Starbucks practiced rigorous measures for quality and even discarded batches if quality is compromised.

Organization

This component can be called as a sum of high value, rarity and inimitability. Organization component of VIRO framework represents the policies and culture consistent to develop competencies supporting superior value, rare resources and inimitable competencies. Continuous training programs at every level of Starbucks allow workforce to create high quality services as per customer expectations. Moreover, benefits and compensation plan develop high citizenship from employees. They started owing decisions made at the top level. It also affected employee productivity as well as low employee turnover at Starbucks.

Value chain Analysis

It is another tool to evaluate the value creation processes surrounded by the operations of the organization. It includes primary and secondary value chain. Primary value chain represent the core activities related to the business of the company. Secondary value chain however represents supporting activities.

The analysis of value creation is important because it links with three main concepts of strategic management theory value, price and cost. Value is something that customers perceived is created by the company. Prices are the financial benefits that would flow from customers to company and cost are the expenses company has incurred in order to develop desirable offerings as per customers' expectations. This discussion will further connect in the next section suggesting recommendations for Starbucks.

Primary Value Chain

Procurement and customer service are the primary functions for Starbuck creating highest value for the company in terms of market share, profitability and strong brand image and reputation. Being a specialty coffee retailer Starbucks facilitate in – house consumption. Consumers are bound to make instant or impulse decision to buy. Procurement function does not only allow consistent taste and quality but the aroma enticing passersby to visit a grab a cup of Joe. Moreover, location strategy supplement the performance of procurement. Busy and crowded location is what Starbucks look for to entice maximum number of customer. This is the reason Starbucks experience demand growth of 26 percent annually. Moreover, customer services play key role in customer satisfaction. They are trained to deal with maximum number of customers in a shortest period of time.

Secondary Value Chain

Starbucks is creating value through other functions as well. It is supporting the primary operations. Human resource is very active in Starbucks. It is a preferable employers and employees are valued for their services and avail stock options. Moreover, company is spending only 2 percent of the sale on advertisement which is lesser than competitors. Marketing strategies of Starbucks are less aggressive than McDonalds. Starbucks primarily focus on quality and employees productivity.

Strengths

Strengths represent favorable internal competencies and processes that may help company to achieve its short term as well as long term goals. Presence in 60 countries, more than 200, 000 employees, around 30,000 stores, access to premium quality Columbian beans, motivated and trained workforce and global brand image are the key strengths that favors Starbucks in grabbing new opportunities and serving new markets (Pratap, 2019).

Weaknesses

Weaknesses are the unfavorable processes and lack of skills which may prevent company from grabbing potential opportunities and could be influenced by the risks provided by the external environment. The cost – structure of the company is not efficient is requires significant commitment of resources to operate the activities of the company and it may prevent Starbucks to expand at the slower rate in international markets (Lombardo, 2019).

Resources

These are the tangible and visible part of distinctive competencies. Purpose built facility for roasting coffee beans and key personnel of Starbucks can be categorized as valuable resources.

Capacities

These are the intangible part of distinctive competencies. Leveraging brand name, managing internal operations effectively and strategic orientations and leadership are the capacities that gives Starbucks distinctive competencies that other competitors in the coffee industry lacks.

Distinctive Competencies

Starbucks since its inception focused on markets to be served and products to be produced. Their procurement and customer service function are also consistent to support the business level focus differentiation strategy pursuing by the company. Starbucks unlike its global competitors McDonalds and Dunkin Donuts is fanatical in its business orientation.

However, focus of the company is becoming divergent and top managers are taking interest in activities that are entirely inconsistent with the core activities. For example, Schultz showed his interest to hire retired veterans and their spouses as employees of Starbucks. Moreover, increasing concern over social issue relating to gay marriages are that is not strategic and bear little importance to the growth of company.

Starbucks' Competitive Environment

It could be the scope of operations that Starbucks could enhance on the basis of its current competencies and resources. Starbucks is reluctant to initiate franchise system for global expansion. It keeps on retaining the same culture and centralized controlled. This strategy prevented Starbucks to grow in foreign markets irrespective of aggressive investments and rapid expansion. Starbucks was outperformed by Gloria Jeans in Australia. It unable to meet local customer responsiveness. Despite of high potential markets and existing demand Starbucks ended operation with divesture and closure of hundreds of stores due to inability to gain market share unlike Gloria Jeans.

Recommendations

This section is going to present three recommendations to Kevin R. Johnson for the better performance of Starbucks for the next three years. All three recommendations will be focused on increasing market share and international expansion.

1. Internal analysis showed that Starbucks is strategically committed to quality. However, other sources of competitive advantage like responsiveness to customers and efficiency are the least priorities areas for Starbucks. It is recommended to conduct research on markets with the objective to analyze why Starbucks have failed in Australia? On the basis of findings, retrain the work force and reorganize the structure in which Starbucks had been performing in Australian markets. This could be done by analyzing customers purchase patterns at Starbucks by evaluating customers' data bases. Comparative analysis with Gloria Jean's strategies could be helpful for the company to have access to the meaning insights offered by the global competition in foreign markets. Moreover, Starbucks is recommended to enhance customer responsiveness in order to improve market share as 50% coffee industry revenues are generated by non – specialty coffee retailers in domestic markets of Starbucks. It explains that this weaknesses is preventing company to expand market share in domestic as well as international markets.
2. High cost – structure due to focus differentiation and company owned stores Starbucks is also preventing its international expansion. If Starbucks opts for franchising system it may help to prevent many of the weaknesses. Firstly, it will help company to incur low cost in setting up new stores in foreign markets. Moreover, it will help Starbucks to meet local responsiveness. As McCafe, a coffee segment initiated by McDonalds was the idea of one of its franchisees. Starbucks may also find new segments to compete through franchising system. Secondly, it will allow company to gain economies of scale in beans procurement and lessen down bargaining power of suppliers. Thirdly, franchising system will also help in leveraging employees' productivity developed through consistent trainings. Last but not the least, company can earn royalty on the brand name. Therefore, Starbucks is recommended to consider franchise entry mode in international markets as if it offers many benefits to Starbucks.
3. Starbucks is recommended to initiate promotion programs for customers as aggressively it is does for its employees. In order to enhance market share Starbucks needs to incentivize

customers more frequently to undertake a transaction. Starbucks can take assistance of digital platform in order to grant vouchers and discount coupon. As the quality of Starbuck is so powerful that is creates an experience for user. It is highly likely that this promotion can bring results for Starbucks in the form of increased market share and repeat purchase. This promotional activity can also be leveraged by the company in creating improved customer awareness regarding the quality beans.

Part 2-Starbuck's Stakeholders Report

Priority Stakeholder Group

This part of the report has a crucial importance as it discusses and analyzes stakeholders of Starbucks. This report will assist CEO to make appropriate decision by understanding potential consequences of their decisions on relevant stakeholders of Starbucks. (Appendix 1 attached)

Stakeholders can be defined as individuals and entities that influence and can be influenced by the operations of the company.

Each stakeholder carries some interest and power in organization they belong to. It is suggested that companies should evaluate their stakeholders on the basis of their interest in the company and power they exert on the decision – making process. This evaluation will conclude that not every stakeholder is equally important. Therefore, companies are recommended to allocate resources proportionate or appropriately justified by the importance of each stakeholders. Moreover, communication strategy with all stakeholders are not the same. In order to execute effective communication company is recommended to analyze the position of stakeholder to be communicated.

By analyzing business level strategy of Starbuck, incisive external and internal analysis Employees are the priority stakeholders group for the company. They share deeper interest in the company by virtue of ownership and citizenship in Starbucks. Customer service function is the primary value creating activity for the company allowing them to charge above average justifying employees making priority. Moreover, Leaders orientation of Starbucks gave hindsight that employees are the source of generating long term value so invest in them through lucrative compensation plans, training and development and support business growth and expansion.

Mendelow's Matrix

Mendelow develops a matrix by plotting two dimensions power and interest on graph with the scale of high and low and recognizes four stakeholder blocks. A block representing high power high interest are *key players* according to Mendelow. For Starbucks customers, employee and suppliers groups are key players and company should invest maximum resources to make them feel delighted.

A block representing high power but low interest are required to keep satisfied by fulfilling their needs. Generally, governments and regulators qualify for this criteria. Starbucks is suggested to pay taxes and keep their operation lawful and operate ethically. Pressure groups can be categorized as high power low interest group of stakeholder for Starbucks.

A block representing high interest and low power are required to keep informed licensees and developmental trainers are can be categorized in this group. Starbucks is recommended to provide sufficient information as it would help company to leverage their brand name and employee productivity. Last block of Mendelow's matrix represents low power and low interest group and the company is recommended to invest nominal resources on them.

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Appendices

Appendix A – Starbucks' internal and external Stakeholders with justification

Stakeholder Group	Internal or External	Justification to including them on your list
Stockholder	Internal	They invest financial resources and concern about profitability of company.
Employees	Internal	Employee productivity directly affects customers' satisfaction and business of company. Starbucks employees are stockholder as well and share deeper interest in company.
Customers	External	Starbucks excessively focuses on the markets it serves consequently customers possess greater importance. Revenue generating unit for Starbucks.
Suppliers	External	For a specialty coffee retailer suppliers are key stakeholder as creating primary value with high quality beans.
Licensees	External	They are leveraging Starbucks operations globally and important for international expansion.
Development Trainers	External	Starbucks focuses on employee development for building new competencies

		and sustaining old ones. Therefore, trainers responsible for employee development are essential.
Pressure Group	External	They possess power to influence Starbucks' outflow of resources to ensure political and social interest.

Appendix B- Starbucks Facts

Company Info

CEO	Kevin R. Johnson
CEO Title	President, Chief Executive Officer & Director
Sector	Hotels, Restaurants & Leisure
Industry	Food Services
HQ Location	Seattle, Wash.
Website	http://www.starbucks.com
Years on Fortune 500 List	17
Employees	291,000

Figures are for fiscal year ended Sept. 30, 2018.