TO: Brian Niccol, CEO of Starbucks

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SUBJECT: Analysis of the Internal Environment of Starbucks and its Competitive Advantage

# Introduction

This is an analysis of the internal environment of Starbucks, including the activities in its value chain, its resources and capabilities and how they provide competitive advantage, also explaining how this competitive advantage is sustained with barriers to imitation.

# Value Chain

In the value chain of Starbucks there are key activities that are carried out in its operations to provide high quality coffee to its customers. These activities include both primary and support activities.

*Primary activities-*

* **Inbound Logistics:** This involves company-appointed coffee buyers sourcing high-quality Arabica coffee beans from producers around the world. This procurement is not outsourced to ensure high quality standards right from the point of selection. Starbucks claims 99% of its coffee is “ethically sourced”. In addition, multiple quality checks conducted before and during shipment to warehouses where they await roasting, packaging and distribution.
* **Production:** Starbucks practices custom roasting of beans. This involves blending of beans from different sources and in addition to trained roasters, Starbucks has encoded roasting recipes into the software of automated roasting machines. Starbucks takes several steps to prevent oxidation of roasted beans (which results in substantial loss of flavor): Rapid distribution, Vacuum-packed bags, Coffee ground (as needed) in stores.
* **Operations:** Starbucks was sold to Schultz and merged with Il Giornale, with a total of 11 stores in Seattle and Vancouver Starbucks began a rapid expansion of coffeehouses, and by 2018 had grown to over 29,324 stores globally either in the form of direct company-owned stores or licensed stores in over 65 countries. Starbucks developed different store layout styles to fit different types of available real estate. In addition to serving customers in its coffeehouses, Starbucks does a thriving business in consumer products sold through multiple channels, by leveraging its strong coffee brand. These include Verismo, K-cup, TAZO and Teavana. It has additionally innovated a number of unique and signature drinks (e.g. pumpkin spiced latte)
* **Outbound Logistics:** Starbucks has genuine interest in maintaining the quality and originality of its products. There is very little or no presence of intermediaries in the product selling and thus excludes outbound logistics. This also ensures that there is no interference in product quality and organizational structure.
* **Marketing and Sales:** The company invests more resources in increasing the value from its products so Starbucks focuses more on satisfying the customers with highest-quality outputs than aggressive marketing. Although, need-based marketing activities are carried out when it wants to launch a new product to the market.
* **Customer Service:** Starbucks aims at building customer loyalty through in-store customer service. Through service training, which is a key component of the value chain that helps to make its offerings unique, a substantial amount of value is created when baristas make drinks for customers. Starbucks seeks to create “customer intimacy” by encouraging employees to learn the names of customers, knowing their preferred drink, customizing drinks for them, etc.

*Support Activities-*

* **Infrastructure:** This infrastructure includes several departments like management, legal, etc., which keep the company stores clean, orderly and operational.
* **Procurement:** Starbucks handles its procurement process internally. From ordering coffee beans to the last stage of selling.
* **Technology Development:** Modern technology is one of the forces behind Starbucks’ success and progress. They leverage technology not only for coffee-related processes but to also connect with customers by giving access to free unlimited Wi-Fi. They use technology to ensure consistent taste and quality using advanced equipment to process the coffees. They also have a “reward program” that attracts customer engagement and feedback. Using Apples’s iBeacon system, customers can also order drinks before getting to the store.
* **Human Resource Management:** The committed and dedicated workforce of Starbucks also contributes to its success and to boost their morale, the company uses generous rewards and incentives generating a low annual employee turnover.

# Starbucks Resources and Capabilities

This describes the resources and capabilities of Starbucks that drive its competitive advantage in the industry.

# Resources

Resources describe both the tangible and intangible assets that contribute to the firms competitive advantage.

*Tangible Resources-*

* **Financial:** Starbucks has consistently high revenue and profitability, providing financial stability and resources for further investment in growth, innovation and sustainability. This enables them to open new stores, renovate existing ones, and enter new markets, contributing to the company’s physical presence and market share. This also allows them to allocate resources to research and development, supporting innovation in products, services and technology.
* **Physical:** Starbucks has over 29,324 stores globally either in the form of direct company-owned stores or licensed stores in over 65 countries. It has developed different store layout styles to fit different types of available real estate. It also has lands, warehouses and roasting plants used in the manufacturing process. For example, it has manufacturing stores in Rancho Cucamonga, warehouses and distribution stores in Washington D.C. etc. The company owns all its stores and does not franchise (except for its Seattle’s Best stores, and a few franchises in Europe. These stores are equipped with coffee machines they use to make their coffee, furniture and fixtures

*Intangible Resources-*

* **Technology:** Starbucks is very well known for use of technology for coffee related processes to ensure consistency in taste and quality along with cost savings. They also use technology to connect to their customers through provision of free Wi-Fi that allows customers to use their stores as a makeshift offices or meeting place. The company also launched a platform where customers can ask questions, give suggestions and openly express opinions and share experiences. These suggestions are sometimes implemented by the company. Starbucks also leveraged Apples iBeacon system to create a phone App that enables customers to order their drinks before getting to the store.
* **Relational:** Starbucks intangible assets also include their brand name and intellectual property rights, novelty and variety. The Starbucks brand which has been built and nurtured over the years is synonymous with quality coffee and a relaxing experience. It is recognizable and respected in the coffee industry.The company also has patents, trademarks and other intellectual property rights that protect the logo and other visual elements associated with the brand, unique technology or inventions such as specific brewing techniques and equipment designs, secret recipes or proprietary processes that give them competitive advantage. Starbucks has innovated a number of unique and signature drinks (e.g. pumpkin spiced latte) that keep customers interested. Customer loyalty has also been leveraged to build a loyal customer base that supports the brand.
* **Human Capital:** Starbucks has a dedicated and hardworking workforce that contributes greatly to its success. This workforce is sustained through several methods like corporate culture, training, leadership and organizational development. The company uses generous rewards and incentives generating a low annual employee turnover, they provide benefits like health insurance, retirement, stock options, free coffee and college education support. Starbucks calls all its employees, “partners”. They provide Barista training for their staff including managers to gain first-hand knowledge of store operations. Starbucks baristas are hourly waged and the frontline interface with customers, taking orders and making drinks. The barista-manager stability is further considered critical for smooth operations and customer service. Furthermore, they frequently promote individuals from within its ranks to store managers and beyond. Starbucks has a very low rate of barista turnover relative to other coffeehouses and is repeatedly featured as one of the best places to work. In addition to benefits and work conditions, employees also cite the company’s vision and values as positive aspects of their jobs.

**Capabilities**

* **Ability to expand globally:** Starbucks continuously expands into new markets around the world, including North America, Europe and Asia. They also enter complex markets using joint ventures and local partnerships.
* **Customer Service:** Using a combination of discounts and loyalty rewards, Starbucks is able to drive repeat sales. It also uses data analytics and artificial intelligence to improve customer experience.
* **Focus on quality:** Using a global quality assurance program, Starbucks ensures that its coffee beans are sustainably sourced and roasted efficiently. It also employs a business philosophy that extends from sourcing raw materials to sales and service.
* **Product development:** Due to high financial stability from revenues, Starbucks continuously develops new products including tea, food and merchandise.

# How they create competitive advantage

This explains how, using the activities, resources and capabilities listed above, Starbucks has been able to create a competitive advantage in the coffee industry using two criteria- the value criterion; providing superior value and the rarity criterion; difficult to replicate or imitate.

*Value criterion-*

* **Premium coffee quality and customization:** Starbucks offers high quality, ethically sourced coffee with extensive customization options, creating a personalized experience for customers.
* **Unique store experience:** Starbucks locations provide a welcoming environment with comfortable seating, free Wi-Fi and a relaxed ambience
* **Strong brand Identity:** The brand is associated with premium coffee, comfort and consistency across locations globally.
* **Sustainability and ethical sourcing:** The brand promotes fair trade practices and environmental sustainability, appealing to socially conscious consumers.
* **Technology and Digital strategy:** The Starbucks Rewards Program and mobile app offer personalized deals, mobile ordering, and digital payment, increasing convenience and customer retention.

*Rarity criterion*

* **Exclusive coffee sourcing and supply chain:** By directly sourcing coffee from select farms and nurturing long-term relationships with suppliers, Starbucks has been able to ensure control and consistency
* **Corporate culture and Barista training:** Starbucks invests in employee training, benefits and corporate culture leading to exceptional customer service and low employee turnover, which competitor struggle to match.
* **Brand strength and Customer loyalty:** Starbucks has cultivated a strong global brand with millions of loyal customers, making it difficult for competitors to replicate its market dominance.

# Sustaining Competitive Advantage

This explains how Starbucks is able to sustain this competitive advantage by eliminating threats to its rarity through barriers to imitation of their business activities or resources:

*Barriers to imitation*

* **Causal ambiguity (difficult to pinpoint factors):** Starbucks’ competitive advantage is based on a mix of brand equity, premium coffee, customer experience, supply chain control and digital innovation. The interplay between loyalty programs, store design, customer engagement and sustainability efforts make it unclear which factor drives the most value.
* **Social and Organizational Complexity (difficult to replicate factors**): Starbucks supply chain, ethical sourcing, store experience, corporate culture and digital ecosystem form a highly integrated business model that recreating in its entirety is nearly impossible.
* **Tacit knowledge (difficult to transfer expertise and skills):** Starbucks barista training, customer engagement techniques and store operations rely on years of learning of years and experience. Leadership and management within Starbucks also have industry-specific institutional knowledge that is difficult to transfer to competitors.
* **Property Rights:** Starbucks holds trademarks on its logo, branding and specialty drink names. They also patent coffee roasting techniques, packaging methods and brewing technology.
* **Resource Mobility Barriers:** Starbucks owns direct trade agreements with premium coffee farms ensuring consistent quality and supply. This makes it difficult for new competitors to access.