

STARBUCKS



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STARBUCKS

1 BACKGROUND

Starbucks is the frontrunner in coffee business in the world. Initially started as a single store by Zev Siegel, Jerry Baldwin and Gordon Bowker, it later evolved with the motto of providing the best possible coffee to the larger population. Taken aback by the business model of Starbucks, Howard Schultz joined the enterprise as the Director of Retail Operations and Marketing. Inspired by the ambiance of the espresso bars in Italy, he proposed changes to the infrastructure of the Starbucks stores. However, the founders did not approve his suggestions and hence he opened his own coffee shop “IlGiornale”. Later he acquired the Starbucks stores with his coffee shop and brought them under one roof “**Starbucks Corporation**”.

2 OVERVIEW

Founded	March 30, 1971
Operating Industry	Retail (Coffee shop)
Headquarters	Seattle, Washington
No of locations	23,132
Products	Coffee, Frappuccino, smoothies, pastries and tea.

2.1 MISSION STATEMENT

“To inspire and nurture the human spirit with one person, one cup and one neighborhood at a time”.

At Starbucks they believe that challenges are responsible for personal growth, which in turn promotes the growth of the organization. More importance is given to transparency in relationships with customers, suppliers and employees. The company strives to improve its performance through community building practices and giving more priority to corporate humanity.

2.2 VISION STATEMENT

“To establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining their uncompromising principles while they grow”.

Starbucks justified the premier purveyor tag by becoming the world’s best coffee provider.

2.3 STRATEGY & OBJECTIVES

Coffee – Starbucks primary objective is providing the best quality coffee. This involves procuring high quality beans which are diligently roasted thus resulting in the betterment of the people who supply them.

Partners – Work culture of Starbucks is more oriented towards treated fellow people with dignity and high respects thus encompassing diversity.

Customers – Human values are regarded with high standards.

Shareholders are honored with rewards and the firm remains accountable to them.

Starbucks Stores offer the customers an ambience to socialize forgetting their worries.

Neighborhood – Every store of Starbucks facilitates partnerships thus living up to the onus of being a friendly neighbor.

2.4 PRODUCTS

Coffee	<ul style="list-style-type: none"> • 30+ blends of coffees • Single origin premium Arabica coffees
Handcrafted Beverages	<ul style="list-style-type: none"> • Coffee & Non Coffee blended beverages • Hot & iced espresso beverages • Fresh brewed coffee • Tazo teas • Vivanno smoothies
Merchandise	<ul style="list-style-type: none"> • Coffee and tea brewing equipment • Music, books, gift items, packaged goods • Mugs & accessories
Fresh food	<ul style="list-style-type: none"> • Baked pastries • Sandwiches, salads, oatmeal • Yogurt parfaits and fruit cups

Tab 1.Products offered at Starbucks

2.5 OPERATING LOCATIONS

Starbucks has more than 11,000 stores operated by itself in US. Franchisees and Licensees operate close to 12,000 stores worldwide. As of 2015, Starbucks operates in 66 countries with its largest market in the United States. China has the largest market outside the United States.



Fig 1. Starbucks Operating locations

3 SUPPLY CHAIN DRIVERS

A summary of how Starbucks manages each of the six supply chain drivers of performance of the company.

Facilities

Roasting was viewed as an art at Starbucks until the early 1990s, when the company built its first modern roasting facility in Kent, WA. It has other manufacturing facilities in York, PA, Sandy Run, S.C., Carson Valley, NV, and Augusta, GA. The manufacturing facilities were designed to meet the standards of the LEED certification. In 2015, there were 23,043 Starbucks stores around the world, up from 21,366 the previous year.

Raw materials are shipped to one of the six roasting facilities in the U.S or to the European roasting facility in Amsterdam. Each facility ensures that beans are manufactured identically and packaged through a series of well-designed manufacturing processes.

In every Starbucks store, regardless of location, customers never have concerns about the quality of the product. This standardization of stores guarantees a reliable reputation for its products and strongly consolidates the long-term relationship with its customer. The idea behind Starbucks' stores layout is to recreate the Italian espresso bar experience. The facility manager conducts research and analyzes energy efficiency, equipment utilization and repair and maintenance trends.

Inventory

Starbucks uses P-system and EOQ system to manage inventory at the store level. This helps Starbucks reduce unnecessary waste and shrinkage within their inventory. The inventory tracking is done by computer programming that is attached to the point of sale registers and through the closed network online ordering with Bartlett Deliveries, the delivery company for stores. This program is called Inventory Management Systems (IMS).

Starbucks performs shipping and ordering in two ways. The first is for retail stores using the P-system. The order is placed every seven days with a three day lead time. Various pars are set for the different SKUs throughout the store. Over stock for the entire inventory is set at 15% to ensure enough inventory for retail customers. The second order is done on a daily basis using EOQ. This order has a two day lead time. The order is placed for all the materials, for example milk, espresso, and cups, that are needed to make drinks as well as the short life pastries. Starbucks has constant demand patterned with the days of the week. Only on rare occasions, the demand varies and it coincides with the seasonal changes and school breaks.

On the corporate level, roasting plants/warehouses at Starbucks use Q-system and P-system. Starbucks uses the Q-system for roasting their coffee and they set re-roasting point for their whole bean inventory. Because it takes on average 3 hours to roast a batch of Starbucks Coffee, they are able to keep up with the demand of the many varieties they sell. This ensures that they can meet the demand of the stores. The plants uses P-system for all other products like bottled beverages. These products are bottled for Starbucks by the Pepsi Bottling Corporation and shipped on a monthly basis to the plants.

Transportation

The company has streamlined logistics across six continents. Materials are housed in regional distribution centers which range from 200,000 to 300,000 square feet in size. Starbucks runs five distribution centers in the U.S. Two are company owned while the others are operated by third party logistics companies (3PLs). Offshore distribution centers, two in Europe and two in Asia, managed by the 3PLs.

Starbucks evaluates its supply chain efficiency with a simple scorecard system at the warehouse level and focuses on four high level categories across the global supply chain: Safety in operations, On-

time delivery and order fill rates, Total end-to-end supply chain costs and Enterprise savings. Starbucks developed a simplified system to assess a 3PL's performance. Vendors are assessed on scores of 0 or 1.

The company strives to reduce operating costs and improve execution. Starbucks is using Sensitech's RF technology to monitor third-party distribution of perishables to its stores. Sensitech monitors log the delivery time and temperature, the software and data hosting collects all the data, and daily compliance reports. Starbucks manages the material flows through Distribution resource Planning and Transportation requirement Planning.

Information

Starbucks mainly uses four information systems: Transaction Processing System, Supply Chain Management System, Decision Support System and Customer Relationship Management system.

Decision Support System is used to analyze business data. DSS is the auxiliary decision makers through the data, models and knowledge, human-computer interaction way for semi-structured or unstructured decision-making computer application system. Starbucks used Online Analytical Processing (OLAP) to do the large-scale data analysis and statistical analysis that as a references to manage for decision making. Starbucks uses a singular DSS system at the parent company in USA: "oracle". Oracle generates monthly reports on which important decisions are based. Only the parent company has the authority make decisions about products.

Transaction Processing System is an informational scheme for the storage, retrieval, alteration and collection of transactions made by an organization. Starbucks used IBM TPS system to punch in every order and store information such as Sales, Cost of Goods Sold and Wastage.

Supply Chain Management System is the reformation of business activities related to the supply side. Supply chain covers all activities from product development, to production to the information systems required to direct these actions. Two SCM systems are being used at different hierarchical levels: at Country level – ZEAL and at Parent company – High Jump.

Customer relationship Management is a term for methodologies, software, and usually Internet capabilities that help a company manage customer relationships in an organized way. Starbucks uses CRM in two ways: Social media and Starbucks Membership Card

Sourcing

The coffee division utilizes its "Preferred Supplier Program (PSP)" to evaluate suppliers who fit the company's criteria for quality coffee beans. Starbucks assess vendors PSP on a point scale. If a supplier earns 100 points on this scale, then that vendor will be addressed as "preferred supplier status". PSP entails three conditions for purchasing coffee beans: **quality criteria, quality varieties, and flavor characteristics.**

Quality criteria entails that all coffee purchased should meet Starbucks' quality standards. The company's purchasing managers travel to the countries where its suppliers are located to develop a strong relationship with its suppliers, ensuring quality control and maintaining high quality products. Quality varieties states that the company only purchases Arabica coffee. Lastly, flavor characteristics includes the idea that coffee flavor should reflect its origin country with a medium to heavy body.

Furthermore, Starbucks has collaborated with Conservation International (CI) to ensure quality sourcing of its products. Since the collaboration, the company has implemented the Coffee and Farmer Equity (C.A.F.E.) Practices, which focuses on four standards for purchasing coffee: **product quality, economic accountability, social responsibility, and environmental leadership.**

Starbucks uses their market power as a way to implement social change within its supply chain. The C.A.F.E Practices Program helped the company to ensure the sustainable supply of high quality coffee beans, which is an essential component of Starbucks.

Pricing

Starbucks employs value based pricing to maximize profits, and they use research and customer analysis to formulate targeted price increases that capture the greatest amount consumers are willing to pay without driving them off. Profit Maximization is the process by which a company determines the price and product output level that generates the most profit. Companies utilize value based pricing approach to effectively uncover the maximum amount a customer base is willing to spend on their products.

In Starbucks, price increases deter the most price sensitive customers and leave a loyal, higher-income customer that perceive the products as an affordable luxury. In order to compensate for the customers lost to cheaper alternatives like Dunkin Donuts, Starbucks raises prices to maximize profits from these price insensitive customers who now depend on their strong gourmet coffee. In addition, only certain regions are targeted for each price increase, and prices vary across the U.S. depending on the current markets in those areas.

They also apply price increases to specific drinks and sizes rather than the whole lot. By raising the price of the tall size brewed coffee exclusively, Starbucks is able to capture consumer surplus from the customers who find more value in upgrading to Grande after witnessing the price of a small drip with tax climb over the \$2 mark. By versioning the product in this way, the company enjoys a slightly higher margin from these customers who were persuaded by the price hike to purchase larger sizes. The price hike might be based on an analysis of the customer's willingness to pay, but they associate the increase with a fair reason.

4 STARBUCKS - Top Selling Products

Beverages are the top selling product for Starbucks as they contribute 75% of the total sales in terms of percentage. The rest 25% of the sales are shared by Fresh foods, Blended coffees and merchandise items sold in the retail stores. Their beverage products are fresh served food items, blended coffees and merchandise items like coffee mugs. The top drinks served by Starbucks are Brewed coffee, Latte, Vanilla Latte, mocha, white mocha, caramel Macchiato, caramel Frappuccino and mocha Frappuccino.

Products	Percentage %
Beverages	75%
Food	19%
Packaged and Single serve coffee	4%
Other merchandise	2%

Tab 2. Products Sales percentage of Starbucks

Among them Plain brewed coffee, Latte and Frappuccino are the best sold beverages for Starbucks. Despite these products, Tea and Macchiato also are sold in lower percentages among the beverages.

4.1 POPULAR BEVERAGES OF STARBUCKS

Starbucks' analysts looked at hundreds of millions of transactions at the chain's coffee shops across the US and it is found that the most popular drinks across the board were simple brewed coffee and lattes. It is found that different states prefer different drinks.

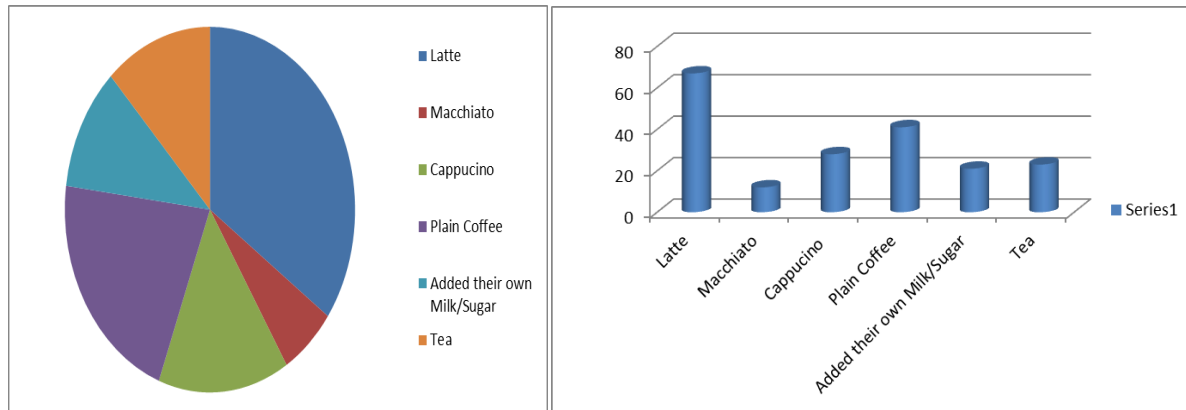


Fig 2. Beverage –wise Sales

Latte:

Latte turns out to be the most sold beverage of Starbucks. In 1984, Starbucks served our first handcrafted latte in Starbucks stores. It is a dark, rich espresso balanced with steamed milk served with the base of whatever flavors you choose to add. There are different types of latte served by Starbucks which are café Latte, Cinnamon dolce Latte, Flavored Latte, Iced café' Latte, Iced cinnamon dolce Latte, iced flavored Latte, Iced skinny flavored Latte and Vanilla Latte. All these products are grouped under the core product Latte, which turns out to be most sold beverage.

The most expensive Starbucks beverage recorded until 2014 was a Grande latte that cost \$83.75 and contained 99 extra shots of espresso and 17 pumps of vanilla syrup, mocha and Matcha powder.

4.2 INTENDED CUSTOMERS

From statistical analysis done by Starbucks, it's found that different states prefer different coffees, so the target market varies for various beverages provided. The country can be divided along the cold-hot axis; the only states that order more iced coffee than hot coffee are Florida, Texas, New Mexico, Arizona, Oklahoma, Hawaii and southern California.

San Francisco people have an unusual affinity for Starbucks' soy lattes. Los Angeles' people like Frappuccino more than anyone else—aside from people in San Antonio, Texas. And no city likes white chocolate mochas quite like Memphis does. Seattle people tend to order their coffee with extra shots of espresso.

Major cities like Seattle, Boston, Memphis, and Minneapolis like Dark Starbucks brew while New York, San Francisco, Portland, and Phoenix prefer medium Starbucks Brew and cities like Chicago, Philadelphia, Denver, Tampa, San Antonio, and Charlotte prefer light Brews.

In terms of sales 50% of target customer falls under the age category of 25 to 50 years. 40% of sales are done on young adult whose age varies from 18 to 24 years.

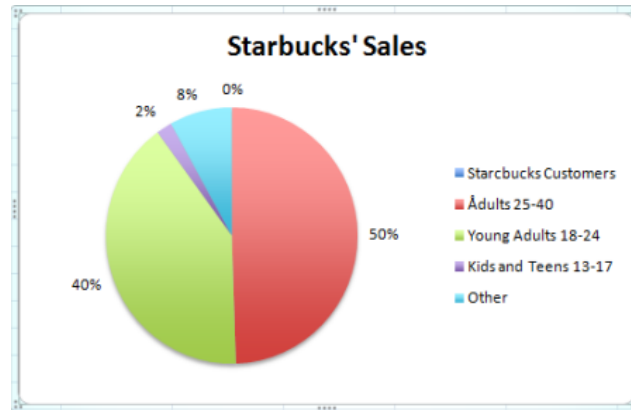


Fig 3. Age-wise Starbucks Sales Percentage

4.3 PRODUCT RELEASE

The first Starbucks was opened at 1970s in Seattle. The very first Starbucks opened on 30 March 1971, its sign bore not a green mermaid but a brown one. The second location of the original Starbucks, to which it moved in 1977 at Seattle's tourist-beloved Pike Place market. In 1984, Starbucks served its first handcrafted latte in Starbucks stores.

Starbucks' greatest period of expansion began in the early 1990s. Having already opened money-losing branches in the US-Midwest and British Columbia, it then moved profitably into California in 1991, making its initial public offering on the stock market the following year. Starbucks seemed unstoppable throughout that decade and most of the next, opening on average two new stores every day until 2007. Starbucks' opening in the already coffee-soaked Tokyo in 1996 marked its first step outside North America. But the increasingly globalized company's fortunes started to mirror those of the global economy, and the following year saw Starbucks shutter hundreds of locations, a grim necessity unthinkable just a decade earlier.

4.4 COMPETITORS

Dunkin' Donut and McDonald's are the major competitors for Starbucks in beverages. While Dunkin' Donut is the Major competitor. Starbucks's pumpkin spice latte against the Dunkin' Donut's latte had turned out to be the major competition among latte drinks in recent times.

Dunkin' Donuts, of course, which despite its name generates nearly 60% of its revenues from coffee and beverage sales, not doughnuts. Dunkin' Donuts and Starbucks co-existed for years back when Dunkin' really was all about the donuts. But when Fred the Baker retired in the late 1990s, and Dunkin' Donuts started putting more emphasis on growing its coffee business, introducing the Dunkaccino in 2000 and then bringing on a whole "espresso revolution" as the brand describes it in press materials in 2003 with a new line of espressos, lattes and cappuccinos. Dunkin' Donuts was slowly but surely creeping into fancy coffee drinks territory, and in 2006, declared its intention to go head-to-head with Starbucks.

Despite the fact that Dunkin' Donut is a direct competitor of Starbucks, Starbucks hold the upper hand in terms of sales. Dunkin' Donuts launched its "America runs on Dunkin'" ad campaign in 2006, part of its new approach to marketing. Where Starbucks has a more wealthy and upscale feel, relying on word of mouth to spread its name, Dunkin' Donuts approaches customers with traditional advertisements,

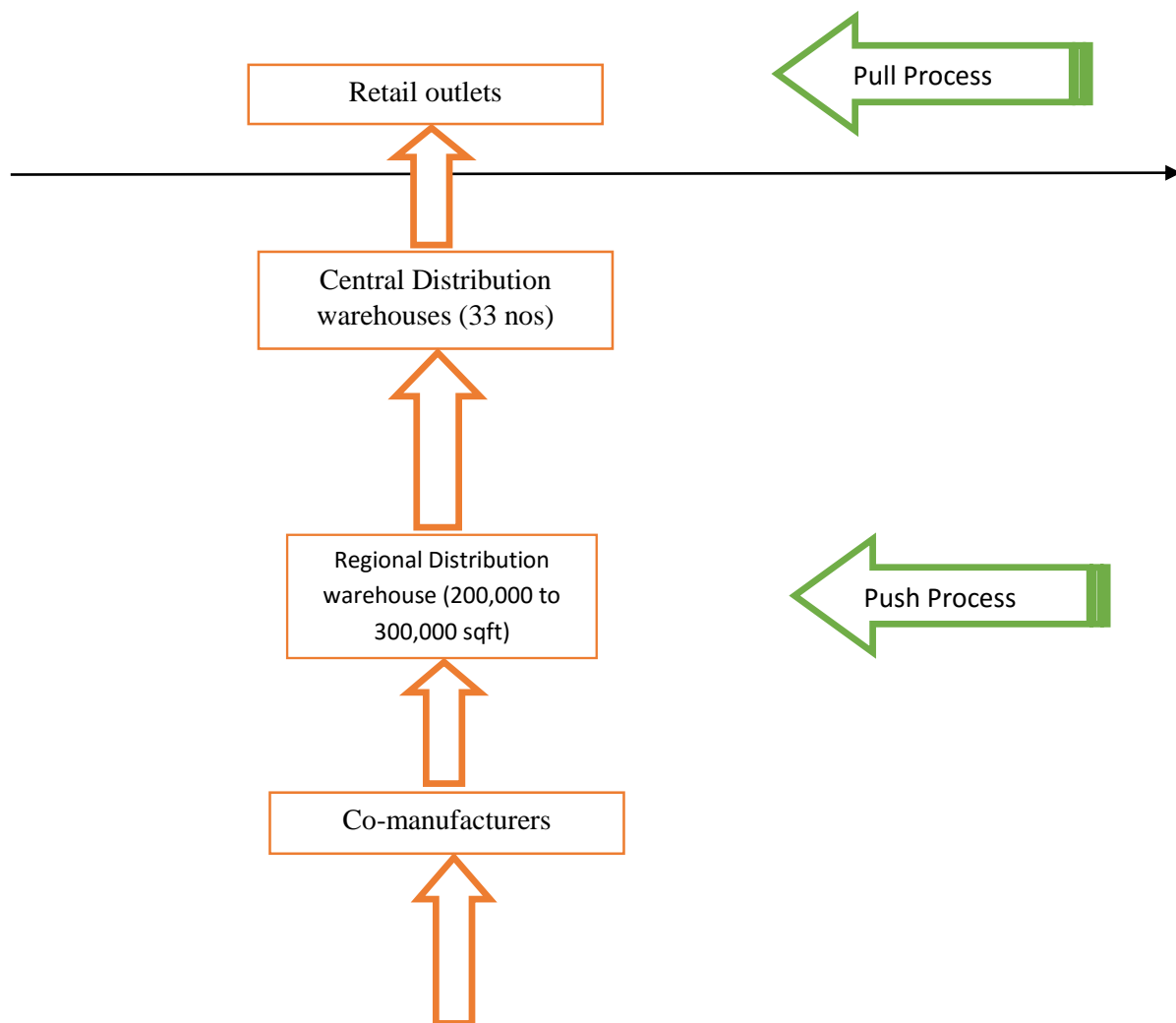
representing itself as a brand for all-American consumers. The tactic has worked around the world, though the company's 2015 revenue of \$783 million for 2015 falls substantially behind Starbucks.

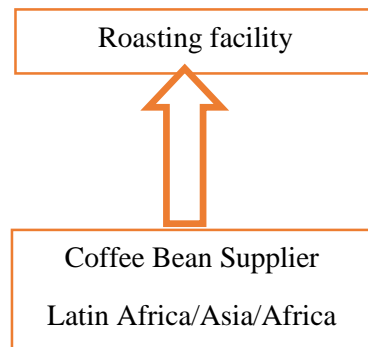
When Dunkin' Donuts began selling **lattes** and other premium coffee drinks around a decade ago, it was viewed as a direct attack on Starbucks SBUX 3.69% , the nation's leading specialty coffee chain. The chart below represents the past five years, Starbucks' same-store sales that is revenues at locations that have been open for more than a year accelerated and far outpaced those of Dunkin' Brands, parent company of Dunkin' Donuts

McDonald's Corp

At over \$26 billion, McDonald's revenue for 2015 was higher than Starbucks' and significantly higher than Dunkin' Donuts. However, this is due in part to the fact that McDonald's has a much larger menu. McDonald's has traditionally been known as a fast food restaurant and is not well known for its coffee. However, after introducing flavored and iced coffees in the mid-2000s, McDonald's put its hat in the ring alongside Starbucks and Dunkin' Donuts.

4.5 PUSH/PULL PROCESS





5 LESSONS LEARNT FROM STARBUCKS

It is observed that Starbucks has simplified existing supply chain structure into four categories: Plan, Source, Make and Deliver. Production & Replenishment planning, new product launches are placed under plan category. Sourcing consists of coffee and non-coffee procurement. Coffee Procurement alone is estimated to be \$ 600 million for the year 2014.

Starbucks has facilities across Latin America, Europe, Asia, Canada and South Africa. In order to maintain the quality of products offered at all retail outlets, Starbucks implemented sound procurement policy such as CAFÉ practices to ensure that sustainably grown coffee is sourced and processed and 'Supplier Diversity Program' to delivery high quality product across all business channels. Starbucks integrates ethics and corporate social responsibility with supply chain efficiency. Preferred Supplier Status would be awarded to vendor who achieved a compliance of 100%.

Even though Starbucks uses centralized roasting and manufacturing facility to reduce inventory, it increases the transportation, distribution and logistics cost. It is estimated to 70,000 deliveries per week plus inbound shipments.

It is also evident that addition of new roasting facility at Netherland, company is keen on making global presence and also in turn reduces the total cost associated with logistics across Europe facilities.

Star bucks reports 'On Time In Full' (OTIP) to be one of the most important indicators. It is defined as the state, which everything is ordered on time and complete as ordered. Star bucks also focused on four high-level categories to create consistency and balance across the global supply chain team: safety in operations, service measured by on-time delivery and order fill rates, total end-to-end supply chain costs, and enterprise savings. This last refers to cost savings that come from areas outside logistics, such as procurement, marketing, or research and development.

Starbucks improved Supply Chain capability by building pool of talent candidates. It began an initiative to recruit graduates from top universities. In addition to it, the company provided ongoing training to its existing employees to help them further develop their supply chain knowledge and skills.

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