**Date:** June 7th, 2022

**To:** Kevin Johnson, CEO

**From:** BADM-544 Group 090: Mike Fogel, Stephen McClintick, Kaveh Moazzami, Michael Penninger, Kevin Smith

**Subject:** Maintaining Starbucks’ Competitive Advantage

**Sources of Starbucks’ Competitive Advantage**

Starbucks, starting with its relationship with coffee growers, has a strong value chain that ensures quality product from grower to customer. Extending from the farm, through its high quality roasting/blending/grinding, and on to packaging for self-service or to one of the many Starbucks locations for the in-café customer experience Starbucks ensures that not only is the coffee a quality product but also ethically sourced and handled.

This is largely due to the resources and capabilities inherent to Starbucks. One of Starbucks greatest resources is its human capital. Specifically, the Barista who ensures the final product for the customer experience Starbucks is dedicated to. The investments in Starbuck’s employees and communities provide a desirable place to work, attract top talent and strike a chord with consumers. Consumers, now more than ever, consider the company behind the product in a significant way. With its strong ethical and philanthropic culture customers feel comfortable paying a premium for Starbucks quality, knowing their money will help fund these ethical/philanthropic endeavors.

Another important resource/capability is Starbucks ethical sourcing. The relationships built with the growers give Starbucks a competitive advantage making it more difficult for competitors to secure the quality coffee beans curated by the relationship and investments between Starbucks and the coffee growers. These relationships and investments certainly need nurturing to sustain but make a solid barrier to entry for competitors. As climate change accelerates crops are at risk from severe weather making these relationships and investments (especially those efforts to teach growers sustainable farming) even more critical in the long term.

Another resource for Starbucks that contributes to its competitive advantage is its wide physical presence. With a greater market saturation, Starbucks has the capability to be in more places, not just domestically but internationally as well. In addition, owning much of their retail locations Starbucks has stronger control over the customer experience than heavily franchised competitors. Starbucks has also extended its value chain beyond just the coffee and experience into a fine food and wine destination in its latest innovation, but also through partnerships with bottling companies like PepsiCo. The value chain touches virtually every aspect of daily life – grocery stores, gas stations, and vending machines at your office, increasing market saturation further.

Finally, another Starbucks competitive advantage is its standing as a community-gathering “third place”. Product lines have evolved over the years, but the core of what Starbucks moves to do is to create a quality customer experience. This community cafe experience is the driver of the Starbucks brand. While competitors may have replicated the quality coffee experience Starbucks delivers, none have been able to build the relaxing “third space” on Starbucks’ scale.

**Threats to Starbucks’ Competitive Advantage**

Starbucks’ competitive advantage is under constant threat. This includes threats to its rarity, via imitation and replication, and threats to its value creation, via durability and relevance.

The COVID pandemic stimulated rapid changes in consumer behavior and preference. Among those changes was an aversion to being in close, indoor contact with other people, especially strangers. This behavior change is a direct threat to the relevance of a key part of Starbucks’ competitive advantage: the community-gathering “third space” Starbucks’ physical locations provide. It is questionable whether the “third space”, as former CEO Howard Schultz envisioned it, is still as desirable and relevant to consumers as it once was.

Quickly evolving consumer preferences in the sweetened and caffeinated beverage sector represent a threat to the relevance of Starbucks’ beverage offerings. For example, consider the recent rapid growth of boba and bubble tea among younger US consumers. By effectively employing social media and marketing, these boba and bubble tea shops have been able to drive young customers into their shops, often creating lines extending around the block while the adjacent Starbucks sits nearly empty. As industry leader of the speciality café industry, these changing consumer preferences lower the value of Starbucks’ beverage offerings.

The durability of Starbucks’ image and brand is under constant threat. As a global corporation, Starbucks’ is vulnerable to being painted as the “big evil corporation”, which rivals and new entrants to the industry may be only too happy to capitalize on. Also, Starbucks’ previous CEO was active in numerous political and social topics. The current divisive political and social environment could open of the company to a cancel culture where large groups or followings of influences boycott or take legal action against the company. This could occur both internally and externally with social media being at the fingertips of employees and customers. Strikes or sit-ins from social media groups could tarnish the brand.

The rarity of Starbucks’ competitive advantage is vulnerable via imitation since most of its uniqueness is easily visible and observable by the public and other competitors. Other key know-how must be shared with its wide employee base and is thus vulnerable to employees quitting and starting their own cafes, with the skills and ideas they learned at Starbucks.

Starbucks also finds its competitive advantage being eroded by replication. For example, the rapidly growing boba and bubble tea shops, while outside the speciality café industry, represent a replication of several parts of Starbucks’ competitive advantage including the beverage offering and the creation of the “third space”. The threat of replication also includes other places that could become the go to place as the 3rd space between home and office.

**Recommendations to Address Threats to Starbucks’ Competitive Advantage**

Starbucks is a global phenomenon with a local flavor. To remain relevant, data analysis and local management knowledge must be used to analyze the demand of customers in each store or area. Flexibility is required to remain relevant in this quickly changing business landscape. Starbucks’ offerings must evolve with proven customer preference trends. The company risks losing relevancy if it allows for certain core competencies of today to become core rigidities that hamper profitability in the future. (Somaya) Therefore, we recommend greatly expanding two ideas that are already being tested to help overcome the relevancy hurdle.

First, Starbucks should expand its testing of boba tea with a wider selection of boba products at all stores. As the Asian-American population rapidly increases, this in-demand offering will draw in new customers and provide many existing customers yet more reasons to include Starbucks in their daily routines (Kim, 2022). Boba supplies may be difficult for smaller competitors to acquire, but Starbucks’s buying power should shield it from some of the present supply chain issues related (Dailey, 2021).

The second recommendation related to relevancy is to create larger spaces for quick and convenient customer pick up of orders submitted via the Starbucks app. Transactions in all kinds of markets are moving to mobile phone ordering, and customers expect Starbucks’s renowned level of customer service for this type of ordering experience. The problem is that they are not receiving it. Customers are using the app, but at many locations, they are required to park, enter the store, and pick up their purchase. Starbucks can do much better. Our proposal is to create a dedicated drive-through lane for pick-up of mobile app orders at locations where vehicle infrastructure exists. The app can incorporate functionality that allows the store to see estimated and actual customer arrival times. Employees would bring the order to the customer’s vehicle yielding minimal wait time and inconvenience. This new manner of interacting with the customer would lower Starbucks’ commitment to its “third space”, which is under threat due to changing consumer behavior stimulated by the COVID pandemic.

Starbucks employees can make or break any customer experiences. The value of good employees is increasing rapidly, especially in the present job market. Starbucks human capital empowers the company’s durability by continuously reinforcing the values of the brand. The above average compensation and unrivaled benefits Starbucks has offered its baristas in the past is declining in value as inflation and the Great Realignment bear down. We propose that Starbucks show its baristas their value by increasing barista wages across the company an additional 15%. Not only will this improve retention and alleviate recruiting efforts, but the publicity will also reinforce a positive connotation with the company’s values. It will also reduce the risk of employees leaving the company to imitate Starbucks through opening a local rival cafe.

Starbucks should not stray from its beliefs and avoid starting conversations on political or social issues. However, the company will need to continue to use the appropriate channels and keep up the conversation both with politicians and customers on social media. Starbucks needs to stand behind its employees as stated above and ensure that communication remains an open two-way channel on social issues. Continuing to hire in low-income areas and abroad, provide financial aid for education, and open communication with its employees will be key to bring others to the table for a conversation rather than an argument.

**Citations**

Dailey, N. (2021, April 13). *Bubble tea drinkers could be out of luck as a shortage of boba and other products may make the sweet drink hard to find*. Insider. <https://www.businessinsider.com/boba-shortage-could-make-bubble-tea-hard-to-find-us-2021-4>

Kim, S. (2022, May 5). *Starbucks Boba is a Thing: What Does This Mean for Businesses?.* Standing Cloud. <https://www.standingcloud.com/starbucks-boba/>

Rothaermel, Frank T. “Starbucks Corporation.” *Harvard Business Publishing Education*, McGraw Hill Education, 4 Jan. 2017, <https://hbsp.harvard.edu/download?url=%2Fcourses%2F933692%2Fitems%2FMH0042-PDF-ENG%2Fcontent&metadata=e30%3D>

Somaya, D. (accessed 2022, June5) *3-3.1 Sustained Competitive Advantage* [Video]. Coursera. <https://www.coursera.org/learn/strategy-business/lecture/wvlSM/3-3-1-sustained-competitive-advantage>