Group B: Starbucks



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Section 1:	
Case Study	

Background

Starbucks was founded in Seattle, Washington in 1971. They began as a single storefront in Seattle's Pike Place Market and have grown into a massive conglomerate with over 24,000 stores in 70 countries (Starbucks Company Profile). Starbucks takes great pride in their company's mission statement, "to inspire and nurture the human spirit- one person, one cup and one neighborhood at a time" and strive to abide by their four clearly defined company values:

- Creating a culture of warmth and belonging, where everyone is welcome.
- Acting with courage, challenging the status quo and finding new ways to grow our company and each other.
- Being present, connecting with transparency, dignity and respect.
- Delivering our very best in all we do, holding ourselves accountable for results.

While Starbucks' headquarters remain in Seattle, Washington, they operate stores in all fifty states. According to Paula Forbes, Americans are never more than 170 miles from a corporate owned Starbucks location, and eighty percent of Americans live within twenty miles of one. Of the 24,000 Starbucks stores worldwide, 7,880 are located within the United States alone, with the highest concentration being in California ("Number of Starbucks").

Starbucks' primary customers can be divided into two groups, adults and young adults. Both categories consist of both men and women, however, the adults category are aged 25-40 and comprise forty-nine percent of Starbuck's total sales. Meanwhile, the young adults range from 18-24 and make up forty percent of total sales (O'Farrell). Starbucks has six main stakeholder groups: employees, customers, suppliers, the environment, investors, and

governments (Thompson). Each of these six stakeholder groups have unique concerns, and are therefore managed in different ways.

Starbucks originally got their start by selling premium coffee, but has expanded their product line to include over 30 premium types of coffee, handcrafted beverages, merchandise, and fresh food in each of their stores. They also sell ready to drink coffee and tea items which are sold at separate retailers (Starbucks Company Profile). They couple their extensive product line with exceptional customer service, a welcoming environment, and a commitment to social responsibility; all of which have allowed Starbucks to become a globally respected brand that appeals consumers around the world.

The External Environment

In order to effectively discuss Starbuck's current position, a brief analysis of the three external environments is necessary. In the remote environment, there has been a strong societal push towards environmental sustainability and social responsibility. In response, Starbucks has demonstrated their goodwill through both corporate policy and in store practices. They have begun offering higher levels of recyclability in their packaging, in store utilization of green energy forms, and ethical sourcing of coffee beans, cocoa, and tea leaves- the main staples of their products. While their green methods are far from perfected, Starbucks has seized this major opportunity to build a brand image of both environmental and societal stewardship.

In the industrial environment, competitors have begun expanding their menus to include coffee as well as other hot and frozen beverages while utilizing a low cost pricing strategy. With coffee being a commodity good and overall rather undifferentiated product, brand switching costs are low for consumers . There is fierce competition in the market which means the industry

has the potential to change overnight (Hawley). Fortunately, Starbucks carries an extremely loyal fan base which has proven difficult for competitors such as Caribou Coffee, Dunkin Donuts, and even McDonalds to overcome. They also designate a large amount of resources towards product innovation to retain their customers and make them brand insistent.

In the operating environment, with Starbucks' longstanding presence in the coffee industry, they have obtained a clear cost advantage based on their relationships with raw good suppliers and have improved their product processes through their 46 years of experience. With barriers to entry being weak, the threat of new entrants into the industry is strong. Therefore, Starbucks must be cognizant of and adapt to both their industrial and operating environments which will be discussed more later on.

The Internal Environment

Starbucks is infamous for using high-quality ingredients, hiring friendly staff, and hosting an environment fit for both personal and professional meet ups. To maintain this impeccable reputation, Starbucks enforces strict adherence to their company values and demands rigorous product quality controls. These feats are made easier by keeping most of their stores a chain rather than franchising them as their primary method of company expansion (Henricks).

In 2014, Starbucks acquired the remaining 60.5% of Starbucks facilities in Japan that weren't corporate owned for more than \$900 million. Being the sole proprietor in Japan after this strategic acquisition offers Starbucks more control over its second-largest market and gives them the opportunity to introduce new product concepts such as Teavana (Beckerman).

In 2015. Starbucks first introduced the Mobile Order & Pay option. To compensate for an increase in sales due to these mobile orders, Starbucks hired baristas to work during peak hours to offset customer wait times (Ryan).

Some weaknesses associated with Starbuck's internal operations include high price points, diminishing opportunities for product innovation, varying government controls across the globe and being forced to outsource key product ingredients due to staples such as coffee beans thriving best in South American climates. Internal strengths include the company's commitment to becoming the employer of choice, brand recognition, continued devotion toward product innovation, global supply chain channel development, and continued expansion in digital engagement.

From a financial perspective, Starbucks is doing exceedingly well. The company has experienced an 11% increase in total net revenue from 2015 to 2016 and earnings per share increased from \$1.82 to \$1.90. In 2016, Starbucks' operating margin increased to 19.6% from 18.8% in the previous year and cash flows increased by \$0.9 billion dollars (Starbucks). The company has shown growth in all facets of their financials from 2015 to 2016, and they expect to see steady and continued long term growth. All of these statistics support many financial analysts' advice to heavily invest in Starbucks' stock (Nasdag).

Generic Strategy

While most of Starbucks' competitors have embraced a cost leadership strategy in which they deliver a cheap and simple cup of coffee, Starbucks has pushed for a higher price point and a differentiated product. On average, Starbucks beverages cost around \$2 more than their competitors. While some of these "differentiations" such as the recent "Limited Edition Unicorn Frappe" publicity stunt can come off gimmicky, it is a great way to gain publicity and stimulate sales.

Starbucks is constantly tailoring their business and products to suit consumer demand.

Their shops are not just for coffee anymore, but offer specialty drinks, teas, smoothies, and food

items. The company has calculated over 80,000 possible combinations of menu items due to personalization options. A couple of Starbucks' most recent innovative endeavors were adding a drive thru window option to specific locations and selling wine and beer in their stores as part of its 'Evenings' Wine and Beer program. While the latter strategy was considered a flop, it is this fearless ambition that has made Starbucks a success (Forbes).

Functional Tactics

As will be mentioned in long term objectives, Starbucks has lofty grand strategies of substantial market growth, new product development, mobile strategy, and many others. In order to progress towards these larger goals, Starbucks executes a strategy of measurable and time specific smaller goals to be achieved by the end of 2017.

For instance, product development has long been a key strategy of Starbucks and according to Fortune, they plan to introduce numerous new menu items within the current year. These new items include, but are not limited to, coffee items, soups, and breakfast products. In regards to market development, Starbucks has turned their attention to different markets including low-to-medium-income communities. In a Starbucks Press Release, they state that the company plans to open 15 new stores in low-to-medium-income communities by the year 2018.

Additionally, Starbucks has also begun shifting towards a mobile strategy where customers can pre-order through their app and receive customer loyalty rewards. While a "mobile" strategy may seem vague and unspecific, MarketWatch.com reports that Starbucks plans to unveil 'My Starbucks Barista' in 2017 which will allow customers to conduct their mobile order not only on the go, but via voice command.

Lastly, Starbucks strives to put their employees first and aims to make a difference in their local communities. They pride themselves in providing quality jobs for those who are most

in need and are currently ensuring this by focusing on hiring military spouses and veterans. Starbucks has a short term goal of hiring 1200 military spouses and veterans in 2017 and they desire to reach 10,000 in a five year period. These are all great examples of Starbucks' ability to break down their larger objectives into small goals that will help them achieve their larger ones in the long run.

Grand Strategy

A firm's grand strategy is a plan to achieve desired long-term company objectives in order to grow, survive, and become profitable within their industry of choice. Starbucks' uses most of the 15 strategies, but with a major focus towards the following.

Concentrated Growth & Product Development

Starbucks uses concentrated growth to attract and retain customers by creating and promoting specific products to stimulate sales throughout the year. Some examples include, but are not limited to, their seasonal drinks such as the Pumpkin Spice Latte which is only available during fall, or their S'mores Frappuccino that only debuts during summertime. Additionally, their new menu items such as their recent addition of the "Midnight Mocha Frappuccino" and limited edition items available for short periods of time such as the "Unicorn Frappe" are absolutely essential for keeping sales consistent throughout the year (Starbucks).

Market Development

Starbucks has expanded outside of North America to international markets with an emphasis on locations in Japan, China, and other Asian-Pacific countries due to the multitude of opportunities present there. Japan was Starbucks' first international market with a store count of

over 1000. Currently, China is the key area of expansion and Starbucks plans to double their store count to 3000 by the year 2019, as well as in other Asian-Pacific countries thereafter. The development of new and untapped channels is also expected to grow by nearly 60% within the next couple of years (Starbucks Newsroom).

Joint Venture

Starbucks teams up with companies for many reasons, but especially for help in market penetration. A couple examples of this includes Starbucks' joint ventures with both PepsiCo and Tata Global Beverages. Together, Pepsi and Starbucks created the North American Coffee Partnership to sell their pre-packaged drinks in retail stores and as a result, Starbucks has seen an invested equity increase of 27 million dollars (10-K Form 29). Starbucks also used a joint venture with a company familiar to India, Tata Global Beverages, in order to gain longstanding credibility that would allow them to penetrate the Indian market (Ad Age).

Strategic Alliance

Starbucks recently set up a strategic alliance with the nonprofit organization Feeding

America whose mission is to aid hunger relief. The goal behind this alliance was to donate over

7000 ready-to-eat meals through Starbucks' Foodshare and for Starbucks to gain positive

publicity. Starbucks also created an alliance with Barnes and Noble to offer customers a place

to read their books and grab a coffee. Other companies that have agreed to serve Starbucks'

products exclusively include companies such as Target, United Airlines, Marriott, and Safeway

(Gulati).

Long-Term Objectives

Planning and implementing long-term objectives is crucial to the growth of any company. Unsurprisingly, Starbucks has always been extremely ambitious in this area. Not only do they aim to nurture their company, but they also strive to be a force that fights for a better world. In March of 2017, Starbucks announced their plans to create more employment opportunities for people across the globe. Their goal is to create 240,000 or more new jobs and 12,000 new stores with 68,000 and 3,400 of those being in the US alone, respectively.

In addition to these expansions, Starbucks has also indicated the desire to give back to the military communities by opening 100 Military Family stores and hiring at least 25,000 Veterans/Military Spouses by the year 2025. Lastly, by 2020, Starbucks is aiming to hire 100,000 Opportunity Youth in the United States. Their initial goal was 10,000, but they have already exceeded that objective since it was created in 2015 (Starbucks Outline Strategic Growth at 25th, Annual Meeting, 2017).

In regards to their employees, Starbucks has commenced plans on expanding partner education benefits by investing more in their Starbucks College Achievement Plan (SCAP).

They have teamed up with Arizona State University in implementing their Pathway to Admissions program which gives eligible students extra help and tuition assistance in earning their bachelor's degree (Starbucks Outline Strategic Growth at 25th, Annual Meeting, 2017).

In 2016, Starbucks began their efforts in increasing digital innovation, store development and social impact. They have since then started to work towards these long-term objectives by supporting coffee farming communities and making genuine efforts and strategic alliances to help feed the hungry (Press Release: Starbucks Agenda for Global Growth and Social Impact, 2017).

As far as their revenue projections, they have ambitions of a 10% increase, along with 15 to 20% EPS growth. They plan on achieving these goals by transforming their coffee shops into a more dynamic experience and want to open Roasteries in Shanghai, Tokyo, Europe and New York City by 2018. Lastly, they have also begun releasing new products and beverage categories such as Teavana to be featured in Starbucks stores across the globe (Starbucks Presents its Five-Year Plan for Strong Global Growth, 2016).

Strategic Control

Strategic control involves tracking a strategy as it is being implemented continuously, detecting problems or changes in its underlying premises, and making adjustments when necessary. Starbucks is focused on "being a responsible company" and has created a strategy that includes *ethical sourcing*. Starbucks takes a holistic approach to ethically source their high quality coffee and other main staples in their products. They practice responsible purchasing and support farmer loans, farmer education programs to improve their methods of production, and forest conservation programs. Starbucks believes that when they buy coffee in this way, it helps foster a better future for farmers, a more stable climate for the planet, and also helps to create a long-term supply of the high-quality beans they have been carefully blending, roasting and packing fresh for more than 40 years.

Starbucks' environmental stewardship strategy involves their shared customer commitment to protecting the environment. Caring for the planet and encouraging others to do the same is something that must be done through leading by example. For instance, Starbucks creates reusable cups and has separate receptacles in their stores which offer customers the choice to recycle which encourages them to be more eco-conscious.

Lastly, *Community involvement and social stewardship* are strategies implemented by Starbucks in neighborhoods where their stores are located and where their resources are grown. Starbucks has implemented programs for teaching skills to local youth, engaging in community service, and even donates money to these local communities through the Starbucks Foundation (Starbucks).

Organizational Structure, Culture, Leadership

Starbucks believes strongly in the power of connection. They want their employees to bond with each other and to create a mutually beneficial relationship with their customers.

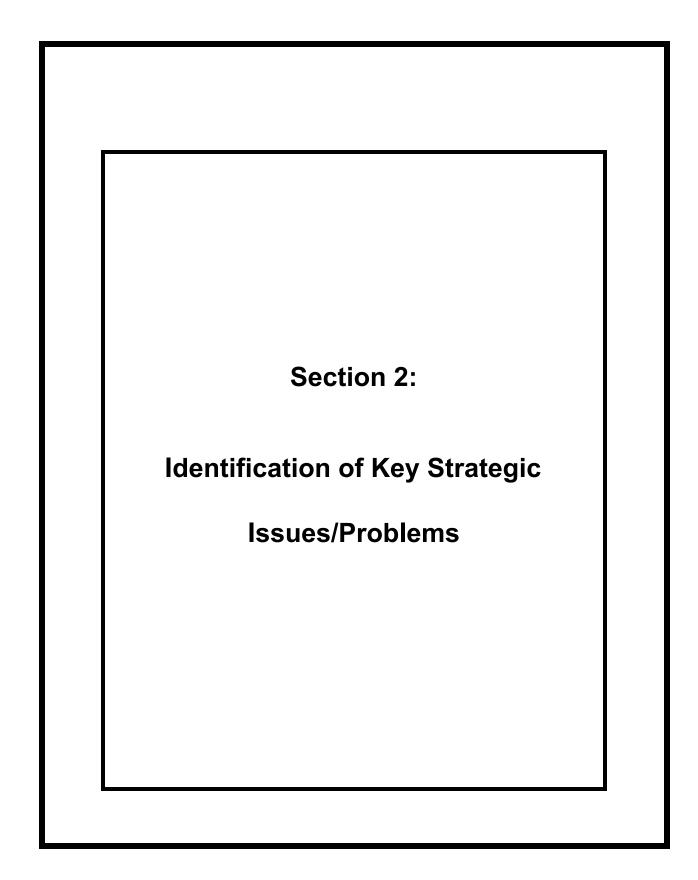
Starbucks' goal is to become a "third place" outside of the home and workplace. By creating this "third place," they hope to offer a friendly and welcoming environment to all those who enter (Leinwand). Living in a melting pot nation suggests the need for a diverse store. Starbucks recognizes that their consumer base is unique, which means their employees should be too.

Therefore, they employ staff of all different backgrounds and origins.

Starbucks also aims to create a familial atmosphere at work and tries to treat their employees like their own. They encourage their staff to refer to one another as "partners" rather than co workers or employees. Additionally, former president of Starbucks, Howard Behar, implemented training and education opportunities to help Starbucks' staff feel more "cared for" and to create a sense of empowerment. He firmly believed that if a company cared for its employees, they would in turn, care more about their customers (Leinwand). Starbucks pays their employees above minimum wage and has implemented a "college achievement plan" that aids their workers in gaining a college degree through tuition assistance at ASU ("College Plan").

Currently, Starbucks is using a committee within the company to determine

compensation benefits for employees that have made efforts to improve the Starbucks brand ("Starbucks Corporation"). As of October 2016, there are new incentives put into place. To start, the company will offer a minimum of 5% base pay raise to all employees. In addition to the pay increase, the company will also double the annual bean stock award for employees who reach two years of dedication to the brand ("Starbucks Announces"). Not only is this great for the staff, but also aids Starbucks greatly in employee retention rates.



Identification of Key Strategic Issues/Problems

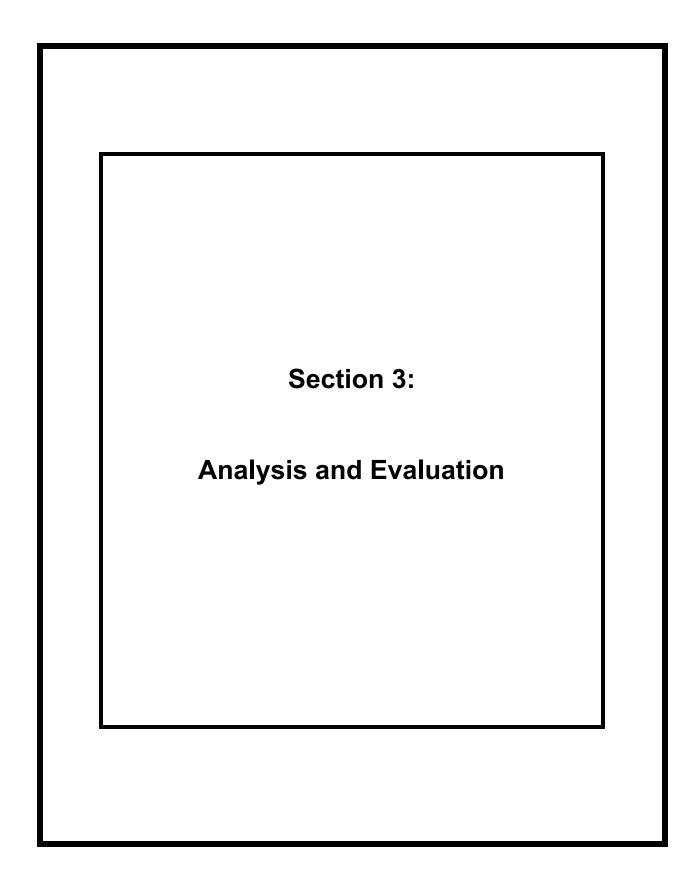
Since the inception of the company, Starbucks has had many pressing strategic issues, but there are three that require constant attention. Starbucks consistently must address the issue of consumer retention, customer demand, and company expansion.

They pride themselves on outstanding customer service and quality products. However, with the birth of many new coffee shops that offer 'local' and 'neighborhood friendly' feelings at lower prices, Starbucks will have to keep striving to delight the customer rather than just keeping them satisfied. With Starbucks being a global corporation, they work hard to offer quality service and products in a way that makes customers feel like they are a local brand, while also maintaining their corporate company image and consistency.

Another key strategic issue that Starbucks faces is keeping up with the demand of new trends. With more and more juice blends, health products, and waves of flavor differentiation, Starbucks needs marketing experts who can figure out consumer demand in local communities to keep up with ever changing trends and tastes. They need to be aware of products that customers are seeking, and make partnerships with the appropriate people to ensure that Starbucks has what customers want at a quality they are willing to pay a slightly higher price for.

Lastly, expanding into new markets will always be a strategic issue for Starbucks. There is a high level of thought that goes into which markets Starbucks wants to enter, as they cannot be too low income, but also need to penetrate new markets with high demand for their products. With Starbucks being in over 60 countries, they have shown that they can operate in any environment, despite language, cultural, and economic barriers. However, they have so many locations already, that they are oversaturating their own specific niche and soon, may face

difficulty finding real estate to host their stores. They also face unfamiliar governments and with that, unforeseen laws and political contexts.



Current & Historical Performance Analysis:

Starbucks historically has focused on global expansion, horizontal integration, social responsibility, employee relations, customer service, quality of ingredients, and technological innovation. On a global scale, Starbucks has opened new stores in a new country every year since 1996. As illustrated in exhibit 1.1 in the Appendix, over the past 10 years, Starbucks has continued horizontal integration through acquisitions of Ethos Water, Coffee Equipment Company, Evolution Fresh, Teavana, and La Boulange® bakery brand. Starbucks has also shown a strong commitment to social responsibility, great employee relations, and community outreach. It is evident that as Starbucks continues to grow, their company values remain unwavered.

The company has adhered closely to their principals over time through opening farmer support centers, achieving their 99% ethically sourced coffee milestone in 2015, supporting employee's higher education through Starbucks College Achievement Plan, Create Jobs USA (supports small businesses), recycled cups, support of marriage equality, political activism, and commitment to hiring youth. These initiatives represent the core values of Starbucks and it's expected that the company will continue to work toward sustainability and remain active in communities across the United States and in rural farming areas across the globe. The trend in company activities regarding horizontal integration is expected to continue, and currently are, as Starbucks completed the acquisition of the remainder of Starbucks in Japan in 2016.

Internal Resources & Competencies:

Product Line Offerings	 Starbucks Teavana La Boulange Evolution Fresh Seattle's Best Coffee Tazo tea Princi Healthy, allergy conscious, & quick Seasonal offerings
 Supplier Business Relationships 	 Regency Centers-lease property to Starbucks and is an industry leader in U.S. Tingyi Cayman Islands Holding Corp. – manufactures and markets Starbucks' ready-to-drink products in China. Dean Foods – hormone free milk suppliers, one of the nation's largest milk processors and distributors. Inventure Foods- markets Seattle's Best Coffee Frozen Coffee Blends. Relationships with coffee producer – farmer support centers & best practices. Long-term supply contracts.
• Location	 Near well-positioned neighborhoods or community centers in major market areas, anchored by dominant grocery store and have above-average household incomes. Global market share with prescience in 62 countries around the world. Channels of Distribution. Controls coffee purchasing, roasting and packaging, and global distribution. Hybrid distribution design- more than one design Direct retail system in company-owned stores. Distribution agreements with office coffee suppliers, hotels, & airlines. Joint collaboration.
Reputation	 Customer experience – roasting experience-Starbucks Reserve stores 28% in customer loyalty program in Q3 2015- total of 10.4M users. Digital revolution – customer loyalty Mobile app- "Network Effect". Successful CRM. Employee relations – benefits & college support.
Brand	 Global recognition. Constant quality delivery. Vigilant, proactive, and invested.

Starbucks' Offerings

Product Line Offerings

- Starbucks
- · Teavana
- La Boulange
- · Evolution Fresh
- Seattle's Best Coffee
- Tazo tea
- Princi

Supplier Relationships

Relationships with coffee producer – farmer support centers & best practices. Long-term supply contracts.

Customer's Needs

Mobile Order App.
Wifi – digital network.
Healthy & allergy conscious.
Seasonal offerings.
Customer experience.
Quality products.
Sustainability.

Familiarity.
Quick.
Convenience.
Good coffee.
Food.
Many locations.

Good customer experience. Cost effective. Good coffee.

Low Cost. Quick. Simple.

Pastries. Brand.

Dunkin Donuts:

Low cost Quick and easy Recognizable brand Supply chain management

McDonalds:

Established for a long time.
Large food menu.
Established supplier relationships and efficiency.
Very low cost.
Convenient locations.

Competitor's Offerings

Financial Analysis

Please refer to Exhibit 1.5 in the Appendix

Starbucks has demonstrated a consistent increase in all areas of their financial health which is only expected to continue growing. They are smart with their debt, refusing to abuse loans in order to expand. The company has efficiently managed assets, investments, debt, and equity resulting in overall profitability. Their ability to turn equity into profit is beneficial and keeps shareholders happy by minimizing fixed costs and total liability. Through an analysis of past financial health, we expect that the company will maintain healthy financial standing. The continued expansion on a global scale indicates that they have the trust of creditors across the globe.

External Environment Analysis

At the most basic level, the external environment is comprised of three separate parts; the Remote, Industry, and Operating Environments. The opportunities and threats that each of these present to a company varies depending on the nature of the business. Things are constantly changing and unfortunately, external factors generally can't be controlled by the firm. As a result, firms are expected to adapt to their external environments rather than try to fix them. For Starbucks, it is essential that they remain diligent in analyzing their external environment so they can quickly evolve their strategies to seize opportunities and adapt to new changes to minimize threats.

The Remote Environment consists of forces largely outside of the firm's control such as political and social trends, economics, as well as technological and ecological factors. Then there is Starbucks' Industry Environment which are also things out of their control, but these aspects affect the success of their product offering. These are things such as the uncertainty of new presidency, minimum wage requirements, and lifestyle changes. The effect of these factors are measured using the five forces model by Michael Porter which discusses threat of new entry, powerful suppliers, powerful buyers, substitute products, and rivalry.

Lastly, the Operating Environment is closest to Starbucks and consists of suppliers, customers, and competition. While some of these relationships can be maintained or controlled to a certain degree, at the end of the day it is comprised of people who are often somewhat unpredictable.

Below is a visual representation and breakdown of the impacts of all three environments listed above.

External Environments				
Remote	Industry	Operating		
Economic - Less disposable income per capita - Unsure economic future Social - Value of environmental responsibility - Change in consumer's view of sustainability - Higher minimum wage push - Social media popularity Political - Minimum wage hikes - New presidency and regulations - Business health care Requirements Ecological - Demand for Sustainable Products & Energy - Mobile/Ecommerce - Retail customer order/relation machines	Threat of Entry – AVERAGE - Low barriers to entry - Basic product is largely undifferentiated - High loyalty to Starbucks - Starbucks dominates Industry an innovation Powerful Suppliers WEAK - Starbucks is a large buyer of supplier's products Powerful Buyers AVERAGE - Buy in large quantities - High number of substitutes - Loyal customer base - Sizable margins Substitute Products - STRONG - Basic product is undifferentiated - Saturated market Rivalry - AVERAGE - Differentiated experience - Differentiated product - High number of competitors	Suppliers - Strong relationship with Suppliers - Ethical supply - Renewable Resources Competitors - Starbucks is Industry Leader - Saturated market - At home/pre-packaged Coffee Customers - Loyal customer base - Low switching costs Labor - Treat employees well - Competitive pay - Diverse Staff - Rewards & Incentives		

After this analysis, it was found that Starbucks faces a strong threat of new entrants as barriers to entry are weak and demand for coffee is strong. While other companies typically don't have a selection as extensive as Starbucks, coffee is served in nearly restaurant establishment and is offered on the go, made at home, or pre-packaged by retailers. However, this also makes the opportunity to expand globally and create new coffee based differentiated products possible because demand is for coffee is extremely high. Starbucks has already started to seize these opportunities by expanding globally into Asian markets and creating stores in medium to low income communities despite their low margins of disposable income. A more thorough, complete investigation of Porter's Five Forces model will be discussed below and will allow for a more vivid understanding on Starbuck's current environments.

Five Forces Model Analysis

Threat of Entry/Substitute Products

Since Starbucks prepares and sells food while hosting their customers, they are considered part of the restaurant industry. The restaurant industry is comprised of all other firms providing similar products and offerings, according to the definition of industry by Pearce and Robinson. As discussed in the previous sections, threat of new entry into this industry is strong because barriers to entry are weak. Coffee can be produced easily, at a low cost, and in bulk. While Starbucks definitely sells more than just coffee, it is undeniably a main staple in their product mix.

Starbucks is also considered part of the special eateries sub-industry on the NASDAQ because they sell products that are used in homes (such as their coffee machines, coffee cups and mugs, etc). FDA approval and other regulations imposed on packaged goods for public consumption makes entering this sub market more challenging. There are strict regulations on

what the shelf life must be as well as the ingredients you can use as preservatives. Channels for distribution of these retail items are also usually quite saturated and shelf space in stores are limited, so threat of entry into the retail side of pre-made coffee is relatively weak.

Powerful Suppliers

Fortunately for Starbucks, they are one of the top buyers of Arabica Coffee beans.

They source them from three particular regions where they grow; Latin America, Africa, and the Asia-Pacific. Since coffee beans are available from multiple regions, this sadly relinquishes some of these suppliers' power. However, Starbucks typically receives most of their signature coffee blends from coffee beans native to the Asia-Pacific region. Each region's beans have a slightly different taste, but Starbucks prefers the "herbal spiciness" and depth found in those from Indonesia. However, that is not to say that they would not switch suppliers if costs of sourcing from Asia became too high. Luckily, most coffee bean suppliers are small town farmers and with Starbucks buying in bulk and being a main buyer, Starbucks has an advantage in supplier negotiations (Pashman).

Powerful Buyers

In Starbucks' case, the force of powerful buyers is weak. According to Statista,

Starbucks has approximately 39.8% of the total market share for coffee in the US which means both demand to consume and sell their products are up. Starbucks licenses their chain and sells their retail items through grocery stores, airports, and unrelated retail stores. With such high demand for their brand,, Starbucks has the upper hand with who they choose as an intermediary for their products.

Rivalry

When differentiation in products are strong, rivalry against competitors is said to be weak. One could argue that rivalry is both strong and weak for Starbucks. For a regular cup of coffee, switching costs are low and rivalry is strong. McDonalds, Dunkin Donuts, and Caribou Coffee can all whip up a cup of joe that is comparable to Starbucks and honestly, have breakfasts that taste better than Starbucks that is also at a lower price point. However, it is their other specialty coffee based beverages and teas where the competition falls short and Starbucks thrives.

Customer Analysis

As briefly touched upon in the company background, Starbucks' primary customers can be divided into two groups, adults and young adults. Both categories consist of both men and women, however, the adults category are aged 25-40 and comprise forty-nine percent of Starbuck's total sales. Meanwhile, the young adults range from 18-24 which make up forty percent of total sales (O'Farrell). Their core customers are educated, have an average age of 42 and are considered affluent, boasting salaries around \$90,000. In fact, Starbucks has even been said to increase the value of high cost homes surrounding their locations because where Starbucks goes, their fans tend to follow (Bowman).

Internal Analysis (RBV)

For the internal analysis, assessing the external environment was the first step. Then moving towards identifying their distinct bundle of assets (tangibles), intangibles, skills, and

capabilities, came next. In order for Starbucks' internal analysis to be complete, the VIRO framework needed to be implemented to finish the RBV approach and more specifically, to determine their competitive advantages. Below is a table that points out Starbucks' unique bundle of resources and capabilities as well as advantages they hold.

Capability /Resource	Valuable	Rare	Inimitable	Organized	Competitive Advantage Impact
Brand Recognition	Yes	Yes	Yes	Yes	Sustainable Competitive Advantage
Global Presence	Yes	Yes	Yes	Yes	Sustainable Competitive Advantage
Store Atmosphere	Yes	Yes	No	Yes	Temporary Competitive Advantage
"Heaven of Tea" Retail Experience	Yes	Yes	No	Yes	Temporary Competitive Advantage
Specialty Coffee Drinks	Yes	No	No	Yes	Competitive Parity
Tea Blends	Yes	No	No	Yes	Competitive Parity

Value Chain Analysis

Primary & Support Activities

- Best quality of Arabica whole coffee beans, unroasted, single-origin
- Few intermediaries
- Licensed stores, unique "Starbucks Experience" remains consistent
- Customer service, detail to marketing, promotions, samplings
- Employee satisfaction, benefits, incentives
- Specialty designed coffee brewers and espresso machines

Customer Value

Starbucks' key customer values are met through their superior customer service and technologically advanced processes. The specific Clover Brewing System utilized by Starbucks uses Vacuum Pressure and temperature control technology. This system is said to make a cup of coffee which has both an enhanced depth of flavor and aroma (Starbucks). They offer in house drinking and dining options, drive thru orders, and pre-made drinks which can be bought in their store as well as other retailers. Starbucks understands that what their customers are really after is a caffeine delivery mechanism that is made with high quality and ethically sourced ingredients, unique flavors, and can be obtained through the most convenient methods of their choosing.

SWOT Analysis

Strengths

- Strong brand recognition
- Extensive global supply chain
- Chain stores keep consistency
- Superior brewing and mobile order Technology
- Feed America and PepsiCo alliances

Weaknesses

- Higher price points
- Generalized standards for most products
- Imitable products
- Oversaturating their own market niche and declining available real estate for expansion

Opportunities

- High demand for coffee and tea
- High demand in foreign markets
- Consumer Demand for Societal Stewardship
- Consumer demand for pre-packaged goods

Threats

- Unfamiliarity when first Navigating Foreign Markets
- Weak Barriers to Entry
- Forced outsourcing of staple resources (ex coffee beans)

Starbucks has done an exceptional job at fulfilling their mission statement. "To inspire and nurture the human spirit - one person, one cup, and one neighborhood at a time" ("Mission Statement"). Their mission statement speaks volumes to Starbucks' desire to change people's lives and since Starbucks is expanding their chain across the globe, their goodwill has been brought along with them. At this current juncture, we see no need to change their mission statement and think their SWOT analysis supports their mission.

Generic Strategy Analysis

Starbucks success can be largely attributed to their differentiation strategy. As previously mentioned, they are experts on remaining true to their vision and setting themselves apart from competition despite explosive growth. Undeterred by the extensive list of offerings, customers trust Starbucks to deliver a consistent cup of coffee and are comforted by familiarity. In the past 10 years, both new stores and total revenue have nearly doubled. Not to mention, the company plans to continue these efforts and expand to another several thousand stores within the next five years.

In response to vast international growth, Starbucks has become an expert in differentiating its products in order to fit the trends and cultures of each unique region. Howard Schultz commented on the international growth process saying, "we recognize our success is not an entitlement, and we must continue to earn the trust and respect of customers every day." With over 24,000 international locations, the focus on great coffee, community service, and community remain constant, but menu items are slightly altered.

For example, Starbucks in France places emphasis on fresh squeezed orange juice while Asian stores place more effort on teas or mooncakes. Many research and development efforts have been set in place to continue to see growth and new product offerings within these markets. Contrary to initial belief, Asia has become their largest market outside the U.S., proving the strategy successful. Translated into monetary

value, Starbucks has seen a 10% revenue growth in Asian markets in the 2016 fiscal year.

Starbucks is also well-known for quality and consistent products. To ensure consistency, strict guidelines have been outlined regarding preparation of coffee. These guidelines are much more detailed than competitors, including specifics such as the need to serve espresso within 23 seconds of brewing. The company offers trademarked seasonal favorites, such as the Eggnog Latte, and is constantly developing limited time offers, such as the Love Bean Frappuccino for Valentine's Day, to keep customers intrigued.

In the past, holidays have proven a difficult time for Starbucks, but these specialty offerings have revamped sales. In addition, Starbucks has expanded beyond their in-house products. Through partnerships they are able to offer bottled coffee drinks, Starbucks liqueur, k-cups, and Via take home packets. These efforts have made Starbucks more readily accessible and brand recognizable than any of their competitors.

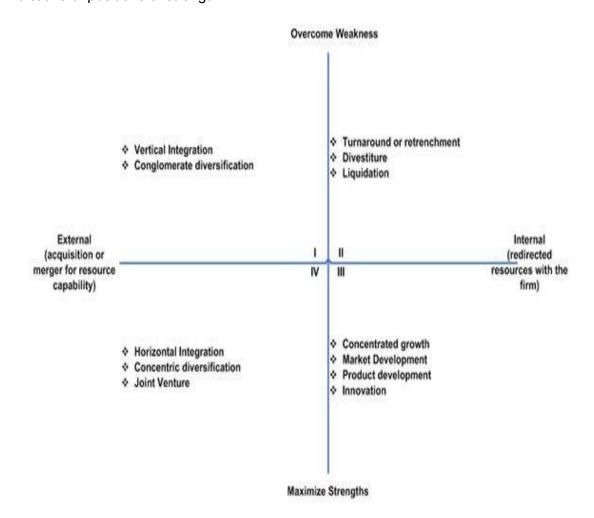
Long-Term Objectives Analysis

As previously discussed in the Long Term Objectives section, the following outlines Starbucks' long-term objectives (LTO). These long- term objectives are appropriate for Starbucks business strategy and are already in the process of being realized. Each LTO is analyzed along the following metrics: flexibility, measurability, motivation, suitability, and the ability to be understood by stakeholders. In order to avoid redundancy, it is assumed that all LTO are understood by stakeholders.

Profitability	Competitive	Employee	Social
	Position	Development	Responsibility
Flexibility: The goal is to have 15 to 20% EPS growth. This is flexible because it indicates a range. Measurability: This objective is measurable because Starbucks stipulates that it will be accomplished by 2018. Motivation and Suitability: This goal is motivating and suitable because it resonates with Starbucks goal of being profitable while keeping the stakeholders happy.	Flexibility and Measurability: The goal is to open more than 12,000 stores globally, 3,400 of those located in the US, by 2021. This is flexible because it allows for more than 12,000 stores to be opened. Motivation: Opening new stores emphasizes growth and expansion. Suitability: Opening new stores fits within Starbucks mission to "nurture and inspire" people and neighborhoods.	Flexibility: Hire 100,000 Opportunity Youth in the US. This is flexible because the previous goal of 10,000 was reached, so Starbucks reevaluated and increased the hiring goal. Measurability: This goal is set to be achieved by 2020. Motivation: Youth that may not have previously had employment opportunities now do. Suitability: To help underprivileged and have more diversity in the workplace fits with Starbucks' values.	Flexibility: Starbucks hopes Hunger Relief goal will be accomplished by this time 2018. This leaves room to adjust. Measurability: To add 5 million to the pastries they already donate to feed Americans in need. Motivation and Suitability: Helping the less fortunate is motivational because it is altruistic and suitable because it coincides with Starbucks' values.

Grand Strategy Analysis

As mentioned in section 2 of Grand Strategies,, Starbucks uses numerous large goals to ensure their continued growth and prosper. Using our SWOT analysis of Starbucks, we have concluded that the company successfully heeds its weaknesses and has managed to position themselves favorably through their strengths. The Grand Strategy Selection Matrix, shown below, illustrates that Starbucks predominantly resides in quadrants III and IV, which are both indicative of positions of strength.



Concentrated Growth

As a part of Starbucks 5 year plan to accelerate growth, the company stated, "'Starbucks business, operations and growth trajectory around the world have never been stronger, and we are more confident than ever in our ability to continue to drive significant growth and meet our long term financial targets." Concentrated growth, which is defined as "aggressive market penetration where a firm's strong position and favorable market growth allow it to 'control' resources and effort to focused growth (Pearce and Robinson)," is an appropriate strategy for Starbucks. By maximizing their strengths of brand, resources and distribution channels, Starbucks can successfully expand and continue to acquire market share.

Market Development

Starbucks has become a leader in the coffee industry with their wide range of products and continuous market development. By maintaining their overall customer experiences with slight cultural adjustments, Starbucks continues to adapt and evolve in order to broaden their operations in international markets and low to middle income neighborhoods.

Product Development

Starbucks continuously engages in product development with new and limited edition beverage offerings and the introduction of elevated food choices. They have increased the types of coffee offered, begun selling tea, and upgraded their food choices to include paninis, breakfast sandwiches, lunches, and dinner options. This is appropriate for Starbucks in their desire to both capture and retain a loyal customer base.

Joint Venture

Joint ventures have become a key strategy for Starbucks as they have expanded into new market areas. Currently, Starbucks is engaged in a joint venture with Pepsi Co. called the North American Coffee Partnership, which brings cold ready-to-drink coffee and frappuccinos to the Latin American market. This strategy is appropriate because it leverages the strengths of the two companies to establish a presence in new markets. This deal, which was signed in 2016 ("Starbucks and PepsiCo"), will help Starbucks to grow and take advantage of the attractive Latin market.

Strategic Alliance

As previously mentioned, Starbucks recently began a strategic alliance with Feeding America. This strategy is appropriate because it supports Starbucks social responsibility long-term objective. It will not only help to feed Americans in need, but will also bolster Starbucks reputation for giving back to the communities they serve.

Short-Term Objectives and Action Plans

Starbucks has created many long-term goals that require short term strategies and objectives to guarantee their completion going forward. Given the ambitious nature of their long-term goals, we believe that their current short-term objectives and functional tactics are solid in some regards, but in others are not thorough or concise enough and need to be re-evaluated to ensure that their long-term objectives are met.

One example where Starbucks' methods fall flat are product development. Starbucks has continued to introduce new food and beverage offerings in order to expand their menu.

However, their selections are rather predictable, repeat seasonally, and seem to lack research. In order to ensure greater success when introducing these items, we feel that Starbucks can benefit from using further testing, market research, and strategic rollouts of these items. The "Unicorn Frappe" which recently made its debut received poor reviews with many saying they, "would not try it again or recommend it to friends."

However, in some regards, Starbucks does an excellent job breaking down long term goals into smaller, shorter, and timeline oriented objectives to assure their completion. These short term actions were discussed in detail in the previous section discussing short term objectives and functional tactics and proved that Starbucks thrives in the execution of goals that are number oriented. For instance, the amount of stores they wanted to open, the amount of people they wanted to employ, and the number of military families they wanted to help is very concise. Yet they seem to struggle to embrace less tangible or numerical goals that are equally important.

Firm Culture, Leadership, and Strategy Analysis

Starbucks follows firm policies and internal standards in everything they do. Some of them stem from ethical concepts, and others their ideas of social responsibility. Standards of Business are their main focal point, as it covers the Starbuck's workplace environment, business practices, intellectual property and proprietary information, community involvement, and ethical decision-making. This is the framework for how their company operates internally allowing them to empower their workers and positively impacting their firm and the world. Their beliefs encourage individual involvement so that together, their team can carry out the Starbucks' Mission and act ethically in all situations. They are also in full support of the Global Business

Ethics Policy, which carries out the global, legal, and ethical standards that firms are expected to abide by (Policies,n.d.).

Their Standards of Business Conduct are extremely important for their internal and external environment. They very narrowly focus in on how employees are expected to treat each other along with their customers. A company can only be strong externally if all is well internally, so, it is important that they start at the source: their employees. Starbucks demands that employees embody their mission statement as well as their four core company values. Their work policies also reflect this vision, and guide their people to make daily decisions that support their message. Starbuck's policies clearly state what is expected of their employees, and promotes a uniform system so that their company is consistent across the board.

Starbucks doesn't stop at their Standards of Business Conduct, but are also working towards goals that are larger than themselves. Some of the socially responsible policies that they follow are:

- Global Anti-Bribery Standard
- UN Global Compact
- Global Human Rights
- Equal Employment Opportunity
- Health Care
- Coffee and Farmer Equity (C.A.F.E.) Practices
- Cocoa Practices
- Starbucks Social Responsibility Standards for Manufactured Goods and Services
- Animal Welfare
- Deforestation
- Sustainable Palm Oil
- California Transparency in Supply Chains Act
- Conflict Minerals Disclosure

Starbucks Bonus Compensation Plans

Bonus Type	Description	Rationale	Shortcomings
Base Pay	Based on pay rate, skills, job performance, and experience.	Provides incentives for employees to encompass Starbuck's expectations as employees.	N/A
Bonuses	Rewards based on achieving specific business goals.	Provides incentives for employees to work above and beyond.	May promote unrealistic expectations, and cultivate employee competition.
Benefits	Health coverage, income protection, reimbursement accounts - Tuition Reimbursement, Employee Assistance Program, Commuter Benefit Program and Adoption Assistance	Offers incentives for employees to stay with the firm.	Can be costly and make financial planning more troublesome.
Savings	Future Roast, 401 k savings plan	Offers incentives for employees to stay with the firm.	Expensive
Stock	Bean Stock (equity reward program)	Promotes longer stay than other compensation.	Can potentially hurt shareholders.
Perks for Partners	Extra benefits for partners	Develops a strong and positive outlook on the firm.	N/A

Starbucks Coffee's organizational structure is a mixture between Functional, Geographic divisions, Product-based divisions, and teams which evolves when necessary. This helps

facilitate effective strategy implementation, because they are able to fluctuate based on the needs of the business during specific times (Meyer, 2017).

As far as the Starbucks culture, they have created a comfortable but work friendly environment for both employees and customers alike. They describe it as "a third place between work and home" (Company Information, n.d.). One person, one cup, and one community at a time insinuates that their culture is giving back to the people through every transaction. They have created this idea (that they fully support through action), that they want to be the positive change in our world.

As the company has progressed, so has their mission. They have given back to communities, the environment, and even the communities in which their coffee originates. Most large firms can be damaging to the external environment, but Starbucks has bettered everyone they have come into contact with. Between their environment, strategies, culture, and structure, they are all a good fit and compliment each other well. Starbucks is a brand that you can be proud to support and add to your weekly routine because of the culture they provide.

Starbucks' president Shultz is also extremely well known for his strategic leadership practices. Two key strategies that he has come up with are that: he recruits the best performers in his company, and also encourages them to disagree with him when they feel necessary. This is an extremely simple concept, that shows management that he believes in their leadership. It also shows that he recognizes that he is not always right and is open to new and innovative ideas. This tactic is a competitive advantage, because it offers new insight, while also empowering his employees to strengthen the brand (Lebowitz, n.d.).

Strategic Control Analysis

Strategic control is concerned with the creation and implementation of strategic planning within a firm. In Starbucks' case, *implementation control* is used to determine whether or not they should maintain their current course of action or take due recourse when pursuing strategies to obtain goals and objectives. Starbucks specifically performs *monitoring of strategic thrusts* and *milestone reviews* in a number of ways.

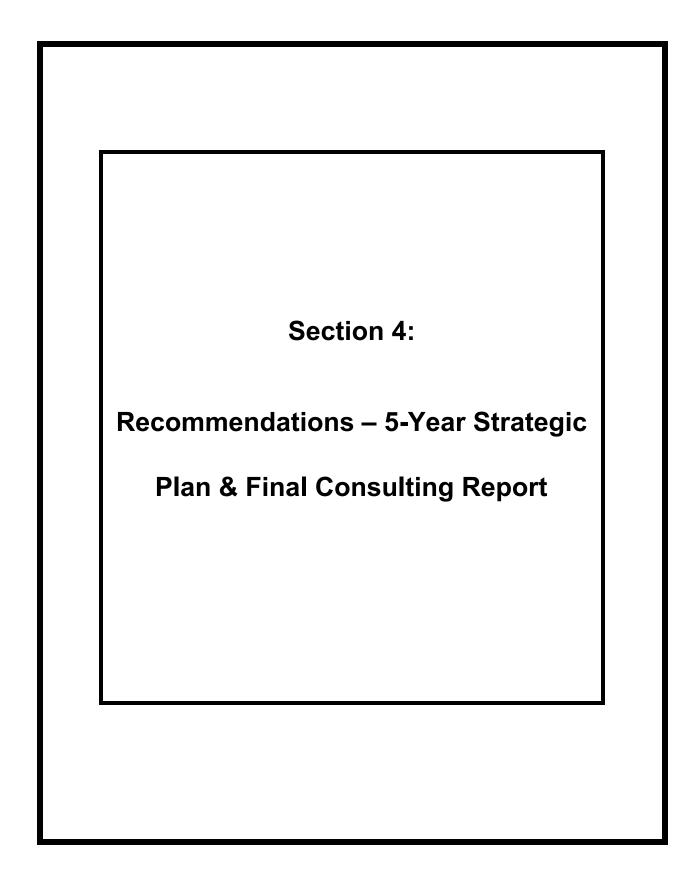
In 2016, Starbucks had an exceptionally innovative year including the development of *My Starbucks Barista*, powered by Artificial Intelligence (AI) for its mobile app. "Starbucks offers the largest mobile ecosystem of any retailer in the world, with more than 12 million Starbucks Rewards members, 8 million mobile paying customers (1 out of 3 use Mobile Order & Pay), and more than \$6 billion loaded onto prepaid Starbucks Cards in North America during the past year alone" (Company).

They also introduced new food choices, limited edition roasted coffee beans, innovative soup options, crafted *Teavana* tea options and *Reserve Roasteries* all while going international -with China being the largest international market for Starbucks. The development of My Starbucks Barista, the planned menu innovation and the steps taken toward market development are all *strategic thrusts* that serve to achieve Starbucks ultimate goal which is to "elevate" the Starbucks experience for the greatest amount of people possible. After the rollout of their new products and expansions occur, they will evaluate whether they have met their goals in a *milestone review* which as of now, is to open 12,000 new stores.

The role of CEO and COO in Starbucks has changed between a few people within the last 20 years, but Starbucks' strategy and operational control system has remained the same: 1.

Set standards of performance, 2. Measure actual performance, 3. Identify deviations from standards set, 4. Initiate corrective action" (Pearce).

For example, Starbucks' general store managers, human resources, and marketing teams are able to access information pertinent to providing higher ranking managers, such as CEO's and COO's, with facts and statistics that dictate whether a plan is successful or needs to be adjusted. Starbucks gathers this information in a number of ways, but mainly by pulling financial information from multiple stores within a given region and benchmarking current performance or annual sales reports to prior years. If a store is performing worse than expected, the overall strategy is then reevaluated and adjusted to meet the current performance standards.



Analysis of External Environment

Below is a table summarizing Starbucks key opportunities and threats:

Key Opportunities	Key Threats		
Starbucks is expanding into new markets, specifically in Asia and is seeking to open 3,000 new stores in China	 Weak Barriers to Entry Coffee Sellers engaging in penetration pricing Coffee and breakfast items are relatively easy to replicate Drive thru and dine-in options with with offered in other coffee shops 		
Starbucks is differentiating their product mix by expanding into teas, unique coffee based beverages, and food options	 Unfamiliarity when first Navigating Foreign Markets Must abide by foreign Government Regulations Requires constant development of foreign distribution channels 		
Consumer Demand for Pre-Packaged Goods • Starbucks has partnered with PepsiCO to distribute Ready To Drink Beverages throughout retail stores	Forced outsourcing of staple resources		
Consumer Demand for Societal Stewardship • Strategic Alliance with Feed America to provide meals for Americans in need			

Analysis of Internal Environment

Below is a table summarizing Starbucks key strengths and weaknesses:

Key Strengths	Key Weaknesses
 Brand Recognition Cult like following Less need for marketing High Demand 	Oversaturating their own market niche
 Extensive global supply chain Relationships with global suppliers Multiple sources of distribution channels 	 Higher price points On average \$2 more expensive than competition Not price competitive Requires higher level of product differentiation
Chain stores	Generalized standards for most products • Not always effective or conducive to product innovation
Superior brewing and mobile order Technology programs	 Imitable products Coffee and breakfast items are easy to copy In store dining & wifi as well as drive thru options easy to recreate
Strategic Alliances • Feed America • PepsiCo	

Mission Statement Recommendation

Starbucks' current mission statement is "To inspire and nurture the human spirit-- one person, one cup, and one neighborhood at a time." After conducting an internal and external analysis for Starbucks, it was decided that they should continue operating under the same mission statement because it is both timeless and states why they are in business in the first place. It communicates to their stakeholders the value that they can provide through nurture, and hints at their goal to better local communities, the livelihoods of their suppliers, and the lives of their customers

By operating according to a mission that outlines the importance of fulfilling their stakeholders wants and needs, they increase the support and strength of the company's brand. Strong mission statements, such as Starbucks, tend to have an actionable goal. Actionable goals are important to include in a mission statement because they force the company to be more specific about what the company is trying to accomplish and shows proof to the public that their firm has a purpose other than just making a profit.

While "nurture" is a more broad objective, it leaves Starbucks the opportunity to define what that means. However, nurture does imply taking care of people and treating them right which is exactly what Starbucks does. If Starbucks continues to execute their goals with their current mission statement in mind, they will continue to have the blessing and business of the public.

Generic Strategy Recommendation

Starbucks Coffee's generic strategy of product differentiation which allows them to sell at higher price points has proven to be successful as a long term strategy. After analysis and evaluation of their current efforts, it is recommended that Starbucks continues on their current path. As of now, Starbucks places strict controls on product quality and consistency while expanding their markets and growing their market share, innovating products to increase differentiation, and making the world a better place through their social and economic programs and policies.

Variables in the market may change overtime, but Starbucks' current positioning as an industry leader and a company that takes accountability for their actions is a great place to be. Some of the strategies that they should build on would be to conserve and enhance their outstanding reputation, continue enforcing quality service and products at higher price points, adapting their product for foreign market expansion, and striving for unique products through innovation and differentiation.

Using the differentiation strategy, Starbucks has expanded their product mix, increased convenience for the customer through retail items provided by their PepsiCo partnership and drive thru options, as well as building their brand image in a favorable manner by forming a strategic alliance with Feed America to provide meals for those in need.

Starbucks has positioned themselves so well that for many customers, there is no substitute. Customers remain loyal to the brand because of the quality products and services they offer, their focus on differentiation, as well as the impeccable reputation they continue to

uphold. It's hard not to like Starbucks when they are improving our world, while providing you with your daily caffeinated beverage.

Grand Strategy Execution

In order to successfully achieve the long term goals and objectives outlined, an action plan must be established upon which all future business activities will be based. After analysis of Starbucks' current goals and strategies, the following chart is what's recommended for Starbucks' future long term strategies. It also indicates which Grand Strategy is involved.

Grand Strateg	y Execution
Long Term Objective	Selected Grand Strategy
 Profitability Objective (Profit margin above 13% + 0.5% increase each year) (Return on equity increase by 5% for 3 years + 3% for following 2 years) (Return on investment of 35% + 2-3% increase each year) 	 Concentrated Growth Market Development

 Productivity Objective (Food sales revenue increase by 1.3% each year) (Beverage sales revenue increase by 1.5% each year) (Single serve coffee and tea sales by 1% each year) (Maintain and develop relationship with suppliers) 	 Concentrated Growth Product Development
Competitive Position Objective ■ (Increase market share by 3-5% - total share to 68-70%)	Market DevelopmentHorizontal Integration
 Employee Development Objectives (Partnerships with employees to share in business successes) (Team oriented leadership) 	Concentrated Growth
 Employee Relations (Continue to offer benefits to employees) (Expand CUP financial assistance) (Hire 10,000 military veterans + 10,000 opportunity youth by 2018) (Achievement College Plan for employees – commit to 25,000 graduates by 2025) 	Concentrated Growth
Technological Leadership Objectives (Expand Mobile Order & Pay to cover 9,000 stores by 2022 + 10,500 stores by 2027, increase usage from 8 million to 16 million by 2025) (Expand Facebook presence through coupons) (Develop algorithm to better understand customer's use of coupons and favorite products)	 Innovation Product Development

Social Responsibility

- (Maintain 99% ethically sourced coffee over next 10 years)
- (Open one Farmer Support Center every other year)
- (Partnership with sustainable companies)
- (Develop a more integrative community outreach program by 2020)

- Joint Venture
- Vertical Integration (potentially)

Recommendations for Long-Term Objectives & Grand Strategies

Profitability Objectives

Please See Exhibit 1.2 in Appendix

The grand strategies that will be used to meet these profitability objectives are

Concentrated Growth and Market Development. Starbucks typically either offers drinks for a

limited time such as the "Unicorn Frappe", brings them back seasonally such as in the case of
the "Pumpkin Spice Latte", or introduces brand new menu items like the "Midnight Mocha

Frappuccino" which if successful, may achieve permanent residency on their menu. By
pushing their resources towards the success of these products via the concentrated growth
strategy, it can both attract new customers and bring back previous ones. This strategy is
helpful in keeping sales constant throughout the year, but it also creates an additional source of
company revenue because all of these methods spike demand, even if it is just for a short while.

Continued innovation and rollouts of new products through concentrated growth could be a
great way to increase stagnant demand and company profit.

. On the other hand, the market development strategy is particularly helpful for increasing profit in Starbucks case since their rapid expansion in the US has left little real estate and demand for stores in the areas that already have them. By developing more stores in lower income neighborhoods and expanding to foreign markets, there is more demand and therefore, stands to be more opportunities to increase overall company profit.

Productivity & Technological Leadership Objectives

Please Refer to Table 1.3 in the Appendix

The strategies that will be utilized to achieve the productivity objectives are concentrated growth, product development, vertical integration, and joint venture. As we already know, the more resources you put towards making and promoting a product, the more likely it is to be successful. The goal to increase sales revenue via food and beverage sales as well as pre-packaged ones would need to be done by concentrating growth on these specific items.

Despite Starbucks being a household name in coffee and requiring less marketing for brand awareness purposes, the more dedication placed on pushing a product, the more successful it will be. Since Starbucks already does a great job at promoting their drinks, we recommend that they follow suit with their food items and pre-packaged goods via development of social media ads, an email campaign, and coupons.

In regards to keeping costs of productivity low, Starbucks should seek out technology firms for AI product development, experiment with new cost saving technologies in all of their operations (ex different shapes and materials for product packaging), and new methods of preservation for expirable products. In some instances, vertical integration or joint ventures with other companies who have mastered these facets could be an effective strategy for Starbucks to pursue.

Competitive Position Objectives

Please See Exhibit 1.4 in Appendix

The grand strategies that will be utilized to achieve these competitive position objectives are market development and horizontal integration. As already discussed, Starbucks is moving into low income neighborhoods and foreign markets which will be conducive in increasing the amount of stores they license to. In regards to increasing their market share, horizontal integration through teaming up with competing firms could be a very effective method for increasing market share. Specifically, since McDonalds has the second greatest share of the coffee market, Starbucks should consider licensing the use of some of their specialty beverages in McDonalds facilities.

Employee Development & Employee Relations Objectives

The grand strategy that will be used to achieve the employee development and relations objectives and employee relations is concentrated growth. Starbucks truly fosters a healthy relationship between them and their staff, but to better this relationship even more, they will need to focus their resources and efforts to create a variety of programs and policies to increase employee engagement, employee education, benefits, and diversity.

Social Responsibility Objectives

The grand strategies that will be essential in fulfilling social responsibility objectives are innovation and product development. Starbucks places high importance on ethically sourcing their resources, but in order to maintain these ethics and to continue to help their supplying

farmers, they must continue developing and improving on their current efforts. Presently, Starbucks already has farmer support centers that aid and educate their coffee bean suppliers. These centers work with farmers and teach them the best technologies to make farming easier and their harvests more bountiful. By working to achieve more innovative techniques to pass on to these farmers, new resources to aid them, and increasing the amount of these farmer support centers, Starbucks can ensure that their coffee is ethically sourced for years to come.

Recommendations for Short-Term Objectives and Action Plans

Short Torre Objectives	Action Plan						
Short-Term Objectives	Functional Tactics	Time for Completion	Owner				
Continue development of Chinese market by reaching 3000 stores in China by the start of 2018 to stay on pace of goal to open a total of 5000 stores in China by the start of 2021	 Open new stores in Chinese market. Bring top employees in America, over to China for training new employees. 	1 year	Marketing & Production				
Purchase all coffee from farmers certified under the Starbucks Coffee and Farmer Equity program by the start of 2019 to strengthen supply chain and increase quality management.	 Recruit more potential farmers. Bring on at least 5 within the next 6 months. 	2 years	Marketing & Finance				
Complete rollout of Pathway to Admission program with Arizona state to offer higher education scholarships	 Increase college enrollment rate within Starbucks. Host info sessions about the positive 	6 months	Human Resources				

to all employees by the start of 2018.	changes in benefits.		
Revamp the Barista Basics Training Program to include new menu items and further barista development by the start of 2018	 Develop creative menu items. Interact with employees. Host a contest within the stores to encourage new menu item ideas. 	6 months	Human Resources
Adapt to current consumer trends and offer new menu items by the start of 2018 to further develop Starbucks' menu to the liking of all consumers	 Expand market share. Increase profitability. Add new menu items. 	6 months	 Research & Development and Marketing
Continue to build out of Starbucks app for customer loyalty and the introduction of My Starbucks Barista that implements Artificial Intelligence by Q3 of 2017	Enhance mobile applications.	3 months	Marketing & Research & Development
 Continue push for "green" Starbucks stores and bring all Starbucks stores to LEED® building standards by Q3 of 2018. 	Reduce waste. Reduce energy use. Purchase ethically sourced coffee.	1 year 3 months	 Production/Op erations & Research & Development

Policy & Compensation Plan Recommendations

As any manager in business knows, employee retention is a key component to keeping a company on budget. Hiring and training new employees takes time and money that a firm

could be expending somewhere else, so it is essential that companies such as Starbucks try to keep their staff happy. After analyzing the policies and compensation plans Starbucks has in place for employees, it is clear to see that they truly care.

Starbucks currently pays entry level employees higher than minimum wage and just offered all employees across the world a 5% raise. Employees already received an annual beanstock reward as well which after two years of employment, Starbucks has agreed to double it. They offer customized benefits packages that they call "Your Special Blend" so that employees can choose which benefits cater most to their lifestyle. Starbucks will match their 401 k contributions and they even offer adoption and college tuition assistance (Starbucks).

With so many programs already available, it's hard to make any meaningful recommendations. Starbucks' believes that happy employees results in happy customers and this shows in all the ways they try to better employees' lives. Overall, the best we could recommend in regards to compensation is that their tuition assistance program being extended to other colleges besides ASU. Additionally, giving employees a chance to earn company stock as an incentive for dedication and service to the company would be an excellent bonus that would also give them a reason to feel personally invested in the well-being of the firm.

Executive Strategy Implementation

Recently, Starbucks hired their new chief executive officer Kevin Johnson, to help drive their strategy of global growth (Starbucks Newsroom) and to concentrate on leadership practices such as being a servant leader, modeling the way, inspiring others, being team driven, loyal, and challenging processes. Starbucks is currently using what is known as a matrix organizational structure, a hierarchy that involves a functional structure and divisional structure; divisions including geographic, product-based, and team-based. Both of Starbucks' leadership

practices and organization structure are suitable for where they are heading and are in no need of change at the moment.

Effective strategy starts at the highest point of the hierarchy, specifically through the functional structure. This aspect comes with the grouping of business functions involving the chief executive at its top and department divisions such as HR, marketing, and financing below. This allows Starbucks' to implement its formal tasks, activities, and procedures in an integrative and coordinated manner. The personnel in charge of each of Starbucks' division are then able to concentrate on functional specialties related to the work necessary within the division they govern.

Next is the divisional structure, Starbucks specifically divides this into three strategic business units based on geography with a vice president in charge of each; (1) China and Asia-Pacific, (2) Africa, Russia, and the Middle East, (3) the Americas and Europe. Following the geographic division is the product-based division which is broken down into various units revolved around the products offered by each brand: Starbucks, Teavana, La Boulanga, Evolution Fresh, Seattle's Best Coffee, and Tazo Tea. Lastly, the lowest level of Starbucks' structure is broken down into a team structure, revolved around customer service, clients, and product delivery. Starbucks' divisions help in utilizing heterogeneous customer base groups and unrelated channels within the market.

- Functional Advantages: Specialization, expertise, day-to-day delegation, centralization
- Divisional Advantages: Rapid response, close proximity, product and market focus,
 performance accountability
- Matrix Organizational Structure Advantages: Training ground, creativity, diversity, middle management exposure

Strategic & Operational Control Recommendations

Strategic controls are exceptionally important in the key implementation of a given firm's long term goals. Starbucks' ceo Howard Schultz expresses: "Every hour of every day, someone somewhere is walking into one of our 26,000 Starbucks stores in 75 countries around the world. As we approach our 25th year as a publicly traded company, the Starbucks brand is as relevant today as it has ever been, driven by the 330,000 people who proudly wear the green apron" (Company). It is because of the success of Starbucks' long term goals that they have been able to build the empire that surrounds us today. Starbucks does an exceptional job reassessing its long term goals quarterly, keeping track of their strategic and operational controls, and making sure that the standards set are being met.

In terms of *premise control*, Starbucks should be closely monitoring their stores to ensure that their earnings are meeting their projections for new company processes and innovative products. If they see that they're not, they must either allocate more resources as they deem necessary, or drop the entire concept as they did with their Evenings wine and beer program. Additionally, Environmental factors should also be closely watched because part of Starbucks' mission is to embody sustainable products and ethical practices. They have already taken some initiative to guarantee that they will have a consistent supply of coffee beans that are ethically produced through their farmer support centers. Here they monitor their suppliers' activities as well as educate them on the best methods for farming that are both sustainable and cost effective. However, the tighter their relationship with their suppliers can be, the better.

With Starbucks excessive company growth over the last several years, it is easy to fall victim to management myopia. However, Starbucks should take *special alert control* into serious consideration in the case of an unexpected, sudden event that could impact their

business. For example, when the world's biggest coffee producer Brazil went through a drought, prices for coffee went up significantly. Being cognizant of what's happening in the environment around you even though it may not seem pertinent at the time can potentially save a business from going under.

In the case of Starbucks' *implementation control*, the company should be prepared to assess whether their overall strategies should be changed by *monitoring strategic thrusts* and *milestone reviews*. These are typically done by benchmarking results from previous years which allow them to forecast and determine the success or failure of their various strategies. Since differentiation is at the core of their generic strategy, they should pay special attention to sales on new beverage rollouts and test their products on smaller scales through controlled trials before launching them internationally. As they recently learned, the Unicorn Frappe received horrible reviews which could have easily been avoided with a little more planning and time spent at the product trial phase.

While all of these recommendations could stand to improve Starbucks, their continued success proves that they know what they are doing. Even if they continue on their present path and make none of these recommended changes or follow these controls, it is likely that they will still see continued growth and reign as leader and majority market share holder in the coffee industry.

Appendix

Exhibit 1.1: Starbucks Historical Performance Chart

Year	# of Stores`	New Store Openings	Operational Changes & Milestones	Acquisitions	Employee Relations
2005	10,241	Bahamas, Ireland and Jordan.	Announces fifth two-for-one stock split.	Acquires Ethos Water.	
2006	12,440	Brazil and Egypt.			Launches the industry's first paper beverage cup containing post-consumer recycled fiber.
2007	15,011	Denmark, the Netherlands , Romania and Russia.	Eliminates all artificial trans fat and makes 2 percent milk the new standard for espresso beverages.		
2008	16,680	Argentina, Belgium, Bulgaria, Czech Republic and Portugal.	Chairman Howard Schultz returns as chief executive officer. Adopts new Mission Statement "To inspire and nurture the human spirit — one person, one cup and one neighborhood at a time." Launches My Starbucks Idea, Starbucks first online community. Also joins Twitter and debuts Starbucks Facebook page.	Acquires Coffee Equipment Company and its Clover® brewing system.	

2009	16,635	Aruba and Poland.	Launches Starbucks VIA® Instant Launches My Starbucks Rewards® loyalty program and Starbucks Card mobile payment.		Opens Farmer Support Center in Kigali, Rwanda.
2010	16,858	El Salvador, Hungary and Sweden.	Expands digital offerings for customers with free unlimited Wi-Fi, Starbucks Digital Network. Seattle's Best Coffee reinvents business strategy to extend brand's reach.		
2011	17,003	Guatemala, Curacao and Morocco. First Community Stores in Harlem and Crenshaw neighborhoo ds	Launches Starbucks® K-Cup® packs.	Acquires Evolution Fresh.	Launches first annual Global Month of Service. Opens Farmer Support Center in Mbeya, Tanzania. Launches Create Jobs for USA to encourage small-business growth.
2012	18,066	Costa Rica, Finland, India and Norway.	Introduces Starbucks® Blonde Roast. Launches Starbucks Refreshers® beverage platform.	Acquires La Boulange® bakery brand to elevate core food offerings. Acquires Teavana to transform the tea category	Opens Farmer Support Centers in Manizales, Colombia and Yunnan, China.

2013	19,767	Vietnam and Monaco		Strengthens ethical sourcing efforts with coffee farming research and development center in Costa Rica. Starbucks ceo Howard Schultz reinforces company's commitment to marriage equality. Come Together petition urges U.S. elected leaders to reopen the government.
2014	21,366	Brunei and Colombia. First Starbucks Reserve® Roastery and Tasting Room in Seattle.	Enhances iPhone app with shake to pay and digital tipping. Launches Starbucks Mobile Order & Pay.	Hosts first in a series of Partner Open Forums to discuss race relations in America. Launches Starbucks College Achievement. Plan (ability to complete college degree through ASU online program). Announces commitment to hiring 10,000 veterans and military spouses by 2018.
2015	22,519	Panama	Launches Cold Brew iced coffee and Evolution Fresh™ handcrafted smoothies. Announces sixth two-for-one stock split.	Reaches 99% ethically sourced coffee milestone. Commits to hiring 10,000 opportunity youth by 2018. Expands Starbucks College Achievement Plan to offer full tuition coverage for all four years of an undergraduate degree for qualifying U.S. Starbucks partners. Commits to 25,000 partners graduating by 2025.

Exhibit 1.2: Starbucks Financial Chart

Profitability	2007-09	2008-09	2009-09	2010-09	2011-09	2012-09	2013-09	2014-09	2015-09	2016-09	TTM
Tax Rate %	36.33	31.34	30.11	34.01	31.09	32.75	-	34.56	29.30	32.86	32.74
Net Margin %	7.15	3.04	4.00	8.83	10.65	10.40	0.06	12.57	14.39	13.22	13.47
Asset Turnover (Average)	1.93	1.89	1.74	1.79	1.70	1.71	1.51	1.48	1.65	1.59	1.64
Return on Assets %	13.77	5.73	6.95	15.81	18.12	17.76	0.08	18.57	23.77	21.05	22.13
Financial Leverage (Average)	2.34	2.28	1.83	1.74	1.68	1.61	2.57	2.04	2.14	2.44	2.54
Return on Equity %	29.81	13.21	14.12	28.14	30.91	29.15	0.17	42.41	49.73	48.16	55.33
Return on Invested Capital %	20.72	9.48	10.69	23.89	25.96	26.54	0.46	30.79	35.86	31.02	32.87
Interest Coverage	-	-	15.30	44.95	55.39	63.97	-7.18	50.29	56.36	52.64	48.23

Exhibit 1.3: Starbucks Revenue Breakdown

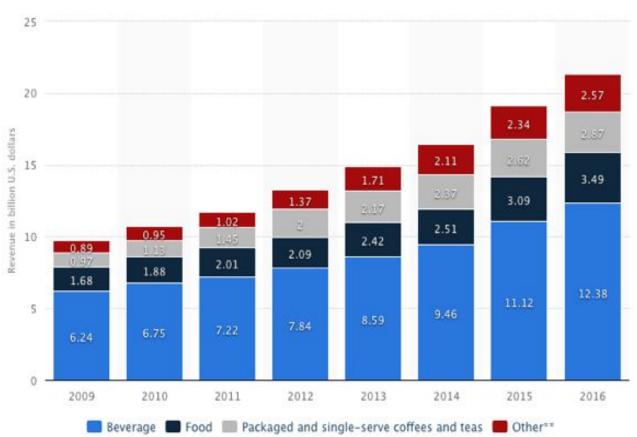


Exhibit 1.4: Starbucks & Competitors' Market Share In Coffee Industry

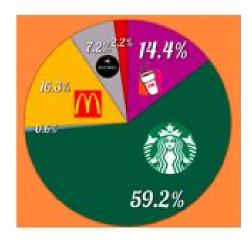


Exhibit 1.5: Starbucks Financials

Ratios (%) & Working Capital	2013	2014	2015	2016	Explanations
Liquidity: Current	1.02	1.37	1.19	1.05	A current ratio above 1 indicates that Starbucks' assets are greater than its liabilities and the firm is able to pay off its obligations if they come due
Quick	0.81	1.01	0.88	0.74	Over the past 4yrs, the company has maintained a positive quick ratio which indicates that the firm can repay debts without having to convert inventory to cash
Debt Equity	1.57	1.09	1.13	1.44	Starbucks' debt-to-equity ratio is relatively low which indicates that the company has not been overly aggressive in financing its growth with debt
Financial Leverage	2.57	2.04	2.14	2.44	This ratio indicates that over the past 4yrs Starbucks EPS changes by an average of 2.3% over the percentage change in EBIT which makes this an attractive investment
Asset Turnover	1.51	1.48	1.65	1.59	A positive and relatively high for the industry asset turnover ratio indicates good performance and implies that Starbucks is generating more revenue per dollar of assets
Fixed Asset Turnover	5.08	4.90	5.04	4.94	Over the past 4yrs, the high fixed asset turnover ratio indicates that the firm is efficient in managing fixed-asset investments and generates revenue from these investments
Inventory Turnover	5.43	6.23	6.50	6.34	Starbucks' high inventory turnover ratio implies strong sales when compared to the industry average
AR Turnover	4.87	5.87	5.78	5.37	The high accounts receivable ratio indicates that the firm collects AR efficiently and they have a high proportion of quality customers that quickly pay off debts
Profitability: ROA	0.08	18.57	23.77	21.05	In the past 3yrs, a high ROA indicates that the firm has efficiently managed assets to generate earnings
ROI	0.46	30.79	35.86	31.02	In the past 3yrs, a high ROI indicates that the firm is generating profits off of investments
ROE	0.17	42.41	49.73	41.16	In the past 3yrs, the high ROE indicates that the firm is profitable in generating money from what has been invested by shareholders
Working Capital (USD Millions)	94	1,130	699	213	Starbuck's has very healthy working capital indicating that it has sufficient capital for use in its day-to-day operations

^{*} Fiscal 2013 results include a pretax charge of \$2,784.1 million resulting from the conclusion of our arbitration with Kraft Foods Global, Inc. The impact of this charge to net earnings attributable to Starbucks and diluted EPS, net of the related tax benefit, was \$1,713.1 million and \$2.25 per share, respectively. This accounts for the low ROA, ROI, ROE, & working capital in 2013 (Starbucks).

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Acknowledgements

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