



To: CEO and Board of Directors, Starbucks Corp.

From: Teerth Satwara, Strategy Analyst

Date: October 24, 2024

Subject: Entering unorganized market via Global Coffee Competition

---

## **[1] Brewing a Revolution: Introducing the Starbucks Coffee World Cup**

Starbucks is currently facing several internal and external challenges, resulting in missed sales targets for two consecutive quarters. To address this, I propose the **Starbucks Coffee World Cup**, which aims to strengthen the brand's position by hosting an annual global competition featuring Starbucks reserves alongside independent coffee shops. This initiative focuses on rejuvenating brand recognition while creating opportunities for strategic partnerships in the Third Wave coffee market. By offering in-store exclusives and supporting local talent, the strategy seeks to increase brand loyalty, enhance Starbucks' reputation as a quality-focused leader, and pave new pathways for partnerships and market adaptability.

## **[2] Analysis of the External and Internal Challenges**

### **[2.1] Market Analysis and External Challenges**

Starbucks faces several external challenges, including supply chain disruptions and coffee price volatility caused by unpredictable weather and global logistics issues [1]. Shifting consumer preferences (Health Conscious), such as growing demand for specialty beverages and health-conscious options, require strategic menu adaptations [2]. Economic factors, such as inflation and reduced discretionary spending, can impact sales. Additionally, the rapid adoption of digital technologies demands ongoing investment in mobile ordering and payment systems to enhance customer experience and maintain a competitive edge [2]. (Appendix - 2)

### **[2.2] Company Analysis and Internal Challenges**

In recent years, Starbucks has shifted from a sit-down model to a convenience-focused approach, emphasizing app-based ordering and pickup. However, this transition has sparked customer dissatisfaction due to high prices, slow pickup times, and underwhelming food options. Store visits declined by 4%, and spending per visit dropped by 3% compared to last year. While Starbucks highlights in its 10-K that it takes pride in offering customizable options, the complexity of ordering has become a significant challenge—ordering a latte alone offers 383 billion combinations [11]. This shift, coupled with rising competition and high prices, has led to declining revenues and operating income [3][4][5]. The company, despite its financial condition (APPENDIX - 8), is still a global leader in its sector (APPENDIX - 3) Since Pandemic, customers have become price-conscious, however, Starbucks cannot play on price. To better understand my assertion, consider this example: Starbucks increased its price of a Mini from \$3.95 to \$4.95 which is 25% hike, compared to McDonald's increase, from \$3.13 to \$4.39 which is a 40% increase, is still beating Starbucks at price[A.2]. This suggests that even though Starbucks increased its price at lower rate compared to its competitors, it is still higher because of its previous pricing [8].

## **[3] How my strategy helps to overcome Challenges**

Starbucks' World Cup strategy aims to address internal challenges by boosting foot traffic, fostering goodwill among customers, encouraging longer in-store visits, and introducing innovative drinks. To tackle external challenges, Starbucks can position itself as a leader and collaborator within the highly fragmented third-wave coffee market, which consists of independent, small, local coffee shops. This approach allows Starbucks to access untapped market opportunities and faster and sustainable licensing. Considering current trends—where customers are becoming more health-conscious, and small independent coffee shops are seeking consolidation through partnerships—Starbucks presents itself as an appealing option.



#### [4] Four Action Framework

Eliminate	Reduce	Raise	Create
<p>Extra spending on generic ads [13].</p> <p><i>Shifting focus to a unique, experiential offering like the World Cup sets Starbucks apart in a saturated market.</i></p>	<p>Decrease reliance on traditional product advertising methods [13].</p> <p><i>Channel funds into experiential marketing (e.g., World Cup) that boosts long-term brand loyalty and engagement.</i></p>	<p>Elevate the exclusivity and premium nature of Starbucks products by featuring competition-winning drinks.</p> <p><i>Customers value limited-time, exclusive products that enhance the perceived luxury of the brand.</i></p>	<p>Partnership in 3<sup>rd</sup> wave coffee.</p> <p><i>Entering 3<sup>rd</sup> Wave of coffee via partnerships opens new streams of revenue</i></p>
<p>Heavy dependence on Mobile purchases.</p> <p><i>Staying true company's core values</i></p>	<p>Aggressive Opening of stores without fixing financial challenges</p> <p><i>Company is closing stores at half the rate it is opening[3]</i></p>	<p>Awareness of their environment and public-centric initiatives</p> <p><i>Company does little in advertising its stories[9]</i></p>	<p>Develop a global platform for coffee innovation and barista excellence through the Starbucks Coffee World Cup.</p>

#### [5] Blue Ocean Strategy

The **Starbucks Global Annual Coffee Competition** will feature 16 competitors—6 Starbucks Reserve locations and 10 independent coffee chains—competing in various segments, some of which will be unique and declared a few months prior to the event (refer Appendix - for timeline). For instance, a new segment focused on creating health-conscious drinks using **millets** [15], a superfood, will be introduced to align with growing consumer trends. The competition will culminate in a global showcase of the winning drinks and exclusive Starbucks Reserve [14] offers available for a limited time in regular Starbucks locations, not available for online orders, with extra star points for customers who buy them. The event will also provide licensing opportunities for the best independent shops, ensuring alignment with Starbucks' high-quality standards. Through this competition, Starbucks aims to highlight innovation, sustainability, and community engagement while offering unique in-store experiences to promote customer loyalty. The company collects \$14 B in gift cards, is essentially free loan by customers, which can be used to fund [5].

Total Cost –1 million (APPENDIX - 5)

Total Revenue – 10 million (APPENDIX - 6)

Return on Investment – 900% (From the event alone)

A 10% adoption rate yields a \$36 million impact on in-store sales alone, demonstrating the scalability of the Starbucks Coffee World Cup. Below graph shows year-on-year growth.



Year	Activities	Goals	Estimated Costs	Projected ROI
Year 1: Planning and Pilots	<ul style="list-style-type: none"> <li>- Develop competition structure and partnerships.</li> <li>- Pilot events at Reserve locations.</li> <li>- Test exclusive drinks.</li> </ul>	<ul style="list-style-type: none"> <li>- Refine framework.</li> <li>- Build partnerships and generate buzz.</li> </ul>	\$900K - \$1.3M	No ROI yet; investment phase.
Year 2: Regional Rollout	<ul style="list-style-type: none"> <li>- Launch qualifiers across key markets.</li> <li>- Introduce app features for customer voting and AR stories.</li> <li>- Offer winning drinks as exclusives.</li> </ul>	<ul style="list-style-type: none"> <li>- Increase foot traffic by 10%.</li> <li>- Boost customer engagement through digital and in-store experiences.</li> </ul>	\$1.2M - \$1.5M	Early ROI: 25% (\$3M) from sales.
Year 3: Global Rollout	<ul style="list-style-type: none"> <li>- Host global finals.</li> <li>- Expand exclusive products globally.</li> <li>- Launch marketing campaigns.</li> </ul>	<ul style="list-style-type: none"> <li>- Drive 5% revenue growth (\$1B).</li> <li>- Position Starbucks as a global innovator.</li> </ul>	\$2M	Scaling ROI: 50% (\$10M).
Year 4: Expansion	<ul style="list-style-type: none"> <li>- Broaden competition categories.</li> <li>- Deepen partnerships.</li> <li>- Refine event logistics.</li> </ul>	<ul style="list-style-type: none"> <li>- Cement World Cup as Starbucks' flagship annual event.</li> <li>- Open new licensing streams.</li> </ul>	\$2.5M	Full-scale ROI: \$1B annual impact.

## [5] Value Innovation

The Starbucks Coffee World Cup embodies value innovation by creating an uncontested market space that combines global coffee craftsmanship, customer engagement, and sustainability. It delivers unique value to customers through exclusive, high-quality beverages and immersive experiences, such as voting on favorite drinks and participating in AR-powered coffee storytelling. For Starbucks, it drives revenue growth by increasing foot traffic by an estimated 10%, boosting annual revenue by 5% (approximately \$1 billion globally), and opening new revenue streams through licensing and partnerships. By providing independent coffee artisans and regional producers a global platform, the initiative fosters collaboration and reinforces Starbucks' leadership in the specialty coffee movement, setting it apart as an innovator in a competitive market.

## [6] Brewing the future of Starbucks

The Starbucks Coffee World Cup is a bold, innovative pivot strategy that addresses Starbucks' key challenges while unlocking significant growth opportunities. This annual event not only enhances Starbucks' position as a leader in premium coffee but also establishes a sustainable pathway for long-term success. By leveraging Blue Ocean Strategy principles, the Coffee World Cup creates an uncontested market space that increases foot traffic, fosters brand loyalty, and generates substantial revenue growth. This strategy ensures Starbucks' continued leadership in a highly competitive industry.



## **REFERENCES**

- [1] Coffee - Worldwide. (n.d.). Retrieved November 15, 2024, from <https://www.statista.com/outlook/cmo/hot-drinks/coffee/worldwide>
- [2] IBISWorld. (2024). *IBISWorld - Industry Market Research, Reports, and Statistics*. Ibisworld.com. <https://www.ibisworld.com/united-states/market-research-reports/coffee-snack-shops-industry/>
- [3] Starbucks. (2024). *Starbucks Reports Q4 and Full Fiscal Year 2024 Results*. Starbucks.com. <https://investor.starbucks.com/news/financial-releases/news-details/2024/Starbucks-Reports-Q4-and-Full-Fiscal-Year-2024-Results/default.aspx>
- [4] Starbucks Corporation. (2022). *Fiscal year 2022 annual report*. Retrieved from [https://s203.q4cdn.com/326826266/files/doc\\_financials/2022/ar/Starbucks-FY22-Annual-Report.pdf](https://s203.q4cdn.com/326826266/files/doc_financials/2022/ar/Starbucks-FY22-Annual-Report.pdf)
- [5] Petro, G. (2024, August 16). *Starbucks has lost its way again, and founder Howard Schultz knows why*. Forbes. Retrieved from <https://www.forbes.com>
- [6] Srikanth, R. B. (2023). *Starbucks: Market segmentation, target, and positioning (STP)*. Medium. Retrieved March 13, 2023, from <https://medium.com/@r.b.srikanth/starbucks-market-segmentation-target-and-positioning-stp-65c714be9176>
- [7] Statista. (2023). *Countries with the largest number of Starbucks stores worldwide as of October 2023*. <https://www.statista.com/statistics/306915/countries-with-the-largest-number-of-starbucks-stores-worldwide/>
- [8] Barajas, J. (2023, February 15). *Starbucks vs. McCafe: Whose coffee drinks are better?* Delishably. <https://delishably.com/dining-out/Starbucks-vs-McCafe-Whose-Coffee-Drinks-Are-Better>
- [9] Ricardo Fontana. (2024). Starbucks franchise: Everything you need to know. <https://www.franchiseba.com/starbucks-franchise/#:~:text=Licensed%20Stores%3A%20Starbucks%20operates%20a,to%20Starbucks'%20stringent%20operational%20guidelines.>
- [10] Starbucks Stories. (2024). *EMEA Barista Championship*. <https://stories.starbucks.com/emea/stories/emea-barista-championship/>
- [11] Starbucks. (2024). *Menu*. <https://www.starbucks.com/menu>
- [12] YCharts. (2024). *Starbucks free cash flow (quarterly)*. [https://ycharts.com/companies/SBUX/free\\_cash\\_flow](https://ycharts.com/companies/SBUX/free_cash_flow)
- [13] Statista. (n.d.). *Starbucks advertising spending worldwide from 2011 to 2023*. Retrieved November 15, 2024, from <https://www.statista.com/statistics/289363/starbucks-advertising-spending-worldwide/>
- [14] Starbucks Reserve. (2024). *Starbucks Reserve*. <https://www.starbucksreserve.com>
- [15] Svasthyaa. (n.d.). *10 reasons why millets are the new superfood*. Retrieved November 15, 2024, from <https://svasthyaa.com>



## APPENDIX – 1

Time in Year	Scale	Event
Jan-Feb	Local	Qualifiers
Mar - Apr	Regional	Heats
May-June	National	Finals
Aug	World Finals	Championship
Sep-Dec	Global	Post-Event Promotion

## APPENDIX – 2

### EXTERNAL MARKET FACTORS AND ANALYSIS

Category	Description	Impact on Starbucks
Supply Chain Disruption and Coffee Price Volatility	Unpredictable weather conditions and global logistics issues lead to fluctuating coffee bean prices.	Increases input costs and complicates supply chain management.
Intensified Competition	Growing presence of boutique coffee shops and expanded offerings from quick-service restaurants and convenience stores.	Requires continuous innovation to maintain market share and differentiate itself from competitors.
Shifting Consumer Preference	Rising demand for premium, specialty coffee and health-conscious options like plant-based and low-sugar beverages.	Necessitates product lineup adaptations to align with evolving consumer trends.
Economic Pressures	Inflation and economic downturns reduce discretionary spending, affecting high-priced specialty coffee purchases.	Potential decline in foot traffic and sales due to consumer shifts toward affordable alternatives.
Technological Advancement	Rapid adoption of mobile ordering and payment systems in the coffee retail industry.	Allows flexibility but hampers in-house experience and increases waiting time.

## APPENDIX – 3

### VIRO ANALYSIS OF STARBUCKS TO UNDERSTAND ITS POSITION IN MARKET

Resource/Capability	Valuable	Rare	Imitable	Organized to Capture Value	Result
Brand Reputation	Yes, strong brand recognition adds value and	Yes, few coffee companies have a	Difficult in volatile market. Requires	Yes, the company's value lies in providing	Sustainable Advantage



	attracts customer loyalty.	comparable global brand. But small independent shops are opening.	significant time and investment.		
Global Supply Chain	Yes, but supply chain volatile due to several factors	Difficult to create.	Yes, for local procurement and selling	Given the scale, adapting to change is difficult, facing challenges	Temporary Advantage
Customer Experience & Store Ambience	Created the industry of experiential coffee drinking globally	Somewhat rare, decreasing with time	Due to 3 <sup>rd</sup> Wave coffee, many independent shops provide similar ambience and experience	Yes	Temporary Advantage
Ethical Sourcing and Sustainability	Through C.A.F.E initiative, provides value to farmers and customers	Yes, few coffee companies operate on Starbucks' global scale.	Difficult to replicate, given Starbucks' established partnerships and logistics	Yes, Starbucks promotes its commitment effectively through marketing and corporate social responsibility.	Sustainable Advantage
Community and Social Initiatives	Yes, these initiatives build goodwill and align with brand values.	Somewhat rare, though more companies are adopting similar approaches.	Moderate; imitability depends on brand size and resources to invest in local initiatives.	Yes, Starbucks consistently incorporates social initiatives into brand strategy, boosting consumer trust.	Competitive Advantage



## APPENDIX - 4

### Industry Structure

Characteristic	Level	Trend
Concentration	Low	
Barriers To Entry	Low	Increasing
Regulation and Policy	Moderate	Increasing
Life Cycle	Mature	
Revenue Volatility	High	
Assistance	None	Steady
Competition	High	Increasing
Innovation	Moderate	

Source: IBIS World

## APPENDIX – 5

Cost Description	Estimated Cost
Setup Cost	\$200,000 - \$300,000
Event Staffing	\$100,000 - \$150,000
Digital Marketing Campaigns	\$250,000 - \$400,000
In-Store Advertising	\$50,000
Prizes and Licensing Fees	\$100,000 - \$200,000
Product Development for Winning Entries	\$150,000
CSR and Wellness Initiatives	\$100,000
Total Estimated Cost	900,000 – 1.3 million

## APPENDIX – 6

Revenue Source	Estimated Revenue
Increased In-Store Sales	\$125,000 per location
Limited-Time Product Sales	\$500,000 - \$1 million
Licensing Revenue from New Partnerships	\$1 - \$2 million annually
Total Estimated Revenue	\$10 million



APPENDIX – 7 (18 000 stores [7])  
Source – Starbucks Financial releases 2024

**North America**

	Sep 29, 2024 <small>Close</small>	Oct 1, 2023	% Change
<i>Quarter Ended</i>			
Net revenues:			
Company-operated stores	\$ 6,018.0	\$ 6,211.5	(3.1)%
Licensed stores	673.4	685.9	(1.8)
Other	0.5	2.6	(80.8)
<b>Total net revenues</b>	<b>6,691.9</b>	<b>6,900.0</b>	<b>(3.0)</b>
Product and distribution costs	1,854.5	1,905.7	(2.7)
Store operating expenses	3,150.8	2,986.0	5.5
Other operating expenses	67.0	67.1	(0.1)
Depreciation and amortization expenses	278.2	236.6	17.6
General and administrative expenses	87.9	103.2	(14.8)
Total operating expenses	5,438.4	5,298.6	2.6
<b>Operating income</b>	<b>\$ 1,253.5</b>	<b>\$ 1,601.4</b>	<b>(21.7)%</b>