

CASE ANALYSIS



STARBUCKS

HISTORY AND BACKGROUND

- Headquartered in the Starbucks Center, the company was founded in 1971 by Jerry Baldwin, Zev Siegl, and Gordon Bowker at Seattle's Pike Place Market
- During the early 1980s, they sold the company to Howard Schultz who – after a business trip to Milan, Italy – decided to make the coffee bean store a coffeeshop serving espresso-based drinks.
- As of year, ending 1996, the company had 1000 stores in 32 Markets in North America, and two new stores in Tokyo, Japan. Starbucks employed close to 20,000 employees as of 1996
- They had strong financials – The company went public in 1992. They had Strong operating margins, EPS and Sufficient cash in hand.

ORGANIZATION STRUCTURE, CULTURE AND VALUES

- They had a Flat Organisation structure, everyone was considered a partner, Store employees could directly reach out to Executives
- Feedback and suggestions from Barista's were listened to as they were closest to customers,
- Employees were provided training, higher than market wages, insurance, stock options – this resulted in lesser than market average employee turnovers
- Starbucks believed in providing a conducive work environment and focused on integrity and respect.
- Focus on Customer at the same time ensure profitability in business
- Excellence in each stage of brewing the perfect cup of Coffee (Sourcing, Roasting, Delivery)
- Contribution to the community and Environmental sustenance

SOURCING MODEL AND SUPPLY CHAIN

- **Starbucks Sourcing Model** – Starbucks sourced its beans from different parts of the world. This allowed them to offer greater varieties of coffee to their customers while maintaining a leadership position. Starbucks to ensure quality used to sample checks at three entry gate points
 - During offer sample.
 - Just before actual shipment
 - At actual shipment.

If the Bean quality during any 3 stages were not satisfactory, they could return the entire batch. Starbucks also wanted their suppliers to be accountable and flexible with respect to quality and accept returns.

- **Starbucks Supply Chain** – Starbucks claimed they had a robust Integrates Supply chain Process. This allowed them to know “who needs Coffee when” They had a Forecasting process which was very accurate, combined with a fully integrated manufacturing and distribution process. Starbucks invested in infrastructure, strategy and skills required to make this supply chain process a benchmark amongst its competitors.

R&D (ROASTING AND BLENDING)

- Starbucks invested a great deal in the R&D of the Coffee Roasting process.
- They realized that Roasting was more than just a process or Technique – It was an art.
- They undertook a lot of research in the Roasting process using various permutations and combinations and arrived at Signature roasting curves.
- To ensure there is no leakage of trade secrets behind these research, the Signature curves were introduced into proprietary Computer Software's which could not be duplicated
- Starbucks also develop packaging products which ensure shelf life of over 5 months and the unique valve technology ensure it retained the freshness. But to ensure and maintain their strict quality policies, Starbucks ensure products remained in their shelves for not more than 3 months and once a pack was opened, that they were consumed within 7 days.

SALES AND GROWTH STRATEGY

- **Retail Stores** - Majority of Starbucks Sales were from its Retail Stores. The stores provided an experience and a place where People could meet, reflect and be themselves. This is the ideology that Starbucks wanted to project and market to its customers
- **Merchandising** – Starbucks merchandising included the best coffee machines to brew the Coffee and also Retail Merchandising that included Coffee mugs, Tumblers, Flasks and Cloth merchandise
- **Real Estate** - Starbucks also had a unique approach to scouting for its new locations and stores, they could fit a store in whatever shape or size was available if the store was in a strategic location. They also had people on the ground called street sniffers who would help them zero down on store locations
- **International Market Expansion** Starbucks decided to enter the international market place to take the first mover advantage and stay ahead of the competition. They also target markets which had heavy consumption and that which also had a liking for western brands
- **Speciality Sales with Partner** - Starbucks entered into speciality sales and agreements with other brands in the market like United airlines to server their coffee in all domestic and international flights, Retail outlets like Nordstrom and Barnes and Nobles , ARAMARK – through which they were able to reach a wide customer base.
- **New Ventures** - Starbucks also entered into New ventures in 3 different avenues – Dreyer's Ice-creams , Partnership with PepsiCo for their bottled Frappuccino product, and their own line of Grocery stores
- **Mail Orders** - Starbucks also heavily focussed on Mail order of their products through their encore subscription program which entitled customers to receive a monthly shipment of coffee beans of their choice,
- Other Strategy included introducing Starbucks Coffee to Higher End Restaurants and Chains including day part chains which are typically shops that remain open from Breakfast to Lunch.

SWOT ANALYSIS

STRENGTH

- Strong market position
- High quality products
- Customer focus strategy and loyalty
- Product Innovation and Robust supply chain
- Strong Financials

WEAKNESS

- Expensive than competitors
- Focus only on US markets

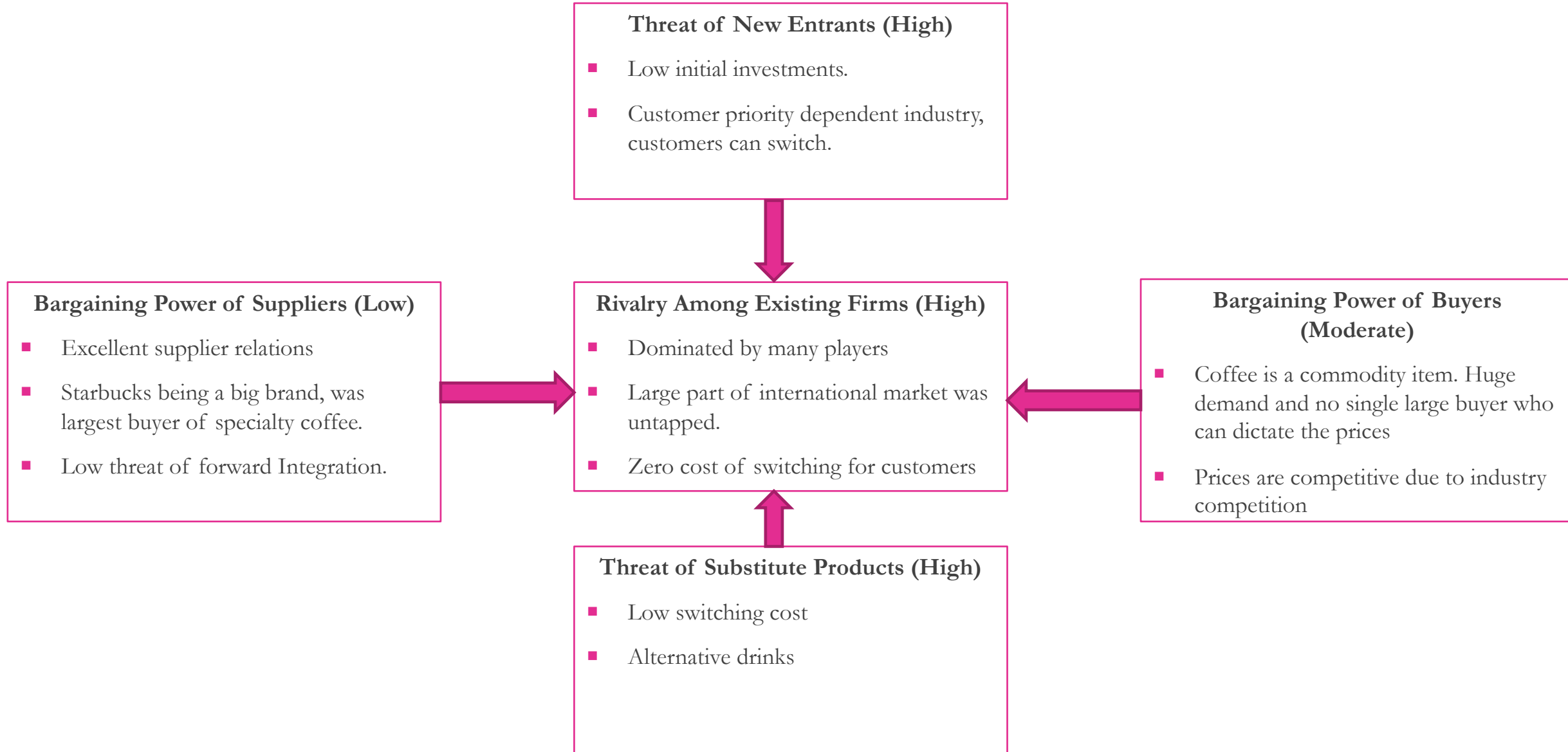
OPPORTUNITY

- Expansion into other markets like Europe where coffee consumption is higher than US
- Enter into High Echelon restaurants and day part chains
- Growth through new ventures
- Increase footprint in US market as there is a potential

THREAT

- Competition with basic coffee manufacturers.
- Competition with alternate drinks like tea, juice, soft drinks etc.
- Competition from retailers like Caribou, etc.

PORTER FIVE FORCES ANALYSIS



VALUE CHAIN ANALYSIS

- Flat organization with great employee centric culture
- Everyone was partner and not employees
- 3 Principles: Hospitality, production and education.

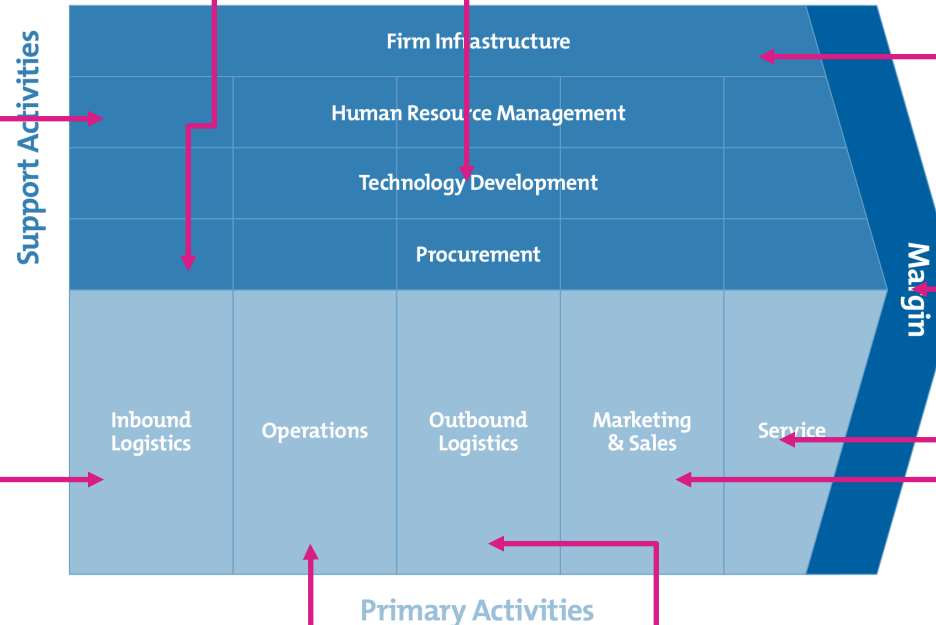
- Sourcing beans from diverse producers with great relationships and built an efficient supply chain.
- Sample check at 3 points.

- High Quality procurement of beans
- Supplier accountability.

- Use of technology and continuous R&D in Roasting and blending
- Quality machines

- Real state opportunistic.
- Flexible and use of concept of clustering
- New Espresso carts and Kiosk (Doppio)
- Specialty sales

- Continuously increase in earnings



- Customer centric retail stores.
- Unique Starbucks Experience
- Maintaining high quality/quantity mix

- Complex bakery distribution model with best transportation rates in industry and forecasting process "Who will need Coffee when"

- Customer focus and customer first strategy and customer driven model.
- High quality Merchandise

CORE COMPETENCY

High Quality Specialty Coffee

Starbucks ability to leverage its high quality procurement and product differentiation strategies to offer a premium product of high quality.

Customer Experience at Store Environment

Unique “Starbucks” Experience in stores for customers.

Explicit Customer Service

Employees are partners and contribute in rich customer experience along with strong value based approach for building relationships with customer to achieve customer loyalty

Strong Supply Chain

Robust supply chain with best transportation rates and forecasting “who will need coffee when”. Fully integrated manufacturing and distribution process with closed-loop system.

Sustainable Competitive Advantage

WHY STARBUCKS HAS BEEN SO SUCCESSFUL

Starbucks intended to turn into a company which could deliver ultimate customer value, because they knew that customer oriented brands are the one which brings success. Their strategy was to make stores a unique place where people can enjoy high quality coffee in the great atmosphere and feel as a part of community at the same time. Starbucks focused on two cornerstones of the company – The Coffee and The People.

They implemented the strategy by building the customer experience with following parts:

- **Personal connections with customers** – When entering the shop customers are always greeted properly and asked their names while interacting with baristas, which influences customer behavior and helps Starbucks to enhance customer loyalty and facilitate customer retention. Howard Schultz didn't just want customers to sip a cup of coffee at Starbucks, he wanted them to have a memorable experience.
- **Pleasant atmosphere** – when entering the shop customers stepped into the place where they could enjoy their coffee beverages in comfortable chairs, sofas while listening to music, chatting with friends or working.
- **Innovation** – back in 1970-1980s the coffee culture didn't exist outside houses, People purchased canned coffee beans and took them at home. Initial focus of Starbucks was providing customers with high quality coffee beans, which were not canned, but Schultz decided to turn coffee beans stores into cafes, where baristas grinded beans throughout the day whenever new pot of coffee had to be brewed, so the grinding sound and fresh coffee aroma became trademarks of Starbucks stores. Since then, Starbucks has been the company where baristas experiment with different brewing methods and create new, innovative beverages. They strived and achieved the first mover advantage in most of their ventures and were a step ahead of their competition.
- **Quality** - They were also very particular on quality - quality of their products , quality of their people and quality of their service. They had a system , process and strategy in place in each of their operations right from Sourcing, to Supply chain, to R&D, to Sales and growth strategy. They also ensured their suppliers adhered to their strict requirements of the quality ecosystems that took pride upon.

RECOMMENDATION FOR NEWER OPPORTUNITIES

- Retain and focus on core competency of the organization which is high quality, customer experience and service and efficient supply chain. This will help Starbucks to have continuing sustainable competitive advantage.
- Consider the option of franchising since its competitors are getting success using this model but Starbucks should not compromise on its core competencies as they are its USPs.
- Starbucks should continue investing in the new markets domestic and international and continue taking first mover advantage and tap into larger customer base who consume specialty coffee
- Use its brand image and leverage its size well against local competitor. Provide them with more innovative localized products and use different distribution channels to leverage against competition
- Using its strong financials, Starbucks can diversify into other related areas and use that to build a brand image of Starbucks more than a coffee.
- Continue having strong human resource and organizational culture where everyone works as partner and not employee. This will help Starbucks to acquire foreign brands and make partnerships. There will be no issues with people coming from outside.
- Should look for more specialty sales with reputed names and brands, that will not only provide great revenue stream but also provide the brand recognition. This will also have low risk as these brands will automatically take care of good customer service.
- Starbucks should continue with innovation and new ventures as all new ventures seem profitable in the testing stages, be it ice cream or penetration into grocery stores. Grocery stores will provide a great revenue stream for Starbucks. This can be done as Starbucks is already good with relationships among all its partners.

POTENTIAL RISK WITH RECOMMENDATION

- Expanding more may impact the quality of coffee beans used. As specialty and high quality coffee beans may not be enough in supply. One of the key competency of Starbucks is Quality and it cannot compromise.
- Impact on supply chain effectiveness. With increase in distribution channel and number of locations, it may have an impact on supply chain forecasting and delivery.
- Company expenditure may rise due to more investments



MINIMIZING RISK

- Hire experts across industries to continuously maintaining supply chain effectiveness.
- Use quality/quantity mix and innovation in blends to provide quality coffee throughout the segments.
- Try to look franchise options and partnerships in expansion.

THANK YOU

