Final Exam: Starbucks Case Study

External Analysis

The general environment of the coffee industry is affected by many different factors. Social forces include factors such as lifestyle and cultural tastes. From their first store in Seattle, WA Starbucks learned that customers wanted a place to sit down and have a cup of coffee, while other customers wanted to get coffee quickly by utilizing a drive-thru. Both of these options have been added to appeal to a larger customer base.

For Starbucks to expand internationally, they had to fully understand the preferences of the area and cater to that customer. For example, in France, Starbucks didn't offer muffins in their bakery, but offered French pastries from local bakeries. Starbucks also had to change their offering to appeal to a healthier customer. They began offering "skinny" lattes, "better-for-you" smoothies, and low-calorie snack options.

Environmental, political, and economic factors affected Starbucks and their ability to obtain their coffee bean crop. Prices were subject to change, and weather could affect the health of the crop. Starbucks protected themselves from this issue by using purchase agreements and sourcing from multiple regions.

The coffee industry has low barriers to entry, making it easier for competitors to enter the market. There is a lot of competition from rival sellers, especially rivals offering premium coffee at lower prices than Starbucks, such as McDonald's and their McCafe coffee offering.

Supplier bargaining power is low because suppliers are very dependent on the industry for their revenue, and coffee beans grow in 70 tropical countries, making up the second most traded product, and coffee is a commodity. Starbucks uses a fixed-fee agreement to help protect them from supplier bargaining power. They source their beans from many different geographic areas to avoid price increases due to changing economic, weather, political conditions and changing export quotas. In 2008 Starbucks doubled their purchase to avoid the risk of rising prices.

Competition from producers of substitute products is a high risk because of the low cost of switching. Good substitutes are available and at a competitive or lower cost to the customer.

Several driving forces have affected the success of Starbucks. In the earlier days of Starbucks, they catered to a customer who was interested in brewing high-quality beans at home. This customer changed to include the on-the-go coffee drinker and Starbucks has expanded in an effort to connect with customers where they work, travel, shop and dine; catering to the tastes of different neighborhoods. They also began offering shelf-stable coffee drinks for customers looking for coffee products, not in a coffee shop.

Increasing globalization is helping the coffee industry, and offering an opportunity for expansion into international markets.

Product and marketing innovation has been a major part of Starbucks' success. Starbucks began entering new market segments in the 1990's to further build brand loyalty and brand awareness as well as expand their product offerings. With the help of an in-house sales team

The idea for an Italian style coffee house, was risky but proved to be profitable. Starbucks has paved the way for other coffee shops, and there is less uncertainty and less business risk than there once was. Starbucks worked out the kinks in their initial coffee shop and the response was immediate.

Societal concerns, such as Fair Trade Certified Coffee, environmentally sustainable business practices, and Coffee and Farmer Equity (CAFÉ) have impacted the coffee industry. Consumers will typically pay higher prices for Fair Trade Certified Coffee to support the cause. Starbucks has also been recognized by the United States Green Building Council for their LEED accreditation in some of their shops. Customers want to support companies that are socially responsible.

Starbucks key success factors include their unwavering commitment to quality, product differentiation, exceptional customer service, their store experience, and their purchasing arrangements, which protect them from price jumps and economic and political conditions.

Some fast-food chains, such as McDonald’s, were advertising premium coffee drinks at lower prices than Starbucks. Until then, Starbucks had done very little advertising, but was forced to do so to combat the competition and maintain their position.

Internal Analysis

Starbucks is a strong company with a strong brand, but with Jim Donald as their new CEO, the company took a hit with declining sales in five quarters starting in 2008.

Their current ratios from 2005 to 2009 are as follows, respectively: .9855, .7903, .787, .7982, and 1.287. The current ratios from 2005-2008 are far from ideal, a preferred minimum is at 1:1. In 2009, the current ratio increased to a much more comfortable level. Starbucks current liabilities were way down in 2009 compared to previous years and their current assets were substantially higher. Starbucks had a few difficult years, but in 2010 they had $10 billion in annual sales.

Starbucks has a differentiation strategy with their top-quality, fresh-roasted, whole-bean coffee. Their first store in Seattle, WA was so successful they chose to expand into Chicago, IL; Portland, OR; Los Angeles, CA; and San Francisco, CA. Once these stores showed to be profitable the strategy was to blanket areas with Starbucks shops to cut down on customer wait time, and increase customer foot traffic. They also chose to expand internationally, but offering specific products that catered to the tastes of each neighborhood.

Starbucks also began opening licensee stores, and expanded their product offerings through a number of joint ventures with companies such as Pepsi-Co., International Coffee Partnership, Dreyer's Grand Ice Cream, iTunes, and Jim Beam.

In the 1990's Schultz wanted to modify Starbucks' current strategy to expand brand awareness and loyalty by using an in-house sales team to sell Starbucks products to restaurants, airlines, hotels, universities, hospitals etc.

Starbucks has two main core competencies including commitment to quality and real estate. Starbucks coffee selection and roasting standards are incredibly strict as to ensure exceptional quality in every batch.

Starbucks also has a very talented real estate team that looks for key locations for expansion, and builds relationships with local real estate teams to ensure proper store locations are selected.

Identification of Issue

The most important issue facing Starbucks currently is that they have over saturated the market. With aggressive expansion, many Starbucks shops are within the same neighborhoods as other Starbucks stores, which resulted in the dilution of the store experience, and self cannibalizing stores.

Alternatives and Recommendations

The two recommendations I have for Starbucks include: reducing expansion and focusing on corporate responsibility; and reducing expansion and focusing on remodels, hyper local offerings, and community involvement. Starbucks has a solid brand and exceptional customer loyalty. They have unfortunately over saturated the market, which hurt them rather than increased their revenue and brand awareness. I would recommend reducing the number of new stores, but continuing to expand slowly and focus more on identifying the needs of the individual neighborhoods they are currently in and offering hyper local products and remodeling stores to more closely fit the needs of individual areas. By offering hyper local products, customers will see them as more of a "neighborhood" coffee shop that understands them as a customer segment rather than being just another national chain.

Starbucks should also remodel stores, as necessary, to further meet local customer needs. For example if a Starbucks is near a school, offer space for students to come and do group work, or offer produce from local farmers. Building stronger relationships with the communities that Starbucks is already a part of, can deepen their stake in the neighborhood and show how much they really care about the communities.

Appendices

Appendix A

Company-Operated and Franchised Starbucks Stores

	Company Operated Stores		Licensed Store Locations		
End of FY	USA	International	USA	International	Total
1987	17	0	0	0	17
1990	84	0	0	0	84
1995	627	0	49	0	676
2000	2446	530	173	352	3501
2005	4918	1217	2435	1671	10241
2006	5728	1457	3168	2087	12440
2007	6793	1743	3891	2584	15011
2008	7238	1979	4329	3134	16680
2009	6764	2068	4364	3439	16635
28-Mar-10	6736	2076	4385	3467	16664

Appendix B

SWOT Analysis

Strengths:	**Weaknesses:**
Brand loyalty Large expansion Commitment to quality Strong focus on customer satisfaction Strong focus on employee satisfaction Strong corporate responsibility Ethical sourcing/purchasing	High priced product during economic downturn Over saturating the market
Opportunities:	**Threats:**
Joint ventures Expansion of product lines Future expansion into India and Vietnam Continued expansion into Asia Continued “partner” training Involvement in community service/outreach	Competitors with similar offerings at lower prices (McDonalds) Reduced customer satisfaction Bean purchase volatility

Appendix C

Five Quarters of Deteriorating Sales

Sales at Starbucks Stores	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009
USA	(1%)	(4%)	(5%)	(8%)	(10%)
International	5%	3%	2%	0%	(3%)

Appendix D

Five Quarters of Improving Sales

Sales at Starbucks Stores	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
USA	(8%)	(6%)	(1%)	4%	7%
International	(3%)	(2%)	0%	4%	7%

Appendix E

Total Net Revenue

	Fiscal Year Ending				
	27-Sep-09	28-Sep-08	30-Sep-07	1-Oct-06	2-Oct-05
Total Net Revenue	9,774.60	10,383.00	9,411.50	7,786.90	6,369.30

*$ in billions

Appendix F

Current Ratio

Current Ratio					
	2005	2006	2007	2008	2009
Current Assets	1209.3	1529.8	1696.5	1748	2035.8
Current Liabilities	1227	1935.6	2155.6	2189.7	1581
Current Ratio	0.9855	0.7903	0.787	0.7982	1.287