

Starbucks Analysis

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## **Introduction**

The key objective of this strategic audit is to evaluate the key elements behind the organizational philosophy of Starbucks Corporation and contributes to its overall success in a global economy. According to Starbucks (2016), the overall business strategy of the organization is to ensure that products that the products that the company sells to the customers are 100% ethically sourced. In that view, Starbucks methodologies include building a future with farmers, innovative sustainable solutions, and creating pathways to opportunity. In that view, the focus for this report can be explained as to provide an assessment for Starbucks, which includes a structural environmental analysis, an industry analysis, a historical financial analysis, and a current valuation analysis. In addition, evaluations of Starbuck as well as their direct and indirect competitors will be compared to measure the overall financial performance. In conclusion, this report includes recommendations that Starbucks management should consider to accomplish their goals.

### **Strategic group(s) in which the company exists and competitors**

In order to have a clear understanding of Starbucks strategic group and the competitors that the company competes with, it is important that the company's strategic group mapping is carried out. Strategic group mapping as referred to in this analysis entails a technique that involves looking at the position of the organization in a given sector so that the company can be able to define the scope it its competitors (Henry, 2011).

As can be seen from figure 1, Starbucks has difference competitors that among others comprises of Costa Coffee, Café Nero and Dunkin Donuts. Nevertheless, it can be pointed out that even though the company faces stiff competition from the different competitors that it competes with, the company is able to effectively compete with these competitors due to the fact

that its products and services are of high quality. In that view, just as is evident from Figure 1, Costa Coffee and Café Nero are some of the competitors that compete directly with Starbucks as they also offer high quality products and services while also charging high price. In that view, Starbucks have to ensure that they use innovative strategies so that the company can be able to effectively compete with other competitors in the market.



Figure 1: Starbucks strategic grouping

### Porter's five forces analysis

As expounded on by Hill and Jones (2008), Porter's five forces analysis is an analysis approach that is used to establish where the power lines lies in a given sector. Consequently, the analysis makes it easy for the organization to comprehend its strength in perspective of the current competitive position, as well as the strength of the position that the company is contemplating moving into.

### Threat of new entrants

The threat of new entrants in a given sector will normally be high in situations where the requirements to enter the sector can be easily met by a new entrant. In that case, it can be explained that the threat of new entrants in context of the sector that Starbucks operates in is moderate since in order for the new entrant to be able to compete with the likes of Starbucks, the new entrant will incur moderate costs of carrying out the business, moderate supply chain costs and very high costs in brand development before the brand can be considered to be at the same level with Starbucks brand (IBIS, 2015).

### **Bargaining power of suppliers**

The fact that there are numerous suppliers of the various ingredients that Starbucks uses in the production of the products that it sells to the customers implies that the bargaining power of the suppliers is weak or low as the company can be able to easily switch the suppliers (IBIS, 2015).

### **Bargaining power of buyers**

The bargaining power of buyers can be explained as been very high since customers can be able to easily switch to other competitors; the substitute products are easily available. Indeed, even though it can be argued that the customers only buy in small volumes, it can be noted that if these customers switch to another competitor then Starbucks would find it hard to generate sufficient revenues that can sustain the business (IBIS, 2015).

### **Competitor rivalry**

The fact that Starbucks competes with both direct and indirect competitors implies that the competitor rivalry is very high. Indeed, the company has to ensure that it adopts innovative strategies in order to ensure that it is able to effectively compete with the competitors. Some of

the approaches used by Starbucks in order to ensure that it effectively competes with the competitors comprises of offering high quality products and services (IBIS, 2015).

### **Threat of substitute products**

The threat posed by substitute products is very high since there are a variety of substitute products that are easily available in the market. Moreover, the fact that the customers do not have to incur any extra costs to access the substitute products implies that the threat of the substitute products is very high (IBIS, 2015).

### **Potential profitability of the industry**

Even though Starbucks can be explained to be an ideal example of an organization that has managed to be effective in the highly competitive specialty coffee sector, it can be pointed out that over the years, there have been a number of companies operating in the sector that have failed. Among others, some of the reasons as to why the companies have ended up failing has been due to lack of a good supply chain that assures them constant supply of quality coffee beans, failure to promote the business so that awareness can be created and failure to have a clear understanding of the needs of the customers and then ensuring that those needs are met (Specialty Coffee Association of America, 2012). Examples of some of the organizations that have succeeded in the sector entail Starbucks, Café Nero, Dunkin Donuts, and Costa Coffee. On the other hand, some of the specialty coffee brands that can be explained to have failed includes numerous new startups that offered specialty coffee to the customers.

### **Critical Success Factors for the industry**

In order for any organization that operates in the specialty coffee industry that the likes of Starbucks operates in to be effective, the following critical success factors have to be met:

- a) The employees working for the company needs to be highly experienced. For instance, the barista has to be capable of preparing and serving high quality espresso-based coffee drinks
- b) The management team of the organization must possess exceptional management skills so that they can be able to ensure that the company effectively competes with the competitors that it faces in the market
- c) It is important that the business is located in a prime location that can be easily accessed by the customers
- d) There has to be a reliable supplier of quality coffee beans throughout the year

### **Starbucks Functional Strategies**

As expounded on by Karami (2012), the functional strategy of any given organization entails the organization plan for human resources, marketing research and development and other functional aspects. From the analysis of the operations of Starbucks, it can be explained that the company's functional strategies can be ideally explained by the value chain analysis since as can be seen from figure 2, there are various functional areas of Starbucks that play an important role in the development of the company.

From Figure2, it can be noted that Starbucks has primary activities and support activities. The primary activities comprises of:

- a) Inbound logistics – Entails sourcing of quality coffee beans from various suppliers and then ensuring that the beans are deliver to the Starbucks coffee shop in a timely manner
- b) Operations – the company has operations in over 65 countries even though the operations in some countries are operated by licensees

- c) Outbound logistics – Most of the Starbucks products are either sold by Starbucks owned stores or by stores owned by licensees
- d) Marketing and Sales – Starbucks implements various strategies in order to ensure that the company is successful in the highly competitive sector that it operates in
- e) Service – The company has for many years embarked on building customer loyalty by offering high quality products and services

As far as the support activities of Starbucks are concerned, they comprise of:

- a) Infrastructure – The company has established infrastructure such as appealing stores, competent staff and good uniforms
- b) Human resource management – Starbucks has a committed workforce that has played a major role in the success of the company over the years
- c) Technology development – Starbucks has over the years embraced latest technological advancements which have helped enhance the efficient and effectiveness of the company
- d) Procurement- Starbucks procures ingredients from different suppliers who are located in different parts of the world

In that view, the operations of Starbucks can be explained to be well aligned with the alignment playing a major role in the success that the company has enjoyed over the years.

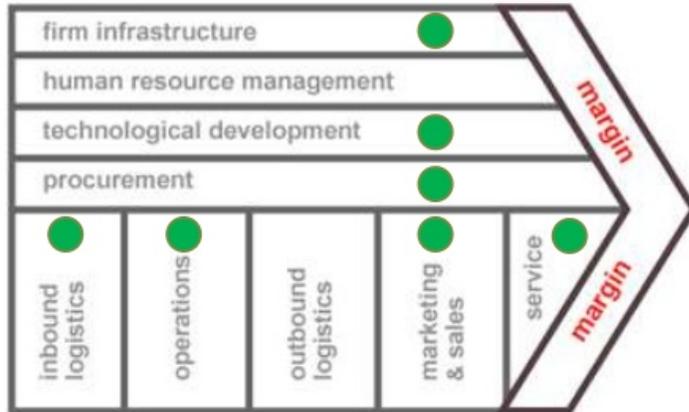


Figure 2: Starbucks value chain analysis

### Conclusion and Future of Organization

From the analysis, it is evident that Starbucks has managed to be effective in the highly competitive sector that the company operates in by implementing various innovative strategies over the years. Indeed, even though the company faces stiff competition from existing competitors, it can be noted that the company has all the required resources to ensure that it is able to effectively compete. Nevertheless, from a review of the revenues generated by the company, it has been established that majority of the revenues are generated from the sales of coffee based products.

Therefore, it can be noted that in order to ensure that the company is not exposed to coffee sector, the company needs to embark on increasing the revenues generated from sales of non-coffee based products. The reason why that is the case is due to the fact that if the coffee sector was to experience a decline at the moment, then the company would face numerous challenges since the company depends a lot on sales of coffee based products. In context of the

foreseeable future, Starbucks needs to stick with the current strategies as there are no anticipated major changes in the sector.

### References

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