

Name

Institution

Course

Instructor

Date

Starbuck Case Analysis

Introduction

Starbucks coffee company ventured into the market in 1971 because of three business people who had love for coffee and tea. They felt it was important for the people of Seattle, Washington to have access to their coffee. They organized themselves, and ten years later this company had four retail stores and a roasting plant selling genuine bean coffee within Seattle only. As time went by, this company expanded to other cities like Vancouver, Portland, and Chicago, and by 1991 Starbucks had more openings within airports. It had also expanded into the mail-order catalogue, then further to the state of California¹. Having grown this far, the company initiated distribution of successful products and brand extensions that included offering coffee to passengers on United Airlines flights. This boosted their potential that later witnessed them start offering people the option to purchase the company's products at the comfort of their homes through Starbucks' online services. Currently, Starbucks strategic position is to provide premier purveyor of the finest coffee around the world while at the same time maintaining its uncompromising principles as the company continues to grow.

1. Ireland, R. *Understanding Business Strategy: Concepts and Cases*, (California: Cengage Learning, 2008).

Its efforts generated by sound decision-making are helping the company attain the best quality of the products. Their main product, which is coffee, has always been of the best quality and above all made by employees who are passionate about coffee. They maintain ethical standards as they source for the finest coffee beans that are they then roast it with great care². Regarding their market, this company has a great strategic position when dealing with their clients as they promise a perfectly made beverage that they deliver at a human connection level. Starbucks treats its stakeholders with respect and dignity hence creates a profitable place for each other.

External Analysis

Starbucks is facing challenges just like any other company. The most of all challenges that this company is battling now is the current financial crisis that is affecting America. Due to funds turmoil that the current state of economy is posing to companies, Starbucks has not only reduced its total expenditure, but also forced to close most of its stores. In 2008, the company announced that it was going to close six hundred stores in different parts of United States of America³. Financial based reasons like income tax, risks related to third party finalization agreements, and benefits associated with the closure of stores within the anticipated period as well as cost of saving expected led to this fatal draw to the company's expansion plans.

Additional challenges facing Starbucks comprise of dealing with competitors. Currently, there are numerous coffee shops within major cities across around the globe and are posing total threats to Starbucks, as they are all competing for the same customers.

2. Flamholtz, E. & Randle, Y. *Corporate Culture: The Ultimate Strategic Asset*, (California:Stanford University Press), 20.
3. Thompson, J., et. al., *Strategic Management 6th*. (California:Cengage Learning EMEA, 2010), 382.

Some of these competitors include: Nestle, McDonalds, and Dunkin Donuts. Standing out to generate customers is important yet a hard task to perform. Therefore, in order for Starbucks to alleviate competition wisely, it is of great importance for this company to identify their competitors and know what they are currently doing and how they can be at the top of the game despite stiff competition.

Internal Analysis

Starbucks has internal capabilities that make its operations smooth. For instance, due to Howard Schultz's efforts to make Starbucks a better working place, Starbucks now has knowledgeable employees who are conversant with the company's products, prepare the company's espresso drinks without missing any detail, motivated, skilled, deliver consistent and pleasing end products to the company's clientele. This in turn rewards the company with great success. Further, the company maintains a healthy work force. With regard to opening up to their employees and making them feel honored and catered for, the company offers its employees, including part-time workers, health insurance cover. Consequently, the staff feels motivated hence work hard in view of meeting Starbucks's objectives. According to Schultz, after offering to pay 75 percent premium for part-time employees' health insurance cover that included prescribed drugs, mental health, dental and eye care, and chemical dependency, they increased their working morale and could open the stores as early as 5a.m and close late at night.

Moreover, Starbucks has a long-term internal capability that continues to foster the company's development at a unique pace. The company has a product called Bean stock, a stock

option plan that includes all employees. This program has a positive effect to the company since all employees are partners. As a matter of course, the company employees have access to stock option awards after a period of every six months of employment. Many critics thought that this idea would render Starbucks profitless, but by 2008, the company stock option valued at \$44 million in the fiscal year. This added to the company's critical success that continues to portray itself up to date. Due to cases of creating and executing, it is clear that the company is performing well. This is due to the impact of innovation and the success of dramatically transformed ideas of the business over the last two years.

Diagnosis of Current Issues and Challenges

The diagnosis of challenges and issues facing Starbucks demonstrate factual impact of Starbucks' current strategic position. The company is now able to cope with the hard economic times that have hit United States hard. The introduction of new products with new labels such as Starbucks VIA and expansion of the company that seen the company open new stores in Europe, Asia, and in other parts of U.S., give a clear indication of company's financial stability. In addition, the company announced its first ever cash dividend of 0.10 per share up for payment quarterly ⁴. As time surpases, Starbucks continues to capture strong strategic plans that are developing the company's rate of production, increasing its volume of sales as well as innovating new products hence fostering the company to help overcome any financial challenges.

Preferably, Starbucks is facing decrease in number of customers due to emergency of new companies offering the same product. Its condition of trying to intensify its advertising campaigns trough radios, television, billboards, and the likes is a clear sign that it is fighting competition. Presence of coffee shops by Nestle and McDonald Café providing the same coffee

at a lower price than that provided by Starbucks is making the company undergo tribulations in its quest of trying to meet its targets as well as coping up with stiff competition.

4. Holt, D. & Cameron, D. *Cultural Strategy: Using Innovative Ideologies to Build Breakthrough Brands*, (Oxford: Oxford University Press, 2010), 103.

Generation of Strategic Options

Even though Starbucks is facing crisis in several angles as explained, it is possible for the company to generate strategic options using Ansoff Matrix and the TOWS Matrix that can lead it to potential address of its challenges. Considering facts used by both matrices that include; product technology, economic factors, and the situation of competition, Starbucks has explicit options to address its crisis. Given its competition nature, it has potential of attaining an adequate and sufficient success despite the market competition. Competition situation that focuses on things like prices of commodities, their quality, cost, services rendered by the prospective provider, innovation of products, system of product distribution, facilities used and the firm's location. In case of Starbucks, the company has adjacent options to put in place in order to deal with its challenges since it has a strategy that does not permit use of genetically modified ingredients in the preparation of its beverages or foods. This puts the company in a unique position due to provision of distinguished products without a match.

In order for Starbucks to explicitly-address its financial issues, it must carefully analyze its development capabilities and intensify its strengths in areas touching capital structure, profitability and tax situation in order to eradicate its financial struggles. Moreover, it must put in to consideration ways of managing its finances by focusing on not only present situation, but also plan short- and long-term financial congruent with firm's objectives and strategies in mind.

Starbucks must also be in a position to handle its crisis effectively by making maximum use of figurative minds Starbucks founders like Howard Schultz. This may in turn, influence effective management, and achievement of the set goals.

Evaluation of Strategic Option

Using the relevant strategic tools of evaluation such as risk management, the probability of dealing with success or failure based on the strategic options discussed can help Starbucks realize its goals. Evaluation of the financial strategic option that proves relevant to Starbucks shows that it has potential measures in place for dealing with all its finance related setbacks. Additionally, innovation of unique products with a unique blend and different from those offered by other coffee shops is indeed tackling competition. The company management ways of administering coherently are portraying a good sign of company organization that in return is fighting competition at a better angle.

In reference to measures or methods used as strategic options at Starbucks, I propose strategies taken in view of tackling competition. This is because; the company's innovative system is vigorous ⁵. This has seen the company produce coffee as a product of different nature with a unique kind. Due to competition, the company sought to expand and soar to greater heights as it provides online services for clients at home and serving coffee on airlines. Further, Starbucks has more ways of coping up with competition. Its corporate social strategy that works to create a good environment for all as part of its social responsibility is playing a major role in earning the respect and trust of its customers, suppliers, employees, partners, and the public. This shows that indeed the things that Starbucks to curb competition makes it prove competent.

Description of Selected Strategy

In view of giving a more detailed description of strategies taken by Starbucks in order to face competition adequately, it is important to tackle and describe the company's weaknesses.

5. Beckly, J., 2007. *Accelerating new food product design and development*. (New Jersey: John Wiley & Sons, 2007), 73.

Some of its stores underperform causing the company struggle financially. This draws back efforts to achieve the company's goals. It also forces the company to announce closure of such underperforming stores. However, this challenge made the company bounce back to its profit making position by employing effective measures of curbing competition. Due to fear of deteriorating performance, the company had to recollect its old resources that included the founder of Starbucks Schultz. His comeback acted as a strategy of tackling competition since he has experience in this line of business. The company also embarked on employee training program together with sharing of ideas with employees in other locations by use of modern technology. All this has congruent significance to the company's system of curbing competition.

Even after being on top of its toes to deal with not only competition, but also financial crisis, Starbucks cannot say it has fully eliminated competition from the market. There are other notable resources that it needs for implementation. Starbucks has to come up with severe ways of curbing competition and at the same time reaching to the highest point of reaping profits. This means exploring opportunities such as expanding its global presence while making every store the heart of the local within its location. It should also pull up its socks in order to deliver sustainable economic model and create more innovative growth platforms that are worth their

products. The company should engage in further resources like being the undisputed coffee authority as well as igniting its emotional attachment with its clientele. So as to create more trust and make new customers repeat customers, the company should engage in much more sporadic resources such as leading in ethical sourcing of Starbucks' resources as well as creating environmental impact. This will make its customers feel more attached to the company's activities. In return, this will create a win-win situation for both the company and its customers, as customers will feel catered for by their favorite coffee company.

Conclusion

In conclusion, in order for Starbucks to sustain competition, it will have to undergo several challenges. They include the need to shorten steps currently used in preparing their espresso beverages. They are currently seven, so for them to combat competition they must come up with either five or fewer. The company will have to either offer loyalty programs by offering free drinks to their most loyal customers or at relatively lower prices compared to their rivals in order to sustain a competitive advantage. In addition, the company will face challenges associated with marketing ⁶. In order to have a competitive advantage, it must invest a lot in beginning and maintaining marketing research department to know and tailor their clientele unified desires.

6. Nyakiel, R., 2007. *Handbook of Marketing Research Methodologies for Hospitality and Tourism*, (London: Routledge, 2007), 73.

Bibliography

Beckly, J. *Accelerating new food product design and development*. New Jersey: John Wiley & Sons, 2007.

Flamholtz, E. & Randle, Y. *Corporate Culture: The Ultimate Strategic Asset*. California: Stanford University Press, 2011

Holt, D. & Cameron, D. *Cultural Strategy: Using Innovative Ideologies to Build Breakthrough Brands*. Oxford: Oxford University Press, 2010.

Ireland, R. *Understanding Business Strategy: Concepts and Cases*. California: Cengage Learning, 2008.

Nyakiel, R. *Handbook of Marketing Research Methodologies for Hospitality and Tourism*. London: Routledge, 2007.

Thompson, J., et. al. *Strategic Management 6th*. California: Cengage Learning EMEA, 2010.