STARBUCKS

GOING GLOBAL FAST
CASE STUDY

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What are the major sources of risk facing the company?

- **Problems of coherency between the brand values and new decisions**

Howard Schultz (Starbucks CEO) realized, thanks to the recession, that it is difficult to maintain the company’s former principles in tough times (Berfield, 2009). Cuts in costs, dismissal of “partners” (the way Starbucks refers to their employees) and closure of stores are just some examples of this. In addition, the way the company is trying to increase their income through new products - such as the new instant coffee VIA, food, coffee in vending machines – contradicts the main values of the company, focused on giving an incomparable experience.

As a consequence of these decisions, the brand of the company, “the major enduring asset of a company” (Kotler, et al, 2005, p.555), might suffer damage.

Hence, it is recommended to adapt coherently the values of the brand to the different elements of the marketing mix. If the company understands that there are opportunities in the market that they can exploit, but are not strictly coherent with the brand values, it is advisable to compete under a different brand, specialized in that particular market. Moreover, this would permit Starbucks to diversify risks and the sources of income, as well as giving the company the opportunity to compete in different markets without compromising the values of the Starbucks brand.

Even though this measure would not help addressing the self-cannibalisation issue, but it would permit a finer segmentation of the market, as well as serving as a *fighter brand* for competing in lower end markets (Kotler et al, 2005). This would address the difficulties that Starbucks has to attract some market segments such as Generation X and young people (case study).

- **Employee dissatisfaction**

One of the main differentiation elements of Starbucks is the high quality of the service offered. In this case, the employees of the company are a fundamental part of the equation. The way the personnel receive the customers and serve them will have a direct impact in the experience of the clients.
The company has understood perfectly this, and, therefore, have tried to provide the best possible conditions to their staff. For example, according to the case study, even part-time workers were given modest stock options and health insurance, and comparable higher wages than other similar retailers (case study).

Nonetheless, in 2007, the company impose some changes like sharp cost-cuts, new scheduling systems and a sales-orientation for their baristas (Baertlein, 2010). Overtime is also an issue mentioned in the case study. These changes led current employees to discontent. At the same time, potential new employees perceive Starbucks less like a special place to work and more as a typical fast food outlet (Case Study and Baertlein, 2010).

Finding a solution for this issue is a real challenge for the company since it is difficult to combine such a fast expansion and growth with a personal and special approach towards the employees. Anyway it’s important to be coherent and try to maintain the established premises.

**Excessive association with coffee. Problems with diversification**

Starbucks often tries to expand the value of their offering beyond coffee. As coined by a manager of Starbucks some time ago 'We’re not in the business of filling bellies. We’re in the business of filling souls”. Yet customers when it comes to Starbucks mainly think about coffee.

This may be one of the principle causes to diagnose why Starbucks is performing so badly in diversifying to other products such as food. This represents a problem given that the food retailer market is a good opportunity to increase sales and diversify the sources of income.

It is also worth mentioning that other direct competitors, such as “Pret A Manger”, while also offering coffee, have a better positioning in the food retailing.

Again, if Starbucks wants to diversify its income and approach different markets, is recommendable that rather than competing in the food market under the Starbucks brand, to acquire a company with the profile of Pret, company with a turnover of roughly 270 million pounds and 240 outlets (Pret A Manger Website, 2010).
Through this acquisition, the company would be able to generate some synergies while entering in a new market without compromising the image of the Starbucks brand.

**Competitors**

The case study provides the practical example of the Japanese market where, as a consequence of the growing competition from rival coffee chains, profit fell around 70%.

There is a potential risk that this problem spreads over different countries and damages seriously the profitability of the company worldwide.

According to Porter’s 5 forces model, the “relative low entry barriers” in the coffee retailing forced Starbucks to invest in stores appearance and menus development (2008, p.26). In addition to this, the company also tried to build entry barriers through the development of a strong brand name and a differentiated strategy. Having a large scale business allows purchasing the coffee at better prices, which represents another factor that contributes to a more competitive position of Starbucks in comparison to their competitors.

**Self-Cannibalisation**

According to the case study, one of the main growth strategies of the Seattle born company is the clustering, i.e., concentration of a considerable amount of outlets in the same area.

This strategy has the advantage that led to a quick domination of the local market and increases the total revenue and market share (Holmes et al, 2002). However, the flip side of the coin is that part of this revenue and market share is stolen from the other companies’ outlets. This is defined in the case study as “self-cannibalization”.

According to the article “Planet Starbucks” by Stanley Holmes (2002), this fact rather than representing a problem for the company, is a good opportunity that only such a big company can exploit. Eventual loses in new stores are covered by benefits from other hoping that in the middle term the total revenue of having more than one store is bigger that the revenue obtained with just one. This strategy performed perfectly during the last international economic expansion.
Nonetheless, the level of saturation of the US and Canadian market (in the graphic abbreviated as US) together with the consequences of the current recession, has led the company to close some stores in this markets while increasing the number of outlets internationally.

![Starbucks Outlets Evolution 2006 - 2009](image)

Figure 1. Evolution of Starbucks Outlets number from 2006 to 2009. Source Starbucks 2009 Annual Report.

As stated in the case study, at that point, there were eight states of the US without Starbucks outlets. Therefore, rather than opening new stores in zones where there is already Starbucks presence, it is recommendable to target new locations, places where Starbucks does not have still existence, so that the company can grow without stealing market share from them own stores. *Multibranding*, even if it would not solve this problem, would help to a better segmentation of the market (Kotler et al, 2005).

**Starbucks’s overall corporate strategy analysis**

The growth and expansion of Starbucks is, probably, one of the most successful stories of the modern times.

Howard Schultz acquired the company in 1987 with just 17 outlets in Seattle. Then, 15 years later, the number of outlets reached almost the six thousand and the company was
present in 28 countries (case study). Nowadays, there are over 16,000 outlets in more than 50 countries (Starbucks website, 2010). But, which strategy has led the company to such achievement?

Starbucks was first created by three people who shared a common passion for high quality coffee and, given the absence of a business with similar characteristics, saw an opportunity for making some money.

According to Porter’s competitive generic strategies, there are three main strategies: overall cost leadership, differentiation and focus (1998). The following figure, extracted from Porter’s *Competitive Strategy: Techniques for analyzing industries & competitors* illustrates this.

![Strategic Advantage Diagram](image)

In this context, the Starbucks former strategy was centred in offering a high quality product to a narrow consumer segment (coffee lovers), therefore, a focus strategy. Later on, primarily thanks to the vision of Howard Schultz, the company moved to the differentiation strategy which is defined by Porter as “differentiating the product or service offering of the firm, creating something that is perceived *industrywide* as being unique” (1998, p. 37). Some of the advantages of this strategy are: customers have a lower sensitiveness to price, opportunity for higher margins, creation of entry barriers thanks to customer loyalty and brand uniqueness (Porter, 1998).
At the same time, following Ansoff’s Matrix, which gives a framework to analyse the expansion means, Starbucks mainly has grown thanks to a Market Development strategy. Ansoff defined this as is “a strategy in which the company attempts to adapt its present product line (...) to new missions” (Harvard Business Review, 1957, p.114). Hence, in the case of Starbucks, the company has grown exporting to new locations (firstly in the US, afterwards worldwide) the same formula.

This strategy was developed in an aggressive way. In order to achieve an important presence in the market, the company decided to use clustering. An example of this is the so called by some critics in the case study “predatory real estate” strategy. It is quite controversial the use of this kind of techniques when the company is positioning itself as an ethical company. Hence, as explained in the first part of this essay, this represents a risk for the brand image.

In the last years, the company is showing some details that according to Vernon’s concept of product life cycle, the company might enter in the maturity stage. Some factors that prove this are the saturation of domestic markets (case study), the decrease of net revenue (Starbucks Annual Report) and the increase of competitors (case study).

![Figure 2. Product Life Cycle graph.](image)

As a result, Starbucks faced the necessity of finding new ways of generating revenues. Considering the latest moves of the company, it can be concluded that it was a move to a New Product Development strategy. The “Beyond Coffee” part of the case study gives some examples of these innovations (Starbucks prepaid cards, Starbucks Express, automatic espresso machines). VIA™ Instant Coffee is another clear example of how this new strategy was adopted.
In terms of the strategy used for growing internationally, Starbucks selected partners with great expertise in the local market customs in order to approach different countries. The way of working with them is through licensing, mainly joint-ventures.

According to Child and Faulkner (2005, p.66), there are three main motivations for their formation: 1) little capital outlay; 2) permits an improved strategic position to be achieved and 3) enables organizational learning. In the case of Starbucks all these factors apply, with relevant importance to the local market knowledge of the partners that the company selects.

It is also worth mentioning how Starbucks has followed the normal expansion pattern (figure 3) described by Daniels, Radebaugh and Sullivan (2004) by exploiting first the domestic market. Once this market was highly developed and near saturation, the company decided to increase their presence in other countries. In fact, the number of outlets in international markets grew a 7.7% (Starbucks annual report, 2009) in 2009.

Figure 3 Patters for Internationalisation. Source: Introduction to International Business Handouts.
References


