Spring 4-27-2022

# Starbucks Strategic Analysis

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An Undergraduate Honors Thesis Submitted
In Partial Fulfillment of
University Honors Program Requirements
University of Nebraska - Lincoln

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Bachelor of Science in Business Administration
Marketing

April 27, 2022

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## Abstract

Starbucks is a multinational chain of coffee shops and roasteries that was founded in 1971. Starbucks has continued to grow for the past 51 years and continues to dominate the coffee industry. This strategic analysis evaluates the general environment using a PESTEL analysis, the industry using Porter's Five Forces, and the company's overall strategy and competitive advantages. This paper will evaluate Starbucks' position in the industry and the strategic choices that have led the company to its extraordinary success.

Keywords: Starbucks, Coffee, Industry Analysis, Strategy, Strategic Analysis

## History and Background

The Starbucks company was founded in 1971 in Seattle, Washington in the historic Pike Place Market. The company is a multinational chain of coffee shops and roasteries. The company's name, inspired by "Moby-Dick", pays homage to early coffee traders who had seafaring traditions. Ten years after the company was founded, Howard Schultz assumed the role as CEO, hoping to bring the Italian coffee culture and artistry to Starbucks to make it into what it is today. Starbucks at its core is a key player in the coffee industry. While it continuously expands into the food and merchandise industries, coffee will always be at its center. In the coffee industry, the two main competitors of Starbucks are Dunkin' Donuts and McDonalds' McCafé. There are more competitors locally such as Scooter's coffee in Nebraska, or Tim Horton's in Canada, but as Starbucks has a global reach, Dunkin' Donuts and McCafé are the two major companies that compete for Starbucks consumer's attention.

Today, Starbucks continues to expand and develop into new global markets. After a brief change in CEO, Founder Howard Schultz will return this year as CEO of Starbucks. Starbucks has undoubtedly had great success as a company, and its strategic analysis of consumers, the industry, and the environment has allowed it to continue to be one of the most successful coffee corporations.

## PESTEL Analysis (General Environment)

The general environment of an industry is composed of six factors that affect a firm's strategy. These sections are political, economic, social, technological, environmental, and legal. The acronym for the analysis of the general environment of the industry is called PESTEL (Corporate Finance Institute). Changes and evolutions in these areas require constant adaptations to the company strategy. While the scope of Starbucks is continually expanding, the main industry that the company belongs to is the coffee and beverage industry.

**Political**

Starbucks has many establishments and members of the supply chain around the globe, so it needs to be aware of the political environment in each of the areas where it has operations. While Starbucks does not have a political affiliation as a company, it is known to show support for different movements and groups through its employees. It has a new initiative in which it hopes to hire 10,000 refugees worldwide in the next 5 years (Morris, 2022). This has received some negative press in the media, causing some supporters to believe the company is affiliating politically.

**Economic**

As a result of the Covid-19 pandemic, the global economy and the overall economic environment in the United States have had a drastic shift, including a short recession in 2020 (Cox, 2021). The pandemic has caused consumers to shift priorities and preferences because of changes in income. For example, many customers want a cheaper option for their to-go coffee, which is not one of Starbucks' main selling points. Another thing to note when analyzing the economic environment of Starbucks would be the difference in currencies and economies that the stores operate in globally. Entry into these global markets requires more research and development done by Starbucks as a company. The chain continues to increase costs due to inflation and labor shortages caused by the pandemic (Dean, 2022). The shift in the global economy also resulted in a change in labor and material costs for the company.

**Social**

As the company ages, so does its original customer base. The average age of a Starbucks customer is 42 years old (Bowman, 2018). As trends shift and its customer base ages, the company must adapt to younger generations of coffee drinkers. There are different lifestyles of the different populations across the global markets that require a different approach. One example of this would be in the Starbucks stores in Asia, where interior design and tradition have a large cultural impact. One particular store in Taiwan commissioned a celebrated Taiwanese embroidery artist for the store's artwork and kept the location's original windows and doors to preserve the historical significance of the space (Starbucks, 2016). Starbucks needed to complete research to design its store so it aligned with the lifestyle of that population. Starbucks faces challenges when entering new markets as not all demographics have an identical pallet for Starbucks coffee, taste, and atmosphere.

**Technological**

In the growing age of technology, Starbucks continues to adapt and develop its business to fit the needs of its consumers. It has a mobile application where a customer can view the menu, save their favorites, order ahead at stores, and skip the line. The app also allows customers to make mobile payments and get rewards through the Starbucks Rewards program. Almost every Starbucks store offers its customers free Wi-Fi.

**Environmental**

The impact of the environment is crucial to the success of Starbucks ' business as its main product is coffee, which comes from the coffee bean. Starbucks operates on the cornerstone of ethical sourcing, Coffee, and Farmer Equity (CAFE) Practices. It is one of the coffee industry's first set of ethical sourcing standards (Starbucks, 2020). This practice verifies that all of the farms that Starbucks sources its beans from are upholding safe environmental and social growing practices. Starbucks must maintain good relationships with its employees and this part of the supply chain, as it controls the beginnings of its product cycle. According to Starbucks, "the program promotes sustainable agricultural practices including measures to protect water quality, improve soil health, preserve biodiversity, reduce agrochemical use, and conserve water and energy" (Starbucks, 2020). Because Starbucks depends on the production of coffee beans, there is always the potential for a natural disaster or environmental changes to affect the production or quality of the coffee beans.

**Legal**

Because Starbucks is a global company that gets its resources from different countries and transports its goods to additional countries, it is subject to laws and safety regulations of different countries. There are laws for importing goods into the United States, and Starbucks must be aware of customs and other legal precautions. For the Starbucks stores that operate internationally, there are other laws in those home countries that must be followed regarding importing and selling coffee beans and coffee.

## Porter's Five Forces (Industry Analysis)

Porter's Five Forces analysis of the industry provides an overall picture of the competitive environment of an industry and the potential for continued profitability *(The Five Forces)*. A review of this industry analysis allows a company to identify the resources and capabilities a company has that allow it to push back against these forces to remain competitive. As a global leader in the coffee industry, Starbucks has many competitors. As Michael Porter said, "the essence of strategy formulation is coping with competition" (Porter, 1979). Using

Porter's Five Forces, we can analyze the competitive environment of the coffee industry and begin to understand what Starbucks must do to be competitive.

**Bargaining Power of Buyers**

The bargaining power of buyers in the coffee industry is medium-high to high. Customers are powerful in the coffee industry because there are a lot of different options for them to choose from. Many coffee products are not differentiated enough for consumers to feel a difference between the companies selling them. There is no cost for buyers to change where their loyalties lie, so if they are feeling unsatisfied with the coffee product, they can easily choose to buy elsewhere. Some customers may have strong brand loyalty to a certain company, meaning the company has more control over them, thus lessening their power.

**Bargaining Power of Suppliers**

The bargaining power of suppliers in the coffee industry is low. To make coffee, many companies outsource and import coffee beans from international locations. There is such a wide variety of countries and farms that produce coffee beans, so it would be easy for a company to switch suppliers. The cost of switching suppliers is low because there are so many so it is not much of an inconvenience for the company operating in the industry. If the company is unhappy with the prices or service from the suppliers, it will take its business elsewhere.

**Threat of New Entrants**

The threat of new entrants in the coffee industry is medium-high to high. Each year the coffee industry continues to grow, and more and more companies enter the market to make coffee. It is relatively cheap to make and easy to customize. The majority of new entrants into the market are smaller, niche coffee shops and chains. Though an easy market to enter, it will take a while to achieve the loyalty and status of mega coffee companies and chains.

### Threat of Substitutes

The threat of substitutes in the coffee industry is high. There are many options for consumers to substitute buying coffee at a shop. A large majority of the population makes coffee, tea, and other beverages at home. As coffee is a caffeinated beverage, consumers can find caffeine from other sources such as soda, energy drinks, and caffeine pills. There is a large variety of drink substitutes for coffee including smoothies, juices, and shakes.

### Industry Competitors (Rivalry)

The rivalry/industry competition in the coffee industry is high. There are a lot of options for quick service coffee beverages both in the United States and Internationally. There is a high level of competition because of the similarity in the products being offered. There is little differentiation between competitors, consumers are often buying into the brand promise more than the taste or quality, so it can be fairly easy for them to go to a competitor to fulfill their needs. Price versus quality for coffee drinks can change the outlook of the consumer and are ultimately two of the determining factors for one company to be more successful than another in its competitive efforts.

## Company Strategy & Objectives

Starbucks has been so successful since its founding in 1971 and continues to rapidly expand today. The company has a clear outline of its strategic goals, a strong brand presence, and a reliable promise to its key consumers. At the company's inception, it needed to deliver the artistry of coffee that was first experienced by CEO Howard Schultz in Italy. Over the years it became critical to keep delivering that same artisanal coffee with speed and accuracy. Starbucks works to optimize business performance and the customer experience in every store.

Starbucks is focused on market penetration. It continues to open stores globally and expand its stores into as many cities as possible. It has a broad differentiation strategy. There is a broad customer base that the company is catering to, but it is using a unique value to differentiate itself from its main competitors. It offers the promise of craft coffee at a fast pace. It has a clear brand promise, so every customer knows what to expect no matter which Starbucks store they enter.

Starbucks recently announced its strategic priorities to continue to grow its company and create long-term shareholder value. The three strategic priorities are accelerating growth in the U.S. and China, the company's targeted long-term growth markets, expanding and leveraging the global reach of the brand through the Global Coffee Alliance, and sharpening the focus on increasing shareholder returns (Starbucks, 2018). These strategic priorities align with the overall company strategy of continuing to grow and penetrating the market while offering high-quality products and meeting top standards for consumers.

## Competitive Advantage & Resources

A key competitive advantage that Starbucks has over its competitors is its vertically integrated supply chain. Starbucks is involved in every part of its supply chain, a huge component of the company's continued success. It interacts directly with farmers and ensures that suppliers are ethical, sustainable, and meet the same quality standards using the CAFE standards (Starbucks, 2020). Having vertical integration is critical to the company's success as it limits the amount of interference that could occur at any point in the supply chain, including issues with farming, distribution errors, and delivery timing. This advantage truly sets the company apart from its competitors.

Another competitive advantage of Starbucks is its ability to adapt to each customer base depending on the location of its store. This shows a dedication to consumers and helps drive high brand loyalty because consumers feel Starbucks truly cares about them, their culture, and their lifestyle. Starbucks has a strong brand recognition because it has so many stores and such a strong presence. Its service speed, coffee craft, and customer service contribute to its loyal customer base. Starbucks was the first of its competitors to launch a mobile app with order-ahead capabilities and a rewards tracking system (Roemmele, 2014). Starbucks is very aware of technological advances and continues to keep up with the trends.

The vertical integration of the Starbucks supply chain, as well as expansion into global markets, and the attention to customers all work together to create a sustainable competitive advantage over its competition. Starbucks ' strong brand recognition and loyalty pave the way for its continued expansion and success in both the local and global markets.

## Major Issues

Though Starbucks is an extremely successful company, there are a few issues that could become a major problem for Starbucks in the future. The major issues are the US market is oversaturated, the customer base is getting older, and prices are getting expensive. While Starbucks has a strong brand presence and is very recognizable to consumers, the idea of  “a Starbucks on every corner” is beginning to become a problem in the US, as the market is becoming oversaturated with Starbucks stores. According to BMO Capital Markets Analyst Andrew Strelzik 2017, “62.5% of Starbucks locations in the US have another store within one mile, up from 58.6% in 2014” (Taylor, 2017). Oversaturation has been a problem for the past few years for Starbucks, as there has been a cannibalization of its stores. With the stores so close, new stores take the business from existing Starbucks stores in the area and cause a loss in sales at the old stores. The company should position itself by doing sales reports on its stores in heavily trafficked areas and consider closing old locations once the new stores are ready to take their place, especially when stores are only a few blocks apart. The second major issue Starbucks faces is that its customer base getting older and does not have the same usage level as earlier in life. Starbucks should position itself to target the next generation of coffee drinkers and utilize promotional strategies with popular youth content creators and influencers. It should continue to update its menu and marketing to target the interests of Millennials and older Gen Z consumers to continue to build its brand loyalty. The final major issue that Starbucks faces is pricing. While Starbucks offers a unique brand promise to its consumers and has strong brand loyalty, if it continues to raise prices too much, it will lose its customers to its competitors. To continue to carry a sustainable advantage over its competitors, Starbucks should be cautious to raise its prices too far over its competitors and continue to offer value in its store experience, loyalty rewards, and exciting drink options.

## Conclusion

Starbucks has a broad differentiation strategy and offers unique value to its customers. It dominates the coffee industry through its competitive advantages of a vertically integrated supply chain, high brand loyalty, and strong global brand presence. Starbucks will continue to have a strong reputation and large market share if it sticks to its company strategy and achieves its strategic goals.

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