



Project Organizational Behavior

# STARBUCKS

## *The Coffee Temptation!!*



**The best coffee  
For the best **YOU**.**

*Easte of Inspiration.*



# University of Central Punjab

PROF. OSAMA FAZAL

**ORGANIZATIONAL BEHAVIOUR**  
MGMT-4613

## PROJECT PRESENTERS

*SYED FAIZAN JAFFRI – L4F13MCOM2001*

*FURQAN AKRAM – L4F13MCOM2032*

*ZAMAN KAFEEL – L4F13MCOM0097*

*MISBAH RANA – L4F13MCOM2018*

*MINAHIL RAZA – L4F13MCOM2035*

*SAAD AWAN – L4F13MCOM2006*

## **ACKNOWLEDGMENT**

We have taken efforts in this project. However, it would not have been possible without the kind support and help of many individuals. First of all we would like to thank ALLAH ALMIGHTY with whose grace we have been able to complete this project. We take this opportunity to express our profound gratitude and deep regards to our honorable Professor Ossama Fazal for his exemplary guidance, monitoring and constant encouragement throughout the course of this project. The blessing, help and guidance given by him time to time shall carry us a long way in the journey of life on which we are about to embark. Our thanks and appreciations also go to our team members in developing the project and people who have willingly helped us out with their abilities.

# Contents

Introduction .....	1
History .....	2
Sale and Expansion .....	2
Expansion to New Markets and Products.....	4
Mission Statement.....	7
Vision StatementS.....	7
Management .....	8
Strategic Planning .....	8
Global Strategy .....	8
Competitive Strategy.....	9
Quality Strategy .....	9
Process Strategy.....	9
Layout Strategy.....	9
Inventory Management .....	10
Retail Career .....	10
Company's Hierarchy & Organogram .....	13
Organizational Behavior.....	14
Ethical Behavior.....	16
Workplace Environment.....	18
Product and Services .....	20
Marketing Mix .....	21
Product .....	21
Price .....	22
Place .....	22
Promotion .....	23
Macro Environment .....	24
Definition.....	24
PESTLE Analysis .....	25
Competitive Environment .....	27
Porter's Five Forces Analysis.....	27
SWOT Analysis .....	29
Conclusion.....	32



# STARBUCKS



## Introduction

**Starbucks Corporation** is an American global coffee company and coffeehouse chain based in Seattle, Washington founded by Gordon Bowker, Jerry Baldwin, and Zev Siegl. Starbucks is the largest coffeehouse company in the world, with 23,187 stores in 64 countries, including 12,973 in the United States, 1,897 in China, 1,550 in Canada, 1,088 in Japan and 927 in the United Kingdom.

Starbucks locations serve hot and cold beverages, whole-bean coffee, micro ground instant coffee, full-leaf teas, pastries, and snacks. Most stores also sell pre-packaged food items, hot and cold sandwiches, and items such as mugs and tumblers. Through the Starbucks Entertainment division and Hear Music brand, the company also markets books, music, and film. Many of the company's products are seasonal or specific to the locality of the store. Starbucks-brand ice cream and coffee are also offered at grocery stores.

From Starbucks' founding in 1971 as a Seattle coffee bean roaster and retailer, the company has expanded rapidly. Since 1987, Starbucks has opened on average two new stores every day. Starbucks had been profitable as a local company in Seattle in the early 1980s but lost money on its late 1980s expansion into the Midwest and British Columbia. Its fortunes did

not reverse until the fiscal year of 1989-1990, when it registered a small profit of \$812,000. By the time it expanded into California in 1991 it had become trendy. The first store outside the United States or Canada opened in Tokyo in 1996, and overseas stores now constitute almost one third of Starbucks' stores. The company planned to open a net of 900 new stores outside of the United States in 2009 but has announced 300 store closures in the United States since 2008.

## History

The first Starbucks opened in Seattle, Washington, on March 30, 1971, by three partners who met while they were students at the University of San Francisco: English teacher Jerry Baldwin, history teacher Zev Siegel, and writer Gordon Bowker. The three were inspired to sell high-quality coffee beans and equipment by coffee roasting entrepreneur Alfred Peet after he taught them his style of roasting beans. Originally the company was to be called Pequod, after a whaling ship from Moby-Dick, but this name was rejected by some of the co-founders. The company was instead named after the chief mate on the Pequod, Starbuck.

The first Starbucks cafe was located at 2000 Western Avenue from 1971–1976. This cafe was later move to 1912 Pike Place Market; never to be relocated again. During this time, the company only sold roasted whole coffee beans and did not yet brew coffee to sell. The only brewed coffee served in the store was free sample. During their first year of operation, they purchased green coffee beans from Peet's, and then began buying directly from growers.

## Sale and Expansion

In 1984, the original owners of Starbucks, led by Jerry Baldwin, purchased Peet's. During the 1980s, total sales of coffee in the US were falling, but sales of specialty coffee increased,

forming 10% of the market in 1989, compared to 3% in 1983. By 1986 the company operated six stores in Seattle and had only just begun to sell espresso coffee.

In 1987, the original owners sold the Starbucks chain to former employee Howard Schultz, who rebranded his Il Girona coffee outlets as Starbucks and quickly began to expand. In the same year, Starbucks opened its first locations outside Seattle at Waterfront Station in Vancouver, British Columbia, Canada and Chicago, Illinois, US. By 1989 46 stores existed across the Northwest and Midwest and, annually, Starbucks was roasting over 2,000,000 pounds (907,185 kg) of coffee.

At the time of its initial public offering (IPO) on the stock market in June 1992, Starbucks had grown to 140 outlets, with revenue of US\$73.5 million, up from US\$1.3 million in 1987. The company's market value was US\$271 million by this time. The 12% portion of the company that was sold raised around US\$25 million for the company, which would facilitate a doubling of the number of stores over the next two years. By September 1992, Starbucks' share price had risen by 70% to over 100 times the earnings per share of the previous year.

In July 2013, over 10% of in store purchases were made on customer's mobile devices using the Starbucks app. The company once again utilized the mobile platform when it launched the "Tweet-a-Coffee" promotion in October 2013. On this occasion, the promotion also involved Twitter and customers were able to purchase a US\$5 gift card for a friend by entering both "@tweetacoffee" and the friend's handle in a tweet. Research firm Keyhole monitored the progress of the campaign and a December 6, 2013 media article reported that the firm had found that 27,000 people had participated and US\$180,000 of purchases were made to date.

## Expansion to New Markets and Products

The first Starbucks location outside North America opened in Tokyo, Japan, in 1996. Starbucks entered the U.K. market in 1998 with the \$83 million USD acquisition of the then 56-outlet, UK-based Seattle Coffee Company, re-branding all the stores as Starbucks. In September 2002, Starbucks opened its first store in Latin America, at Mexico City.

In 1999, Starbucks experimented with eateries in the San Francisco Bay area through a restaurant chain called Circadia. These restaurants were soon "outed" as Starbucks establishments and converted to Starbucks cafes.

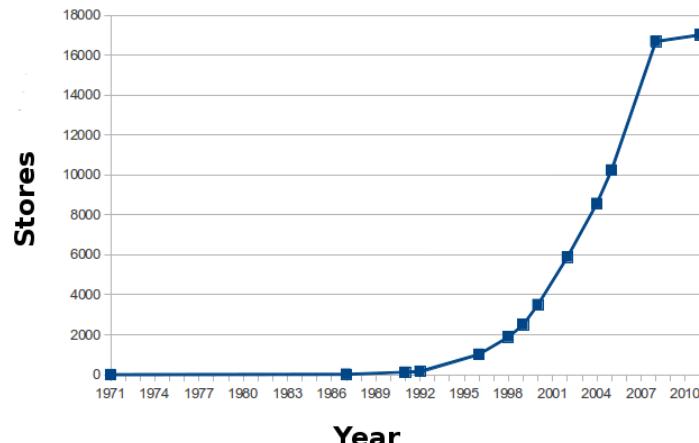
In October 2002, Starbucks established a coffee trading company in Lausanne, Switzerland to handle purchases of green coffee. All other coffee-related business continued to be managed from Seattle.

In April 2003, Starbucks completed the purchase of Seattle's Best Coffee and Torrefazione Italia from AFC Enterprises for \$72m. The deal only gained 150 stores for Starbucks, but according to the Seattle Post-Intelligencer the wholesale business was more significant. In September 2006, rival Diedrich Coffee announced that it would sell most of its company-owned retail stores to Starbucks. This sale includes the company-owned locations of the Oregon-based Coffee People chain. Starbucks converted the Diedrich Coffee and Coffee People locations to Starbucks, although the Portland airport Coffee People locations were excluded from the sale.

In August 2003, Starbucks opened its first store in South America in Lima, Peru.

In 2007, the company opened its first store in Russia, ten years after first registering a trademark there.

In March 2008 they purchased the manufacturer of the Clover Brewing System. They began testing the "fresh-pressed" coffee system at several Starbucks locations in Seattle, California, New York and Boston



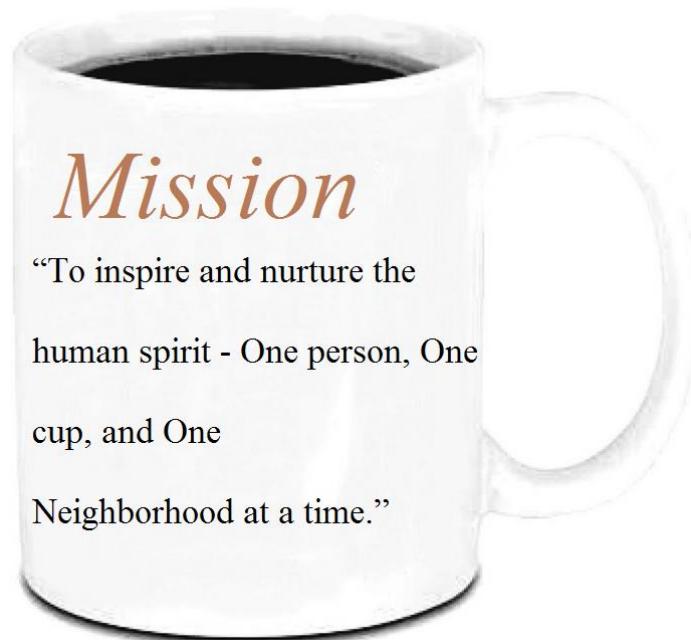
Graph showing the growth in the number of Starbucks stores between 1971 and 2011.

In early 2008, Starbucks started a community website, My Starbucks Idea, designed to collect suggestions and feedback from customers. Other users comment and vote on suggestions. Journalist Jack Schofield noted that "My Starbucks seems to be all sweetness and light at the moment, which I don't think is possible without quite a lot of censorship". The website is powered by the Salesforce software.

In May 2008, a loyalty program was introduced for registered users of the Starbucks Card (previously simply a gift card) offering perks such as free Wi-Fi Internet access, no charge for soy milk & flavored syrups, and free refills on brewed drip coffee or tea. IN 2009, Starbucks began beta testing its mobile app for the Starbucks card, a stored value system in which consumer's access pre-paid funds to purchase products at Starbucks.<sup>[39]</sup> Starbucks released its complete mobile platform on January 11, 2011.

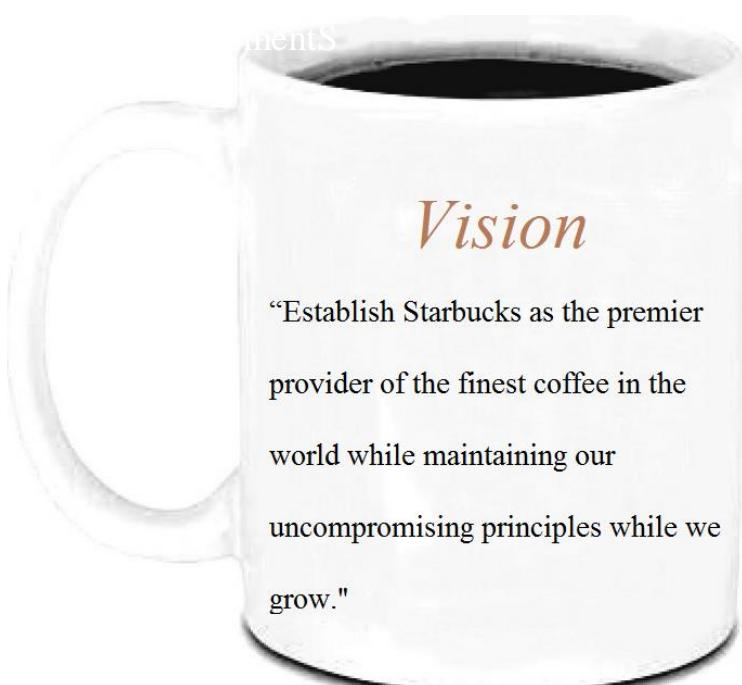
On November 14, 2012, Starbucks announced the purchase of Teavana for US\$620 million in cash and the deal was formally closed on December 31, 2012.<sup>[41]</sup>

On February 1, 2013, Starbucks opened its first store in Ho Chi Minh City, Vietnam, and this was followed by an announcement in late August 2013 that the retailer will be opening its inaugural store in Colombia. The Colombian announcement was delivered at a press conference in Bogota, where the company's CEO explained, "Starbucks has always admired and respected Colombia's distinguished coffee tradition.



## *Mission*

“To inspire and nurture the human spirit - One person, One cup, and One Neighborhood at a time.”



## *Vision*

“Establish Starbucks as the premier provider of the finest coffee in the world while maintaining our uncompromising principles while we grow.”

## Management

### Strategic Planning

Matthew Ryan is global chief strategy officer for Starbucks. In this role, he has responsibility for Starbucks long-term strategic planning process; improving the monetization of Starbucks retail, channel and emerging brands; and strengthening the company's fast-growing customer relationship management and loyalty capabilities. Matt also serves on the company's Global Brand Leadership Team responsible for integrating the company's regional brand and marketing initiatives.

### Global Strategy

Starbucks' Business is moving from domestic to an international level, therefore it is need of global strategy that gives the firm greater return on its investment.

In 1995, due to saturation of the United States market, Starbucks started to expand its business overseas.

In 2001, Starbucks had more than 150 stores and plans to continue its success. The company began by entering into joint ventures with local businesspersons. Starbucks a strong expansion Campaign opened in foreign market by 2001. This plan made the opening of over 600 stores located out of the United States possible. More than 200 units including China, Japan, Kuwait, Lebanon, New Zealand, Malaysia, the Philippines, Singapore, South Korea, Taiwan, and Thailand.

## **Competitive Strategy**

It focuses on differentiation by serving richer buyers better than rivals. Starbucks has resources and capabilities to effectively serve an attractive niche. The buyers have distinctive preferences, special requirements, or unique needs. It is costly or difficult for multi-segment competitors to meet specialized needs of niche members. They have unique capabilities to serve needs of target buyer segment. The setup of Starbucks is big enough to be profitable and offer good growth potential.

## **Quality Strategy**

Quality means conformance to standards and Starbucks welcoming their buyers, giving genuine products. Starbucks coffee buyers spend about 18 weeks each year visiting coffee growers and suppliers. Starbucks get the first pick of some of the world's best coffee crops. Their main focus is on their quality products and they know the needs of their buyers.

## **Process Strategy**

In Starbucks process they combine many modules for many output options like many cup types and same cap types. Starbucks do repetitive operations using JIT (Just-in-time) inventory. They offer fixed, well-known cost, due to their experience and specialized equipment like coffee machines, customer blenders etc. Starbucks have well-trained staff. They trained their staff according to Starbucks policy to train coffee specialists.

## **Layout Strategy**

The idea behind the Starbucks stores layout was to recreate the experience in the espresso bars in Italy. In USA customers want take-away service and a place to sit in the store while

having a drink. Starbucks has become third place for customers to go to get away from daily hectic routine.

## **Inventory Management**

Inventory management means all the goods that are available to sell in the ware house.

The techniques that star bucks company use it to manage their inventory are JIT (Just in Time). In Inventory management three levels are involved which are as follows:

- **Corporate Level**

In this level Starbucks reduce their price by producing a new product of coffee using cheaper beans or come out with special discounts, promotions to increases the sale.

- **Business Level**

Starbucks can effectively pursue focused based strategy in conjunction with differentiation or cost leadership based strategy.

- **Functional Level**

Star bucks give advertisement through internet that services convinced for users to access, give the brochures, do road shows, so that public come to know more about star bucks details.

### **Retail Career**

#### **Baristas**

Baristas really are the face of Starbucks. They are an important part of customers' day, and experts in handcrafting deliciously perfect beverages. Connecting and creating the moments that make a difference in each person's day

## **Shift Supervisors**

Shift Supervisors help direct work on the floor. Running a shift, leading a team, and making decisions that impact store operations. They in a way try to develop leadership skills and expanded responsibility. They also help create great experiences for partners and customers alike.

## **Assistant Store Managers**

Assistant Store Managers inspire our customers while developing their management skills on their journey to running a great store on their own. Managing a P&L for a million-dollar business, building schedules, leading a team and nurturing talent—allowing those partners to become their personal best.

## **Store Managers**

Store Managers run their own million-dollar business—from managing their store's operations to responsibility for financial results. This is not a back room management position. It's being on the front line, connecting with customers and partners. It's the opportunity to develop your own team, hiring and welcoming new partners and future leaders for your store.

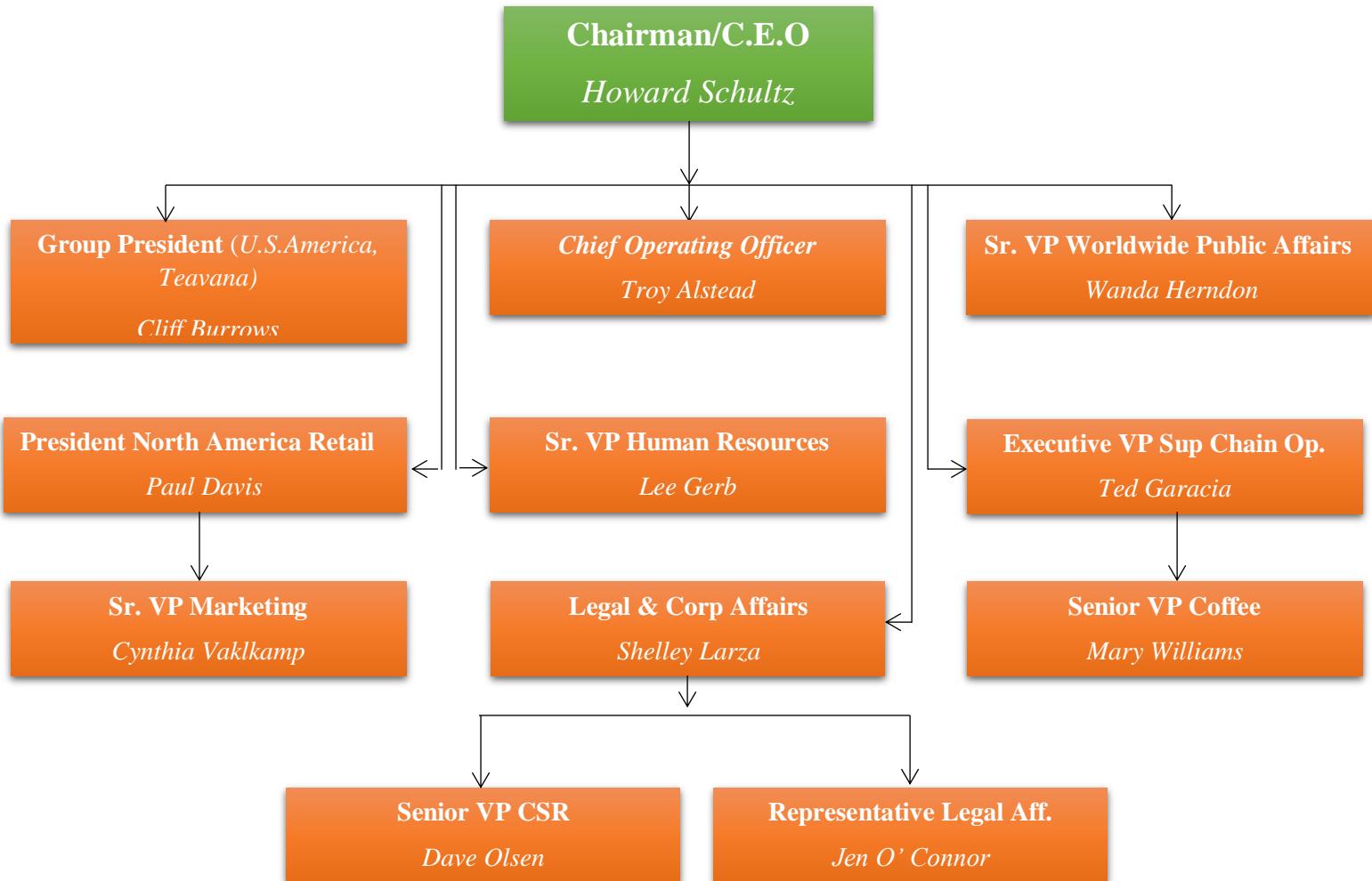
## **District Managers**

District Managers lead a multi-unit, multi-million dollar enterprise, seeing the business at a higher level. That means developing store managers and helping them learn to solve problems and drive business results. District managers are accountable for having all stores in their districts meet every standard of quality. They're also responsible for building local strategies to manage their district's performance by knowing their markets, their communities and their customers.

## **Regional Directors**

Regional Directors are leaders with ownership and responsibility for all Starbucks in their area of the country—usually 90-100 stores. They coach and develop district managers, set direction, drive financial and sales goals connect across geographies and nurture talent.

Company's Hierarchy & Organogram



## Organizational Behavior

Starbucks is really a fascinating company. They've 'taken over the world' with coffee shops in over 64 nations. Starbucks is obviously about a great deal over merely promoting coffee. Organizational behavior is one thing that's very important to Starbucks and is something that starts with their upper management. Starbucks Chairman Howard Schultz has often talked about creating the coffee shops a place where they can come outside of their home and office to unwind and think.

The values that Starbucks and I share are the desire to unwind, make individuals really feel as welcome, and comfy as you possibly can. I want people to always feel so comfortable around me and know that it's okay regardless of who they're totally free to talk and I will listen or if they don't want to speak but just sit that is fine too. From my own individual experiences with Starbucks it's a third location for me and my girlfriends to sit and eat a pastry and just unwind.

Everything within the environment at Starbucks radiates relaxing; calming and tension relieving really feel to it. It makes it a perfect comfort zone and it is even a location that one can possess a study group and debate politics of a paper. Howard Schultz, the chairman of Starbucks, comments that "People aren't thinking about just how much you realize, it is just how much you care." This is something that rings true all through the organization and especially in regards to Starbucks social consciousness. The seven primary characteristics that Starbucks embodies are focus to detail, people orientation, team orientation, aggressiveness and stability. It's essential to get a business like Starbucks to spend focus to detail and deliver the relaxing atmosphere that they so want to get across to customers. Individual's orientation comes into play because the people who operate this business want it to remain in expanding but have the ability to talk and invest time with their employees and do what's in the best interest from the workers. They want a big business with the small

business feel-where employees are close and function together and depend on one another to get their jobs carried out. The organization works as teams more than anything. It's a chain reaction one prepares it then hands it to the barista who puts it all together after which the individual who hands it to you by calling you by your own name rather of creating you feel like you are a customer. From the extremely top of the company to the newest member of the team, they work together to deliver great atmosphere that lets the consumer remain real and alive. The Starbucks Company is trying to develop aggressively but almost too quick since they did need to shut down some shops this past year.

Starbucks has a very strong culture. And it's ethical and customer responsive. It is extremely apparent that Starbucks has faithful customers that are totally satisfied with the service that they've received. There's something about Starbucks and something to be said on their consumer service. They really try to go above and beyond to make you really feel that you are an individual with a name with a preferred drink or pastry. They are usually attempting to educate their customers with knowledge on what they're drinking and other drink that they may enjoy. The customers that are serviced through Starbucks are the normal every day American. There are Individuals which are Starbucks clients. They come from all financial levels, from physicians to construction workers to school teachers to stay at house moms. These clients are hardworking and just looking for a pick me up or perhaps a increase of power prior to a lengthy day begins or even at the finish of the lengthy difficult day.

Customer service is extremely important particularly inside a business like Starbucks, even the restaurant business, customers are usually first. They may not always be correct but don't show that in front of them. That can be discussed further after the consumer has left the location.

Where I stand on customer service, as Client Solutions Director, attend towards the consumer with high opinion, use proper name, and steer clear of terms of endearment, i.e. sweet heart, dear, or hon. Focus on the customer being serve. Respect the customer's confidentiality. Demonstrate understanding for the customer's worry. If interrupted when providing service, express regret to the consumer. When a fault in service is exposed, correct the error without a negative reflection on the individual or department responsible for the error. If the employee is unable to meet the customer's need, then that employee needs to offer option options. Please don't provide opinions, info or expressions that reflect negatively on or any other business that is a competitor, or any other organization. Recognize that our customers' perceptions are influenced by our conduct, whether or not on or off duty.

Everything in this company was founded on difficult work, small town values and customer service and good coffee. If other companies would work to please people half as hard as Starbucks works at it, there wouldn't be a need for consumer service.

### Ethical Behavior

Over the last two decades social corporate responsibility has become an increasingly important factor in the business world. Corporate Social Responsibility is concerned with treating the stakeholders of a company or institution ethically or in a responsible manner.

"Ethically or responsible' means treating key stakeholders in a manner deemed acceptable according to international norms "Hopkins (2011).By social corporate responsibility we mean that businesses and organization that reflect their ethical legal and social consequences on their management decisions. Business ethics are followed by all organization globally. While some of them are ethically acceptable by society, the other are unethical and not acceptable.

Presently the Corporate Social Responsibility is measured by the contribution of an organization towards improving the luxury of people lives.

### **Business Ethics and Compliance of Starbucks**

Starbucks believes that conducting business ethically and striving to do the right thing are vital to the success of the company.

Business Ethics and Compliance is a program that supports Our Starbucks Mission and helps protect our culture and our reputation by providing resources that help partners make ethical decisions at work.

The program develops and distributes awareness materials, including the Standards of business conduct facilitates legal compliance and ethics training; investigates sensitive issues such as potential conflicts of interest; and provides additional channels for partners to voice concerns. Partners are encouraged to report all types of issues or concerns to the program through their choice of the offered communication channels.

The majority of reports received by Business Ethics and Compliance involve employee relations issues. This trend is consistent with other companies – retail or otherwise – that provide alternative reporting mechanisms as part of a comprehensive ethics and compliance program.

### **Standards of Business Conduct**

The Standards of Business Conduct booklet is a resource distributed to all partners to help them make appropriate decisions at work. The standards are a brief statement of some of the company's expectations of how we are all to conduct Starbucks business, consistent with our Mission and core values.

## Workplace Environment

### How We Treat One Another

Consistent with Starbucks Global Human Rights Standard, Starbucks promotes equal opportunity in its hiring practices, makes recruiting decisions based solely on job-related criteria and does not use forced labor. When employing partners under the age of 18, managers must comply with all Starbucks-established or legally required limitations on minimum hiring age, and on hours and tasks performed by these partners to ensure any work performed does not hamper the partner's education, health, safety, and mental or physical development. At Starbucks we treat each other with respect and dignity. This means that all partners are entitled to work in an environment that is free of harassment, bullying and discrimination.

### How We Treat Our Customers

Legendary customer service is a top priority at Starbucks. We strive to make every customer's experience pleasant and fulfilling, and we treat our customers as we treat one another, with respect and dignity. This means, for example, that we never harass or discriminate against our customers.

### Diversity

Starbucks actively creates and promotes an environment that is inclusive of all people and their unique abilities, strengths and differences, and promotes diversity as a strategic and competitive business advantage for the company. As we continue to grow, embracing diversity in every aspect of our business—from the way we work together to the way we procure goods and services—is vital to our long-term success. We respect diversity in each other, our customers and suppliers and all others with whom we interact. Our goal is to be

one of the most inclusive companies globally, working toward full equity, inclusion and accessibility for those whose lives we touch.

### **Workplace Health, Safety and Security**

Partners are expected to follow all safety rules and practices; cooperate with officials who enforce these rules and practices; take necessary steps to protect themselves and other partners; attend required safety training; and report immediately all accidents, injuries and unsafe practices or conditions. In order to enhance workplace security, you should be familiar with and follow any work safety information and training provided to you.

### **Starbucks Quality and Customer Protection**

Starbucks commitment to quality means that we take steps to protect our customers' health and safety. You can play your part by following all proper procedures relating to the storage, handling, preparation and service of Starbucks® coffee and other products; by working to ensure clean, sanitary and safe conditions in all of our facilities; and by continually exploring ways to maintain and improve Starbucks quality standards and practices.

## Product and Services

Starbucks offers a range of exceptional products that customers enjoy in stores, at home, and on the go.

- ***Coffee***

Starbucks is offering more than 30 blends and single-origin premium coffees in stores.

- ***Handcrafted Beverages:***

*Fresh-brewed coffee, hot and iced espresso beverages, Frappuccino® coffee and non-coffee blended beverages, Starbucks Refreshers, smoothies and teas.*

- ***Coffee and Tea:***

Whole bean and ground coffee (Starbucks and Seattle's Best Coffee brands), Starbucks VIA® Ready Brew, Starbucks® K-Cup® portion packs, Starbucks® and Teavanna® Verismo™ pods, Tazo® tea filterbags, and tea latte concentrates

- ***Ready-to-Drink (RTD):***

*Starbucks® bottled Frappuccino® coffee drinks, Starbucks Discoveries® chilled cup coffees, Starbucks Discoveries® Iced Café Favorites™, Starbucks Iced Coffee, Starbucks Doubleshot® espresso drinks, Starbucks Doubleshot® Energy+Coffee drinks; Starbucks Refreshers™ beverages, Evolution Fresh bottled juices, Tazo® bottled iced and juiced teas.*

- ***Confectioneries***

Fresh Food Baked pastries, sandwiches, salads, salad and grain bowls, oatmeal, yogurt parfaits and fruit cups.

- ***Merchandise:***

Coffee grinders, Espresso machines, Coffee and tea brewing equipment, Verismo System™ by Starbucks®, mugs and accessories, packaged goods, music, books and gifts.

## Marketing Mix



## Product

Starbucks tried to position themselves as a premium product in the coffee industry by creating a high standard, introducing innovative products, and providing excellent service.

Schultz knew how perishable coffee was and they were so fanatical about quality control, and hence they carefully monitored each step of coffee production.

They bought dark-roast, whole bean coffee from places like Sumatra, Kenya, Ethiopia and Costa Rica; roasted them in their own plants; and sold only through company-owned stores (refer case study). They used total quality management (TQM) in which all company's people are constantly involved in improving the quality of products (Kanji, 1996). Usage of nonfat milk and introduction of Frappuccino made a significant presence in the balance sheet of Starbucks. Moreover, they provided seasonal offerings, such as strawberry and cream Frappuccino in the summer and gingerbread latte in Christmas, were introduced. Gradually food items such as cookies, pastries, sandwiches and salads made their way into the stores.

Later they went on to develop new products with other companies. This shows how cautious Starbucks was to keep their standard high and maintain their premium quality image.

## **Price**

The amount of money a buyer must give to the seller for a specific quantity of the product is the price of that product and usually consumers use this as an indicator of quality (Dalrymple & Parsons, 1986). Price and quality determines the value of the product. When launched, Starbucks was expensive and was positioned in accordance with that. They always tried to deliver the high value promised to the consumers. They bought the quality beans, gave effective and efficient training to staffs, and moreover, made an atmosphere to enjoy coffee, meet fellow people and 'take a break' from the busy life. These all justify their pricing and show how price supported their positioning.

## **Place**

Distribution channels links the organization's product or service to its consumers; and in a producer-consumer (direct supply) channel, as in the case of Starbucks, maintaining a personnel relationship with the customers is significant (Brassington & Pettit, 2000). However, from a distribution point of view Starbucks got an advantage by sticking on to its winning store location formula for its new stores (refer case study). They always selected highly visible locations and opened stores as clusters. As demand grew, these store clusters made them able to manage the increased traffic and to keep their competitive position. In the same way, they took care about the services provided in the stores. Howard Schultz aimed to unlock the romance and mystery of coffee in coffee bars, and he knew how important the role of baristas in achieving that. Baristas ability to engage the customers was the heart of Starbucks experience. Starbucks invested heavily in training their staffs and did innovative

tactics to manage their human capital. Thus they differentiated themselves in the market by constantly providing higher quality services.

## Promotion

All marketing activities, that attempt to stimulate buyer action or sales of a product, considered as promotion (Shimp, 1997). Starbucks used to organize a big community event prior to the opening of its stores (refer case study). Artworks were designed to boast each city's personality, and it was used on commuter mugs and T-shirts. They also recruited local 'ambassadors' from new partners and from customers to promote their brand (ibid.). They didn't use advertising but they used those funds for acquiring key locations. Starbucks tried to establish a national dominance before other specialty coffee bars appears.

## Macro Environment

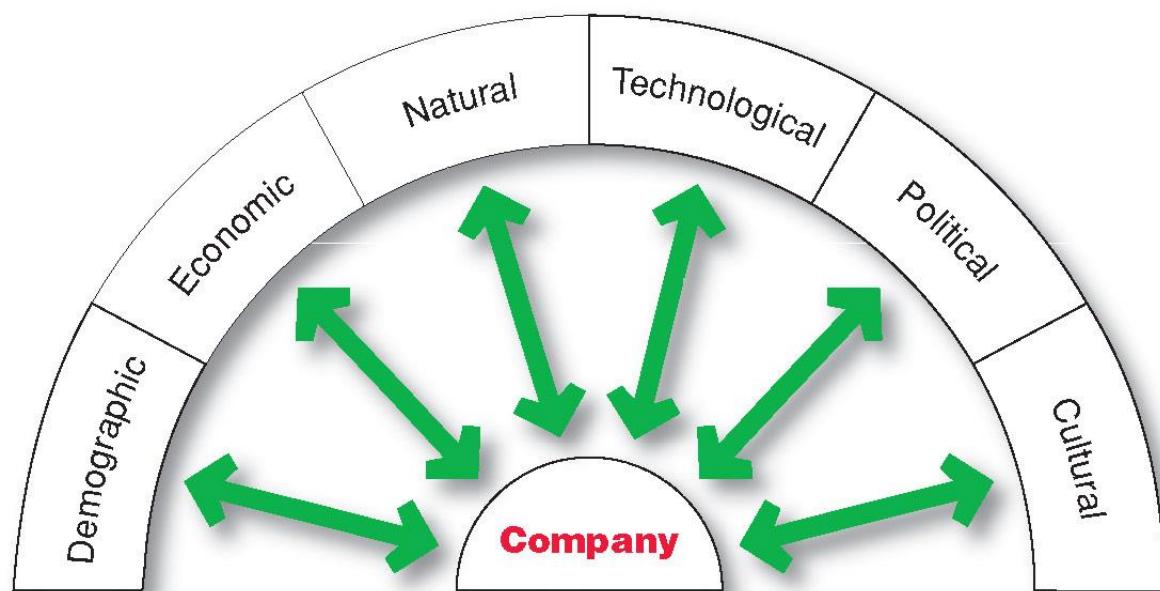
### Definition

Major external and uncontrollable factors that influence an organization's decision making, and affect its performance and strategies is called macro environment. These factors include the economic, demographics, legal, political, and social conditions, technological changes, and natural forces.

The Company's macro environment includes the following factors:

- ✓ Demographic
- ✓ Economic
- ✓ Natural
- ✓ Technological
- ✓ Political
- ✓ Cultural

### Diagram



## PESTLE Analysis

PESTEL stands for political, economic, social, technological, legal and environmental factors affecting the business and it is widely considered to be one of the most effective analytical tools used to analyze the impacts of external factors to the company. This analysis is basically done to know how the macro environment affects a company. The PESTLE analysis of STARBUCKS is as follow:

### Political factors:

- ✓ Industries specific rules and regulations.
- ✓ The level of relationships between USA and countries that produce coffee beans.
- ✓ The level of political stability within a country.

### Economic factors:

- ✓ The buying power of the consumers is one of the major economic issues.
- ✓ The local currency exchange rates.
- ✓ Local economic environment within each market Starbucks is operating.
- ✓ The taxation levels.

### Social factors:

- ✓ The consumer preferences.
- ✓ The changes in the lifestyles of the population.
- ✓ The change in the values of the people.
- ✓ The change in the work patterns.

**Technological factors:**

- ✓ Development in the agricultural sector.
- ✓ The emergence of innovative technology.
- ✓ Another major reason is biotechnological developments.

**Legal factors:**

- ✓ Introduction of policies and regulations by the health authorities about the caffeine production and consumption.
- ✓ Another major issue is the tougher customs and trade regulations.
- ✓ Licensing regulations related to the industry.

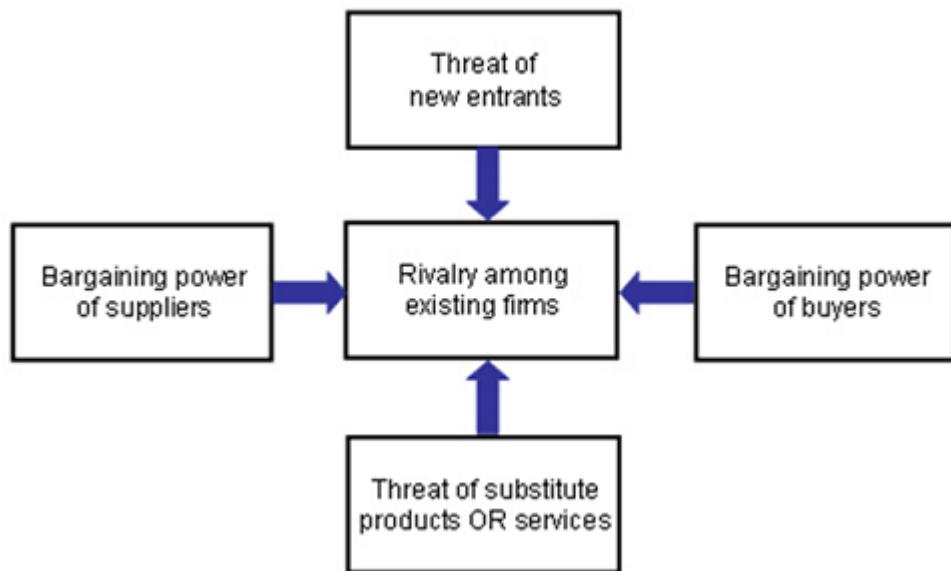
**Environmental factors:**

- ✓ The natural disasters in countries producing coffee beans
- ✓ Global warming and other environmental issues on global level.

## Competitive Environment

### Porter's Five Forces Analysis

Porter's Five Forces analysis framework comprises five individual forces that shape the overall level of competition in the industry. These forces are threat of new entrants, threat of substitute products, bargaining power of buyers, bargaining power of suppliers, and the extent of rivalry among existing competitors.



### Starbucks Porter's Five Forces Analysis

Starbucks Coffee Company is a global coffee company and a coffeehouse chain headquartered in Washington, the US and the company has generated consolidated revenue of \$14.9 billion during 2013 with more than 200,000 partners, referred to as employees (Starbucks Annual Report, 2013).

#### Rivalry among existing competitors

It is high within the industry Starbucks operates in with major competitors like Costa, McDonald's, Caribou Coffee, and Dunkin Donuts and thousands of small local coffee shops and cafes.

### **Starbucks customers possess large amount of bargaining power**

This is all because there is no and minimal switching cost for customers, and there is an abundance of offers available for them.

### **The threat of substitute products and services**

It is substantial for Starbucks. Specifically, substitutes for Starbucks Coffee include tea, juices, soft drinks, water and energy drinks, whereas pubs and bars can be highlighted as substitute places for customers to meet someone and spend their times outside of home and work environments.

### **Starbucks suppliers have high bargaining power**

This is due to the fact that the demand for coffee is high at global level and coffee beans can be produced only in certain geographical areas. Moreover, the issues associated with African coffee producers being treated unfairly by multinational companies are being resolved with the efforts of various non-government organizations, and this is contributing to the increasing bargaining power of suppliers.

### **The threat of new entrants to the industry to compete with Starbucks is low**

This is because the market is highly saturated and substantial amount of financial resources associated with buildings and properties are required in order to enter into the industry.

## SWOT Analysis

### Strengths

#### **Sound financial records**

Starbucks profitability has been rising for the past few years and is now 14%. The company also outmatches its nearest competitors with 24.54% return on investment and 29.16% return on equity.

#### **No. 1 brand in coffeehouse segment, valued at \$4 billion**

Starbucks has a strong brand reputation associated with quality coffee and excellent customer service. Its brand is the most valuable brand in coffeehouse segment and is valued at \$4 billion.

#### **“Starbucks experience”**

One of the strongest advantages Starbucks has is the experience it delivers to its customers with perfectly blended coffee, premium music, friendly staff and warm atmosphere, which results in incomparable customer service.

#### **Largest coffeehouse chain in the world**

The company operates around 20,000 coffeehouses in 60 countries, making it the largest coffeehouse chain in the world.

#### **Employee management**

The company offers its employees extensive range of benefits and a pay rate higher than offered by competitors.

### Weaknesses

#### **Coffee beans price is the major influence over firm's profits.**

Starbuck's profitability and its coffee price are largely dependent on prices of coffee beans, which is a commodity and cannot be controlled by Starbucks. Due to hedge funds, weather

conditions and many other factors, Starbucks cannot estimate the price of its coffee and company's profitability.

### **Product pricing**

Starbucks offers great coffee and customer experience but that results in high price of its products. In comparison, Mc Cafe premium coffee was price lower than Starbucks coffee and was better evaluated.

### **Negative publicity**

The corporate continuously receives negative publicity over its poor efforts of becoming greener company, tax evasions and poor treatment of some suppliers.

### **Opportunities**

#### **To extend supplier network**

Starbucks doesn't grow its own coffee beans but has to buy them from various suppliers, which are mainly clustered in South America, Arabia or Africa. For Starbucks to ensure critical supplies for its operations in Asia, reduce the dependence of good or bad harvests in Africa and South America and to save on shipping costs, Starbucks has to extend its supplier network.

#### **Expansion to emerging economies**

There are great opportunities for coffeehouses in China and India, in which Starbucks has comparably only modest number of restaurants.

#### **Increase product offerings**

The business could expand the number of coffeehouses that offer wine and beer, plus adding some new products and reaching broader customer group.

## **Expansion of retail operations**

Starbucks does not only manage coffeehouses and franchises but sells some of its products through other retailers. The firm should form more of such partnerships and offer to sell its coffee, for example, in supermarkets.

## **Threats**

### **Rising prices of coffee beans and dairy products**

The chain strongly depends on the coffee beans and dairy products prices, which Starbucks cannot control or can hardly estimate.

### **Trademark infringements**

The company is often involved in cases over illegal use of its trademark, which is costly and detrimental for Starbucks.

### **Increased competition from local cafes and specialization of other coffeehouse chains**

Local cafes can offer much lower price and more suited menu for its customer. Big coffeehouse chains specialize so they wouldn't need to compete head-to-head with Starbucks. In both situations, Starbucks experiences intense competition and loses market share.

### **Saturated markets in the developed economies**

Coffee markets in the developed economies are already saturated and with intensifying competition, Starbucks will find it hard to grow in these markets.

### **Supply disruptions**

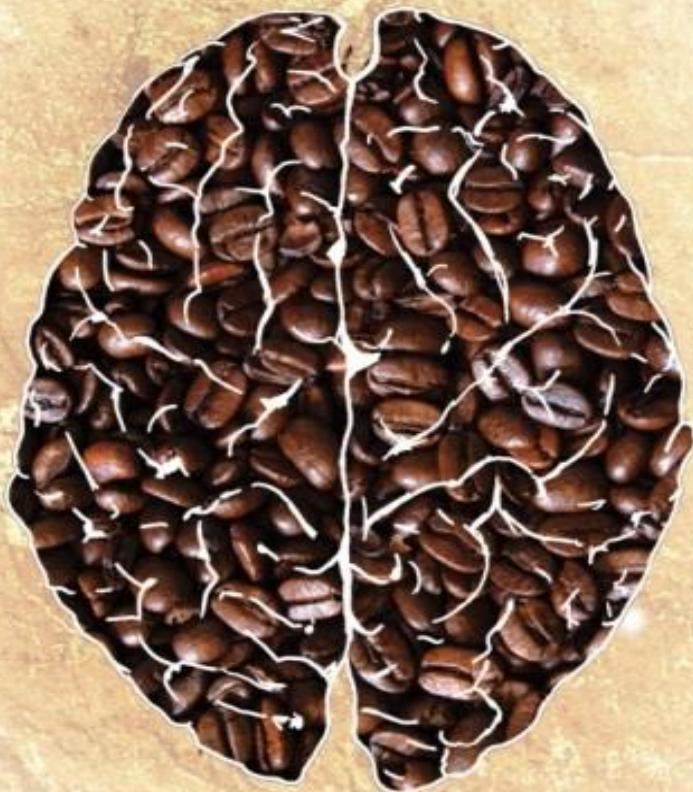
Due to political, economic and weather conditions Starbucks may experience supply disruptions, adding significant cost to the firm.

## Conclusion

“We aren’t in the coffee business, serving people. We are in the people business, serving coffee”--- Howard Schultz (Serwer, 2004) Starbucks claimed their leadership by focusing on a strategy of new products, a stronger connection with customers as the Third Place and expanding store locations in the United States and abroad. They never compromised on their quality, service standards, and maintained their customer relationships with utmost care. This report analyzed the target markets and positioning strategy of Starbucks while it was launched. In addition, it shows how the marketing mix variables (product, price, distribution, and promotion) along with services supported their positioning. Today, Starbucks is in cities all over America and in 64 other countries. The level of success achieved by Starbucks holds some important lessons and some much needed inspiration to the business world.



All you can think of.



University of Central Punjab