

Assignment Title:

Marketing Management- Assessment 2

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Introduction

Here the company Starbucks has been selected for environmental analysis on macro and microenvironment. Starbucks is one of the most important parts of the world's beverage and coffee culture which has penetrated international markets and has created a strong brand image in countries like the USA, UK, Australia, Canada, etc(Allied Market Research, 2021).

The company was founded in the year 1971 and approximately 350000 employees work around the world. This company has been selected because the company has outlets in more than 31000 locations serving millions of people different varieties of flavoured coffee and baked items and has been very popular amongst the customer base (Starbucks, 2022).

This report focuses on the market environment analysis of Starbucks which helps the company to repair strategies to capitalise on available market opportunities through the external environment (PESTEL, Porter's five forces) analysis and internal (SWOT, VRIO) analysis. In the end, there are multiple recommendations on the future approaches of the organisation to achieve success.

External Market analysis

PESTEL Analysis

The PESTEL analysis provides an overview of the external factors in a country that impacts business progress and development. These factors are following:

Political factors

Starbucks is one of the premium coffee roasters and retailers of exclusive qualities of coffee in the world has a massive operation chain which makes the country's political decisions and events challenging for the company because of exposure (Chang, 2020). The political stability in the UK has provided benefits for the company (Guler, 2018). However, situations like Brexit have changed the trading scene in the UK. The different political upheavals from the country's government in raw material sourcing and day-to-day operations have affected the procurement of exclusive Coffee beans from countries like Trinidad, Romania, Turkey, Costa Rica, etc because of stringent export and import regulations(Allied Market Research,

2021). Likewise, the covid-19 pandemic outbreak has forced the government to multiple lockdowns and mandatory restrictions on travel and movement of people. These restrictions have affected the sales of the company drastically and the company is facing a lot of challenges in recovering its previous position (Statista, 2022).

Economic factors

Being a premium coffee brand the positioning in the market and Starbucks pricing strategy affects its products and sales highly in the market (Perch, 2022). The company mainly targets high-end customers from developing and developed countries where the Global economic slowdown has made it difficult for consumers to purchase a premium cup of coffee every day because of financial limitations (Market watch, 2021). Starbucks is also facing huge losses because of the reduced purchasing power of the consumers due to job losses in the country, emergencies like Brexit, and the Covid 19 outbreak (Perch, 2022). In 2020 Starbucks has lost around 3.1 billion dollars in revenue margin which is the highest since its inception (Volle, 2021). The rising cost of operations and Labour management is also becoming a threat for Starbucks (Market watch, 2022). The labor cost in the United Kingdom and other European countries is relatively higher than in developing countries (Wire, 2021). The switching cost for customers to other beverages brands like Costa Coffee or Barista is much lower as Costa Coffee or Barista offers coffee at a much cheaper price than Starbucks (Volle, 2021). It has also made the market highly competitive for Starbucks.

Social factors

Social factors have been highly influential in favour of Starbucks as most of the developed countries are growing in coffee culture day by day (Thelia and Sari, 2019). Many of the people in countries like the UK have more than one cup of coffee a day. The rising coffee consumption even in the areas of less economic development is growing potentially over the years (Volle, 2022). However, because of social distancing and mandatory movement restrictions of the government Starbucks Coffee sales have taken a big hit (Lombardi et al., 2021). The company has been forced to reduce consumer capacities to 50% during the last one and a half years. However, this company is also actively participating in corporate social responsibility programs which are designed to develop socio-economic problems in local

areas (Statista, 2021). The company has also created employment opportunities for individuals from the age of 18-24 years after school or college to support their families or education. Therefore, with this initiative Starbucks has been able to gain a potential brand image in society (Lombardi et al., 2021).

Technological factors

The company is also using potential technical options to attract customers. For instance, the customers receive personalised push messages regarding offers and discounts. The customer also gets notifications and suggestions through the e-learning platform which is prepared and managed by Microsoft Azure (Taecharungroj, 2016). The company also collects massive amounts of data through artificial intelligence technologies over millions of transactions. The company has started to order and pay through mobile services since 2014 (Wire, 2021). Through the service, the consumers can make the order in advance through the mobile app and collect their orders from the store (Perch, 2022). Starbucks has always been a pioneer of technology in the coffee chain business.

Environmental factors

Starbucks has been accused of polluting the environment in various manners through waste in thousands of cups in a minute that was not recyclable earlier (Allied Market Research, 2021). However, the company has taken multiple initiatives to mitigate the risk and impact of plastic waste on the ocean, water, and health (Statista, 2021). The company has introduced circular or reusable cups in United Kingdom stores since August 2020 (Wire, 2021). These recyclable cups have also been used in Middle East countries, African countries, and European countries (Guler, 2018). The company has also made an agenda of reducing carbon footprint water and waste by the year 2030 (Lingli and Kexin, 2021).

Legal factors

Starbucks has been penalised in several instances (Wire, 2022). For instance, in the year 2016, the company has been accused of leaving rubbish bags open on the streets of London beyond the collection times (Coffee Admire, 2021). The company has been fined a huge amount by Westminster Magistrates Court. Likewise in the year 2020, the company has been fined a huge sum of money by the National Anti-Profitteering Authority (Lingli and Kexin,

2021). Hence, the company has lost a lot of money reducing its potential profit margin. Starbucks has to make sure that it does not violate any national as well as international regulations and standard guidelines of the UK for smooth operations (Volle, 2021).

Porter's Five Forces Analysis

Competitive Rivalry in Market (HIGH)	The competitive rivalry in the coffee industry is high and intense. Because of companies like Dunkin doughnuts, Costa Coffee, McDonald and many small regional and local Coffee brands Starbucks faces high competition in the market being a premium brand (Lombardi et al., 2021). The switching cost is very low for customers so the competition is even intense as other coffee and beverage companies are making coffee at much cheaper prices (Technavio Analysis, 2021). Starbucks only holds the key to the uniqueness of exclusive qualities of coffee to attract customers.
Threats of New entrants (MODERATE)	Threats of new entrants moderate as many developing countries have customers growing their taste and culture of coffee drinking (Statista, 2021). This rising trend is focused on by many business houses that started small to moderate levels of investment in the coffee business. The investment to start a coffee business is also economic (Technavio Analysis, 2021). So, the new entrants in the market are posing a moderate threat to Starbucks (Market watch, 2021).

Bargaining Power of Supplier (LOW)	The bargaining power of suppliers is low as most of the raw materials and commodities are Starbucks-owned suppliers' services. Starbucks deals with the world's best coffee beans in the market which makes it paramount for the suppliers to supply to a company that has a worldwide coffee chain business (Perch, 2021). The higher altitude of Arabica coffee is mostly traded in the premium brands in the only beans exceptional to be procured. The rest of the beans are available easily (Guler, 2018). So, the bargaining power of suppliers is low.
Bargaining Power of Buyer (HIGH)	The bargaining power of buyers is high. Starbucks is facing high competition in the market as choices are abundant in the consumer's hand (Astute Analytica, 2021). Starbucks has premium coffee prices where most of the buyers in times of economic instability walk away from brand loyalty as switching cost is low (Lusiah, 2019). Few customers will continue with a premium brand because of addiction to the exclusive smell and taste of coffee flavor (Volle, 2021).

Threats of Substitutes (HIGH)	Most of the products of Starbucks have alternative options in other brands like Costa Coffee or McDonald's (Lusiah, 2019). Many people also brew and make tea as well as coffee at home (Thelia and sari, 2019). There are other beverage substitutes like mocktails, tea, drinks, juices, etc (Perch, 2021). So, the threat of substitutes is higher as most of the items are lower in price than Starbucks Coffee.
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Internal Environment Analysis

Strengths and Weaknesses

Strengths	Weakness
Exclusive taste and premium brand of coffee	High pricing strategy of the company
CSR Strategies to reduce socio-economic barriers in multiple countries (Market watch, 2021)	Low switching cost for consumers
Enhancing employment opportunity	Multiple environmental degradation allegations (Statista, 2021)
Environment-friendly initiatives like reusable cups of coffee (Perch, 2021)	Reduced brand image for misconduct
Attractive technical updates like e-learning platform by Microsoft Azure	Multiple cheaper alternatives
Easy options from mobile app to pre-order and receive coffee later as per convenience (Volle, 2021)	Threats of new small and medium-range coffee brands (Taecharungroj, 2016)
Customer's engagement and multiple offers and discounts	High competition from Costa Coffee, Barista, etc.
	Economic instability because of Brexit and Covid 19 pandemic (Allied Market Research, 2021)

VRIO Analysis

Resources	Value	Rare	Imitation	Organization	Competitive Advantages
Brand image and positioning	yes	yes	Yes, but difficult (Huge capital needed)	Yes	Sustainable advantage
Opportunity for Global and regional extension	Yes	No (Most new entrants targeting the same niche)	Yes	Yes (But difficult as high marketing budget is needed)	Sustainable Advantage
Technical Advancement	Yes	No (Most competitors have a same advantage)	Yes	Yes	Temporary Advantage
Marketing Strategy in 21 st century	Yes (Coffee firms are competing based on industry differentiation)	No (Most rivals has good planning)	Yes (Often imitated by rivals)	Yes	Temporary Advantage

Customers Network and Loyalty	Yes	No (Multiple alternatives at better pricing)	Yes (Better offer and discounts by rivals)	Yes	Temporary Advantage
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Role of marketing in Starbucks

According to Lingli and Kexin (2021), to become successful a business house is required to adopt the ongoing market trends and development in their micro and macro environmental process. These are the following:

It is beneficial for Starbucks to scan and evaluate the marketing environment to get prepared against any possible challenges and threats arising from the market. Starbucks has the world's best coffee in terms of quality and differentiation from its rivals (Guler, 2018). The unique marketing strategy provides multiple benefits. It invested \$258.8 million in marketing in 2020 through television commercials and social media advertising (Wire, 2021). The marketing strategy of international spread as a coffee retailer has provided the company with growth and development (Perch, 2022). The quality-based product differentiation formula has achieved customer loyalty and high popularity. Product quality is the focus of marketing strategy leading Starbucks to be one of the best premium coffee brands all over the world (Statista, 2021) The company has built a great reputation through the marketing strategy of CSR activities (Volle, 2021).

Starbucks has used unique flavour and unparalleled customer service to have potential market reach. Increased investment in product promotion, offers, discounts, and marketing has resulted in higher profit (Lombardi et al., 2021). Brand positioning in the premium segment with the greatest quality of coffee as a value proposition has gained a huge customer base (Technavio Analysis, 2021). The coffee outlets are designed to provide a stress-free ambience and relaxation to the consumers (Statista, 2021). The marketing strategy of modern and tech-

savvy technological attraction towards the young generation through social media customer engagement programs and promotions has gained much popularity (Thelia and Sari, 2019).

Recommendation

- Starbucks has a very small budget while compared with other brands like Coca-Cola or McDonald in marketing advertising and paid promotions (Taecharungroj, 2016). It has to raise its budget in advertising and promotion for a wider reach in the market.
- Starbucks has to diversify its business strategies through the development or acquisition of other small coffee brands which are struggling in the market (Perch, 2021).
- Partnership or alliance with other brands will make Starbucks stronger and expand its business in developing the marketplace (Chang, 2020).
- Starbucks should focus on market research and development to strengthen the uniqueness of the brand and its product through aggressive strategies of creativity and innovation (Coffee Admire, 2021).
- Innovation and creativity can make the company bring uniqueness in its products which becomes difficult to imitate for rival companies (Guler, 2022).
- The pricing strategy of Starbucks which is currently premium has to be competitive according to the market requirements (Lusiah, 2019). A competitive market strategy will attract more customers.
- Starbucks can also reduce the threat of competition involving low-cost sellers (Lingli and Kexin, 2021).
- The company has to implement innovative branding and marketing strategies to bring brand image through CSR activities like community development, child education, etc (Market watch, 2021).

- Starbucks should focus on environment-friendly options of reusable coffee cups and other products to make the brand image strong and pioneer in the marketplace as an environment-friendly brand (Astute Analytica, 2021).
- Starbucks community development strategies will also help the organisation to mitigate socio-cultural discrimination and opposition allegedly raised by many communities earlier (Lombardi et al., 2021)

Conclusion

It has been seen that marketing environmental analysis for a brand like Starbucks is very important as it helps the company to learn from the external threats and challenges and develop the strengths of the brand to achieve success in the market. Companies like Starbucks have earned an equitable value in the market in terms of being a premium brand of coffee. However, multiple lessons must be learned from the current market scenario and the company is required to take approaches how to make a real difference focusing on widening the consumer base and diversifying business opportunities.

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