

Marketline



Starbucks Corp

Value Chain Analysis

MLVC002-031

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Company Overview

Starbucks is the world's largest coffeehouse chain.

- Starbucks Corporation (Starbucks) is a global coffee retail chain that specializes in coffee and other related beverages. Starbucks originally opened in Seattle, Washington, on March 30, 1971 and has since expanded to become the world's largest coffeehouse chain.
- The company purchases, roasts and sells whole bean coffees along with handcrafted coffee, tea beverages and a variety of fresh food items, through its stores.
- As of October 3, 2021, Starbucks operated through a network of 33,833 stores including 17,133 company-operated and 16,700 licensed stores. Its brands include Teavana, Evolution Fresh, Starbucks Reserve, Princi, Seattle's Best Coffee and Ethos.
- The company, through its owned and licensed stores, has presence in Asia-Pacific, the Middle East, Africa, Europe, and the Americas. It generated revenues of \$29bn for the fiscal year ended October 2021 (FY2021), an increase of 23.6% over FY2020, illustrating a strong recovery from the previous year which was heavily impacted by the COVID-19 pandemic. In 2020 it suffered a 14% decline in store sales in the fiscal year ended September 27.
- In December 2020, Starbucks revealed plans to open 20,000 new cafes over the next decade as part of its ongoing growth strategy. The company said it aims to expand its store network to 55,000 locations by fiscal 2030, highlighting the strong demand within the market.

Value Chain Overview

The value chain is composed of Primary Activities – Inbound Logistics, Operations, Outbound Logistics, Marketing & Sales, and Service – and Support Activities – Firm Infrastructure, Human Resource Management, Technology Development, and Procurement.

Firm Infrastructure

Human Resource Management

Technology Development

Procurement

Inbound Logistics

- The inbound logistics for Starbucks refers to coffee buyers selecting premium quality coffee beans.
- Value is added to the farmed coffee beans through Starbucks' proprietary roasting and packaging.

Operations

- Starbucks specializes in providing coffee and other related beverages.
- As of October 3, 2021, Starbucks operated through a network of 33,833 stores.

Outbound Logistics

- The company is responsible for 70,000 to 80,000 deliveries per week worldwide.
- The products are transported to warehouses and distribution centers around the globe using marine or road freight.

Marketing & Sales

- Starbucks predominantly uses its website, social media channels and in-store displays to promote the brand.

Service

- The pre-sale and post-sale services offered by Starbucks play an important role.
- A signature retail objective of Starbucks has always been to provide customers with the unique Starbucks Experience.

Inbound Logistics: Analysis

Although Starbucks offers a range of beverages, coffee is the main input at this stage.

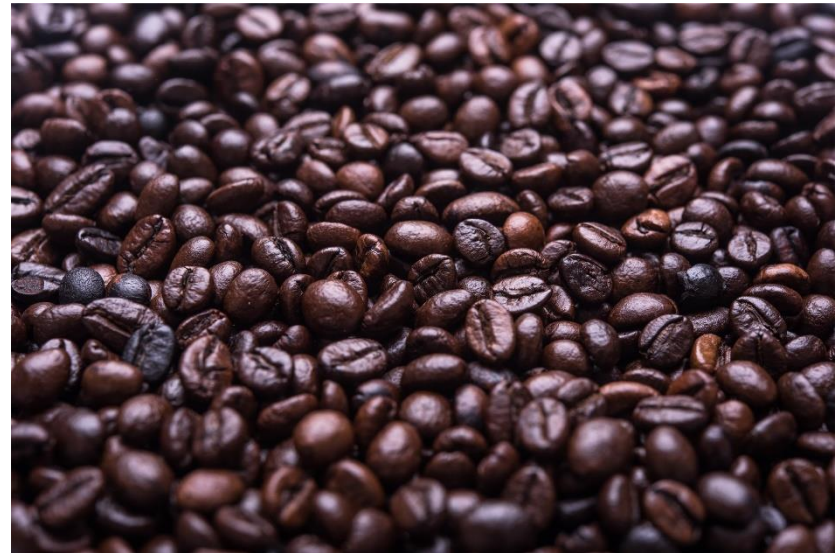
- The inbound logistics for Starbucks refers to company-appointed coffee buyers selecting premium quality coffee beans from producers in Latin America, Africa, and Asia. The green/unroasted beans are procured directly from the farms by the Starbucks buyers.
- Coffee growing is highly fragmented. Between the growers and the roasters are companies in the growing countries that carry out preliminary processing of the beans, exporters, and also the global coffee trading companies. Coffee is one of the world's most popular beverages and 80% of it is produced by 25 million smallholders.
- As the world's largest coffeehouse, Starbucks buys approximately 3% of the world's coffee, sourced from more than 400,000 farmers in 30 countries. The cornerstone of its ethical sourcing approach to buying coffee is Coffee and Farmer Equity (C.A.F.E.) Practices, which was one of the coffee industry's first set of ethical sourcing standards when it launched in 2004.
- Value is added to the farmed coffee beans through Starbucks' proprietary roasting and packaging, which helps to increase their selling value. The company itself operates roasting, manufacturing facilities, warehouse, and distribution facilities in Nevada, Pennsylvania, Tennessee and Washington in the US; and China.
- In March 2020, Starbucks China announced its plans to invest \$130m in a new roasting facility in 2022 as part of its upcoming Coffee Innovation Park in Kunshan. This park will be its largest manufacturing investment across the US and first in Asia, incorporating a roasting plant, warehouse and distribution centre.
- Starbucks aims to achieve carbon neutral green coffee and conserve water usage in green coffee processing by 50% by 2030.

Inbound Logistics: Burning Issue

Maintaining an ethical supply chain is crucial.

While Starbucks has made attempts to ensure that its sourcing is ethical, there have been instances in which the company has come under fire. One of the main problems facing coffee production is the use of child labor, which is believed to be commonplace in the industry. In March 2020, Starbucks was caught up in a child labor row after an investigation revealed that children under 13 were working on farms in Guatemala that supply the chain with its beans. Channel 4's Dispatches (a British free-to-air public-service television network) filmed the children working 40-hour weeks in gruelling conditions, picking coffee for a tiny daily wage that barely matched the price of one of its lattes. Over the course of the investigation, Dispatches visited seven farms linked to Nespresso and five linked to Starbucks, in which child labor was found on all the farms.

In response to these findings the company is investing in improving its supply chain. Starbucks, in partnership with Microsoft, has decided to use blockchain technology to offer public access to its supply chain data from 2020, in order to gain the confidence of its consumers. The same tool will also help the coffee farmers understand where their coffee beans end up. This launch is a part of the company's responsible sourcing program, C.A.F.E. Practices, to transparently share its supply chain data with the world. Continual investment in creating a transparent and ethical supply chain is crucial moving forward for Starbucks, as consumers become increasingly aware of these issues.



Operations: Analysis

Starbucks operates coffeehouses around the globe and has significant operations.

- Starbucks specializes in providing coffee and other related beverages, the beverage segment accounted for 63% of the company's revenue in FY2021 (year-end October 3), while the food segment accounted for 17%. Some of the key brands under which the company offers its products include Starbucks, the Starbucks logo, Tazo, Seattle's Best Coffee, Teavana, Frappuccino, Starbucks VIA, Evolution Fresh, Ethos and La Boulange.
- A strong presence in markets helps the company benefit from improved profit margins, economies of scale, and recognition on a worldwide basis. It also bestows the company with a wide customer base and growth opportunities across emerging markets.
- Starbucks roasts, markets, and retails specialty coffee in 83 markets. As of October 3, 2021, Starbucks operated through a network of 33,833 stores including 17,133 company-operated and 16,700 licensed stores. It had 9,861 company-operated stores and 6,965 licensed stores in the North America and 7,272 company operated stores and 9,735 licensed stores in international markets. Its international stores spanned across Korea, Turkey, the UK, Taiwan, Indonesia, Philippines, Thailand, China, Japan, and others.
- The company is focusing on business expansion to acquire new customers and expand its geographic reach. In March 2021, the company opened a new store in Seoul, South Korea. Also, in the same month the company opened Starbucks Reserve Tropicana Gardens in Malaysia. The new store is the largest Starbucks store in Malaysia, spanning nearly 6,000 square feet.
- The company manages collaborative relationships with PepsiCo Inc, Anheuser-Busch InBev, Tingyi Holding Corp, Arla Foods and others for its global ready-to-drink beverage businesses.

Operations: Burning Issue

As a retailer, the COVID-19 pandemic has had a huge impact on Starbucks .

The 2020 COVID-19 pandemic transformed almost all markets and industries worldwide, as a result Starbucks was forced to make changes to its business in order to survive. Amidst the pandemic, many consumers preferred their Starbucks orders delivered at home. Hence, the company launched a feature in its mobile app in India which helped consumers to pay and order online, which enabled the company to drive revenue growth despite store closures and social distancing restrictions. In 2020, Starbucks also rolled out more of its AI enabled Mastrena II coffee machines, which was initially launched in 2019. The machine can blend and prepare a customized cup of coffee faster than an employee, without compromising on quality and also limits physical contact. Starbucks plans to roll out these machines in all its stores by 2022.



From July 2020, Starbucks collaborated with Otlob, Egypt's largest online food delivery app. In June 2020, Starbucks announced that the company would meet consumer demands of convenience amid the COVID-19 outbreak, by serving them through convenience-led formats such as grab-and-go services, curbside pickup and Drive-Thru until the end of 2021. The company has also been involved in charity work; the Starbucks Foundation helped the community fight the pandemic by donating more than \$1m to over 400 organizations across the US and Canada. The company also provided \$3m to help the needy across the globe, in partnership with the United Nations Foundation.

Outbound Logistics: Analysis

As a global player, Starbucks has significant outbound logistic operations.

- Once the coffee beans have been processed, the roasted and packaged beans travel to a Starbucks distribution center and then to large, regional or small warehouses from where they are delivered to retail stores.
- Starbucks has locations in a wide range of countries across the globe, with more than 33,000 stores, the company is faced with the mammoth task of supplying their stores and plants. It is responsible for 70,000 to 80,000 deliveries per week worldwide.
- The products are transported to warehouses and distribution centers around the globe using marine or road freight. The price of all modes of freight varies and as a result, the price competitiveness of marine freight fluctuates. When oil prices were \$100 a barrel, fuel prices soared making marine freight more expensive as companies passed on the cost.
- The material properties used by Starbucks in connection with its roasting, manufacturing, warehousing, distribution and corporate administrative operations, serving all segments include centres in York PA, Minden NV, Lebanon TN, Kent WA and Auburn WA. The company leases the majority of its warehousing and distribution locations.
- The growing size and scale of Starbucks made its supply chain complex. However, in 2008 Peter Gibbons, the Executive Vice President of Global Supply Chain Operations, overhauled the company's costly, ever-expanding supply chain into a streamlined, cost-effective process which relies on simple operational structures and metrics. This included grouping all supply chain jobs into four categories: plan, source, make, and deliver.

Outbound Logistics: Burning Issue

Pandemic has created new logistical challenges.

The world economy is more globalized than ever and as a result, the spread of the virus and the measures taken to contain it have become highly disruptive to fragile global supply chains. During fiscal 2020, Starbucks wrote off approximately \$50m of inventory in the second quarter that was expiring or expected to expire due to COVID-19 related store closures, primarily perishable food and beverage ingredients located at its stores, distribution centers and suppliers. This was included in product and distribution costs on its consolidated statement of earnings. Related product and distribution costs were \$79.8m, \$73.2m and \$71.5m in fiscal 2020, 2019 and 2018, respectively. Furthermore, due to the COVID-19 pandemic, the company has experienced a shortage of labor for store positions as concern over exposure to COVID-19 and other factors decreases the pool of available qualified talent for key functions. In June 2021, at locations across the US, there were complaints about shortages of key ingredients for popular drinks, breakfast foods and even cups, lids and straws.



In a statement, a spokeswoman for Starbucks said the company was experiencing “temporary supply shortages” of some of its products. She said the shortages varied by location, with some stores experiencing “outages of various items at the same time.” She also added that the company was working with its vendors to restock the items as soon as possible, and that the supply-chain issues had not affected prices.

Marketing & Sales: Analysis

Effective marketing is crucial in driving brand awareness.

- Starbucks' competitors for coffee beverage sales include quick-service restaurants and specialty coffee shops, including Yum! Brands, Inc. and Dunkin' Brands Group Inc. The market is highly competitive and with the entrance of more new players, the level of competition is expected to further intensify. As a result, effective marketing is important for the company.
- Starbucks invests more in superior quality products and a high level of customer service than in aggressive marketing. However, crucial marketing activities are still carried out by the company, particularly during new product launches.
- Starbucks predominantly uses its website, social media channels and in-store displays to promote the brand and the products. It also uses sales promotions, events, direct marketing, print media, and PR in an integrated style to intensify the impact of its promotions and entice consumers. According to Forbes, it currently ranks 6th in the 2020 World's Most Admired Companies.
- The face of the advertising industry has changed almost beyond recognition in recent years, with digital advertising taking over as the major form of advertising as companies look to reach the largest possible audience. According to MarketLine research the global digital advertising market had total revenues of \$336.1bn in 2020, representing a compound annual growth rate (CAGR) of 16.6% between 2016 and 2020.
- The company has undertaken a number of successful campaigns, one being the iconic red cup. In 2014 and 2015 it introduced a holiday #redcupcontest on Instagram, whereby users could share and tag photos of their red cups for a chance to win one of five prizes.

Marketing & Sales: Burning Issue

Innovative, daring campaigns can be effective.

In today's landscape, there are a range of ways in which companies can approach marketing and improve brand image. In June 2020, Starbucks announced that it was going to boycott social media, along with MNCs such as the Coca-Cola company and Diageo. The company decided to stop advertising on social media platforms apart from YouTube in order to protest the spread of hate speech. The announcement followed controversy over Facebook's approach to moderating content on its platform. A Starbucks spokesperson told the BBC the social media "pause" would not include YouTube, owned by Google. "We believe in bringing communities together, both in person and online," Starbucks said in a statement. The digital advertising channel is highly consolidated with Alphabet (Google) and Facebook dominant as they successfully monetize large amounts of user data to provide better targeting. Google has market leadership in search advertising, programmatic display intermediaries and programmatic display ad server technology, while Facebook has a majority share of social display and is the leader in overall display.

They also account for around half of digital ad spending globally. As a result, Starbucks decision to boycott social media, particularly Facebook, was a bold one which demonstrates its commitment to free speech and improved its brand image as being committed to current issues.



Service: Analysis

Starbucks aims to provide excellent service to improve its competitive position.

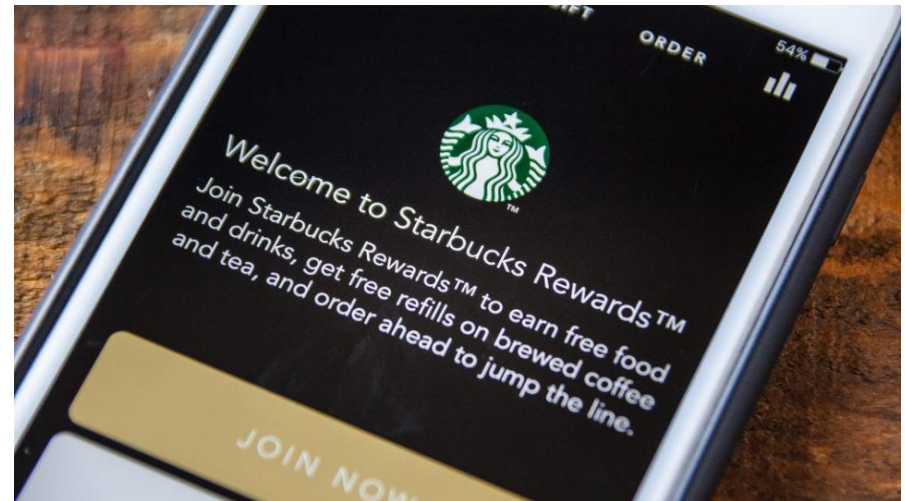
- The pre-sale and post-sale services offered by Starbucks play an important role in developing customer loyalty. The modern consumer often considers post-sale services just as important as marketing and promotional activities.
- Starbucks aims to build customer loyalty through its in-store customer service. A signature retail objective of Starbucks has always been to provide customers with the unique 'Starbucks Experience'.
- Service training is a key component of the value chain that helps to make its offerings unique as a substantial amount of value is created when baristas make drinks for customers. Each member (employee) is trained in both the technical aspects of creating beverages as well as how to connect with customers to maintain the same customer experience across locations.
- The company's training program includes product information, how to create good customer relations, the basic principles of success and employee empowerment strategies.
- In recent years, Starbucks has launched several platforms where customers can ask questions, give suggestions, openly express opinions, and share their experiences of the company. Technology has helped the company to implement this feedback, especially in the area of its rewards program.
- Starbucks also utilizes Apple's iBeacon system, whereby customers can order a drink through the Starbucks phone app and get a notification of its progress when they walk in the store. This has been particularly useful throughout the pandemic, when social distancing measures have been in place.

Service: Burning Issue

Lucrative loyalty schemes improve customer experience.

Customer loyalty is extremely important for Starbucks in generating repeat business, therefore the company has continued to improve its loyalty offerings. Generating 40% of its revenue, Starbucks' rewards program led to a 7% increase in sales in 2019, highlighting its importance. These programs strengthen the bond between the brand and the customer and can differentiate a retailers' proposition – particularly those with a third party branded offer. Linking a loyalty scheme to an app is essential as it incentivizes customers to download and shop via the app – increasing engagement and reducing shopping around.

In July 2020, Starbucks announced plans to update its industry-leading Starbucks Rewards loyalty program by giving members more payment options and ways to earn Stars through the Starbucks app. Beginning in the fall of 2020 in company-operated stores in the US and Canada, Starbucks Rewards members are now able to scan their app and then pay with cash, credit/debit cards, or select mobile wallets and earn Stars toward free items. Members are also able to save these payment methods directly in the Starbucks app to earn stars when paying. These enhancements were in addition to the current option of earnings Stars by paying with a Starbucks Card in stores and within the app.



Appendix

Ask the analyst

We hope that the data and analysis in this presentation will help you make informed and imaginative business decisions. If you have any questions or further requirements, MarketLine's research team may be able to help you. The MarketLine Research team can be contacted at reachus@marketline.com.

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