

Analyzing Starbucks' Value Chain

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The business management concept of the [value chain](#) was introduced and described by Michael Porter in his popular book, *Competitive Advantage: Creating and Sustaining Superior Performance*. The concept of the value chain involves all aspects of a business's operational activities and can be studied in [combination with the supply chain](#).^[1]

While the supply chain focuses on the procurement process of goods and services from suppliers, a value chain studies the value added at various intervals through a series of activities or processes that aim to create profitable value for a product offering.

Michael Porter discusses value chain analysis from multiple angles in his book; however, there are a few essential components to be aware of when beginning to understand value chain analysis.

KEY TAKEAWAYS

- Michael Porter introduced value chain models in *Competitive Advantage: Creating and Sustaining Superior Performance*.
- Value chain analysis can be complementary to other types of business management efficiency analysis.
- Starbucks is one company that is interesting to analyze from a value chain perspective because of the substantial value added from coffee bean procurement to distribution and from store supply to the customer.

Value Chain Basics

In general, value-chain [business activities](#) are usually divided into primary activities and secondary activities. The primary activities are directly related to

[competitive advantage](#) among peers.

Comprehensively, businesses and business managers aim to maximize their [margins](#) and thus work to ensure that inputs are converted to outputs, which have a greater value when combined together.

Gross Profit Margin

Gross profit margin is one metric on the income statement where value creation can be easily determined. [Gross profit margin](#) looks at the difference between a company's gross revenue and cost of goods sold divided by the gross revenue overall. The higher the gross margin the more a company is generating from the combination of goods used to build its product.

Operating Margin

Moving on down the income statement, [operating margin](#) helps to analyze the value created from indirect business activities like administration, research, marketing, and other unique expenses. The profit margin can be less important to value chain analysis because it focuses on a [company's capital expenditures](#), taxes, and investment activities, which play less of a part in value chains and supply chains.

Broadly, the more value a company can create in relation to gross margin and operating margin, the more value it can generate for its bottom line; leaving capital expenditures, taxes, and investment activities to become its own isolated variables.

Value Chain Analysis

[Porter's value chain analysis](#) helps to provide deeper insights for breaking down components of gross margin and operating margin, while also breaking out different categories for direct and indirect assessments.

For business managers, value chain analysis is often just as important as [supply chain](#) analysis along with other key performance indicators and measurements.

Starbucks and Porter's Value Chain

An analysis of Starbucks ([SBUX](#)) can help to further illustrate and understand the value chain concept. The Starbucks journey began with a single store in Seattle in the year 1971. From there it grew to become one of the most

neighborhood at a time.”^[2]

Michael Porter’s analysis of value chains provides the following visual aid for study. The value chain analysis breaks down business activities into primary activities and supporting activities. Below we discuss how Starbucks’ activities fit into the Porter value chain analysis.



Credit: Image by Sabrina Jiang © Investopedia 2020

Starbucks’ Primary Activities

Inbound Logistics

The inbound [logistics](#) for Starbucks refer to company-appointed coffee buyers selecting the finest quality coffee beans from producers in Latin America, Africa, and Asia. In the case of Starbucks, the green or unroasted beans are procured directly from the farms by the Starbucks buyers. These are transported to storage sites, after which the beans are roasted and packaged.

Value is added to the beans through Starbucks’ proprietary roasting and packaging, which helps to increase their selling value. The beans are then sent to distribution centers, a few of which are company-owned and some of which are operated by other logistic companies. The company does not outsource its procurement, ensuring high-quality standards right from the point of selection of coffee beans.

Operations

Starbucks operates in more than 84 markets, either in the form of direct company-owned stores or [licensed stores](#). (Starbucks does not follow the traditional franchising terms.) The company has more than 36,000 stores globally. It is also the [owner of several brands](#), including Teavana and Evolution Fresh.^[3]

According to its financial reports, the company generated 51% of its total revenue from its company-operated stores in 2022 while the licensed stores accounted for 49%.^[4]

Outbound Logistics

There is very little or no presence of intermediaries in product selling for Starbucks. The majority of the products are sold in stores; however, storage and distribution to retail locations are important.

Marketing and Sales

Starbucks invests more in superior quality products and a high level of [customer service](#) than in aggressive marketing; however, need-based marketing activities are carried out by the company during new product launches in the form of sampling in areas around the stores.

Howard Schulz bought Starbucks in 1987 and is responsible for its expansion. He was an employee. ^[5]

Service

Starbucks aims at building customer loyalty through its in-store customer service. A signature retail objective of Starbucks has always been to provide customers with a unique Starbucks Experience.

Service training is a key component of the value chain that helps to make its offerings unique. A substantial amount of value is created when baristas make drinks for customers.

Starbucks' Support Activities

Infrastructure

This includes departments like management, finance, legal, etc., which are required to keep the company's stores operational. Starbucks employs business managers in its corporate offices. It also has store managers on-site that help to oversee well-designed and pleasing stores complemented with good customer service provided by the dedicated team of employees in green aprons.

Human Resource Management

The committed workforce is considered a key attribute in the company's success and growth over the years. Starbucks employees are motivated through generous benefits and incentives. ^[6]

The company is known for taking care of its workforce, a key reason for a low turnover of employees, which indicates great [human resource](#) management. There are many training programs conducted for employees in a setting of a work culture, which keeps its staff motivated and efficient. ^[7]

Technology Development

Starbucks is very well-known for the use of technology, not only for coffee-related processes (to ensure consistency in taste and quality along with cost savings) but to connect to its customers. Many customers use Starbucks stores as makeshift offices or meeting places because of free and unlimited Wi-Fi.

Starbucks has launched several platforms where customers can ask questions, give suggestions, openly express opinions, and share experiences. Technology helps to implement this feedback, especially in the area of its [rewards program](#).

Starbucks also uses Apple's iBeacon system, wherein customers can order a drink through the Starbucks phone app and get a notification of its readiness when they walk into the store.

Procurement

broad terms, requirements, and standards for all of their procurement dealings; however, procurement relationships typically vary widely. Starbucks handles all of the procurement for its own coffee beans, which it sees as one of its competitive advantages.

What Is the Value Chain of a Coffee Shop?

The value chain of a coffee shop generally lies in four stages: cultivation, processing, roasting, and consumption. ^[8]

What Are Starbucks' Core Competencies?

Starbucks' core competencies include its ability to expand almost everywhere globally, its care and concern for its employees, its focus on quality and providing a quality product, its continuous product development, and its excellent customer service.

What Are the Values of Starbucks?

The values of Starbucks can be seen in the promises it makes in its mission. These promises are to its partners, customers, farmers, community, shareholders, and the environment. ^[9]

The Bottom Line

The concept of value chain analysis helps business managers to better identify useful and wasteful activities. By looking beyond standard means of efficiency analysis while also seeking to integrate and capture value chain analysis in business [metrics](#), stakeholders can make important insights related to operational processes.

Overall, value chain analysis can be used to potentially identify value improvement opportunities throughout various steps of a business cycle, also adding to improved margin efficiencies.

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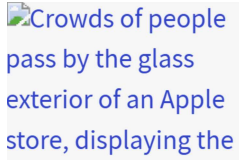
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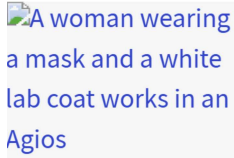


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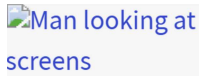


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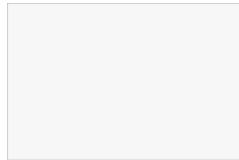


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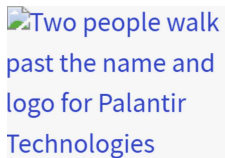
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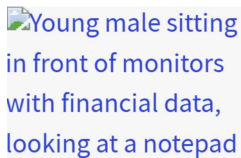


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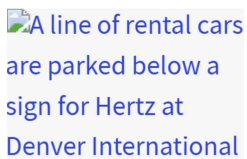


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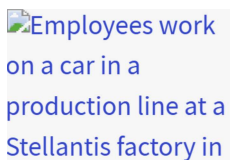


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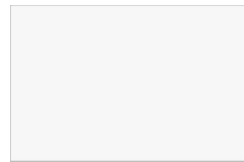
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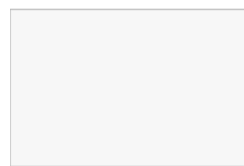
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