



Competitive Strategy

Analysis of Starbucks

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1 Summary

This report consists of three main parts: introduction, main finding and recommendation.

In introduction part, it is explained that what is going to study and analyse in this report. The main objective is that adapting competitive strategy to Starbucks and analyse the implementation. Besides, evaluating the implementation of Starbucks' strategy and giving appropriate recommendations are the other part of objectives.

In main finding part, the definition of differentiation strategy is demonstrated and the implementations of it are explained specifically:

- Outstanding customers experience make Starbucks' customers willing to pay for the environment and atmosphere that Starbucks provided.
- High-quality coffee attracts consumers who pursues quality life style.
- Brand effect help Starbucks create and maintain brand loyalty.

Besides, critical evaluations are provided:

Advantage—

- Non-Price Competition
- Brand Loyalty

Limitation—

- Limit Brand Extension/Diversification
- Decline the Acceptance of Differentiation

In recommendation part, two suggestions are provided:

- Complete Sufficient Market Research can help Starbucks learn more about the consumer demands
- Adapt Differentiation to the Competitive Environment Properly can help Starbucks to avoid risk of losing attraction.

2 Introduction

2.1 Objectives

This report aims to identify the competitive strategy used by Starbucks and demonstrate how Starbucks apply them. Besides, this report will critically evaluate the strategy used by Starbucks and put forward several recommendations for Starbucks' strategic operation.

2.2 Starbucks

Starbucks Corporation is the leading roaster, retailer, and marketer of specialty coffee in the world. In 1971, three local businessmen established Starbucks to sell high quality whole beans coffee. Starbucks opened its first store in Seattle's Pike Market and began operating coffee beans. In 1990s Starbucks opens 60 retail shops in United Kingdom. In June 1992, Starbucks became the first professional coffee company to go public which quickly boosted its business growth and brand development. In 1995, Starbucks began looking for overseas opportunities, establishing a joint venture with a retailer in Japan. In the 1990s, Starbucks opened stores in various countries in Asia. Since 2002, revenues have more than doubled, fuelled by rapid expansion in the number of domestic and international outlets. Starbucks is committed to providing consumers with high quality coffee and aim at product innovation, retail expansion and service quality. Currently Starbucks is as the leading coffee competitors depends highly around the globe expansion policy. Expansion of Starbucks around the world is still in the early stages and Starbucks has the great chance for future development.

2.3 Definitions

2.3.1 Strategy

Each organization needs to develop a strategy. But there has never been a single and definite definition of strategy. The term has had several meanings, different in scale and complexity

(DESS, LUMPKIN and EISNER, 2007). Alfred D. Chandler (1962), an American business historian, provided an early definition of strategy:

Strategy is the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resource necessary for carrying out those goals.

2.3.2 Business-Level Strategy

Hofer and Schendel provided a brief definitional statement:

At the business level, strategy focuses on how to compete in a particular industry or product-market segment. Thus, distinctive competences and competitive advantage are usually the most important components of strategy at this level (1978, pp27,28).

Beside business-level strategy, there are other two concepts of strategy: *corporate-level strategy* and *functional-level strategy*.

2.3.3 Competitive Advantage

A competitive advantage is what makes you better than the competition in your customers' minds. In Porter (1985) 's book "Competitive Advantage: Creating and Sustaining Superior Performance," it is said that the goal of all businesses is getting a competitive advantage in relations with competitors on the market. And this advantage can be achieved by two ways: selling products at a lower price or differentiation.

2.3.4 Porter' s Generic Strategies

According to Porter, the two basic types of competitive advantage combined with the activities that a firm seeks to achieve the advantages lead to three generic strategies: cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus. The firms adopt generic competitive strategy for achieving above-average performance and profit during an industry.

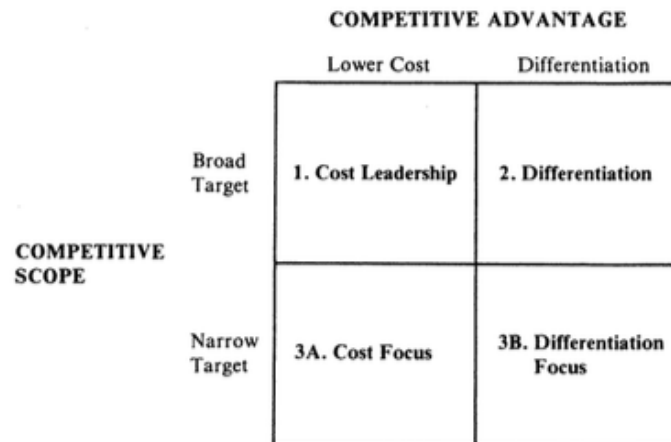


figure 1 Porter's Generic strategy

3 Finding

3.1 Differentiation Strategy

According to Porter, differentiation strategy is that enterprises differentiate their own products or services to other companies in the industry in order to attract the attention of customers and achieve purchase purposes, then to win the market and access to higher proceeds than the counterparty (Porter, 2008). Differentiation strategy includes four aspects: product differentiation, service differentiation, personnel differentiation and image differentiation. The ways to access differentiation are peculiar to each industry. However, a firm that can achieve and sustain differentiation will be an above-average performer in its industry if its price premium exceeds the extra cost incurred in being unique (Porter, 2008, pp 14). What needs to be emphasized is that differentiation and market segmentation are not the same concept. Differentiation strategy is a kind of orientation which pays more attention to highlighting his own characteristics.

3.2 Differentiation Strategy in Starbucks

3.2.1 SERVICE — Outstanding Customers Experience

Customer experience is a purely subjective experience created by the user using the product. A good user experience constitutes a unique user experience of a company. A more academic definition is that

customer experience is the internal and subjective response customers have to any direct or indirect contact with a company. Direct contact generally occurs in the courses of purchase, use, and service and is usually initiated by the customer. Indirect contact most often involves unplanned encounters with representatives of a company's products, service or brands and takes the form of word-of-mouth recommendations or criticisms, advertising, news reports, reviews and so forth." (Meyer and Schwager 2007, p. 118).

Since Starbucks began to success in the early 1990s, many people pointed out it wasn't simply about coffee, but that the company was focused on the atmosphere and customer service. Every time customers walk into a Starbucks, they will be greeted with a smile and a friendly attitude. Howard Schultz, CEO of Starbucks, said "We're in the business of human connection and humanity, creating communities in a third place between home and work" when he explained the atmosphere that Starbucks attempts to create. For example, to enhance customer comfort and social interaction, most Starbucks stores mix upholstered chairs and sofas with hard-backed chairs around tables. Also, most Starbucks stores offer free electricity to their customers so that they can plug in their laptops. These examples can explain how Starbucks provides a good atmosphere and experience for its customers. Beside the atmosphere, Starbucks also offers a personalized and thoughtful service for customers. Starbucks spends a lot of time on staff training and provides employees with good treatment. Because Starbucks believes employee satisfaction leads to good service. Even though, Starbucks calls its employees as 'partners'. Each partner was trained in how to make drinks technically as well as how to connect with customers to maintain the same customer experience. Therefore, Starbucks customers are willing to pay for the

environment and atmosphere that Starbucks provided.

3.2.2 PRODUCT — High-Quality Coffee

Starbucks purchases high-quality coffee beans around the world, adopting high and strict standards in transportation, baking and formulation to provide the best coffee products. Starbucks coffee's taste goes beyond instant coffee like Nestle. Because Starbucks uses coffee bean from high altitude and only pick the coffee cherries when they are at their peak. Furthermore, Starbucks gives support to bean farmers, examining samples and providing advice for free. In doing so, Starbucks establishes its product differentiation.

With the improvement of quality of life, especially in China, People's consumption needs become different and more consumers are willing to consume high quality and high price product (MarketLine, 2016). Starbucks attracts consumers who pursues quality by providing handmade coffee which framed its product differentiation.

3.2.3 BRAND — Brand Effect

For Wood (2000), a brand is a mechanism for achieving competitive advantage for firms, through differentiation (purpose). The attributes that differentiate a brand provide the customer with satisfaction and benefits for which they are willing to pay (mechanism). Starbucks achieves differentiation by creating brand effect, such as brand culture, brand value, brand spread and so on.

Culture and image are important for Starbucks and help Starbucks create and maintain brand loyalty. The atmosphere rendered by Starbucks is a culture that values knowledge, respect humanities and pursues quality. In Starbucks' shop, the emphasis is not coffee, but culture and knowledge. The core of this culture is to help people broaden their knowledge by providing comfortable environment and to find out the value of people's knowledge. In doing so, Starbucks is committed to creating and spread this culture that gives his consumers a sense of identity. Once consumers have a sense of identity, they will

unconsciously participate in the process of spreading and shaping brand (Brown, 1992). Starbucks is able to bring one of the oldest products in the world to a distinctive, enduring and highly value-added brand, which makes it different from other coffee brand.

3.3 Advantages

3.3.1 Non-Price Competition

According to Hotelling (1929), product differentiation dampens price competition by reducing substitutability. The product differentiation strategy allows business to compete in areas other than price. If price competition developed into a vicious price war, it would eventually have serious and sometimes devastating consequences for the enterprise. Excessive competition will also reduce the profits of the industry, deteriorate the competitive environment of the industry, reduce product quality and harm consumers eventually.

In fact, the price of Starbucks coffee doesn't vary that much from Costa etc (Kerry, 2010). And people who are affordable to Starbucks coffee care much about additional value. Thus, Starbucks is able to pay more attention to other aspect like branding and expansion. Which is means that Starbucks will not get stuck in price competition and have chance to improve soft power.

3.3.2 Brand Loyalty

Brand loyalty was defined as: "The situation in which a consumer generally buys the same manufacturer-originated product or service repeatedly over time rather than buying from multiple suppliers within the category" by The American Marketing Association. However, Brand loyalty is not easy to cultivate and takes a long time. But consumers would stick to a brand and purchase again without too much considerations or comparisons. That makes companies have the ability to not only charge a higher premium price, but also gain a good brand spread effect.

In terms of consumers loyalty, Starbucks puts forward a reward loyalty card. Consumers can buy a regular gift card and keep using that gift card. After that, card owner can earn points, and finally receive a rewards card. The more the card was used, the more benefits and drinks can be earned. Finally, that may increase repeat buying (Kumar, 2016).

3.4 Limitation

3.4.1 Limit Brand Extension/Diversification

Diversification is one of the four main growth strategies defined by Ansoff's Product/Market matrix. Diversification is a corporate strategy to enter into a new market or industry in which the business doesn't currently operate (Ansoff, 1957). Brand extension means that an enterprise uses the same brand name in a different product category.

For Starbucks, the attempt to develop new product line or adopt them in new market are not always successful. The company extended its business to breakfast sandwiches, but customers who love coffee do not buy it. That leads to the end of breakfast series. The CEO of Starbucks, Howard Schultz, said 'the heated sandwiches in the store were so fragrant that they covered the aroma of coffee.' Besides, Starbucks China develop a series of tea beverage to cater the Chinese tea culture and demands. However, Chinese consumers seem not to accept it. Those attempts and innovations probably bring up confusion and fuzzy perception to customers while they have framed a strong image of Starbucks before.

3.4.2 Decline the Acceptance of Differentiation

In general, the focus of differentiation strategy is the specific needs of consumer groups for products and services. If the cost of forming a difference is higher than a certain limit, exceeding the price range acceptable to the consumer groups. That may cause the consumer groups to stay away and shift the hobby. This will certainly affect the company's market competitive position.

The economic slowdown of 2008 give a hit to Starbucks. Starbucks coffee's price has always been higher than those offered by the domestic coffee houses in various countries (Shezray, Feroz and Waqas, 2014). But when the economic slowdown came, customers opted for cheaper options for their everyday coffee. In this case, Starbucks' differentiation, like experience and service, cannot be accepted fully by customer as before.

4 Conclusion

To sum up, this report analyses how Starbucks implemented a differentiation strategy from three different aspects: product, service and brand. However, there are several advantages and limitations for differentiation strategy. Non-price competition and brand loyalty are the benefit from differentiation. Besides, it may limit the expansion of Starbucks and decline the acceptance of its differentiation. Finally, this report offer some recommendations to solve and avoid the risk from differentiation strategy.

5 Recommendations

5.1 Complete Sufficient Market Research

Market research has an important role in the business activities of enterprises. Inadequate market research directly affects the decisions made by the company in future operations and directly affects the existence and development of the business. Enterprises must have feasibility and market research analysis to ensure the correctness of corporate decision-making. For Starbucks, it supposed to do more analysis and preparation for Chinese or other countries' culture for a better localization.

5.2 Adapt Differentiation to the Competitive Environment Properly

Even though corporate strategy is a long-term plan and aims, it cannot be invariable. Under the same strategic direction, the enterprise should make appropriate changes to the specific content of differentiation according to changes in competition. In the face of changes in the macroeconomic environment, Starbucks can increase consumers' willingness to spend by proposing marketing policies like sales promotion.

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