

Starbucks-premier roaster and retailer of specialty coffee



Module Name: Strategic Management and Sustainability

Project Name: Business Portfolio

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Created On: 5th November 2017

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EXECUTIVE SUMMARY

The report will:

- Briefly introduce the background of Starbucks
- Identify the strategy adopted by Starbucks,
- Analyse how Starbucks achieved the strategy adopted,
- Evaluate the strategy used by Starbucks,
- And offer recommendations based on the findings finally to help it improve performance.

Sources for viewing this report include: academic journals, books, industry reports, the official Starbucks website and the Wall Street Journal.

Starbucks Enterprise is a leading company that combines roasting, marketing and retail coffee. Starbucks products are not just coffee, coffee is just a carrier. And it is through this carrier of coffee, Starbucks a unique style to the customer. For consumers, consumption of coffee is largely a sentimental, cultural-level consumption. The environment and culture created within the store infects customers, enabling customers to have a good interactive experience and is willing to pay for their high premium. On this basis, Starbucks succeeded.

Through literature reviews and information reviews, Starbucks adopted a differentiation strategy based on Porter's general strategy. It is achieved through the following ways to achieve a premium for its differentiation:

- Product differentiation;
- Unique coffee culture experience, is the most important measure among all;
- The rapid use of technology.

Any strategy is not once and for all and perfect, differentiation strategy also has its advantages and disadvantages. For Starbucks, the success of the chain of coffee shops was achieved by offering customers a relaxed 'third space,' which translates into consumers' premium recognition of Starbucks. It successfully transformed the customer experience into spending power.

However, there are some disadvantages Starbucks has in implementing differentiated strategies. First, a differentiation strategy may not work when Starbucks is facing a turnaround. Second, differentiation means that we can not take all aspects into consideration at the same time, which will cause some obstacles to its scale development.

The advice are: When overseas expands, it should be localized while avoiding losing its own characteristics. When facing different situations, consider the implementation of other strategies.

1 INTRODUCTION

1.1 REPORT REMIT

This report will:

- Identify the competitive strategy adopted by Starbucks.
- Give examples and analyse how Starbucks have achieved the strategy.
- Evaluate the strategy utilized by Starbucks.
- Make recommendations for ways forward for Starbucks in order to improve its performance.

1.2 BACKGROUND OF THE ORGANISATION

1.2.1 STARBUCKS

Starbucks Corporation (Starbucks) is a global coffee retail chain that specializes in coffee and other related beverages.(North America - Hot Drinks,2017).The first Starbucks opened in Seattle in 1971.During the last 46 years,it has expanding over 21,000 stores and the company is going to Expand Starbucks College Achievement Plan to offer full tuition coverage for all four years of an undergraduate degree for qualifying U.S. Starbucks partners. Commits to 25,000 partners graduating by 2025. (Starbucks,2017). The corporation's main business is buying coffee raw materials, baking and selling coffee, and the corporation also sells other coffee, tea products and fresh food.licenses its trademarks through other channels such as licensed stores, grocery and national food service accounts.It takes the chain management mode and flexible cooperation mode in different areas in the world.(North America-Hot Drinks,2017&Schultz,H.&Gordon,J.,2011).The company operates five business operations segments: the Americas, China/Asia Pacific , Channel Development, Europe, Middle East and Africa and Other. Starbucks operates in 75 countries across North America, Asia Pacific,

EMEA, and Latin America. (Starbucks Corporation,2017).

2 DEFINITIONS OF MAJOR CONCEPTS

2.1 STRATEGY

Alfred D.Chandler definite strategy as ‘the determination of the long-run goals and objectives of an enterprise and the adoption of action and the allocation of resource necessary for carrying out these goals’(Chandler,1963). While Michael Porter focuses on deliberate choices,difference and competition.He thinks that ‘Competitive strategy is about being different.It means deliberately choosing a different set of activities to deliver a unique mix of value’(Porter,1996). Inside an organization,strategies can exist at three main levels,corporate-level strategy,business-level strategy and operational strategies(Johnson,et al,2008).The business strategie will be clarified.

2.1.1 BUSINESS-LEVEL STRATEGY

Business-level strategy can effectively predicts the phenomenon of other organizations and is one of the most useful ways for practitioners to test their empirical relationship with organizational performance.(Hambrick, 1980)Business-level strategy is about how the individual businesses which might be standalone businesses should compete in their particular markets .For example, some start-ups, or "business units" within a large company. Innovation, the right size and response to competitors' actions are all part of the business-level strategy.In the public sector, the equivalent of business-level strategy is decisions about how units should provide best-value services. Where the businesses are units within a larger organization business-level strategies ought to clearly match with corporate-level strategy(Johnson,et al,2008).

2.2 COMPETITIVE ADVANTAGE

Michael Porter advanced the leading theory and models of competitive advantage in

1980s: The factor which enables a firm to compete successfully with competitors on a sustained basis particularly to satisfy consumer needs and wants(). Sources of competitive advantage including: superior skills, or resources, such as salespeople; expenditure on advertising and sales promotion; range and reach of channels of distribution; expenditure on, and successful exploitation of, research and development; the scale and efficiency of productive capacity and so on (Charles Doyle, 2011).

2.3 PORTER'S GENERIC STRATEGIES

A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is sustainable competitive advantage. Michael Porter argued that a company's strengths ultimately fall into one of two headings: cost advantages and differentiation. By applying these strengths in either a broad or narrow scope, three generic strategies result: cost leadership, differentiation and focus. The focus strategy has two variants, cost leadership focus and differentiation focus. (Porter, 1985 & 2004) An enterprise can choose the mode of competition based on the match between its type of competitive advantage and the pursued market goal as a key determinant of choice by reference to this model. (Akan et al., 2006)

3 MAIN FINDINGS

As the coffee industry in Europe and the United States are in a state of intense competition, Starbucks use the business level strategy to enable them to differentiate themselves from competitors such as Costa coffee, Illy, Lavazza, Nespresso and Nestle Coffee. Differentiation advantage is achieved by offering unique products and services and charging premium price for that. (Porter, 1985) The differentiation strategy is comprehensive in the market economy and is the main means of gaining a competitive advantage. (Pehrsson, A. 2016)

Product differentiation has always been the core for Starbucks to gain a competitive advantage. They achieved differentiation strategy by choosing national level agronomists at

the Central American to help ensure the sustainable quality of coffee of Starbucks(Business Wire,2004).In addition, creating a good cafe-style atmosphere and allowing customers to relax and enjoy their products is also one of the important ways of differentiation.

3.1 STARBUCKS' DIFFERENTIATION STRATEGY

It is more and more difficult for enterprises to differentiate themselves and maintain their leading position in the industry.(Boşcor,D.&Tălpău, A.,2011)Due to the saturation of the coffee industry in Europe and the United States,Starbucks mainly through the following points to achieve differentiation strategy.Otherwise, Starbucks will lose the opportunity to enter mature markets in Europe and North America because of its lack of features.

3.1.1 PRODUCT DIFFERENTIATION

‘Product differentiation is a strategy which attempts (through innovative design, packaging, positioning, etc.) to make a clear distinction between products serving the same market segment.’(Doyle, C.2011) Starbucks is an example of continuing to maintain high quality coffee.The company offers the highest quality coffee beans complemented by state-of-the-art brewing processes to provide the best coffee-tasting experience and to build the brand image into a quality leader of coffee industry.Starbucks opened Starbucks Coffee Agronomy Company in San Jose, Costa Rica, to strengthen its leadership position in the specialty coffee industry. Coffee from Central America sales as exclusive Starbucks products,which is an important part of Starbucks' unique formula(Business Wire,2004).It makes use of the established resources of coffee and invests in coffee communities.Through the development of the local coffee growing industry, investment in local construction to provide high quality coffee raw materials. (C.A.F.E. Practices)

It is of vital importance whether it's feature can attract indigenous people when it expands into the Asian region.For example,Starbucks will need to tropicalize their coffee and make it appropriate for the tastes and culture of the country - but they know to respect local tastes when expend to Latin America.(Tice, Carol. 2002) Differentiation of Starbucks products is not only reflected in the difference between similar products, but also in their own products in

different markets.

3.1.2 UNIQUE COFFEE EXPERIENCE

Relaxed atmosphere, friendly space, emotional conversion, is the essence of cafe really attracts customers. What consumers want is not only a cup of coffee, but a moment of craving for coffee culture. Starbucks means a "third place" between home and work place to the founder Howard Schultz, 'a third place concept' (Andrew, W. 2010). Starbucks launches digital network at 7,000 U.S. Stores. The purpose of the Starbucks Digital Network is to enhance the customer in-store experience rather than to allow customers to spend it through it. In the early days, this was a major differentiate measure when people had no universal reliance on wi-fi and smart phones.

In the summer of 2012, Starbucks launched the "ice shake Qin cool" series of drinks in the Chinese market. Summer is usually the off-season Starbucks, in order to meet the new listing, Starbucks launch WeChat official platform at the same time, has introduced what is called the "natural wake up" music series. Starbucks recorded a variety of different music, each corresponding to an expression on WeChat. Users send any emoticons, Starbucks will immediately reply to the corresponding music. With this promotion, Starbucks has entered into a WeChat platform that has not been previously covered, and the scope of its fourth space has also been expanded.

Also, It launched "Good Morning Alarm Clock" on October 2012 in China. "Starbucks Alarm" is integrated into the Starbucks App and users download Starbucks China APP. When users rushed to the Starbucks stores within 60 minutes of getting up, they could enjoy free half-price purchase of this week's selected breakfast foods Discount. In addition to the stores, Starbucks also connects with its customers through digital platforms such as Weibo and WeChat to gain a unique experience in the "fourth space". (<http://finance.sina.com.cn/leadership/mroll>) The experience concept of 'fourth space' in both events is a concrete step in Starbucks' differentiation in China. It can be said that this is an extension of the concept of "third space."

Not only is coffee sold, it is also a customer experience and lifestyle - uphold the tenet that Starbucks innovations focus more on enhancing the customer experience.

3.1.3 THE RAPID USE OF NEW TECHNOLOGIES

Schultz injected technology and internet genes into Starbucks, to lay out mobile payments. Starbucks is not only an important supporter of Wi-Fi, but also the fastest free Wi-Fi provider in the country today, reaching 9Mbps (equivalent to about 1MBytes per second), more than twice the rate of the second McDonald's. In addition to the aforementioned common app development, the development of digital information is also a manifestation of its difference. Starbucks will unveil two forms of voice ordering on both iPhones and the talking speakers featuring Amazon's Alexa assistant. They use technology to differentiate with its competitors. ([www.wsj.com/podcasts/starbucks - voice-ordering](http://www.wsj.com/podcasts/starbucks-voice-ordering))

3.2 ADVANTAGES OF A DIFFERENTIATION STRATEGY

3.2.1 HIGH PREMIUM

Companies that adopt a differentiation strategy can claim higher costs of goods or services based on characteristics, distribution systems, quality of service, or delivery channels. (Teeratansirikool, et al., 2013) Enterprise differentiation strategy to attract complex or familiar customers who care about the uniqueness or quality of the product, and are willing to pay a higher price. (Allen & Helms, 2006) For China, coffee is only a mere imported drink. The traditional coffee shop only stayed at the "coffee" level and did not really operate as a "shop." They focus their earnings on other products. Coffee is just a tool for attracting customers or identifying themselves. It hopes to drive other consumer products with coffee. There are a great variety of menus for Chinese, Western, Burger and pasta dishes, giving customers choices. A serious problem. This cart before the horse is the practice of many traditional coffee shops can not be bigger and stronger reason. Hence, Starbucks is unique for Chinese consumers and they are willing to pay for it.

3.2.2 BRAND IMAGE

The value of the implementation of differentiated enterprises reflected in the fashion, brand or

image.(Nandakumar et al., 2010)It gives consumers such a feeling: Starbucks is not just a product, it is an idea. The idea is the feeling of community and conversation that can take place on a big cup of coffee.Differentiated experience makes the coffee brand Starbucks won the favor of consumers, Starbucks will be converted to such a favorable consumer behavior, to achieve the unity of consumer favor and behavior. Achieved the super passenger flow, but also realized the super passenger flow to the super consumption flow conversion, achieved the success of the chain brand.

3.3 DISADVANTAGES OF A DIFFERENTIATION STRATEGY

3.3.1 LIMITATION OF THE SCOPE OF APPLICATION

Porter model is based on the premise of the normal operation of enterprises in the competitive market.However, what if the business is facing a turnaround situation?The necessity for turnaround strategies is not novel,much of the company in the market faced difficulties or a recession in their life cycle(Marius Pretorius,2008). For instance,Starbucks' share price fell by 42 percent in 2007, making it one of the worst performers on the NASDAQ exchange on *Time*(Economist, 2008, p. 54).Therefore,Starbucks needs to resort to other tactics when faced with issues such as reversing the situation rather than blindly insist to the differentiation strategy.

3.3.2 LOSS OF SCALE BENEFITS

Differentiated product are required to design differently and use different raw materials.when the difference increases, the coordination between these products more difficult, but also increase some common expenses.The company which implement differentiation can not take full advantage of economies of scale,partially lost of the ability to bargain with suppliers and will increase the cost of production. Company also have to store various raw materials, which may lead to a rise in inventory costs.(Amar,M.Y.,2015)

4 CONCLUSION

Starbucks has enhanced its brand image among consumers through the use of differentiation strategies and has achieved some competitive advantages in various places. Consumers are also willing to pay for their premiums because of their differences.

Starbucks gives customers a distinctive coffee culture experience, making the shop the third place in the minds of consumers to relax and rest. This invisible concept has made it stand out and has won consumers' love. At the same time, it pays attention to using fashionable technology to equip itself and keep up with the trend of the times. Its acute perception is also an important factor that helps it achieve differentiation. The development path of Starbucks development is also a continuous process of the exploration of differentiation.

4.1 RECOMMENDATIONS

- In the process of external expansion, adhere to the localization of transformation, meanwhile, Keeping own features.
- The enterprises which implement differentiation can consider other strategies to supplement the differentiation strategy at the moment to turnaround the situation.

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