



BUSINESS REPORT OF STARBUCKS



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Executive Summary

This report aims to conduct an assessment of Starbucks' business competitive environment. There is a particular focus on its micro and macro environments, its current position within the international market and an outlook for its future decisions. The application of three strategic management tools, PESTEL, Porters Five Forces model and SWOT allows for a complex analysis into the organization's business environments. When analyzing Starbucks' macro environment through the PESTEL model, it finds that political stability, economic growth, market competitiveness, consumer habits, cultural diversity, technological advances, environmental issues, sustainability and legal factors all play an important role in shaping Starbucks' business strategy and operations. Porters Five Forces model shows that although competitors and new entrants may pose a threat to Starbucks' market share, its irreplaceable products and services, stable suppliers as well as strong industry competitiveness make it difficult to be surpassed in a short time. SWOT analysis shows Starbucks' strengths, weaknesses, opportunities and threats. After that, the TOWS section presents a series of targeted recommendations based on the SWOT analysis to help Starbucks build on its strengths and avoid its weaknesses.

In conclusion, this report clearly highlights the great reputation of Starbucks in international market. By virtue of its specific strengths as well as overseas market expansion strategy of "Asia first, then Europe" and "big first, then small", Starbucks has seized the opportunities to realize the internationalization of the brand and maximize corporate benefits. However, Starbucks' weaknesses and the threats it faces cannot be ignored. Considering its vulnerability to global economic conditions and the threat to its market share from competitors, Starbucks needs to take a number of steps to address the challenges. In addition to leveraging its existing strengths to further strengthen its brand image and grow its global market share, Starbucks needs to strengthen its ability to innovate including developing new products, offering new services and adopting new technologies. Furthermore, optimizing store management and supply chain management will also help Starbucks achieve sustainable growth.

Table of Contents

Executive Summary	1
1. Introduction	3
1.1 Organizational Background	3
2. Main Findings	5
2.1 PESTEL Analysis	5
2.2 Porter's Five Forces Framework	8
2.3 SWOT Analysis	11
2.4 TOWS Matrix	14
3. Conclusion	17
4. Recommendations	18
5. Bibliography	19

1. Introduction

The global business environment has changed dramatically as a result of the interaction and change of several factors, such as the rapid development of globalization and technological advances, which have created new challenges for businesses, including market uncertainty, the complexity of global supply chains, rapid technological innovation, instability in political and trade relations, and pressures for environmental sustainability (Hamilton, 2015). To meet these challenges, organizations need to have a keen insight and a proactive approach to risk management, and to adjust their development strategies in a timely manner to adapt quickly to the changing environment in order to maintain competitiveness and sustainable development (Sitkin and Bowen, 2013). To adapt to the changing global business environment, business environment analysis is particularly necessary. According to Armstrong *et al.* (2014, p. 70), "Business environmental analysis is a systematic process that examines external and internal factors to uncover influences crucial for the operation and development of a business." It not only helps organizations to grasp market opportunities, but also predicts market risks and develops corresponding response strategies. This report chooses Starbucks as analysis target, aiming to use tools including PESTEL, Porters Five Forces model and SWOT to conduct an assessment of Starbucks' business competitive environment. Through these analyses and the evaluation of Starbucks' microeconomic decisions, we can gain insights into the business environment and strategic choices Starbucks has made, and give a plausible direction for its future development.

1.1 Organizational Background

Founded in 1971, Starbucks Corporation is a world-renowned coffee company headquartered in Seattle, USA (Starbucks, 2023). It is mainly engaged in the roasting and retailing of high-end coffee beans and espresso, as well as the sale of various coffee drinks (Alwaleed *et al.*, 2019). Globally, Starbucks has more than 38000 stores in over 80 countries and regions (Statista, 2023). In addition to coffee drinks, tea and desserts, Starbucks is also committed to creating what it calls a "third space", making the coffee shop a unique place to socialize (Starbucks, 2023). At Starbucks, customers can work on their computers, read a book on a comfy sofa, chat with friends, gather and organize events. With its unique corporate culture

and philosophy, Starbucks has been named "the Most Admired Company" by Fortune magazine for many consecutive years. Through the use of appropriate analytical tools, this report will critically analyze the business competitive environment in which Starbucks operates, evaluate its position in the international market and present some feasible recommendations for its future development.

2. Main Findings

2.1 PESTEL Analysis

Political Factors

Political stability: Starbucks' development has been heavily influenced by the United States' international status and political relations. As a major power, the United States enjoys the status of a giant among the nations worldwide. Since it is the main force of global economic construction as well as the representative of political and cultural globalization (BBC), it provides a solid foundation for the expansion and sustainable development of Starbucks. However, being perceived as a symbol of American culture, Starbucks might confront anti-American sentiment and boycotts in some regions. For instance, countries in the Middle East like Saudi Arabia and Egypt have boycotted Western brands including Starbucks due to the Western support for Israel (Wardany *et al.*, 2024). As a consequence, Starbucks should pay close attention to the changes in the international status of the United States and take measures to cope with these changes.

Trade regulations: Starbucks relies on an extensive supply chain network to source coffee beans and other raw materials from different countries (Tabansi, 2023). Trade agreements and tariffs in these countries may therefore affect the cost, availability and reliability of these supplies. Moreover, since Starbucks sells its products in various countries around the world, its costs and profits are affected by tariffs worldwide. Some countries, such as India, impose high tariffs on coffee beans and equipment, which leads to an increase in Starbucks' costs in those countries, thus affecting its profits (Kumari, 2024). Therefore, Starbucks should pay close attention to the changes in tariff policies in these countries and adjust product prices in a timely manner.

Economic Factors

Economic growth: Nowadays, with the steady growth of the world economy, the level of disposable income of urban residents is rising and the consumption structure is being optimized. People's pursuit of a high quality of life stimulates demand for entertainment and leisure consumption, and Starbucks' leisure concept caters to this need for enjoyment (Kaur, 2023). As a result, consumers are more willing to spend money on high-quality coffee and

services during economic booms, which allows Starbucks to reach a wider range of costumers.

Market competitiveness: The competitiveness of the coffee industry significantly influences Starbucks' pricing strategy, product supply, and overall market share (The Strategy Story, 2023). As more and more emerging coffee companies and imitators enter the market, they are attracting the customer base with lower prices and value for money, which is a threat to Starbucks. In this case, Starbucks should keep an eye on the market and develop new product lines and services to attract customers while maintaining its current strengths.

Social Factors

Consumption habits and attitudes: With the development of coffee culture and the increase in the global middle class population, the demand for speciality coffee is also growing, so Starbucks has the opportunity to increase its revenue. Furthermore, people are placing more and more emphasis on spiritual and emotional values. At the same time, they need a space outside of life and work to relax and socialize while enjoying a good meal. Starbucks' "third space" just meets these needs, which presents an opportunity for its growth (Liu *et al.*, 2021). But the point against the company's development is that people are now favoring healthier, lower-calorie diets, which may reduce sales of sugary drinks and desserts. In response to this trend, Starbucks has adjusted its product line by offering more healthy drinks and foods with low-fat and sugar to meet consumer demand (Starbucks, 2018).

Cultural diversity: As a global brand, Starbucks operates in numerous countries and regions. Since each of them has unique culture and traditions, understanding and catering to local tastes and preferences is crucial to the organization's success in these diverse markets, which may include providing products with local flavors, customizing shop designs, or implementing localized marketing strategies. So far, Starbucks seems to be doing a good job in this regard. When entering a new market, it always respects the local culture and focuses on the integration with it (Kaur, 2023). For example, Starbucks has launched a series of products in China adapted to the tastes of Chinese consumers, such as the Red Bean Green Tea Frappuccino and Green Tea Latte. These products, which combine traditional Chinese drinks with Starbucks' specialities, have been well received by Chinese consumers (Arora, 2023).

Technological Factors

Mobile technology: The widespread use of smartphones has influenced how customers interact with businesses (Hamilton, 2015). Starbucks is also actively exploring how to use smartphones to provide better service to customers. For example, it offers personalized recommendations and customized services for consumers through mobile apps, such as recommending new products and customized drinks (Kaur, 2023). Additionally, customers can interact with Starbucks through their mobile phones by participating in special offers and sharing social media, which enhances brand loyalty and user stickiness (Keskin, 2023). However, data security needs to be considered while utilizing mobile technology, so Starbucks could put in place a comprehensive data security protection mechanism to ensure customers' privacy and information security.

E-commerce and delivery platforms: The growth of e-commerce and delivery platforms has changed consumer expectations for convenience and speed (Keskin, 2023). It also provides Starbucks with a broader market and more convenient service methods. Through the intelligent management of e-commerce and delivery platforms, the company can more accurately grasp the sales data and consumer demand, so as to optimize the product mix and inventory management, as well as to improve the efficiency of operations (Starbucks, 2023).

Ecological Factors

Climate change: Since coffee beans are sensitive to temperature, rainfall, and other climatic factors, climate change can significantly impact global coffee industry. Due to weather changes, coffee crop yields, quality and the entire supply chain could be affected, leading to potential disruptions and increased costs for Starbucks (The Strategy Story, 2023). To combat this, Starbucks is developing coffee seeds that can adapt to climate change and working with coffee bean growers to provide technology and resources to help them adapt to the effects of climate change (Robledo, 2023).

Sustainability: Sustainable development has become a global concern that emphasizes a balance between the economic, social and environmental dimensions. With consumers' growing concern for environmental protection and social responsibility, sustainability has become an important factor in consumers' choice of products and services (Kuchinka *et al.*, 2018). Starbucks has been able to attract more environmentally conscious consumers and expand its market share through the implementation of its sustainability strategy. For instance,

this company is committed to reducing the environmental impact of its packaging materials. Eco-friendly packaging materials such as recyclable paper cups and biodegradable straws are used to reduce plastic waste. In addition, Starbucks encourages customers to use their own cups to reduce the use of disposable plastic cups (Starbucks, 2023).

Legal Factors

The growth of any enterprise is limited by laws, and for a multinational corporation like Starbucks, it is necessary to keep abreast of alterations in legislation and regulations across the globe. One notable example is that as environmental regulations continue to tighten and public concern about environmental issues grows, Starbucks may need to invest more in meeting environmental regulations, such as sensible waste recycling, energy management and water management (Starbucks, 2021). Although these may increase its operating costs, they highlight Starbucks' social responsibility as well as help it build a good corporate image and enhance consumers' trust and goodwill towards Starbucks.

In summary, Starbucks operates in a dynamic environment that is influenced by many factors. Political stability, trade regulations, economic growth, market competitiveness, consumer habits, cultural diversity, technological advances, environmental concerns, sustainability and legal factors all play a significant role in shaping Starbucks' business strategy and operations. The company's ability to adapt to these factors while maintaining its core values and brand image will be critical to its continued success in the global market.

2.2 Porter's Five Forces Framework

The Threat of Entry

Due to the low barriers (Figure 1) to entry in the coffee industry and the relatively low cost of opening a coffee shop, plenty of enterprises on the margins of coffee sales may enter the market at any moment to compete with Starbucks (Talib, 2020). While new entrants are generally small and have little impact on Starbucks, a large number of entrants will reduce Starbucks' market share and revenue. However, Starbucks already has excellent brand recognition and a broad international market, and it would be costly and time-consuming for a new entrant to build a brand like Starbucks, so the threat of new entry is moderate for Starbucks.

Figure 1: Barriers to Entry Checklist

Life cycle stage	Mature	Regulation level	Medium
Revenue Volatility	Medium	Technology change	Medium
Capital Intensity	Medium	Barriers to entry	Low
Industry Assistance	None	Industry globalization	Medium
Concentration level	Medium	Competition level	High

IBIS World Report (2019)

The Threat of Substitutes

The core product of Starbucks is coffee, which wins customers' affection with its pure taste and unique style. Although there are many drinks that can replace coffee in the market, such as tea, juice and sports beverages, the consumers of coffee are relatively stable. According to figures from the International Coffee Organization (2023), the world's coffee consumption is expected to grow. Furthermore, Starbucks' products are not limited to coffee, but also include a variety of related products, such as delicious desserts and exquisite cups (Starbucks, 2022). So the threat of substitutes to Starbucks is relatively low.

The Bargaining Power of Buyers

Although Starbucks' products are not cheap to the average customer, it still keep getting more people. In fact, most of the time, Starbucks is selling an atmosphere, an intangible product that satisfies customers' psychological needs. Schultz (2013), the founder of Starbucks, once said that "Starbucks promotes a new way of life for young people". The relaxed and warm atmosphere attracts a substantial amount of consumers. Starbucks' customer demographic is primarily targeted at individuals with a certain social status, income levels and distinctive lifestyles, so this particular clientele tends to be less price-sensitive and more focused on the environment and experience, as well as quality and service. What satisfies is that Starbucks

has created a "third living space" in addition to home and work for these people (Liu *et al.*, 2021). As a result, customers have less bargaining power.

The Bargaining Power of Suppliers

Starbucks' main suppliers are Arabica bean suppliers, located in three major producing regions of the world (Starbucks, 2023). Due to the small scale and low industrial concentration, it is difficult for them to form a strong negotiating coalition, thus giving Starbucks an advantage in negotiation. Though Starbucks prioritizes product quality and service when choosing suppliers while the price is only placed in the third level, putting it at a disadvantage when bargaining, due to its excellent industry position, suppliers have established long-term relationships with it to achieve a win-win situation, which ensures the quality of its coffee and its price advantage (Greenspan, 2024). However, it should be noted that the cultivation of coffee beans is highly affected by climate and labors, when the production of coffee beans becomes less due to these reasons, it will bring a bargaining advantage to the suppliers as it is the main raw material for Starbucks and there are almost no other substitutes.

The Extent of Rivalry between Competitors

Favored by consumers around the world for its unique coffee products, elegant environment, superior quality and service, Starbucks can be said to have become a leader in this industry. However its main competitors including COSTA, McCafe and some other coffee retailers have reduced Starbucks' sales and market share by offering similar products or services (Talib, 2020). In order to attract costumers, some competitors adopt a low price strategy to compete with Starbucks, which may lead to the loss of some customers who are not so loyal to Starbucks. Although Starbucks still has the most outstanding brand effect, these retailers have also created a certain degree of competitive pressure on it.

Through the above analysis, the threat degree of the five forces to Starbucks' competition can be intuitively expressed, as shown in the following table:

Source of competition	The Threat of Entry	The Threat of Substitutes	The Bargaining Power of Buyers	The Bargaining Power of Suppliers	The Extent of Rivalry between Competitors
Intensity Analysis	Low barriers to entry; High cost performance	Different customer preferences; Lack of core technology	Low price sensitivity; High attention to service and quality	Low industrial concentration; Supply the main raw materials to the buyer	There are many competitors; Uneven scale and strength
High					
Moderate					
Low					

Greenspan, (2024)

To sum up, although competitors and new entrants could erode Starbucks' market share and pose threats to it, Starbucks has attracted a large number of loyal customers by virtue of its high quality products and services, stable suppliers and favourable brand image. Moreover, its strong industry competitiveness and profitability make it difficult to be surpassed in a short time.

2.3 SWOT Analysis

Strength

Brand advantage: Since its establishment in 1971, Starbucks has continuously provided consumers with more beverage choices and services, and has become a well-known chain coffee company in the world, which has been favored by many consumers. Consequently, its strong brand influence and appeal give Starbucks an advantage in attracting customers, building brand loyalty and promoting new products (Prajapati, 2023).

High quality: Starbucks' pursuit of coffee quality and unique coffee taste have won the recognition of consumers. Its high-quality coffee beans, unique roasting process and fine coffee making process make its coffee highly competitive in the market (Prajapati, 2023).

Rich variety of products: Starbucks not only has traditional coffee and latte, but also launched a variety of drinks such as juice, smoothies and so on. Furthermore, consumers can choose low-calorie, sugar-free and other requirements according to different drinks. In addition to the freshly made drinks in offline shops, there are also a wide range of packaged products available for consumers to choose from, allowing them to make their own Starbucks coffee at home (Starbucks, 2020).

Comfortable environment: According to Kaur (2023), “Starbucks' concept of creating ‘third places’ is a fundamental aspect of its brand identity and success”. In addition to its products, Starbucks has also been committed to providing consumers with a quiet and comfortable environment, where they can feel the values and culture conveyed by the brand while enjoying coffee. That's why its stores are so crowded.

In conclusion, Starbucks has gained a broad range of consumers and markets due to its powerful brand influence and awareness, high-quality and diverse products, as well as its comfortable consumer spaces. To continue to attract customers and expand the market, Starbucks should maintain its existing advantages while also exploring new ones through innovation.

Weakness

Higher price: Starbucks' products are more expensive than comparable brands, which may deter some consumers (Geereddy, 2013). Especially as more and more affordable coffee brands are emerging, consumers who seeking value for money may opt for these affordable alternatives.

Management Difficulty: Due to the large number of Starbucks stores around the world and their dispersal, it faces many challenges in the actual operation and management process. For example, In 2008, Starbucks experienced a supply chain crisis due to over-expansion and a lack of innovative management. Fortunately, the company took timely measures to address the issue, such as closing unprofitable shops and improving supply chain efficiency, which helped to resolve the crisis (Tabansi, 2023). Although these crises were resolved, it is still a weakness that Starbucks needs to pay attention to.

In summary, although Starbucks is the world's leading coffee chain brand, it also has the weaknesses of high prices and fragmented management. As a consequence, Starbucks needs to continuously innovate its products and services to match the price and optimize its business strategy to cope with the fierce competition and changing market environment.

Opportunity

New market expansion: With the advancement of globalization and economic development, Starbucks can expand its business in more countries and regions. In particular, the potential is huge in emerging markets such as Asia and Africa (Toh, 2023).

Digital transformation: With the development of technology, Starbucks can use digital means to improve efficiency, optimize service experience and develop new business models (Starbucks, 2022). For example, it can optimize customer experience through online ordering and unmanned smart pickup.

Health and Environmental protection: As consumers become more concerned about health and environmental protection, Starbucks can adjust product formulations and optimize production processes to meet their needs. Examples include the introduction of healthy options such as low-sugar, low-fat, and organic, as well as environmentally friendly measures such as the use of biodegradable packaging materials (Kuchinka *et al.*, 2018).

Based on the above, Starbucks has numerous opportunities to expand its market share, optimize its product line, and undergo digital transformation. By seizing these opportunities, it can achieve sustainable growth.

Threat

Changes in the macroeconomic environment: According to Starbucks 2022 annual report, instability in the global economic environment may have an impact on Starbucks' business. For example, economic downturns or inflation, among others, may lead to a decrease in consumers' purchasing power and their willingness to spend on non-essential items.

Increased competition in the market: With the rise of other coffee brands and increased competition in the market, Starbucks needs to continuously improve the quality of its products and services to maintain its market position. At the same time, competitors may

seize market share through price wars and other means, posing a threat to Starbucks (The Strategy Story, 2023).

Considering these potential threats, Starbucks needs to monitor global economic conditions and market changes closely and make timely adjustments to effectively respond to the threats.

2.4 TOWS Matrix

According to Weihrich (1982), TOWS matrix helps with strategy formulation on the basis of the identified factors. It is an analytical tool that helps build over organizations' strengths and make the best use of available opportunities while also minimizing the threats.

SO

Deepening brand influence: In order to further expand its market share, Starbucks can strengthen its brand marketing and promotion to increase brand awareness and reputation (Greenspan, 2024). By establishing closer ties with consumers, it will enhance brand loyalty and user stickiness.

Innovative products and services: Although Starbucks already has excellent reputation and market share in the coffee sector, it can still attract more consumers by continuously innovating its products and services. For example, launching more special drinks and food products with themes such as health, environmental protection and culture to satisfy the needs and tastes of different consumers (Alwaleed *et al.*, 2019). In addition, Starbucks can explore co-operation with brands in other fields, such as art, music and technology, to provide consumers with richer and more diverse experiences (Starbucks, 2022).

Expanding digital business: With the rapid development of digital technology, Starbucks can further expand its digital business and increase the proportion of sales in online channels (Hossain and Islam, 2015). Through online ordering, mobile payment and social media marketing, it can strengthen the interaction and communication with consumers. Moreover, Starbucks can develop its own APP and membership system to provide consumers with a more convenient and personalized service experience .

Global Expansion: Although Starbucks already has extensive market coverage worldwide, it can continue to expand its global business. By opening shops in more countries and regions and expanding overseas markets, it can attract more international consumers. At the same time, Starbucks can pay attention to the characteristics of local culture, tastes and consumption habits to adapt to the local market demand and integrate into the local culture (Roper, 2021).

Focus on sustainability: As a globally recognized coffee brand, Starbucks has a responsibility to focus on sustainability issues (Starbucks, 2021). Adopting environmentally friendly measures in production, purchasing and packaging to reduce the negative impact on the environment would be a favorable strategy. For example, using renewable energy, promoting recycling, and reducing the use of single-use plastic products. By actively adopting sustainable development measures, its corporate image and consumer recognition will be enhanced.

WO

Optimize pricing strategy: Starbucks's relatively high price may deter some consumers. In order to attract more consumers, Starbucks can optimize its pricing strategy and provide more offers and promotions (Geereddy, 2013). For example, it can launch a membership system to provide members with exclusive benefits and points redemption. What's more, product prices can be adjusted according to market demand and competitive conditions to maintain a competitive advantage.

Expand the product line: Since Starbucks' product line is relatively single, it can expand the product line to meet the needs of different consumers (Bai, 2023). For instance, more kinds of coffee and tea, different flavors of pastries and light food could be introduced. Additionally, more featured products can be launched in combination with themes such as health and environmental protection to increase the diversity of consumer choices.

ST

Responding to changes in the economic situation: Changes and uncertainties in the global economic situation may have an impact on Starbucks' business. To cope with this situation, the company can take some measures, such as: strengthening financial management to

improve liquidity; optimizing supply chain management to reduce costs; and developing new markets and channels to increase revenue sources (Azriuddin and Kee, 2020).

Diversified development: Facing the fierce competition from competitors and the diversification of consumer demands, Starbucks can adopt a diversification strategy. In addition to traditional coffee and pastries, it can try to introduce more kinds of drinks and snacks, such as tea, juice, light food, etc. Besides, the development of coffee-related derivatives, such as coffee cups, coffee beans, coffee machines, etc., can be explored to meet the needs of different consumers (Kaur, 2023).

WT

Adjust pricing strategy: Considering the price competition from competitors, Starbucks may consider adjusting its pricing strategy to better match consumers' purchasing power and needs (Kuchinka *et al.*, 2018). For example, regular market research could be conducted to adjust product prices based on competition and consumer feedback.

Enhance resilience: In the face of various risks that may arise, Starbucks can take some measures to enhance risk-resistant ability. For example, it can formulate emergency plans to give early warning and response to various possible risks; Establish a flexible operation mechanism to quickly respond to market changes; Strengthen cooperation with partners and suppliers to deal with risks together (Bai, 2023).

3. Conclusion

Through the application of three strategic management tools, this report has conducted an critical assessment of Starbucks' business competitive environment. It clearly highlights the great reputation of Starbucks in international market. As one of the world's leading coffee chain brands, Starbucks stands out for its unique brand image, superior customer experience and global market expansion strategy. Till now, this 52-year-old company has more than 38,000 shops worldwide and a presence in more than 80 markets worldwide (Statista, 2023).

As mentioned in this report, Starbucks has a favorable market outlook. With the growth in global coffee consumption and increasing demand for high quality coffee, Starbucks has the opportunity to further expand its market share. In addition, the rise of the Asian market and consumer interest in coffee culture present new growth opportunities for the organization (Toh, 2023). If Starbucks seizes the opportunity to expand its market share, optimize the customer experience, build on its strengths and avoid risks, it can achieve further sustainable prosperity.

However, it cannot be ignored that Starbucks also faces market challenges and weaknesses. As a global company, Starbucks is highly affected by the global economic conditions (Starbucks, 2022). Additionally, with the influx of competitors, Starbucks, with its higher pricing, is facing challenges in terms of market share. If it pays significant attention to these deficiencies and threats in the future, and rationalizes its corporate strategy, it will be able to achieve better results.

In terms of globalization, Starbucks has maximized the company's benefits and market expansion by constantly adapting its mode of entry and localization in overseas markets (Roper, 2021). If Starbucks continues to make sound business decisions when entering new international markets and adopts the most appropriate models according to local market environments, it will be able to achieve substantial growth.

4. Recommendations

Although Starbucks has achieved great success in global markets, there are something it can do for a further growth. In addition to leveraging existing advantages to continue to deepen its brand image, optimize the quality of existing products and services, as well as expand global market share, there is also a need for Starbucks to improve its retail strategy by introducing new decaf coffees to meet the growing demand for healthier alternatives from many consumers (Azriuddin and Kee, 2020). Besides, it should strengthen its digital relationship with customers by developing its technology and introducing digital strategies to ensure effective communication with its customers (Hossain and Islam, 2015). What is more, in order to provide a more personalized coffee drinking experience, the organization could consider opening new services such as roadside service for customers using new technologies like drones.

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