

Problem Solving and Innovation (BMSW4014)

Module Lead: Rhiannon Akers

Student Name: Eliane dos Santos

Student Number: 2327070

An Analysis of the Factors Impacting Starbucks in the UK

Introduction

Starbucks was first established as a coffee bean retailer in Seattle, Washington, in 1971 by Gordon Bowker, Zev Siegl, and Jerry Baldwin. Under Howard Schultz's leadership, the business developed into the well-known worldwide brand it is today, offering not only coffee but also a cosy and community-focused experience. The UK market is one of its major foreign operations, with over 36,000 shops worldwide (Starbucks, 2023). In 1998, Starbucks bought 56 stores from the Seattle Coffee Company to enter the UK market. At first, it capitalised on the expanding café culture in the UK by offering excellent coffee in a welcoming setting. But as the market has expanded, well-known companies like Costa Coffee, Pret a Manger, and other small coffee shops are now fierce rivals of Starbucks. Its strategy choices are nevertheless influenced by persistent issues such as shifting economic conditions, growing operational costs, and a crucial customer base.

Using frameworks like Porter's Five Forces, PESTLE analysis, and knowledge from previous SWOT research, this research investigates the factors affecting Starbucks in the UK. The findings offer recommendations for further success while highlighting the company's challenges and potential.

Findings

Political and Legal factors

Political and legal issues have a big influence on Starbucks' activities in the UK. Brexit has caused a great deal of uncertainty in supply networks and trade. The cost of acquiring premium coffee beans and other necessary supplies has increased due to increased bureaucracy and levies on imports from the European Union (Gov.uk, 2023). Starbucks needs to review its network of suppliers in order to minimise disruptions.

Additionally, the company's tax policies have drawn public criticism. Despite making a lot of money, reports in 2022 showed that Starbucks paid very little in corporate taxes, which sparked debates about moral business conduct (BBC News, 2022). This negative publicity damages its brand image and may lead to future government rules that are more rigorous.

Compliance with anti-discrimination laws and employment rules, such as the National Living Wage, is also essential for maintaining its workers and avoiding legal issues.

Economic Factors

The UK economy has a direct impact on Starbucks' profitability and economic success. For a significant portion of consumers, rising inflation, which hit record highs in 2023, has reduced disposable income. Due to this change, some consumers are now looking for less expensive options or making coffee at home (ONS, 2023).

With an annual value of almost £10 billion, the UK coffee business is still among the most lucrative in Europe despite economic difficulties (Mintel, 2023). Although economic times present challenges, they also give Starbucks chances to solidify its brand through high-end goods and loyalty schemes. Starbucks' pricing methods are also impacted by fluctuations in currency rates, especially when it comes to imported goods like coffee beans.

Sociocultural Factors

In the UK, consumer preferences are changing, mostly as a result of a greater focus on sustainability and health. Starbucks expanded their selection to include almond, oat, and coconut milk as a result of the growing demand for plant-based milk substitutes (Starbucks UK, 2023). This program is consistent with the broader trend of consuming less dairy for health and environmental reasons.

The rise in remote labour since the pandemic has also changed how people shop. Suburban businesses have seen an increase in foot traffic, while city centre locations have seen a decline. Starbucks has responded by implementing a variety of store styles, like drive-throughs and smaller express retail locations. Additionally, the diverse population of the UK necessitates a menu that offers goods like chai lattes and seasonal drinks to suit a range of palates.

Technological Factors

Starbucks' operations in the UK rely heavily on technology. With features like mobile ordering, loyalty programs, and customised promos, the company's mobile application is an important tool for attracting customers (Statista, 2023). Given that digital consumers typically spend more than non-digital consumers, these features not only increase convenience but also promote brand loyalty.

The marketplace has also changed as a result of the rise of delivery services like Uber Eats and Deliveroo, which has prompted Starbucks to partner with them to offer home delivery services. Although accessibility has improved, operational tactics need to be reevaluated in order to maintain constant quality. To predict customer trends and improve inventory management, Starbucks has also invested in AI-powered data analytics. This has given the business a competitive edge in meeting market demands.

Environmental Factors

Starbucks places a high priority on sustainability, which reflects the growing demand from customers for moral and ecologically responsible business operations. Their commitment to environmental care is demonstrated by activities like creating energy-efficient stores, establishing reusable cup programs, and sourcing coffee responsibly (Starbucks UK, 2023). Starbucks has pledged to phase out single-use plastics in the UK and switch to packaging that is completely recyclable or biodegradable by 2030.

However, there are operational and financial challenges in reaching these ambitious objectives. It can be challenging to handle the significant upfront costs associated with investing in sustainable practices when the economy is unstable. Furthermore, constant compliance and innovation are required to maintain conformity to UK government environmental rules, such as waste management policies and carbon prices (DEFRA, 2023).

Competitive Landscape

With a number of well-known companies fighting for market supremacy, the UK coffee market is one of the most competitive in all of Europe. Costa Coffee is at the cutting edge thanks to its wide network of locations, cost-effective pricing policies, and notable presence in major transit hubs like airports and train stations. Starbucks must work harder to convince customers to choose its high-end products over Costa's more affordable options to maintain its dominant market share.

Another significant rival that concentrates on providing a quick and health-conscious menu is Pret a Manger. Its focus on freshly prepared food and coffee enables it to serve the grab-and-go market, which is especially popular in cities. Starbucks has a good reputation for coffee, but its food doesn't have the same standing, which may limit its appeal to certain consumers.

Independent coffee shops are becoming more and more popular, particularly in big cities like Edinburgh, Manchester, and London. These smaller businesses frequently draw in younger, trendy clients by offering artisan coffee, unique mixes, and regional experiences that Starbucks' worldwide strategy could find challenging to match. Since the epidemic, there has been an even greater desire to support local businesses, which has increased competitiveness. Additionally, the sector has taken on a new dimension thanks to delivery services like Uber Eats and Deliveroo. Starbucks may lose out to rivals with better delivery networks or partnerships in acquiring this growing market segment. Starbucks has responded by collaborating with these platforms yet, it still has challenges in ensuring product consistency throughout delivery.

Despite these difficulties, Starbucks has several advantages. It has an advantage over many competitors thanks to its well-known brand and standing as a posh coffee establishment. Additionally, its ability to innovate which is seen by products like Nitro Cold Brew and Reserve Stores, allows it to draw in clients who are seeking unique, superior experiences. Its distinctive posture might be crucial to preserving its relevance in an increasingly crowded market.

Starbucks is currently navigating a complex yet opportunity-filled landscape in the UK. On one hand, it confronts various obstacles, such as the challenges posed by post-Brexit trade, increased operational expenses due to inflation, and shifting consumer preferences. Additionally, the scrutiny surrounding its tax practices has created further complications, affecting its reputation and compelling the company to adopt a more transparent manner in its UK operations.

Conversely, Starbucks has significant prospects for strengthening its market position. The culture of coffee in the UK is a vital part of everyday life, and consumers continue to invest in quality and convenience despite financial pressures. The heightened focus on sustainable and ethical practices aligns well with Starbucks' strategy, presenting a chance to forge a deeper connection with eco-conscious clientele.

Although competition is intense, Starbucks benefits from a robust brand identity, an extensive global presence, and a history marked by innovation. The company has already proven its capability to adapt by broadening its selection of plant-based products, enhancing its loyalty program, and exploring home delivery options. Looking ahead, its success will hinge on how well it manages to balance these innovations with addressing economic and reputational challenges.

In the end, Starbucks' trajectory in the UK will depend on its capacity to heed customer feedback, remain ahead of market dynamics, and operate responsibly as both a business and a global brand. By continually evolving and refining its strategies, it can successfully navigate the challenges of the competitive UK market while retaining its status as one of the most recognized coffee brands worldwide.

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