

Analysis of the Factors Impacting Starbucks

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Introduction

Starbucks was established in 1971 and is one of the largest coffeehouse companies in the world. It is famous for its quality coffee, its new generation of differentiated beverage products and the warm and welcoming environment of its stores (Larson, 2018.). operating in more than 80 countries, the company is known for its quality coffee products, and excellent customer services (Volle, P., 2022). It focuses on sustainability, ethical sourcing and the integration of the brand with the community, making it unique in the market. Nevertheless, Starbucks encountered some issues in 2024. According to BBC News (2024), the company's global sales dropped by 3%. This decline in sales was an indication of operational and market strategy problems. As a result, Starbucks hired Brian Niccol as its CEO in August 2024 to solve the company's problems and reorient its development (BBC News, 2024). In this change process, focus has been directed to the UK market where Starbucks competes with a number of local and international coffee brands. Through this re-strategising, Starbucks seeks to regain the pace, better engage its consumers and maintain its standing in the market. This paper analyses the factors impacting Starbucks to guide the new CEO on how to revitalise the company's operations.

Findings

a) Intense Market Competition

The coffee market in the United Kingdom is highly saturated with both international chains such as Costa Coffee, Pret A Manger, and Caffè Nero, as well as an increasing amount of independent coffee shops (Patterson et al., 2010). These competitors can offer more for the same price, or use local products, or specific types of products like vegan or artisanal coffee drinks. Independent coffee shops also satisfy consumer desires for individuality and socialisation that Starbucks may be unable to provide because of its enormous size (Baldwin et al.). In addition, Costa Coffee and Pret A Manger have been very active in the market penetration in the UK through proper locations and cheap prices. Pricing is another factor impacting Starbucks; the company has premium prices for its products to maintain quality and has a standardised menu for its products across the world (Dawson, 2021). However, this can be a disadvantage because it does not appeal to the price-sensitive population and people who want to taste the authenticity of the country.

b)Economic Environment and Consumer Spending

The UK is currently experiencing a lot of pressure in its economic structure through inflation, high energy prices, and the future trading position after Brexit (Tetlow and Stojanovic, 2018). This has directly impacted disposable income for many consumers, which in turn has led to a cut back on non-necessary spending such as on expensive coffee. Starbucks may not be in a position to provide products that people consider expensive and as the trend of people's bargaining power increases the company may find it hard to penetrate the market (Larson, 2018). Instead, they may switch to other similar quality products at cheaper and affordable prices or opt for home-brewing solutions. This economic pressure therefore calls for a reconsideration of the company's pricing model. It can launch value promotions, for example, coffee and snacks offers, or time-sensitive campaigns, which would attract price-sensitive consumers (Haskova, 2015). Also, extending the Starbucks Reward programme to offer more motivation such as free drinks or lower prices for more purchases can keep the customers loyal in such a period.

c)Changing Consumer Preferences

Consumers' behaviour in the UK is changing drastically, and people are paying more attention to the quality and origin of the products they consume (Bunn and Ellis, 2012). Some trends among UK consumers are low calorie, organic or plant based products. Starbucks has not left this trend unaddressed, for instance, it has provided oat, almond, and coconut milk and added plant-based meals (Bunn and Ellis, 2011). However, these efforts have to be extended even further to cater for the increasing demand. Another factor is sustainability, as the population pays attention to environmentally friendly activities of the company. Starbucks has been heavily criticised for using disposable cups even with discounts for reusable cups and using eco-friendly packaging (Maye et al., 2019). Thus, Starbucks should increase the number of compostable or biodegradable disposables and enhance its sustainability initiatives regarding coffee sourcing. Also, more transparency of its environmental responsibility would be appealing to ethical consumers.

d)Operational Costs and Profit Margins

Another problem of Starbucks in the UK is the increasing cost of operation. These include higher energy prices, rent, wages, including the national living wage, have raised operational costs (Campbell and Helleloid, 2016). These rising costs are not friendly for a chain such as Starbucks, since they can reduce the gross and net margins of the coffee selling company, especially when operating in a competitive market where any price increase may discourage the customers (Sisson and Bowen, 2017). Starbucks needs to work more efficiently if it is to remain profitable. One could be to continue with the purchase of efficient energy using equipment and structures that will help in the conservation of energy in the long run. Another possible approach is to reduce supply chain costs, as well as increase its effectiveness and reduce its inefficiency (Chopra and Sodhi, 2014). There is also the possibility to control the labour costs using automation tools like self-service kiosks and enhancing digital order taking through the app.

e)Technological Advancements and Digital Engagement

Customers now rely on technology and thus any café must have a system that can handle the flow of customers they expect. Starbucks has done a lot in this aspect especially through their mobile application and the reward programme where one can order and pay using their cell phone, get discount offers among others (Larson, 2018). However, the rivals like Costa Coffee are also increasingly improving their own digital channels, which include personalised services with the help of artificial intelligence and more sophisticated loyalty programmes. To sustain this level of competitive advantage, Starbucks needs to take the next step in the digital engagement strategy (Patterson et al., 2010). Adding features such as live order tracking, fun and engaging reward programmes, and personalised recommendation through AI integration in the app would improve the customer experience. Also, integrating augmented reality components like coffee education or virtual store, can become an interesting tool for engaging the customers (Seaford et al., 2012). It may also be possible to grow the number of delivery services with which Starbucks works, in order to tap into the convenience-oriented market segment.

Conclusion

Overall, Starbucks encounters a variety of opportunities and threats in the UK market. This pressure stems from both domestic and international store expansion as well as the threat posed by other coffee houses, local and international. The current inflation rate and the poor customer expenditure rate call for proper pricing and value-added measures that would target the low-end market without compromising the company's image. New tendencies in consumer behaviour are focused on the use of eco-friendly solutions, healthy food, and environmentally friendly policies. Currently, consumer ethics require Starbucks to increase its plant-based food options and incorporate environmentally friendly practices. Also, increased operating expenses such as wages, rent and energy costs reduce profit making abilities and hence require supply chain management and energy efficient features. The use of technology is an attractive prospect for growth, as the application of new technologies can improve the interaction with customers by using artificial intelligence for personalisation and improved loyalty programmes.

Recommendations

Starbucks should increasingly add products that are within the lower price range to appeal to the price sensitive consumers while not losing its prestige image. For instance, incorporating the best-selling drinks with some accompanying foods or creating an offer of a limited menu that includes less portioned food at cheaper price is likely to attract price-sensitive consumers. Increasing the Starbucks Rewards programme with larger rewards like double star days, free upgrades or limited menu items for regular customers also increase customer loyalty. Loyalty, seasonal and other special offers can be used during low demand hours to increase sales while achieving good returns.

To address changes in consumers' behaviour, Starbucks should strengthen the efforts towards sustainability. The possibilities of using compostable or biodegradable packaging and the extension of the customer cup reuse discount can also improve its environmental communication. Moreover, Starbucks should maintain

its introduction of plant-based food and non-dairy products, snacks and beverages, low calorie and organic products. Labelling of products that are environmentally sustainable and healthy for human consumption will appeal to the green and health conscience customer respectively. It is through this that Starbucks should publicly announce its sustainable achievements and involve consumers in green initiatives that create brand association.

Moreover, the company should leverage technology to cope with the competition in the market. Mobile app can be complemented by such features as order status monitor, game-like loyalty programme, and a smart suggestion system to increase traffic frequency. Digital kiosks for faster self-checkout solutions and encouraging delivery operations in the shops in association with the application such as Uber Eats will help meet the need of convenience-seeking consumers. Starbucks should also consider using technologies like augmented reality advertisements of coffee origin or sustainability to engage more with the tech-savvy audience.

Lastly, Starbucks should pay special attention to the issue of rationalisation of activities. Sustaining energy efficient appliances, green store layouts, and minimising waste expenses are some ways in which costs could be saved besides sustainability objectives. Efficiency can be achieved by the optimisation of supply-chain networks and the utilisation of automation in the processing of routine activities with minimal impact on customers. Also, training the employees on multitasking and customer service can improve operations flexibility to allow the stores run effectively during the busy periods. Starbucks can sustain its profitability from operations amid the fluctuations in the economy and competition.

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