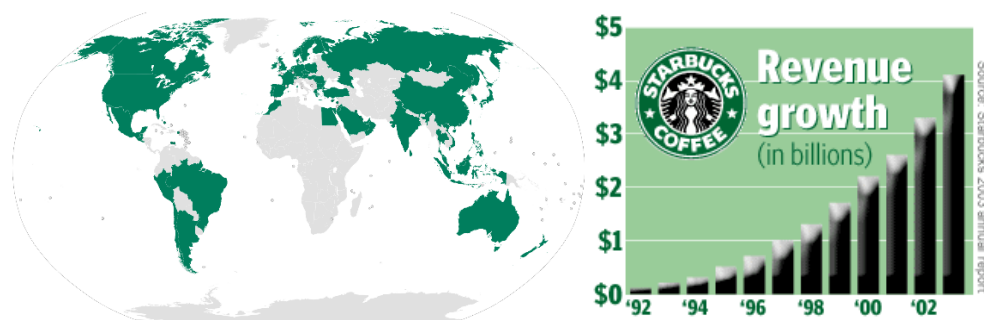


Opportunities and Threats: Starbucks

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Introduction

Profile. Starbucks (SB) is a quintessential example of how commitment to core values and customer orientation can produce one of the most revered brands in the world. Rooted in its humble beginnings as a local Seattle-based “roaster and retailer of whole bean and ground coffee, tea and spices,” SB has proliferated across the globe with more than 20,000 stores in 65 countries.¹ Since 1971, Starbucks has captured the imagination of the public with its mythical logo and name (inspired by the classic Herman Melville novel *Moby Dick*), which ironically, is not reflective of the company’s offerings. Still, SB has remained committed to championing its goal of using ethical practices to grow coffee of the highest standards of quality. SB’s transparent devotion to the environment and community, along with superior service quality, has helped it establish an endearing international brand.



SB’s mission “to inspire and nurture the human spirit” while providing high quality coffee is shown to be a winning combination and a global phenomenon. Map source: Wikipedia.

Overview of opportunities and threats. SB’s strategic leadership position is poised to capitalize on many opportunities. As CEO Howard Schultz recently stated to investors, “we have to maintain the entrepreneurial DNA of the company...we have an opportunity to make history. I’ve never been more enthused about the things we are going to do.”² These words highlight the optimistic undertone of SB’s vision to further expand and diversify. The company is reaping scalability benefits overseas and plans to broaden its brand portfolio to attract and maintain its loyal customer base. However, large rivals like Dunkin’ Brands are seeking to strengthen their market share and many smaller, independent coffee retailers are applying competitive pressure to undermine SB’s growth potential. The following table provides an overview of the opportunities and threats faced by SB:

Opportunities	Threats
International/emerging market development	Price volatility of inputs
Expanding retail operations and channel development	Competitors and new entrants
Product development and diversification	Oversaturation in existing markets
Improving supply chain networks	Environmental disruptions
	Economic downturns

¹ "Starbucks Company Profile" (PDF). Starbucks Coffee Company. July 2014.

² <http://news.starbucks.com/news/live-blog-starbucks-path-for-growth-outlined-at-2014-biennial-investor-day>

Analysis of opportunities

Market development. SB plans to increase its footprint through licensing opportunities and international expansion.³ The company continues to experience its highest revenue growth in the Asia-Pacific region.³ Indeed, one of SB's main growth strategies is developing their existing operations in China and India. Cultural analysis will be key for penetrating these complex environments and targeting consumers who differ greatly from their global counterparts. A transnational approach is recommended to specialize brand offerings based on consumer behaviors and lifestyles existing in the region. Moreover, the potential market for coffee consumption is virtually limitless. Coffee, as a commodity, has been highly valued for thousands of years and its popularity is unlikely to diminish. The opportunity presented by untapped and growing markets in emerging economies is huge. Countries like China and India are experiencing high growth rates. India's middle class is expected to double by 2015 (from 2010 levels) and grow by an additional 500 million by 2025.⁴ This growth will expand the market for consumers who have the purchasing power to consume the retail coffeehouse experience.

Product development and diversification. SB plans to build on its Teavana business unit⁵, which offers a diverse range of tea products, to unlock profitable growth in the flourishing global tea market. China, where tea is king, provides a perfect testing ground for SB's tea business format. The launching of a new brand called Starbucks Reserve is intended to provide coffee lovers with access to rare and distinctive micro-lot coffee. In 2014, SB introduced changes to its menu. It partnered with San Francisco's La Boulange bakery to reinvigorate its hot-food selection and will now heat up its "edgy, sweet and savory" pastries before serving them to customers.⁶ SB also plans to expand selection of lunch and dinner offerings. However, introducing innovative products is a risky endeavor. Many SB offerings have failed, notably the Sorbetto drink and Tazo Tea Berry Infusion, for probably being *too* innovative.⁷

Expanding retail operations and channel development. Several of SB's current growth strategies encompass developing the retail experience and "growing the store portfolio."⁵ The Starbucks Reserve brand will play a unique role in enhancing the retail experience by offering "Roastery and Tasting" rooms—separate shops to explore higher quality coffee. By diversifying its offerings, as mentioned in the previous section, SB hopes to increase in-store visits. SB also seeks to increase out-of-store consumption. Establishing relationships with a wider array of retailers, and increasing exposure in commercial hotspots where consumers can enjoy the brand while shopping, are means of growing sales through convenience and availability. Indeed, making the brand highly convenient to consumers will help SB gain market share. Engaging grocery stores globally is also a viable option. SB's Channel Development business unit is creating fruitful opportunities to spur future growth and increase out-of-store consumption.³ The Channel Development unit seeks to proliferate SB's brand across the consumer landscape as technological advancements are simplifying the purchasing experience. The business unit is also responsible for developing SB's consumer packaged goods (CPG) portfolio globally, and maintaining SB's identity as a multi-channel company.⁸

³ <http://seekingalpha.com/article/1849541-starbucks-management-presents-at-morgan-stanley-global-consumer-conference-transcript>

⁴ Kharas (2011), "The emerging middle class in developing countries", *Brookings Institute. World Bank Conference*.

⁵ <http://news.starbucks.com/news/live-blog-starbucks-path-for-growth-outlined-at-2014-biennial-investor-day>

⁶ <http://www.businessinsider.com/starbucks-four-opportunities-for-growth-2013-11>

⁷ <http://www.thedailymeal.com/7-failed-starbucks-drinks-products-slideshow>

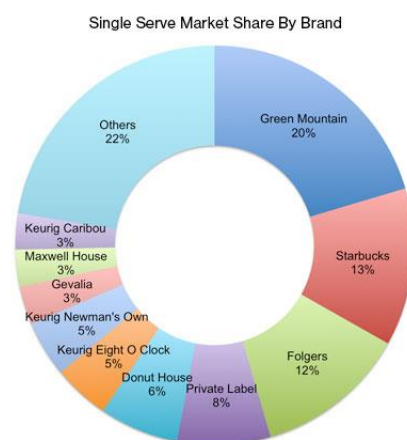
⁸ <http://news.starbucks.com/leadership/michael-conway>

Improving the supply chain. Unsurprisingly, SB is recognized as having one of the best supply chain networks across all industries.⁹ Maintaining a highly responsive supply chain is crucial for managing the constant risk of supply shortages and other disruptions. Continuing to optimize the network will curtail rising operational costs associated with aggressive international expansion and serving over 50 million customers each week. For example, SB streamlined and simplified its supply chain organization by integrating the structure into four main functions. It subsequently devoted attention to reducing costs, improving efficiencies, and renegotiating pricing contracts. Finally, SB unified its global logistics system.¹⁰ SB also partnered with Tata Group to develop distribution networks in India.¹⁴ These events reflect the need for supply chain management to improve overall operational success.

Analysis of threats

Price volatility of inputs. Coffee prices are always fluctuating. In 2014, the cost of Arabica beans spiked by nearly 90% due to a drought in Brazil and SB had to drastically reduce its purchases.¹¹ SB decided to keep retail prices stable, but higher operating costs were likely incurred as coffee futures rose and SB purchased 600 acres of farmland in Costa Rica to mitigate the threat. It is also important to note that retail coffee is considered a luxury for many people, including those in highly developed countries. Price increases at the storefront will push consumers towards cheaper substitutes like generic homebrewed coffee.

Competitors and new entrants. SB's biggest coffeehouse chain competitor in the U.S. is Dunkin' Brands, which has a substantially smaller market share, but SB is far from dominating the overall market for retail coffee consumption (all formats and channels). The following chart¹² shows how the market for at-home single serve brands is very competitive:



SB's global market share of packaged coffee is relatively miniscule—overshadowed by typical household brands like Nescafe, Folgers, and Maxwell.¹³ Aside from the CPG market, independent coffee shops and local chains are becoming increasingly creative in their attempt to attract sales. Their general strategy

⁹ <http://www.gartner.com/technology/supply-chain/top25.jsp>

¹⁰ <http://www.supplychainquarterly.com/topics/Procurement/scq201004starbucks/>

¹¹ http://www.slate.com/blogs/moneybox/2014/04/28/starbucks_coffee_prices_drought_in_brazil_and_arabica_bean_shortage_threatens.html

¹² IRI, 2014

¹³ <http://qz.com/207354/america-loves-k-cups-but-instant-coffee-rules-the-world/>

involves offering cheaper prices and unique experiences with the aim of breaking SB's overbearing presence. Ultimately, the coffeehouse landscape is dominated by SB and Dunkin' Brands and there is not much opportunity to compete against the sheer accessibility and customer loyalty of these two brands. However, SB needs to focus on developing its range of distribution and improving its revenue from various sources.

Environmental disruptions and economic downturns. Any company that relies on a single commodity needs to proactively manage the risk exposure associated with procuring and supplying that commodity. The most unpredictable factors for SB are environmental. In addition to the 2014 drought in Brazil, production was disrupted by general climate changes and a fungus known as "Roya."¹¹ SB is diversifying its land holdings and purchasing sources, as well as locking in cheap coffee futures, in order to hedge against such environmental risks. Political instability is also a consideration in countries such as Brazil and Vietnam. SB is most deeply affected when supply shortages are combined with economic recessions. Sensitivity to higher prices and decreased consumer spending will negatively impact the company's bottom line, such as when the recession of 2009 caused SB to experience a net loss.¹⁴

Concluding remarks

SB's scalable business model and strategic outlook positions the company to capitalize on emerging markets. SB will continue international expansion through licensing, joint venture, and FDI modes. Although the company's traditional retail business is thriving domestically, more focus on product development and penetration is needed to enhance SB's brand image across multiple channels—specifically developing the company's CPG portfolio. Enhancing the retail experience through differentiation, exemplified by expanding offerings and new brands like Starbucks Reserve and La Boulange, will help SB attract and maintain its loyal customer base. Optimizing the supply chain will be necessary for SB to remain operationally effective, especially as it expands overseas. Methods of hedging against the constant risk of coffee price volatility are actively pursued by SB although the market for coffee is expected to remain vibrant for the long-term.

¹⁴ <http://marketrealist.com/2014/02/starbucks-looks-undervalued-3-threats-must-know/>