



Ravneet Cheema
Amanda Dahlin
Jesleen Grewal
Daveena Jagpal
Gwen Le Roux

BUS 478 – Strategy
Professor: Jerry Sheppard
November 7, 2012

BACKGROUND

Starbucks is an internationally recognized company specialized in offering premium roast coffee and other specialty beverages. Currently the largest coffeehouse in the world, Starbucks is known for not only selling high quality coffee, but also a sophisticated lifestyle fueled by Starbucks' enticing aroma, trendy music, comfortable seats, and inviting atmosphere. Its mission is "to inspire and nurture the human spirit- one person, one cup and one neighborhood at a time" and its huge success can be credited to this unique strategy.

Starbucks began with an idea from three friends who shared a strong passion for gourmet coffee. From this, their first store opened in 1971 in Washington, and eventually that would serve the world's finest, fresh-roasted whole bean coffee. By the late 1970's, Starbucks gained momentum within Washington, and when Howard Schultz became Starbucks' new head marketer in the 1980's, Starbucks' real success began. The concept of Starbucks as a place to socialize and relax between work and home was established.

Howard Schultz, the current CEO, designed Starbucks' culture and mission after a trip to Italy, where he fell in love with the espresso culture. He saw potential to create the same coffeehouse culture in Seattle, and Starbucks' goal from then on was to build an experience, rather than simply serve coffee. It was this combination that allowed the company to branch out and be accepted across the world.

Starbucks has maintained this creative vision by offering a unique coffee experience, which has proven to be very successful. Today Starbucks is operating more than 17,000 stores in 55 countries across this globe, making Starbucks the premier roaster and retailer of specialty coffee in the world.

ENVIRONMENT

Starbucks competes in the quick-service restaurant industry specifically in the specialty coffee industry. Over the years, coffee has grown to become almost a necessity for some individuals. Coffee is consumed across many demographics including university students, young adults in the workforce, and mature adults around the world. As society progresses towards a fast-paced lifestyle, more coffee consumers are becoming dependent on easily accessible coffee such as Starbucks rather than brewing fresh coffee of their own. Coffee consumers are placing a greater importance on convenience. As a result, the coffee industry is flooded with competitors attempting to benefit from the massive amount of coffee consumers. Not only does the industry consist of direct competitors such as Tim Horton's and McDonalds, but also companies such as Keurig and Tassimo who offer the convenience of readily available quality coffee in consumer's homes or offices. Technological innovations such as these, threaten the coffee restaurant industry.

The coffee industry has been facing the challenge of having to increase their prices or experience lower margins as a result of the rising cost of the coffee bean. This is proving to be a difficult challenge since the current economic conditions are causing consumers' disposable income to decrease; therefore there is a potential threat to the demand of coffee. The coffee industry must find ways to reduce their prices through technological advancements for cost savings or justify the increase in prices with innovation and creative marketing. New, innovative marketing techniques have emerged in the industry which has allowed popular specialty coffee brands to push demand, such as through the use of social media. Social media outlets have played a major role in popularizing certain brands if these outlets are utilized effectively.

CURRENT SITUATION

Starbucks has an extensive menu featuring beverages and food items. As of 2012, Starbucks owns five brands of specialty coffees in its portfolio: Tazo Tea, Evolution Fresh, Starbucks, Seattle's Best, and Torrefazione Italia Coffee. Its main brand, Starbucks Coffee, includes three varieties: Coffee and Tea, Ready-to-Drink (RTD) and Starbucks Ice Cream. Its drink menu also extends to varied espresso-based hot and cold beverages including lattes, frappuccinos, smoothies, teas, and juices.

Additional items Starbucks' retail stores carry include fresh food items such as pastries, cookies and other goods, sandwiches, salads, oatmeal, yogurt parfaits and fruit cups. These stores also carry merchandise such as coffee and tea brewing equipment, mugs, accessories, packaged goods, music, books and gift items.

Financially, Starbucks has been public since June 1992 and is listed on NASDAQ under SBUX. Its price per share is \$45.87 as of October 2012, for a volume of 10,866,332 shares and an annualized dividend of \$0.68 that same day. The market capitalization is \$40 billion (US).

Currently, Starbucks has been involved in several issues in terms of taxes, market expansion and competitors.

UK Tax Scandal

According to Reuters, there suspicion that Starbucks has failed to pay income tax rate to Her Majesty's Revenue and Customs (HMRC) for the past three years. In 2008, Starbucks filed a £26 million loss in the UK, but since 1998, which is when Starbucks first entered the UK, the company was paying income taxes to the Majesty for £8.6 million. It was announced in 2011 that the loss in the UK had reached £33 million, but the picture painted for investors and analysts was positive regarding Starbucks' performance in the UK. It was even seen as a model to follow for the US stores.

Starbucks has argued that it has not been violating any British laws and is paying the correct amount of taxes it owes to Her Majesty. The explanation would reside in the UK's tax system on intellectual property. Royalties can be situated to be paid in tax havens, and then the company urges its subsidiaries to pay huge royalties to use its' brand and operations processes. Another explanation for the gap between the taxes paid and the impression to investors could be the allocation of profit in other European subsidiaries, as required by their tax authorities during the supply chain process of coffee beans.

Expansion to India

On October 2012, Starbucks established its first retail store in India. It was located in Mumbai, and soon two others stores opened in prominent locations such as the Taj Mahal Hotel. To enter this mainly tea-drinking market, Starbucks entered a 50-50 joint venture with Tata Global Beverages as a local partner, titled Tata Starbucks Ltd.

The stores in India are supplied by locally grown and roasted coffee by a company called "Indian Espresso Roast", which is sourced by Tata Coffee. The joint venture will also look into sourcing products from India and selling them in Starbucks stores globally.

The stake for the brand is to capture the youth generation. With that in mind, the flagship store in Mumbai has been designed with a vintage and cozy atmosphere. Schultz envisioned the effect would be similar to walking into a shrine of Starbucks coffee. The menu is customized to offer products specifically catered to Indian tastes and preferences. The items reflect local as well as Western tastes, such as tandoori paneer rolls and spicy croissants.

The current competitors of Starbucks in India are the Bangalore-based market leader Cafe Coffee Day, and other international retailers such as Costa Coffee and Dunkin Donuts.

Launch of Home Espresso Machine

Starbucks is currently launching its very own home espresso machine called Verismo, to compete with the famous Nespresso machine. Starbucks wants consumers to have the ability to create their favorite Starbucks beverages in the comfort of their own home - all from one machine.

The system is similar to that of the Nespresso, Keurig and Tassimo. Customers would first purchase the machine and then the pods to make their desired Starbucks drink. The pod price varies from \$0.99 to \$1.60 whereas Nespresso pod costs between \$0.40 and \$0.50. The machine costs approximately \$199 compared to a Nespresso machine which varies from \$129 to \$799.

While Verismo may be offered at a higher price compared to Nespresso, it provides the benefit of great coffee which consumers have already experienced in store. Nespresso, on the other hand, is simply a product of the Swiss-based company Nestlé.

STRATEGIC CHALLENGES

Even as an industry leader, Starbucks faces strategic challenges to overcome in order to sustain its competitive advantage. The main challenges Starbucks is currently facing include issues related to international expansion, responding to competition in the industry, and creating innovative ways to remain an industry leader.

Starbucks' main strategic challenges exist through international expansion. Starbucks must find ways to be responsive and flexible when conducting business internationally. Generally, when Starbucks begins operating in a new country, it does so through a joint venture or acquisition. This allows Starbucks to gain a better understanding of the differing cultural preferences and values in each country. Thus, the challenge for Starbucks is to introduce its iconic culture, high quality products and customer service in a manner that is respectful to the country it is entering business in.

Currently, although Starbucks has gone through large expansive efforts, one market that is still proving to be difficult to gain acceptance in is Europe. A large part of this challenge is their difficulty to tailor to European tastes. As a result of these challenges, the profit growth and sales lag far behind Asia and the Americas.

Other issues that arise when expanding internationally include: finding compatible companies to enter a joint venture, deciding on the type of international strategy to use, as well as determining innovative ways to provide value to customers. This includes new products, store offerings, community outreach programs and improving customer service. Starbucks must consistently compete with competitors offering a low-price strategy with more affordable prices. Starbucks' strategy of selling more than just a cup of high-quality coffee, but also the sophisticated lifestyle associated with the brand, must be able to transcend to different cultures in order to be successful.

One challenge in particular that Starbucks has had issues overcoming within the last two years is the rising popularity of other franchises selling premium coffee at lower prices. McDonalds, in particular, now has a product line titled "McCafe" which offers a lower-priced alternative to Starbucks' beverages.

Starbucks is also encountering challenges with its global sustainability efforts. Starbucks has made significant progress in terms of in-store recycling and energy conservation but one area of difficulty was their inability to meet their water conservation goals. According to their Global Sustainability Report, water use increased by five percent in 2011 over the prior year. Because of the increased awareness of environmental issues and sustainability, if Starbucks fails to incorporate more sustainable actions in their business operations this could post a problem for Starbucks' success as a global company.

REFERENCES

Bergin T. (2012, October 15) *Special Report: How Starbucks avoids UK taxes*. Retrieved from <http://www.reuters.com/article/2012/10/15/us-britain-starbucks-tax-idUSBRE89E0EX20121015>

India Today (2012, October 19) *Coffee Giant Starbucks Opens First Indian Store in Mumbai*. Retrieved from <http://indiatoday.intoday.in/story/coffee-giant-starbucks-opens-first-india-store-in-mumbai/1/225425.html>

Les Echos Bourse (2012, October 19) *Starbucks Corporation: Starbucks Collaborera en cas d'enquête du disc-DG*. Retrieved from <http://bourse.lesechos.fr/infos-conseils-boursiers/infos-conseils-valeurs/infos/starbucks-collaborera-en-cas-d-enquete-du-fisc-dg-818989.php>

<http://www.nasdaq.com/symbol/sbux>

Starbucks. (2011, December). *About Us - Company Profile*. Retrieved October 31, 2012, from Starbucks: <http://www.assets.starbucks.com/assets/aboutuscompanyprofileq42011121411final.pdf>

Starbucks (2012) *Our Heritage*. Retrieved from <http://www.starbucks.com/about-us/our-heritage>

The Hindu (2012, October 19) *Tata Starbucks Open First Store*. Retrieved from <http://www.thehindu.com/business/companies/tata-starbucks-opens-first-store/article4013010.ece>

<http://www.greenretaildecisions.com/news/2012/03/29/starbucks-reveals-sustainability-progress-and-challenges>

http://seattletimes.com/html/businesstechnology/2012074002_starbucks13.html

http://www.nytimes.com/2012/03/31/business/starbucks-tailors-its-experience-to-fit-to-european-tastes.html?pagewanted=all&_r=0