

**BUS 478**

**Section E100**

**GROUP COMPANY SYNOPSIS FOR:**

**Starbucks in North America**



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**Date: March 21, 2024**

## BACKGROUND

### History

Starbucks was founded in 1971 by Gordon Bowker, Jerry Baldwin, and Zev Siegl in Seattle. The company initially offered its consumers fresh-roasted coffee beans, tea and spices. In 1983, New York native, Howard Schultz, moved to Seattle to develop Starbucks by introducing Italian coffee culture to the company and the rest of the world. Starbucks took a page from the European cafe model by having seating and espresso beverages and to form its distinctive brand identity. Starbucks changed public perceptions of coffeehouses, transforming them from mere beverage providers to social centers for gathering, relaxation, and conversation. This innovative concept gained widespread attention and established the foundation for Starbucks' rapid expansion. It soon expanded across North America and entered the Asian market in 1996. Starbucks' successful operations have made it the largest coffeehouse chain in the world today.

### Current Situation

As the world's largest coffeehouse chain, Starbucks now has an extensive global presence with 38,587 stores worldwide, including 16,466 locations in the United States. Not only does Starbucks offer tea, coffee, and pastries, but sells other merchandise, such as mugs and instant coffee. As the mission is:

*“With every cup, with every conversation, with every community -  
we nurture the limitless possibilities of human connection,”*

Starbucks aims to create a “third place”, which is a space of respect and dignity for consumers. They have built a strong consumer base, which is evidenced by a 13% year-over-year increase in active users of the Starbucks Rewards loyalty program. Additionally, it took a significant measure to achieve sustainability by announcing the acceptance of reusable cups in all North American stores.

Starbucks reported excellent financial performance in North America in its first quarter of 2024 financial statement, with net revenues reaching \$7.1 billion, reflecting nine percent growth compared to the same period in 2023. Operating income increased to \$1.5 billion, and operating margins have expanded by approximately three percent. Furthermore, GAAP earnings per share (EPS) experienced a remarkable 22% growth over the previous year, while non-GAAP EPS saw a 20% increase.

Looking towards the future, Starbucks announced its long-term growth strategy, the Triple Shot Reinvention with Two Pumps Plan, to enhance operational success further.

## Goals and Objectives

Starbucks has set its goals and objectives to build a successful future. Starbucks aims to:

- Be more global and expand to about 55,000 stores by 2030.
- Save three billion dollars in costs over the next three years.
- Strengthen its digitalization and enhance the digital experience for its partners and customers.
- Elevate its brand via several methods, like improving its stores and driving product innovation.
- Achieve sustainable revenue growth and profit by growing comparable store sales 7-9%, non-GAAP earnings per share by 15-20%, and revenue by 10-12% annually through fiscal 2025.

## EXTERNAL ANALYSIS

### General Environment

#### **Demographic**

- Coffee Consumption Profile: There is a high demand for coffee in North America, particularly among older age groups. Studies reveal that 37% of coffee drinkers are millennials, while 32% belong to Gen X and 17% are Gen Z (Statista, 2024). These demographics indicate the importance of Starbucks tailoring its marketing efforts and product offerings to cater to the preferences and lifestyles of the older age groups.
- Geographic Distribution: North America's urban population is forecasted to be 83.4% of the total population in 2025 (Worldometers, 2022). The increasing urbanization indicates that Starbucks should focus its operational efforts mostly on the stores in urban areas and potentially increase the frequency of visits.

#### **Economic**

- Unemployment Rate: The unemployment rate in the North American region sharply decreased from 8.21% in 2020 to 3.79% in 2022 (O'Neill, 2024). This significant reduction in the unemployment rate means that more people have found jobs, directly enhancing North American consumers' disposable income and consumption capability. For Starbucks, this could lead to an increase in customer numbers, especially the consumption of daily essential products like coffee might rise as a result. Concurrently, Starbucks will have the opportunity to leverage the increased income to invest in product innovation and improve customer experience, thereby attracting more customers and enhancing its competitiveness in the industry.

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- *Inflation Rate*: The current inflation rate in the North American region is 2.8%, with expectations for it to decrease to 2.5% by 2025 (Dyvik, 2023). This inflation rate reduction indicates an improvement in the economic stability of the North American region, along with the potential for sustained growth. A robust economic environment for Starbucks will aid in long-term planning and investment decisions.

### Political/Legal

- *Federal and State Regulations*: Several federal and state regulations govern the industry, including those governing food and beverage preparation, labour, health, and other safety aspects (Le, 2023a). It needs to closely monitor the potential amendments to laws and regulations across different regions to ensure compliance and adapt its operations accordingly.

### Socio-cultural

- *The Evolution of Coffee Culture*: Coffee has transitioned from a mere functional beverage to a luxury indulgence, offering both purpose and pleasure to enthusiasts. This shift has led to a surge in customer demand for specialty coffee and aesthetic coffee experiences (Genske, n.d.; Wensma, 2023). Starbucks needs to adapt by providing superior beverages and aesthetically pleasing in-store design to elevate customers' coffee shop encounters.

### Technological

- *Digitalization*: With internet and smartphone adoption, coffee shops now have diverse avenues to engage with customers. Starbucks can benefit from this trend by utilizing online marketing, engaging web content, and social media channels to increase brand awareness and boost sales.
- *Advanced Technologies*: Numerous emerging technologies, including mobile ordering apps and self-service kiosks, have been developed to automate routine tasks (Craver, 2023). Starbucks should leverage these technologies to foster innovation in its service, thus enhancing customer experience and loyalty. This approach enables Starbucks to increase differentiation in the market and increase sales.

### Global

- *Supply Chain Disruption*: The global coffee market is volatile due to demand increases and supply shortages, exacerbated by adverse weather conditions in key coffee-producing regions (Le, 2023b). Increased demand from countries like Russia, Germany, and China strains coffee exporters, resulting in significant price hikes (Le, 2023b). This phenomenon could cause supply chain disruptions and higher input costs for Starbucks, thus possibly squeezing profit margins.

## **Industry Environment**

- *Threats of New Entrants: Moderate*

As the world's largest coffeehouse chain, Starbucks possesses strong market power and brand recognition in the North American market. This is not easily replaceable or threatened by new entrants. New entrants require substantial capital investment, infrastructure and extensive networks to establish a large operational scale and brand recognition comparable to Starbucks. Also, Starbucks has already established long-term partnerships with cost-effective and reputable suppliers, intensifying the challenges for new entrants. However, the coffee shop market presents relatively low entry barriers, enabling small-scale or niche entrants to enter the market by targeting certain customer groups, creating a potential threat to Starbucks.

- *Threats from Substitute Products: Moderate to High*

In beverages, Starbucks offers diverse products including coffee, tea, and frappuccinos, with extensive customization options, making its products less substitutable. However, in its food menu, Starbucks only offers pastries and sandwiches, which share product assortments similar to those of rivals. Lacking a unique selling proposition may facilitate easy switching for buyers.

- *Bargaining Power of Suppliers: Moderate*

The proliferation of coffee shops has allowed suppliers to easily distribute their products to businesses beyond Starbucks. Also, the rising demand for coffee beans, coupled with supply shortages, could enhance suppliers' bargaining power. Still, Starbucks's large scale enables it to purchase significant portions of suppliers' production or negotiate favourable terms, acting as a deterrent against threats. As well, the abundance of coffee bean suppliers from Colombia, Brazil, and Ethiopia, enables Starbucks to enjoy low supplier switching costs (USDA, 2023).

- *Bargaining Power of Buyers: High*

As the number of coffee shops grows, beside the wide range of fast-food chains offering diverse beverage and food options, customers have a great many options for consumption. Furthermore, changing consumer habits such as demand for high-quality coffee experiences and the trend towards home-made beverages, enable customers to switch between different options easily. Starbucks should mitigate this power by continuing to maintain its strong customer loyalty base through superior product and service quality.

- *Intensity of rivalry among competitors: High*

Starbucks faces intense rivalry in North America, with competitors ranging from local coffee shops to large international chains. Competition intensifies due to the changing consumer habits towards superior coffee and aesthetic in-store experiences. Starbucks must persist in delivering value through innovation and superb customer experiences to retain and attract customers.

## INTERNAL ANALYSIS

### Capabilities

- *Outstanding Customer Service:* Starbucks has a tradition of naming customer orders on a first-name basis to create an intimate and personalized experience, thus increasing customer engagement and improving friendly customer experiences (Lindsey, 2023). As well, all beverages at Starbucks can be customized to suit the customers' tastes. Starbucks also succeeded in creating a community atmosphere in its stores. It acts as the "third place" between people's work and family (McKinnon, 2024).
- *Dedication Toward Local Communities:* Starbucks promotes stores that serve different communities, bringing employees closer to customers and contributing to community activities. Examples include a community store for the deaf and hard of hearing, and a community store for veterans and their relatives ("Our," n.d.). Also, Starbucks launched its FoodShare food donation program in the U.S. in 2016 and Canada in 2019. The program saves and donates food that is to be discarded so that vulnerable families can get help and fight hunger ("Our," n.d.).

### Core Competencies

- *High-quality Beverages:* Starbucks is known for its high-quality coffee compared to its competitors in the industry. Its patented "FlavorLock" technology utilizes packaging to keep coffee beans fresh over the long term (DiNichola, 2023). It enables customers to enjoy high-quality coffee without compromising the flavour.
- *Employee Investments:* Starbucks pays great attention to employee training and investment and pays more generous benefits than its competitors in the industry. The Starbucks College Achievement Program offers employees the benefit of completing a bachelor's degree for free (Salvucci, 2023). Also, their food and beverage-related employee benefits and discounts also have a competitive advantage within the industry (Salvucci, 2023).

- *Starbucks App*: The Starbucks app was launched in 2009 and is strong and scalable in terms of technology capabilities within the industry (McKinnon, 2023). Starbucks' in-app mobile payment function ranked second in North America with 31.2 million transactions, just behind Apple Pay (Curry, 2024). Starbucks has always promoted its app and dedicated loyalty program, along with the in-app scan and pay features. Moreover, statistics show that 25% of all transactions are processed through the Starbucks app, and both pre-order and scan-and-pay features have increased customer satisfaction with the Starbucks app (McKinnon, 2023).

## STRATEGY

### Business Level Strategy:

- *Differentiation Strategy*: Starbucks employs a differentiation strategy, emphasizing premium quality, exceptional customer service, and a strong brand image. It serves high-quality coffee made from premium Arabica beans, offering a diverse menu of beverages including espresso-based drinks and seasonal specialties. With a focus on creating a welcoming atmosphere, Starbucks trains baristas to engage with customers and customize orders, enhancing the overall experience. The company has successfully cultivated a brand image associated with quality, sustainability, and social responsibility, evident in its marketing campaigns, store designs, and commitment to ethical sourcing and community engagement practices.

### International Strategy:

- *Both Localization and Global Standardization*: Starbucks' international strategy integrates both localization and global standardization to uphold a uniform brand identity while accommodating local preferences. Conducting extensive market research, Starbucks customizes marketing, menu offerings, and store designs to cater to diverse international markets. It emphasizes localization by offering culturally specific items like green tea Frappuccinos in China and matcha beverages in Japan. Nonetheless, Starbucks maintains global consistency in ambiance, service, and quality across locations. Strategic alliances with local partners facilitate market entry and assist in navigating regulatory complexities. This approach has aided Starbucks' expansion to over 35,000 stores spanning 80 countries as of 2022, fostering a distinctive customer experience worldwide (Bondarenko & Petruzzello, 2024).

## **Cooperative Strategies**

- Starbucks has engaged in three key partnerships based on cooperative strategies. One, its collaboration with Nestlé facilitates the global distribution of Starbucks-branded products, leveraging Nestlé's distribution network (Nestle, 2023). Two, partnering with Alibaba Group in China enables Starbucks to launch a virtual store and delivery service on Alibaba's platforms, tapping into Alibaba's e-commerce expertise (Portal, 2020). Lastly, the partnership with Spotify integrates Spotify's music streaming service into Starbucks' mobile app and in-store experience, enhancing customer engagement (Samuely, 2017). These partnerships highlight Starbucks' strategy of leveraging external strengths to expand its market position, reach more consumers, and enhance the overall customer experience through innovative collaborations.

## **MAIN STRATEGIC CHALLENGES**

### **Market Saturation**

With about 73,000 coffee shops already operating in America and a continuing trend of expansion in the future, the market is nearing saturation (IBIS World, n.d.). Though experiencing slight annual revenue increases, the overall growth change is projected to be fairly stable over the next five years (IBIS World, n.d.). Incremental growth in the number of stores and limited revenue growth suggests an impending market saturation. Also, with limited innovation in coffee and tea products, many coffee shops will find it difficult to differentiate themselves and attract new consumers, which would hinder improving their performance. Plus, beverage and coffee products are highly imitable, and even the atmosphere and design of coffee shops are easy to copy (Lombardo, 2023). High imitation products reduce the barriers for competitors to enter the market and increase the competition in the industry. As the coffee market matures, consumer preferences and habits become well-established. A survey on favourite brands among the US public shows a mere 4% variation in consumer preference between Starbucks and Dunkin' Donuts (Ridder, 2024). Thus, it is difficult for Starbucks to attract new customers or increase the frequency of visits through its traditional products or service offerings.

### **Declining Differentiation in a Highly Competitive Market**

As the coffee market becomes more saturated with a multitude of coffee shops offering similar products, distinguishing the Starbucks brand becomes increasingly difficult. Starbucks' competitors are increasingly innovating in their beverage and food selections, while the majority of Starbucks'



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innovations focus on beverages. E.g., Dunkin' Donuts, Starbucks' largest competitor in North America, is innovating in the beverage sector and continuously introducing new food items based on seasonal changes and consumer preferences. By constantly innovating in both beverages and food, Dunkin' is shaping a comprehensive consumer experience, which aims to meet consumers' demands for diverse dietary options while providing unique purchasing motivations. This could allow Dunkin' to gradually stand out in the coffee shop market by satisfying various consumer preferences, thereby progressively diminishing Starbucks' influence in the coffee market. Dunkin' is not the only one adopting such innovations for differentiation across the North American coffee industry.

Starbucks' focus solely on beverage innovation could result in a major opportunity cost of not capturing customers in other areas, which might lead to a loss of its unique market position. Thus, Starbucks should improve its innovation strategy, dedicating more effort to innovating beyond beverages.

### **Significant Coffee Ground Waste Cost**

While there are costs associated with producing coffee. Coffee grounds are considered a waste product once the coffee has been brewed. Starbucks spends about a billion dollars a year on 800 million pounds of coffee beans (Saxena, 2023). Part of this waste stream is given away for free, and the rest are thrown away as trash. Starbucks faces a significant cost with its coffee grounds, impacting profitability. Failing to capitalize on repurposing opportunities adds to this financial burden. Beyond finances, waste mismanagement sullies the brand's image and alienates eco-conscious buyers. This reflects a broader issue of corporate responsibility and ethical perception. Proactive waste management and sustainability initiatives are crucial for mitigating financial strain and bolstering brand reputation. Repurposing coffee grounds creatively can offset disposal costs and open new revenue streams. This can help enhance brand image and attract environmentally-conscious customers, providing Starbucks with a competitive edge.



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