

## Starbucks Competitive Advantage

### Introduction

Starbucks is one of the Fortune 500 companies in the US that has survived past inflation crises and sustains market share to be only second to MacDonald's of Illinois. This multinational company possesses strong competitive advantages that enable it to withstand the volatile beverage food industry (Starbucks, 2015). In fact, many strategies of the company include expansion to benefit from the economies of scale. Therefore, it has acquired several businesses to improve its operational efficiency, thereby improving its return on investment for its shareholders (Orth & Green, 2009). Besides, the business rides on the social platform to ensure that every customer has more than a business attachment, but rather an emotional involvement with the company's products and service (Wang, 2010). Instead of focusing on mass media campaigns, Starbucks also focuses on the superior customer care within its coffee beverage outlets to ensure that positive customer experience sells it to potential customers. Most importantly, Starbucks has had many business alliances, acquisitions, and partnerships that have strengthened its internal and external capabilities, thereby driving growth (Jianfei, 2014). While these is just a superficial view of the firm's capabilities, a detailed analysis of its internal and external strengths as well as weaknesses, main short- and long-term business strategies, and financial performance brings out its true picture. This paper, therefore, explores these aspects concerning Starbucks to understand the business and its success stories while providing recommendations on its weaknesses to avoid its potential current and future points of failure.

### Background of the Company

Starbucks was formed in North America, the USA, in 1971 as a coffee processing and beverage brewing firm. Its headquarters is in Seattle WA from which the global business that

spans over 60 nations other than the US is run. By 2015, the company had over 200,000 employees from all over the world with major facilities such as warehouses, distribution points, coffee processing plants, and administration hubs across the world (Starbucks, 2015). In fact, its stores are over 20,000 worldwide, as the business expands exponentially due to the increasing customer base driven by exceptional customer care services in its outlets (Starbucks, 2015; Wang, 2010). While coffee is the company's main product, it also deals in other supplementary ones such as tea and other fast beverages.

The focus of the company is to provide a high quality products and excellent customer service that matches its premium prices. In other words, it serves mostly the high-end customers, who believe in its top value products and service (Wang, 2010). The firm owns a myriad of brands and product mix that ensures sales volumes that sustain its profitability goals while conforming to the local cultures and environments. In 2015 alone, the company realized revenue of \$19.2 billion, which represents a 17% rise from the previous year (Starbucks, 2015). Therefore, it expanded its capital expenditure in the same period of time by \$0.1 billion (Starbucks, 2015). Hence, it is factual to claim that Starbucks does calculated growth and expansion that ensures that profitability matches the increase in market share. It is, therefore, increasingly interesting to uncover the core capabilities, strengths, and weaknesses of the company so that revelation recommendations can go into assisting improve its shortcomings.

### **Internal Analysis**

Resource-based view of a firm forms a basis through which overall organizational performance can be improved. In particular, these resources refer to “tangible and intangible assets that a firm controls that it can use to conceive and implement its strategies” (Barney & Hesterly, 2015). Therefore, these include the Starbucks' fixed assets such as facilities and

product portfolio such as the inventory at hand. Moreover, other intangible resources such as human resources capabilities also influence a competitive advantage (Pitelis, 2009). Capabilities, then, refer to the small category of the overall resources in a firm that “enable a firm to take full advantage of the other resources it controls” (Barney & Hesterly, 2015). For Starbucks, the main capabilities include modern marketing model that empathizes customer experience over mass media advertisements. Further, the other intangible capability of the firm involves the strategic business partnerships that leverage its ability to take advantage of expansion opportunities in a given market (Pitelis, 2009). Then, solid physical resources such as factory infrastructures as well as the intangible financial assets in terms of net income enables growth and expansion after declaration of dividends to shareholders. The high immobility and heterogeneity of specific resources at Starbucks gives it leverage that helps secure a competitive edge in the industry and market. Table 1 provides an overview of the four categories of resources and how Starbucks can properly use them to implement the needed capability towards a competitive advantage under the value, rarity, imitability, and Organization (VRIO) model.

Table 1

*Evaluation of Starbucks Resources and Capabilities*

<b>No.</b>	<b>Asset Category</b>	<b>Value (V)</b>	<b>Rarity (R)</b>	<b>Imitability (I)</b>	<b>Organization (O)</b>	<b>Capability</b>
1.	<b>Physical</b>					
	Plant & equipment: Heavy investment in distribution centers, administration facilities, and processing factories in various parts of the world. Further,	Yes	No	No	Yes	No

<p>this group of resources drives production capacities, thereby determining revenue levels in a given time (Zhenjia, 2012).</p>					
<p>Strategic locations: Global presence with strategic branches in major regions of the overall market such as EMEA, Americas, and Europe (Nandakumar, Ghobadian, O'Regan, 2010).</p>	<p>Yes</p>	<p>Yes</p>	<p>No</p>	<p>Yes</p>	<p>Yes</p>
<p>2. <b>Human</b></p>					

Skills & abilities of individuals:		No	Yes	Yes	No
<p>Adequate personnel for current labor needs and future expansion into more territories (Zhenjia, 2012).</p>	<p>Yes</p>				

<p>Professionals and professionalism:</p> <p>Highly trained professionals in food and beverage manufacturing and supply chains management. Also, professional marketing by customer care at the shop outlets ensure customer loyalty and high rate of market penetration (Orth &amp; Green,</p>	<p>Yes</p>	<p>Yes</p>	<p>No</p>	<p>Yes</p>	<p>Yes</p>
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<p>2009).</p>					
<p>3. <b>Organizational Procedures and Systems</b></p>					
<p>Strategic business partnerships and associations: Through its various brands, the firm delegates several outlets to third party management though strategic business partnerships to ensure fast market penetration into new locations (Zhenjia, 2012).</p>	<p>Yes</p>	<p>Yes</p>	<p>No</p>	<p>Yes</p>	<p>Yes</p>

		No	Yes	Yes	No
<p>Product designs and standard operating procedures: Sound operational procedures in coffee bean handling, beverage processing, and product distribution backed by automation through computerization and information technology components (Orth &amp; Green, 2009). Moreover, the sound marketing method of social emphasis as superior customer care at the coffee drink's</p>	<p>Yes</p>				

<p>outlets ensure business sustainability and growth (Jianfei, 2014).</p>					
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<b>Financial</b>						
4.	Net income: High profitability (only second after MacDonal’d’s) that ensures return on investment for investors in terms of the dividends declared (Zhenjia, 2012).	Yes	Yes	No	Yes	Yes
	Retained earnings: The part of the net income is returned to the business as additional internal capital, through which expansion to new locations and increase in the operational capability of the processing activities is possible (Orth & Green, 2009).	Yes	Yes	No	Yes	Yes

**External Analysis**

**The Company’s General Environment**

Modern businesses, especially in manufacturing and direct sales, must embrace innovative technology to stay competitive. For Starbucks, several technological changes such as the use of specialized software to manage customer orders, human resources planning such as shifts and off days, as well as the increasing investment in computerized business intelligence systems amount to challenges. However, Zhenjia (2012) explains that the company has managed to evolve since 1971, when all operations were manual, to adopting the modern technology that improves operational efficiency and effectiveness.

On international events, Starbucks enjoys the global presence that enables it to learn the new activities that affect coffee bean production and processing in real time. For instance, it can monitor the fluctuations of coffee bean prices in the international markets and plan its inventory in time for a foreseen scarcity or surplus. Moreover, the business can partner with local firms in various new markets to expand its consumer base worldwide. For instance, it partnered with coffee farmers in Rwanda in 2009 to boost its supply of the raw materials (Zhenjia, 2012). Hence, the business is well placed in terms of keeping up with international affairs.

The political and legal environments of many of Starbucks markets and raw material sources have also changed over time. For instance, more strict tax laws on production exist in the US and the rest of the world (Zhenjia, 2012). Similarly, income tax has always increased in the main markets of the company, thereby reducing the consumers' purchasing power. However, the legal requirements for coffee processing countries have improved due to increased competition between these countries and the developed western counterparts (Pitelis, 2009). Therefore, Starbucks is able to take advantage of the favorable political and legal environmental in the coffee producing countries to buffer its income challenges in the high income tax regions.

The economic climate in the developed world such as Northern America, Western Europe, and North East Asia has been unfavorable for business. However, the emerging economies such as in Southern America, southern Asia and the Oceania, and Africa have remained promising due to their numerous underexploited resources in minerals and agriculture (Zhenjia, 2012). Therefore, Starbucks can begin to consider increasing its presence in the emerging markets while maintaining the growth stamina in the developed world.

On how culture affects Starbucks' business, the main issue is the increasing consumer preference for cold drinks other than coffee and tea. For instance, modern juices, including

freshly prepared ones, are becoming common in many households (Bueno, Aragón, Salmador, & García, 2010). Nevertheless, the world population in most areas that experience the hot-cold seasons such as the Americas and Europe always have high demand for coffee and tea beverage in the winters (Zhenjia, 2012). Therefore, the market for the Starbucks' products is guaranteed.

Moreover, the demographic shift to more youthful population in the middle and high income earning also means better prospects for Starbucks high-end products. As the population growth continues, the majority is the middle age population. They have more money and time to spend outdoors as they link with friend and relatives (Zhenjia, 2012). Therefore, Starbucks will continue to have sure market in any part of the world.

### **Structure-Conduct-Performance (S-C-P) Model Analysis for Starbucks**

The S-C-P model evaluates the firm's status in relation to rivals in an industry based on the structure and conduct that then advises on the performance parameters. As a result, it becomes possible to identify and plan to make use of opportunities. These arise from the industry's situation. Table 2 provides the results for the model's analysis for Starbucks.

Table 2

#### *S-C-P Model Results for Starbucks*

<b>No.</b>	<b>Industry Aspect</b>	<b>Eminent Opportunity for Starbucks</b>
1.	Existence of dominant firms by market share such as MacDonald's, Dunkin Brands besides Starbucks with no unique technology over competitors.	Focus on market share through proper targeting and positioning to increase sales, hence, boosting revenue (Zhenjia, 2012).
2.	Products and services based on a commodity raw material – namely	Increase the economies of scale through strategic expansion and business partnerships (Starbucks,

	coffee, tea, and other fresh produce.	2015).
3.	Existence of competing major firms that prominently dominate small scale rivals.	Establishing switching costs that ensure competition on price is heightened through increased cost-effectiveness (Zhenjia, 2012).
4.	Existence of product and service standardization through copying of business processes and customer service (Wang, 2010).	Continue to improve consumer in-store or shop outlet experience through best customer service and top quality products (Starbucks, 2015).
5.	Presence of high overseas market competition with the major competitors.	Continue to improve business operational procedures through technology and innovation to enhance efficiency of the processes such as logistics and supply chains (Zhenjia, 2012).

### The Three Main Strategies

#### Proper Targeting and Positioning as High-End Consumer Business

The business poses as a high-end beverage producer and distributor. Hence, it attracts top-end customers, who pay premium prices for its products. It creates the perception of high value for money through effective social marketing that induces a strong sense of belonging among customers (Lai, Griffin, & Babin, 2009; Starbucks, 2015). In fact, it focuses on offering superior customer service at the coffee outlets to further loyalty.

#### Mergers, Acquisitions, and Takeovers

Starbucks thrives through business partnerships, mergers, and acquisitions. In the last two decades, the company has entered into more than 20 contracts agreements that authorize third

parties to operate its outlets and sell its products in non-franchise deals (Starbucks, 2015). This has increased the company's market share throughout the world. Moreover, it has acquired, merged, or taken over about 15 small business rivals in the last two decades such as Bay Bread LLC in 2012, Evolution Fresh Inc. in 2011, and Cafes Sereia Brasil Participacoes S.A in 2010, among others (Starbucks, 2015). This has not only boosted Starbucks financial capabilities, but has also improved its market penetration and dominance.

### **Technology and Innovations**

Starbucks focuses on operational efficiency through modern technology and innovations. The use of information technology (IT) and business information systems management in the modern retail outlets and manufacturing alike means that Starbucks always stays aware and implement only innovative components that give it a functional improvement (Stamm, 2009). Otherwise, the redundancy of the old technological versions may plunge the firm into operational backwardness. It will reduce the consumer loyalty and raise the operational costs overall.

### **International Influence in Foreign Markets**

As a multinational cooperation, Starbucks has immense impact on the coffee, tea, and other fresh brewed beverage products. Firstly, it contributes in determined the prices of coffee beans as a commodity globally (Starbucks, 2015). Therefore, supply and demand of this commodity also rely on the company's inventory management such as stock level and times of purchase. Similarly, the prices for the consumption of these beverages also involve the input of Starbucks outlets (Starbucks, 2015). Therefore, it controls mainly the microeconomic factors in the localities, where it operates.

### **Diversification Strategies**

Starbucks diversification plans follow products, markets by regions, and service varieties. For products, the company steadily increases its beverage portfolio by introducing tea and other fresh drinks to supplement its main line of coffee. As a result, it increases its volumes of sales as consumers, who do not take coffee, find alternative products that suit their needs (Nandakumar et al., 2010). Consequently, the revenue level improves in line with profitability. Similarly, Starbucks engages in the geographical diversification, especially into the fresh markets of South America, South Asia, and Africa to ensure that its market penetration rate and consumer base increases to boost sales and revenue. Moreover, the mix of locations such as high-traffic streets with high-end low traffic ones ensure that every segments of the market is reached with its products (Wang, 2010). Lastly, Starbucks manages to diversify its services by category of markets it caters for thereby serving both premium customers and normal counterparts at their respective expectations.

### **Ethical Concerns in the Last Two Decades**

The major ethical concern for Starbuck since the last 20 years is plastic waste management and recycling. With the dependence on the usable plastic cups, the company releases vast amount of them into the environmental in a short period of time (Starbucks, 2015). Therefore, the pollution by these wastes poses a threat to other forms of life and humans as well. However, Starbucks has heightened its waste recycling efforts by having facilities that reuse the plastic containers for new products. Also, the company offers a money discount to customers, who bring with them own containers to use for carrying the beverages (Starbucks, 2015). Other minor ethical concerns include green agricultural value chain and avoidance of environmental degradation at the farm level.

### **Financial Performance and Recommendations**

Starbucks' revenue increased by 17% in 2015, which represents about US\$2.8 billion rise from 2014, with a corresponding store sale rise of 7% (Starbucks, 2015). However, the operating margin nearly remained the same in the same period of time (18.8% against 18.7% for the years 2015 and 2014 respectively) (Starbucks, 2015). Correspondingly, Starbucks' earnings per share (EPS) increased by US\$0.47 in 2015 based on 2014 results (Starbucks, 2015). Still, its capital expenditure also increased by US\$0.1 billion in the same period of time, while total dividend payout amounted to US\$2.4 up from only US\$1.6 in 2014 (Starbucks, 2015).

Despite the positive financial performance, the company should:

1. Increase its economies of scale through continued acquisitions and strategic partnerships worldwide to increase market share, sales, and revenue.
2. Improve its operational efficiency through employment of ultramodern and relevant technology and system innovations (Stamm, 2009).
3. Constantly improve its effort to reduce environmental pollution through proper control of its wastes and value chain.
4. Develop new superior products that diversify its portfolio further as well as venture into new territories to boost its sales volumes and sales.

### **Conclusion**

The resource-based view of a firm predicts its internal capabilities, while the S-C-P model evaluates external forces effectively. The role of internal analysis is to bring out the resources that may be available to a company, but not yet identified as the drivers of a competitive advantage. Similarly, the analysis of external environmental helps a firm to realize its potentials

amidst its rivals. For Starbucks, the resources that serve as means to strategic capabilities are significantly available for the gearing it needs towards maturity in its lifecycle. Therefore, it can



secure long-term competitive advantage in its industry and markets. These potential sources of competitive advantage such as economies of scale, highly skilled manpower, and multinational influence can be harnessed and channeled properly to provide the need business leverage in the short- and long-term basis. Also, the firm must monitor its ethical implications concerning pollution form plastic waste as well as green produce supply chain.

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