Starbucks Industry Profile and Organization Analysis

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Section I: Environmental profile

In and around any business are factors that play a role in the decisions, problems, and changes a company will face. Not all factors are controllable, however. These uncontrollable, external, factors range from the growing age of a predominant generation, to a new tax on international goods. They can take the form of social, cultural, demographic, environmental, political, legal, or technological forces. Whichever way, a business must be prepared to analyze and adapt to their environment. For any industry, a company must look at the current environmental situations as well as predict the future environment.

Current Environment:

One of the biggest social concerns in the minds of people in the United States right now is the threat companies pose towards the environment and health of the planet. People today want to have a "go green" mentality to help stop pollution, destruction of nature, and end global warming. In short, people want to improve the quality of life on a personal level, and therefore, expect the same on the corporate level. "Despite the growing concern over the long term side effects caused by criminal corporate negligence, most corporations are still trying to do the least they can get away with," (Fairbanks). Although this is not fact, it is an example of how consumers are thinking about the environment today and how they feel businesses are handling the situation.

Imagine how people with the same view would react to a public corporation consistently trying to improve the environment. Would this company lose money? Yes. Would their future gains outweigh those losses? Absolutely. This can bring the practice of recycling, safe waste disposal, and even sparing water usage into businesses everywhere. While this may seem to be a hassle at first, the respect gained from consumers will only sway them more to one particular company. Along the lines of improving upon the quality of life, people, women in particular, want similar quality increases in their workplace. A heavy weight has been placed on the human resource departments to ensure this shift occurs within their companies respectively. By increasing the quality of work life, people will be more inclined to work harder and create products that are more efficient as a result.

Another major factor in the social aspect of the environment is the need for diversity. Having diversity in the workplace not only protects a company from discrimination and legal attacks, but it also promotes the attraction of a diverse range of consumers. Bringing in different races of people will help reach out into different sectors of the market. Race, however, is not the only factor in diversity. Women today are making enormous strides for equality in the workforce. "… for example, [if] female employment rates were to match male rates in the United States, overall GDP would rise by 5%," (Hewlett). The quote stands for itself. Businesses would surely not complain if the GDP rose 5%. Not only the financial benefits women offer, but also the day-to-day interaction with consumers (given the company deals directly with consumers) would be enriched with a woman's perspective and common ways to relate to other women.

Demographics are a major aspect to look at in the environment. For example, with 4.4 billion out of the 7 billion ("Current"), people in the world living on the continent of Asia, expansion into Asia is exactly what we are seeing in terms of outsourcing (at least from the United States). Furthermore, the number of Americans over the age of 50 far exceeds the number of those under 50, (“Demographics”). This means that there will be a younger workforce coming up to take the place of the baby-boomers. Along with age, comes the expected income. College graduates today envision a grand exit from college and straight into the real world with a big house, fast car, and plenty of fun. However, they will surely be shocked when they find out the road to that lifestyle will be rough. The income of a college graduate, according to a study at the University of Minnesota, stands at $44,259 ("Average”). Companies must understand the expectations of these possible employees to better budget their money.

The age of a person is good to know as well as how the numbers are changing. But, what about their families and how much they will be capable to work given their other responsibilities? There are 71 million households of married families, 34 million of them with children under 18. On the contrary, there are 34 million households with only one owner (“Demographics”). These facts and numbers may seem useless if a company does not think of the effects they may have on their employees. For instance, when hiring a woman with younger children, a business must be prepared to sacrifice production time expectations from her due to the unavoidable complications that come with children. It is illegal to discriminate against a person with or without children; therefore businesses must be ready to make accommodations accordingly.

Taking a look at any business, one thing they all have in common regardless of their industry is material needs. Location is critical to a business’s success. Placing a Wal-Mart (just an example) in the middle of the rural farm area in the central part of Alabama, between Mobile and Montgomery, would probably make a profit. However, placing a Wal-Mart in a suburb on the outskirts of either Mobile or Montgomery would most likely generate a greater profit. According to “The Times 100: Business Case Studies,” there are seven key attributes a company must look at to make a decision as to where to place a business, or even start a business:

1. Market
2. Raw Materials
3. Transport costs
4. Land
5. Labor
6. Safety
7. Waste Disposal
8. Government

All of these are self-explanatory and can be easily expounded as to why they are important in the decision making process. However, the price tag on a few of them can, and most likely will, vary from place to place. This can be seen clearly in the decision many companies are making to outsource their labor and customer support centers. Moving many factories overseas cuts down on the cost of labor and ease of finding workers. The same is true for finding people to take calls supporting, or complaining, about products sold to them by a company.

“Governments control the business activities in many ways both direct and indirect,” (“Legal”). Government is most certainly one of the biggest factors in an environment that businesses must look at when doing an analysis. Government may pass laws to protect the interest of employees such as laws against unfair discrimination at work and when applying for jobs (“Legal”). Especially in the United States, discrimination is a big offense many corporations, both big and small, do not want to face. Legislations for health and safety at the workplace are also important to take into consideration. Here are a few examples of government regulations on business operations:

- Protecting workers from dangerous machinery
- Providing workers with proper safety equipment and clothing
- A reasonable workforce temperature is maintained for workers
- Washing facilities are provided
- Workers get adequate breaks between shifts

These are only a few of a magnitude of government regulations that are placed on every business in nearly every country in the world. On a smaller scale, regulating the cleanliness of a restaurant is a great example of how government agencies keep watch on businesses. All food-serving businesses must pass the proper inspections of their cooking, preparing, or serving stations before they can open and serve the public.

Laws are passed by the government; therefore, there can be laws that affect a business's means of operation, distribution, or selling of goods or services. Tax laws are one mean for government regulation. Income tax, property tax, and federal taxes all take a chunk out of the net income a company earns off their sales. Of the three, the company, based on where they plan to open their building, can control property tax, to an extent. Opening a factory, office building, or store in a major city will likely result in a higher price; according to Michael Sauter from FoxBusiness, "Detroit's cost per square foot of $62.45 was the lowest. San Francisco's cost per square foot of $420.99 was the highest," (Sauter). A business wanting an office building with the ground floor having 15,000 square feet would pay $3,000,000 today (given the price per square foot was $200). Of course, this does not include the cost of utilities, wages, and property tax (enforced by the local government). It is simple to see how local and state governments can easily control who moves into their area.

In terms of international business, one cannot overlook the aspect of trade. When moving to an international market, looking at the government and political implications of the country the company wishes to enter is necessary. To be vague, looking at the political leader in power today and their beliefs, integrity, and stability would be a good place to begin. If the person in power is corrupt, the society is probably not suitable for the entry of a business. Entry to a country also means entry into their industry with their competitors and their consumers. Another important question to ask would be: is there a demand for the product of service? Along with demand, comes supply. Will there be a supply of resources to create the product, or will importing resources be necessary? The list of news and events going on in today's global economy is far too vast to display. However, all of these factors today vary depending on which country a business plans to focus on.

Lastly, but certainly not of least importance, comes technology. Technology is ever changing in the world today. Product innovation is crucial to keeping a competitive advantage for most companies. Making the product offered the "latest and greatest" is what consumers are looking for. Predicting and examining the paradigm shift within a society will dictate the movement of technology. Apple, for example, is ahead of the curve in terms of production innovation. People, who begin to believe smaller, sleeker, and faster phones are the best investment for their personal needs, will begin to demand a product which meets their needs. Technological research will commence in businesses throughout the industry. Apple has done just that. They have continued to release products that impress and serve consumers while continuously building upon their brand loyalty.

Process innovation can enhance efficiency for businesses dealing with business-to-business sales. Process innovation can also promote online sales. The internet has had an enormous on business. Government has, of course, placed regulations in place, “In January 2012, Congress was on the verge of overwhelmingly passing the Stop Online Piracy Act, a bill backed by Hollywood and the recording industries that would have given law enforcement more power to shut down websites suspected of pirating movies and music and selling counterfeit products,” (Greeley). This is only one example of how the internet has been regulated, but for the effects the internet has had on business, “Many companies in the traditional business environment were unable to directly sell goods or services to consumers and other businesses. These companies, such as manufacturing and intermediate goods producers, often needed a middleman to help sell goods in the business environment. The Internet allows these companies to set up websites or other electronic order systems to sell products and generate a pipeline for future business sales,” (Vitez). Opening doors into the process development has been the biggest impact the internet has had on business. Companies can cut out costs of intermediaries and focus on the consumer while increases profits. Technology is not restricted to only the internet. Technology can be as simple as the invention of new equipment to help automate the manufacturing of a good. The idea of the advancement of technology is exciting to say the least.

Future Environment:

First and foremost, the environment in the world cannot be predicted with complete accuracy. To project the factors and their changes for five years from now can be done, but nothing is factual. To start, people will still have desires and needs for which businesses will continuously adapt and manipulate their products and services accordingly. People although, will begin to retire and the education of the younger generations will be tested due to the need to replace the retired. Education of these “next-in-line” employees is finalized and cannot be altered now. The next five years will be an enormous indicator as to what aspects of the education systems need a boost and which are sufficient as is.

Technology also falls under the assumption of manipulating and adapting to people. Technological advances are never certain to work or even be used in business. There will be technologies presented to the environment making the positive impact it was designed to. Technologies dealing with manufacturing, specifically seen in the automobile industry, are already making a huge impact. The problem becomes the loss of jobs in some countries because of the automation. Should governments continue funding research to automate production? How about giving more jobs back to the people? The answer is unknown; however, one can expect businesses to push for the lower cost.

Today, the international economy is stable in places and shaky in others. One thing that will be recognized by governments worldwide is the need for a combined effort to help reestablish a strong and economy. Each government will have to understand their strengths and weaknesses while working with one another to better the economy as a whole. Regulations and laws on imports and exports will become a major topic in politics and government meetings around the globe. Resources needed to produce a product in one country may deplete while the same resource may be abundant in another country. Countries will be able to make profit off of their rare resources; some more than others.

Assessment of Relevancy

Of the mentioned factors in relation to the domestic coffee market, three stand out: social, international economies, and demographics. Social desires for coffee are necessary to success because it is a market dealing with a luxury good (coffee is not necessary to life). Changing to people's desires will only increase consumer loyalty. A business in the market must be aware of why, when, and where people want to drink coffee. Demographic research helps keep expansion successful when entering new areas. Knowing where there are people in a company's target market and with the want for their product will make the decision to open a new store that much easier. Lastly, international economics are a major aspect of domestic coffee market. Understanding the culture and wants of the people of a foreign country creates a competitive advantage in itself. Companies must however be wary because there are competitors. They have been there and are known amongst the local people. Bringing a new product to their doorstep may only strengthen their loyalty to local coffee shops and cafes. On the contrary, coming into a market with a strong product and great marketing could put pressure on the industry in the foreign country and open the consumer's eyes to a new product while boosting revenue tremendously. The international commitment takes a full commitment and planning, but if the move is successful, the positive aspects that follow will be immense.

<u>Section II: Industry Profile</u>

Starbucks is located in many different industries because it covers a wide range of services. It is in the fast food industry because it is fast and convenient for consumers who need a quick drink or small snack on the go. It is also in the coffee and snack stop industry because it produces specialty coffee. Looking at past performance within these industries will aid in determining how Starbucks stacks up against their competition. In order to determine where Starbucks should go in the future and in which directions it should expand we must look at the future projections of each industry. Starbucks holds a different place in each industry because it has unique characteristics when compared to other competitors in these industries.

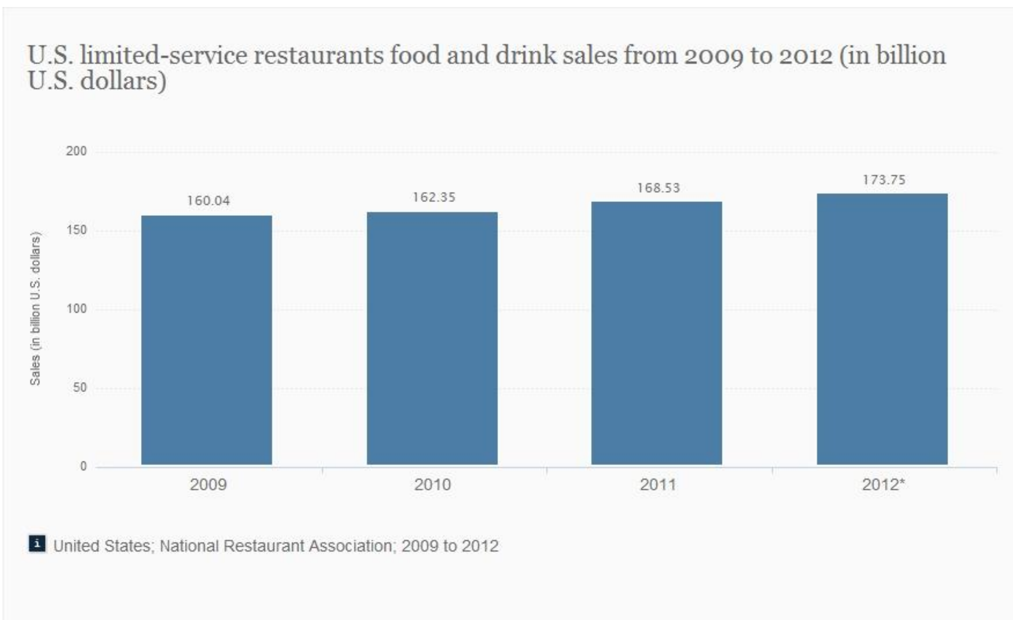
Historical Industry Performance

Fast Food Industry

Starbucks competes in the fast food industry because it is quick and convenient. Many competitors such as McDonalds in this industry take up much of the market. According to "An Industry and Company Analysis" of Starbucks it only has a six percent market share compared to other industries. In order for Starbucks to continue to be a competitor in this industry it must use this industry for basis in its business decisions. There is expected growth for Starbucks in this market because of many societal trends. One of those trends is that society is starting to eat healthier and Starbucks offers healthy snacks and coffee for the consumers who want a snack or coffee but also want to eat healthy.

In this industry there has been a rise in sales and revenues since it was first introduced into the market. According to fastfoodmarketing.com the fast food industry's sales for 2009 were $160.04 billion. Sales continued to grow through 2012 when sales were $173.75 billion. From 1970 to 2012 the total revenue of the fast food industry rose from $6 billion to $160 billion. (franchisehelp.com) This industry is continuously growing which poses a lot of possible growth opportunities for Starbucks. One of the competitors that Starbucks has in this industry is McDonalds. McDonalds added coffee to its menu in 2001 and that caused Starbucks to enter into this industry. In order for McDonalds to compete with Starbucks they have added many different form of coffee to their menu, such as iced coffee, frappeccinos, and flavored coffee.

Chart 1



Source: http://www.statista.com/statistics/218829/us-full-service-restaurants-food-and-drink-sales/

Chart 1 from statistica.com shows how sales in the fast food industry have increased from 2009 through 2012.

In the fast food industry, Starbucks has a six percent hold market share. McDonalds has a twelve percent hold on the market share. This leaves room for

Starbucks to improve and form a greater hold on the market share so that they can expand. At the end of 2009 McDonalds gross profit was $8,791,800 thousand and by the end of 2011 it had increased to 10,686,600 thousand. However, in that time period operating expenses also rose from 6,841,000 thousand to 8.529.700 thousand. This is a benefit for Starbucks because it shows that in this industry there profits could steadily rise if they satisfy the consumer needs in this industry.

Table 1

QSR 50 Rank	Company/Chain Name	2011 U.S. Systemwide Sales (millions)	2011 U.S. Average Sales per Unit (thousands)	Number of Total Units in 2011	Total Change in Units from 2010
1	McDonald's	$34,172.0	$2,500.0	14,098	71
2	Subway[*]	$11,400.0	$469.0	24,722	872
3	Starbucks[*1]	$9,750.0	$1,140.0	10,821	-310
4	Wendy's[*]	$8,500.0	$1,456.0	6,594	18
5	Burger King[*]	$8,400.0	$1,248.0	7,231	-33
6	Taco Bell	$7,000.0	$1,284.0	5,670	36
7	Dunkin' Donuts[*]	$6,500.0	$850.0	7,015	115
8	Pizza Hut	$5,500.0	$875.0	7,600	58
9	KFC	$4,500.0	$940.0	4,780	-275
10	Chick-fil-A	$4,051.0	$2,893.5	1,606	69

Source: http://www.qsrmagazine.com/reports/qsr50-2012-top-50-chart

Table 1 shows where Starbucks is in this industry in comparison to the other fast food restaurants. It shows that McDonalds has sales of over $34B annually which is roughly three times the size of Starbucks's share.

Coffee and Snack Shop Industry

The coffee and snack shop industry is the industry in which Starbucks strives. Starbucks provides customers with different types of coffee ranging from hot coffee to cold coffee and each in a variety of different flavors. Starbucks also provides its customers with the option to have a muffin or other snack item to go along with their coffee. This industry includes a variety of shops that sell specialty snacks such as ice cream, donuts, or cupcakes. According to “An Industry and Company Analysis” Starbucks has control over 32% of this industry. Like in the fast food industry many of the consumers need a quick bite to eat, but some consumers want to sit and enjoy their coffee and snack, which makes Starbucks a good place for these consumers because of the environment.

The total revenue for the coffee and snack shop industry is $431.5 million. This market is expected to grow in the future because of people needing a quick snack and also because of people wanting a place to go that they can sit and read a book while they drink their coffee.

The main competitor that Starbucks has in this market is Dunkin Donuts. Starbucks serves healthier options like whole wheat muffins while Dunking Donuts serves donuts. The gross profit for Dunkin Donuts was $503,991 thousands in 2011, which was an increase from $438,667 thousands in 2009. With this significant increase Starbucks should be looking for ways to improve their productivity and to come up with new types and flavors of coffee.

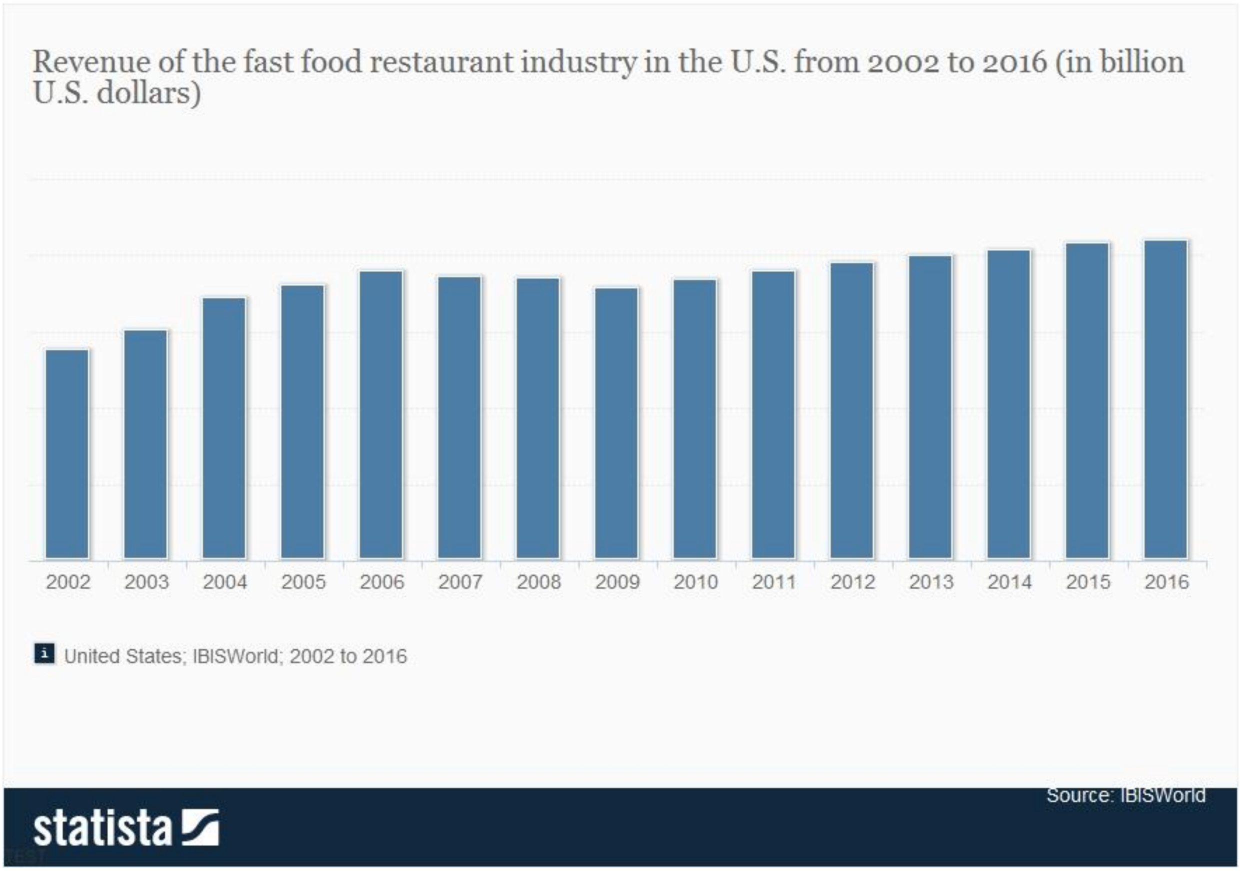
Projected Industry Performance

For a company such as Starbucks to succeed in the industry there must be a vision of the future. Looking at the industries projected performance helps Starbucks to expand and determine what parts of their company to improve. It also helps them to determine the prices of their products and which products should be discontinued.

Fast Food Industry

Chart 2 shows the expected revenue for the fast food industry until 2016. It shows that the revenue is expected to increase. If the revenues are expected to continue increasing then that creates opportunity for Starbucks to further expand into the fast food industry and gives Starbucks more revenue from competing in this industry.

Chart 2



Source: http://www.statista.com/statistics/196614/revenue-of-the-us-fast-food-restaurant-industry-since-2002/

The competitors in this industry are also projected to increase. With society moving towards healthier life styles that provides potential for a new competitor to enter the market and provide consumers with quick, healthy, and tasty options. If revenues are expected to increase, sales and profits are expected to increase as well. Without an increase in sales there could not be an increase in revenue

Porter's Five Forces

Many industries employ the Porter's Five Forces Model for competitive analysis within their respective industries. Companies, such as Starbucks, also use this model in developing strategies for the company in an attempt to maintain a competitive advantage. The model draws upon the industrial organization view of competitive advantage that "advocates that external (industry) factors are more important than internal factors in a firm for achieving competitive advantage" (David).

Proponents of the I/O view, such as Michael Porter, contend that mainly external forces within the industry opposed to internal forces will determine the company's competitive performance. These forces include rivalry among competitors, the potential entry of new competitors, the potential development of substitute products, bargaining power of suppliers, and bargaining power of consumers. The amalgamation of the impact of each of these forces on Starbucks poses both advantages and risks for the company. These forces and their effects on Starbucks are outlined in the subsections below. **Figure 1** illustrates the five forces model.

Figure 1

Rivalry Among Competitors

Many consider the intensity of rivalry amongst industry competitors the most influential factor in Porter's Five Forces model. The effects of competitor rivalry can determine very important industry factors such as innovation, and product quality and cost. Many company strategies are positioned in response to this rivalry. Starbucks defines the specialty coffee market as one that is saturated in intense competition (Starbucks, Inc.). However, looking from the outside in, Starbucks has no clear competition that can truly rival it in size or revenue on a global scale. As Forbe's Magazine once published, "all cups of coffee and coffeehouses are not created equal" (Hennessey). Most of Starbucks' competitors are regional or operate primarily in a different industry.

Inter-firm rivalry is seen quite often in the specialty coffee industry with price discounting among competitors. One example of this is seen with the offering of low-cost coffee from the large restaurant chains Dunkin' Brands and McDonald's. McDonald's recently launched a campaign to introduce its new McCafe brand of coffee.

The company now sells the premium specialty coffee beverages at a slight discount to Starbucks. McDonald’s is also continuing to sell large coffees as part of their dollar menu. (Bowler). This has definitely pulled some of Starbucks’ market share. McDonald’s’ annual report indicates that they fully intend to continue to expand the McCafé brand by adding more coffees and fruit smoothies.

This low-cost McCafé strategy for McDonald’s is very good for poor economic times, such as we are facing now. This, however, presents problems to Starbucks who offers more premium coffee with a less cost-saving strategy. McDonald’s has 14,000 stores in the United States, compared to Starbucks’ 11,000, and caters to a much wider demographic than Starbucks. In 2008, the company started creating coffee bars in all of their store locations. Starbucks recently began “[selling] one of the premium brands it owns — Seattle's Best Coffee — in Burger King and Subway restaurants, at AMC movie theaters and at supermarkets and coffeehouses across the country, with 30,000 locations in all” (Gregory). This strategic move positions Starbucks to compete more directly with McDonald’s by way of similar fast food chains and thus intensifying the rivalry among Starbucks and McDonald’s.

Dunkin’ Donuts also offers a lower-cost coffee alternative to Starbucks. The two companies are in a head-to-head rival in many locations including New York City and Vietnam. In New York, Dunkin’ and Starbucks combined account for more than 40% of coffee shops. The New York City Economic Development Corporation reports that Dunkin’ Donuts owns 454 (27%) of the stores and Starbucks holds claim to 272 stores (17%) (NYCEDC). This is a significant portion for both chains, especially considering that the third largest chain only has 22 stores. Similarly, the two are in intense competition abroad as well.

A report by NBC announced that "Dunkin' Brands Group Inc… said…that it signed a franchise deal to develop the brand in the coffee-loving country, with the first locations planned for Ho Chi Minh City area. The announcement comes just weeks after Starbucks announced plans to open its first cafe in the country" (Associated Press). This behavior is very indicative of intense rivalry amongst the competitors.

Additionally Dunkin reported on their 2011 annual report that "[a]pproximately 60% of Dunkin' Donuts U.S. franchisee-reported sales for fiscal 2011 were generated from coffee and other beverages" (Dunkin Brands, Inc.). The report also states that Dunkin' intends to increase the revenue generated from coffee "through continued new product innovations and related marketing, including advertising campaigns such as 'America Runs on Dunkin'' and 'What are you Drinkin'?''

With over 5000 stores in the US, many would argue that it is easier for Dunkin' to compete more directly with Krispy Kreme, or even McDonalds, than Starbucks. While this may be true, it does not necessarily mean that Dunkin' does not also compete with Starbucks in addition to those other companies. After all, they directly mention Starbucks as a competitor in their annual report. The Dunkin' Donuts division of Dunkin' Brands is also almost 100% franchised. This shields their company from some of the fluctuations in commodity prices that Starbucks endures. The franchising structure also keeps overhead costs low at the upper managerial level and allows management to focus on menu innovation, store development, and advertising.

It is this big focus on advertising that has made the competition between the two firms, and many others, even more powerful. Dunkin' ran an ad in 2006 that many colloquially refer to as the "Fritalian Commercial." The commercial features customers in specialty coffeehouse that looks very similar to the typical setup of a Starbucks shop. The customers look perplexed as they stare at a menu behind the counter and sing "my mouth can't form these words" and proclaim that the coffee names are listed in a language that combines French and Italian—Fritalian. The video ends with the line "you order it in English, not Fritalian" (Dunkin' Donuts). This ad war continued with more indirect mentions of Starbucks-like coffee shops in the Dunkin' ads as the company effectively positioned itself as the anti-Starbucks. McDonalds is not staying away from such advertisements either. In 2008 the company ran a billboard reading "four bucks is dumb." Many saw this as a direct target at Starbucks. McDonalds also launched a site for their McCafé branded (http://unsnobbycoffee.com/). **Figure 2**

Photo: Scott Eklund/Seattle Post-Intelligencer

While Dunkin' and McDonalds focus on advertising their newly innovated products to compete commendably against the powerhouse Starbucks, Starbucks was also working on a few innovative endeavors to meet them headfirst. Among these innovations are K-Cup ® and Starbucks VIA ® Ready Brew. The K-Cups were formed through a strategic partnership with the makers of Keurig, Green Mountain Coffee

Roasters. This will allow Starbucks to cater to the ever-growing single-cup coffee industry. The VIA brand is an instant coffee line that also caters to an expanding demographic. Starbucks estimates that 66 billion cups of coffee are drunk every year in the US. Of this large number, approximately 3/4 is consumed at home. VIA and K-cups will allow Starbucks to penetrate this market and simultaneously compete with companies like Folgers and other coffee manufacturers and brewers.

Starbucks has also recently transitioned away from a distribution arrangement with Kraft Foods in an attempt to increase sales of its packaged coffee that are distributed to grocery stores, club warehouse stores, and convenience stores. Starbucks plans to do this by conveying their product quality, service, convenience, and experience to customers.

In addition to McDonald's and Dunkin' Donuts, Starbucks also competes with many regional and local chains. Caribou Coffee Company operates over 400 gourmet coffeehouses in 20 states (Value Line). This company sells high quality coffee and espresso-based beverages, as well as specialty teas, baked goods, and much more. This is directly in line with Starbucks' offerings and Caribou Coffee is indicative of the typical local or regional coffeehouse that poses so much rivalry to Starbucks.

Similar to Caribou, Gloria Jean's Coffees is another local rival for Starbucks. Glora Jean's has over 100 stores throughout the US and over 100 internationally. Gloria Jean's offers quite the remarkable brand. Local coffeehouses such as the two aforementioned stores possibly pose the greatest threat to the Starbucks brand. Starbucks and local stores are competing for virtually the same customer—someone seeking high-quality coffee in a relaxing atmosphere. Starbucks positions itself as the "third place." You have your home, work, and Starbucks. However, these local chains are doing the same thing!

One big advantage of Starbucks and its competitors, is that the industry is not susceptible a cover up of intentions by other competitors. In other words, one firm can read the other firm's signals and strategies easily. The coffee shop/bar look and feel is one that is easy to replicate, but it is also easy for competitors to see your strategy and position themselves accordingly. Starbucks uses this to their advantage to help them stay afloat in the huge sea of competition that includes large restaurants, local and regional chains, and coffee manufacturing companies and brewers, among other firms.

Potential Entry of New Competitors

The specialty coffee market is one that is easy to penetrate. Everyone loves coffee so many people sell coffee. This, however, is not good for Starbucks in terms of competition. Several factors contribute to the threat of entry for Starbucks and among these factors are the supply side economies of scale. As the cost of coffee and other commodities used in the production of a cup of coffee increase, it become difficult for new firms to enter the market.

One example of this hardship was seen with Tully's Coffee in Redmond, WA in October of 2012. The company was reported to have closed due to "rising commodity prices and challenging lease economics" (Nystrom). Starbucks, itself, has listed the rising price of coffee for the closing and slowing of growth of development in new coffee shops within their chain. Starbucks, however, has a leg up on the competition in this matter. Starbucks can afford slight shifts in the price of commodities because it is such a large organization. A rise in commodity prices will not hurt Starbucks as much as it will hurt a local chain.

One the one hand, this is great for Starbucks. On the other hand, it is also great for other large restaurants. McDonalds and Dunkin' also enjoy the benefits of having economies of scale and the closing or slowing in growth of local and regional coffeehouses present an opportunity for them to swoop in and offer lower-priced coffee than Starbucks. The larger firms are also able to take advantage of their already successful distribution systems to deliver their coffee brands around the world.

To combat this, Starbucks capitalizes on the benefit of having a large number of buyers and using networks to their advantage. Many companies have partnership with Starbucks that makes it even harder for new firms to enter the market. These partnerships also make it difficult for existing firms to penetrate the coffee market in some areas fully. If a person walks into a Barnes & Noble, or flies with United Airlines, their only choice in coffee would be the Starbucks Brand. Similarly, if you lodge with Sheraton Hotels or shop at Nordstrom, the Starbucks brand is present.

This marketing strategy of collaborating with many businesses ousts many would-be competitors from possibly entering that specific area. Even if a person prefers the McCafé brand or the taste from a local coffee shop, while that person is in a Target or any other store that partners with Starbucks, the Starbucks brand will be their only option. Many people will buy it simply because the convenience. These customers oftentimes ultimately enjoy the coffee and return.

We can also examine the demand side benefits of scale for Starbucks. Starbucks is the largest restaurant chain in the nation, only falling in sales behind McDonalds and

Subway (Vannucci). Starbucks definitely uses this position to their advantage. Because of their size, Starbucks is capable of out producing most of their competitors in the coffee industry. Other firms, with the exception of a few large ones, simply cannot match their production. With over 14,000 stores worldwide, Starbucks is sure to produce and sell more than any other coffee shop around the globe. Competitors are aware of this and many choose to remain out of the market for this reason.

Switching costs are another factor to consider when determining the effects of barriers to entry for the specialty coffee market. These costs are not large for the average individual if you consider the physical cost of a cup of coffee. However, other factors must be considered when discussing whether a customer will switch from Starbucks to a new entrant. First, Starbucks has more locations than any of its competitors, with the exception of McDonalds, so it is in essence more convenient for the customer. And, as will be discussed in more depth later in this section, many customers are loyal to the Starbucks Brand. When faced with the decision to switch from the Starbucks down the street from your job to a local shop that is one mile away, many people will stick with the more convenient location. Additionally, many customers will find that not only is there a Starbucks a few feet away from your office, but there are about two or three other Starbucks location that they will pass while in transit from their home to work. Starbucks has truly positioned itself as the “third place,” and that it just makes it harder for other firms to enter the market.

As with any other business, there are costs associated with opening the company. If another company were to successfully enter the specialty coffee market there may be large capital requirements to enter. A specialty coffee shop requires lots of fixed costs, including the purchasing or leasing of a building to house the coffee shop and the purchase of operating equipment (Starbucks, Inc.).

To compete effectively with Starbucks, however, a new entrant may require funds for the construction of roasting and coffee manufacturing plants along with coffee farms to produce the coffee that will be served. While this may be something that smaller firms can outsource, Starbucks has well-established strategic partnership with many current firms and concurrently owns many of its own plants and farms which gives it an advantage in the production of coffee as well as the distribution of the coffee to its respective retail locations.

It is undeniable that Starbucks also has a large incumbency advantage to many potential new entrants. Starbucks was formed in the early 70s when the idea of a specialty coffeehouse was still new in the United States (Starbucks, Inc.). Starbucks rose quickly in acclaim partially because they simply got here first. Because of this, Starbucks also had opportunities to capitalize on many opportunities and other stores are now catching up.

Starbucks is the owner, or user, of many proprietary and pioneer technologies. Their mobile payment system is one example of this. The Starbucks mobile app allows customers to pay for their items with their smartphones simply by scanning their phones. Starbucks has also partnered with Square™ to make payments easy for customers with that app already installed. Starbucks accepted over 20 million mobile payments in 2011 and it is adding greatly to the convenience factor that Starbucks customers love so dearly (Starbucks, Inc.). Starbucks was also one of the first companies to provide free Wi-Fi to customers through their partnership with Hewlett-Packard and T-Mobile.

In addition to their advantageous technology, Starbucks' size allows it to have many location that are strategically placed to offer even more convenience. "A Starbucks on every corner" is a phrase you hear a lot when referring the company (The New York Times). These standalone shops see many customers daily and greatly add to Starbucks' revenue. Nonetheless, the firm does not stop here. With shops inside most Targets, Barnes & Noble stores, and many other locations, Starbucks has proven to competitors that it has many favorable locations that lend greatly to its competitive advantage and bars many potential entrants from actually entering the market.

Starbucks, however, is not the only chain with this advantage. McDonalds has also has an excellent platform from which to compete (Bowler). The chain has several prominent locations with drive-thru options. This adds convenience to the McDonald's McCafé brand and poses a great threat to Starbucks. Furthermore, McDonalds uses its current traffic, particularly during breakfast, to reel in even more customers.

In addition to store location, we must also consider brand recognition. Many firms rank the Starbucks logo as one of the most recognizable brands in the world (Gladman). This positions Starbucks with the likes of Coca-Cola and Google, but also included on that list is McDonald's. The McDonald's brand, however, is not usually associated with coffee so Starbucks has an advantage there. With an over 32% share of the coffee market, Starbucks has a great advantage to any other company in the coffee industry. When one thinks of coffee, Starbucks will most likely come to mind, at least at some point. This brand identification and recognition creates even more barriers for entering companies.

As mentioned earlier, Starbucks likes to think of itself as "the third place"—somewhere away from home and the office. To accommodate this theme,

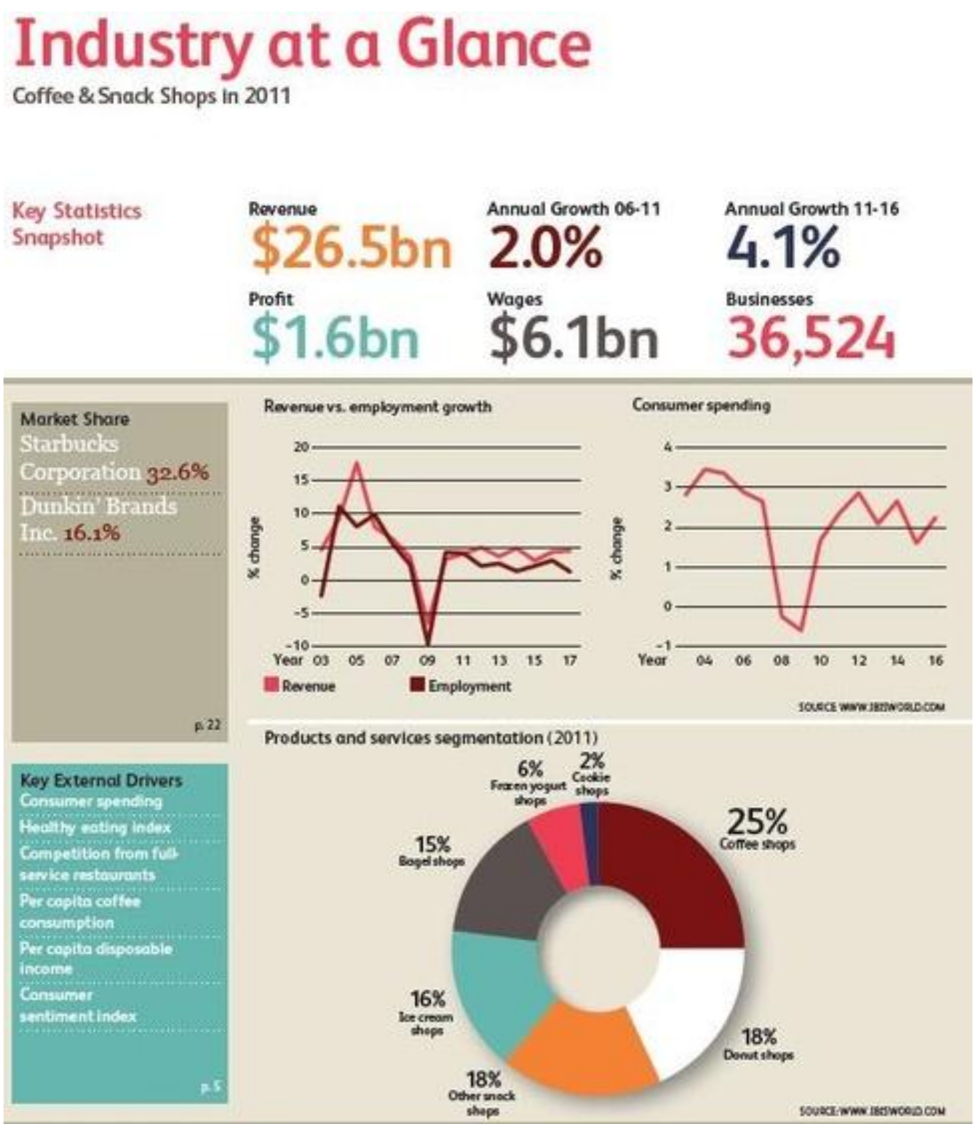


Photo from: IBIS World Industry Report 72221b Coffee & Snack Shops in the US

Figure 3

Starbucks stores are setup in a way that promote relaxation. Many college students use these restaurants as a venue get some homework done in peace, while professionals use it for working away from the office. Others see it as a nice place to read or catch up with friends. This is a big contrast from the fast-food style of

McDonalds and Dunkin' Donuts. Other stores offer more of a coffee-on-the-go style which is less relaxing. Other smaller chains, however, have a similar style to Starbucks.

Potential Development of Substitute Products

Potential substitute products pose a large threat to Starbucks. Investopedia defines a substitute good as "A product or service that satisfies the need of a consumer that another product or service fulfills" (ValueClick, Inc.). An example of a substitute good is an individual using a train for transportation instead of an airplane. To determine what goods may be used as a replacement for Starbucks Coffee (and other products) one must first examine why Starbucks customers mainly use Starbucks products.

Of course, Starbucks coffee, like all other brands of coffee, is meant to be a drink. But, many coffee drinkers see it as more than that. The caffeine content in coffee acts as a stimulant in humans and gives us energy. In addition to this, some just view it the drink as a refreshing beverage to quench their thirst. With these factors considered, one can construe that a probable substitute for coffee could be caffeinated soft drinks and energy drinks, as well as most other beverages. Starbucks sells tea, instant coffee, and a few other beverages so manufacturers of those products would be considered competitors and are thus omitted from this section.

Coca-Cola is a major player in the beverage industry, particularly with soft drinks. Right behind coke is PepsiCo. These two mega companies offer substitute products that can, and in many instances has, detoured customers from Starbucks. Because of the relatively low buyer switching cost in the coffee market, customers find it easy to switch to substitutes when they are more convenient or less expensive. As mentioned in an earlier section, one of the few switching costs of the specialty coffee market is the convenience factor. This factor is less relevant with substitute products because they can be purchased almost anywhere.

The three companies are very much aware of the substitute good relationship shared amongst them. The **Figure 4** shows a typical Starbucks shop. However, the atypical aspect of this photo is the Diet Coke advertisement next to it which reads, "Who has time to stand in line for a latte?" Coca-Cola has annual sales of nearly $50 billion and PepsiCo. Has annual sales of over $60 billion. These figures compared to the almost $15 billion in revenue for Starbucks makes the two firms a big threat for Starbucks.

Photo from: http://creativecriminals.com/ambient/coca-cola-vs-starbucks/

Figure 4

Another industry that offers substitutes to Starbucks' products is the energy drink market. Energy drinks contain stimulates, usually other than caffeine, which provide similar effects to coffee and position these beverages as a substitute to coffee. This industry has many key firms including Red Bull and Monster Beverage Corporation. While both of these firms are much smaller than Coca-Cola or PepsiCo., they still pose a large risk to Starbucks. The competition among Starbucks and energy drink firms is not as intense as it is with the soft drink industry.

Bargaining Power of Buyers

Just like other factors in the Porter's Five Forces model, the bargaining power of suppliers is very important when evaluating the competitive advantage of any firm. MaRS, a Canadian, non-profit innovation center that connects science, technology and social entrepreneurs with business skills, networks and capital, explains the bargaining power of buyer:

> The presence of powerful buyers reduces the profit potential in an industry. By forcing down prices, bargaining for improved quality or more services, and playing competitors against each other, buyers increase competition within the industry. The result is diminished industry profitability. (MaRS)

Starbucks's customers have some bargaining power, but because of a few key factors, it is not very high.

When considering the bargaining power of customers in a particular market, it is important to consider their negotiating leverage. A few large buyers would have an advantage in this situation over a market that has several million buyers. For Starbucks, the latter is the case. Starbucks has many customers, as indicated by its annual revenue. Their customers include both individuals and other companies. Because coffee is a commodity enjoyed by many, the customers are plentiful.

There are an estimated 66 billion cups of coffee consumed each year in the US. With these numbers, it is difficult for customers to have very high bargaining power.

However, when customers speak together with one voice, Starbucks listens. **Figure 5** shows picketers protesting Starbucks over their alleged tax-evading procedures. The company was said to have avoided payment of corporation tax in the UK. Actions like this by customers urge Starbucks to make change.

Figure 5

In addition to a large customer base, Starbucks is capable of lowering the bargaining power of customers by offering differentiated products from their competitors. Starbucks uses the highest quality Arabica beans while others use inferior coffee to meet their low-cost strategy needs. This, however, is not true for all of Starbucks' competitors. Local chain stores also offer higher quality coffee, so in this case Starbucks is not differentiated. Moreover, it is not an easy task for customers to integrate backward by purchasing directly from coffee manufacturers. Starbucks itself is a coffee manufacturer.

Another major factor contributing to the power of buyers is the company's sensitivity to price, or elasticity. Investopedia defines price elasticity as "the percentage change in quantity demanded divided by the percentage change in price" (ValueClick, Inc.). Generally speaking, a price elastic firm is one that is affected greatly by changes in the price level which is induced by economic conditions. Starbucks coffee is price elastic mainly because many view it as a luxury good. Luxury goods are price elastic because when consumers have higher income, the amount that they have to forfeit to obtain the higher priced goods is less.

Slumping sales caused by lower traffic in Starbucks is an indicator of the effects of its price elastic status. Starbucks attributes a lot of their lower traffic in stores to poor economic conditions including a high unemployment rate (Starbucks, Inc.). Starbucks' price elasticity is good news for competitors offering low-cost coffee, like McDonalds and Dunkin Donuts. This slowing business, however, is not company specific to Starbucks; the effects of the economic downturn is being felt industry-wide and in multiple markets.

Unlike some common luxury items, like cars and televisions, Starbucks' products do not represent a large share of the buyer's cost. With the average cup of coffee ranging below $5, it is not cheap in terms of beverage, but it is definitely not expensive compared to other expenses that customers have to bare. The average Starbucks customer earns an annual income of roughly $70,000 per year, with only 17% of their customers falling below the $30,000 a year range. A $4-5 cup of coffee is not a huge burden on the typical Starbucks customer, but it is, nonetheless, a luxury item that people simply do not need to survive.

Bargaining Power of Suppliers

The final force contained in the Porter's Five Forces of Competitive Analysis model is the bargaining power of suppliers. Suppliers typically have more bargaining power when there are only a few of them in an industry, or a particular supplier owns a large portion of the supplies needed to produce a product. Suppliers do not have much bargaining power in the specialty coffee market, especially with Starbucks because Starbucks works with many small farms and in many instances is their only customer.

Starbucks maintain healthy relationships with their farmers by negotiating long-term contracts and often assisting the farmers by providing loans to help them secure the resources needed to harvest an adequate amount of Arabica beans for Starbucks' premium coffee (Starbucks, Inc.). Starbucks' presence in these areas is usually not only good for the farms, but it is also good for the entire community and sometimes the entire country. For example, many farmers and citizens of India were overjoyed at the announcement that Starbucks would expand their operations in the country through a joint venture with Tata Global Beverages (Kinetz).

Summary of Porter's Five Forces

Porter's Five Forces is a great model for determining how competitive a firm is within a market. Starbucks competes in a very intense market. Large restaurant chains like McDonalds and Dunkin' brands pose a great threat to Starbucks because of their low-cost strategy and "anti-Starbucks" form of advertising. Local and regional specialty coffeehouses also pose a great threat to Starbucks. Many locals have a high brand loyalty to these firms and they are not very differentiated from the Starbucks brand. Starbucks, however, has many tools and ways of staying afloat amongst the competition including a strategy to constantly innovate products and provide the most convenience for their customers.

There are several barriers to entry in the coffee market, but most of these are, in part, due to the Starbucks chain. Starbucks has proprietary technology, favorable locations, brand identity and so much more that makes it very difficult for many firms to enter or simply be profitable in the specialty coffee market. Other large companies, however, also enjoy the advantages of these barriers for smaller groups.

The model also indicates that direct competitors are not the only organizations that Starbucks must monitor in the market. Soft drinks and energy drinks present themselves as potential substitutes to coffee and are oftentimes cheaper. Companies like Coca-Cola have even created advertisement targeting the Starbucks brand. Companies like Monster and Red Bull are continuously growing and, at times, penetrating Starbucks' market.

Lastly, the model reveals that the bargaining power of consumers and the bargaining power of suppliers is not very high for Starbucks and other members of the coffee market. Starbucks has great relationships with their suppliers and in some cases are their sole customers. This leads to a low bargaining power for customers. Also, there are many customers in the specialty coffee market and the switching costs are low. Because of this, the customers do not have much bargaining power.

These five forces are further illustrated in the industry analysis in Table 2. The scores for each subsection are averaged to create a total score—on a scale of 1-5—for each of the five major forces. The higher scores indicate areas that are a significant issue for Starbucks.

Table 2

Porter's Five Forces for Industry Analysis

Force	Factor	Rating*	
Threat of Entry		**2.67**	
Barriers to Entry	Supply Side Economies of Scale	4	
	Benefits of large number of buyers/network effects	2	
	Demand side benefits of scale, large Q	5	
	Customer Switching Costs	1	
	Large Capital Requirements to enter	4	
	Incumbency Advantages	3	
	a. Proprietary technology		2
	b. Preferential access to raw materials		2
	c. Favorable locations		4
	d. Brand identification/recognition		4
	e. Cumulative experience		3
	Unequal Access to Distribution channels	3	
	Restrictive Government Policy	1	
	Expected retaliation	1	
Power of Suppliers		**1.5**	
	Seller more concentrated than buyers	2	
	Does not depend upon buyers' purchases	2	
	No Substitutes for suppliers role	1	
	Suppliers can forward integrate	1	
	High switching costs to new seller	1	
	Differentiated Products of suppliers	2	

Power of Buyers		**1.75**
	Negotiating Leverage	1.75
	a. Few buyers/buy large share of product	2
	b. Sells undifferentiated products	2
	c. Few switching costs for buyers	2
	d. Buyers can integrate backward	1
	Price Sensitivity - Elasticity	1.75
	a. Product is large share of buyer costs	2
	b. Buyers earn low profits	2
	c. Overall quality does not depends on seller's input	2
	d. Industry product doesn't affect other costs	1
Threat of Substitutes	Good substitutes available, price/performance tradeoff	**3.75**
	Substitutes in consumption	5
	Substitutes in Production	2
	Threat of substitutes keeps sellers' price low	4
	Low buyers' switching cost	4
Inter-firm rivalry	Price discounting, new products	**3.38**
	Firms can't read each other's signals	1
	Product is nearly commodity	4
	High Fixed cost, low marginal cost	3
	Lumpy capital	1
	Perishable product	3
	many, equal size rivals	4
	Slow industry growth	3

High Exit barriers	1
Firms have strong commitment to market	5
Low switching costs between rivals	4
Structure leads to Rivalries	5
Strong brand identity	5
Rivalry leads to Diversity of products	5

*1=Not Significant Issue; 5=Significant Issue

Competitor Analysis

Starbucks, a dominant force in today's coffee industry, is constantly faced with stiff competition as they continue to grow. Because of the seemingly inelastic market of coffee the constant demand has forged the way for Starbucks to capitalize on increasing their market share and profit margins significantly. This high demand for specialty coffee keeps competitors increasingly interested in attaining a piece of the coffee market. As Starbucks operates with over 11,000 stores in the U.S. they have been able to control about 33% of the market share (McWhinnie). Although they have made their presence known in the U.S. the market for coffee still has little to no barrier to entry because of the inelastic market. This has caused rivals and competitors to arise from all aspects of the market including: domestic coffee distributers, international businesses, and even the basic coffee distributors. These businesses have seen the rapid growth of Starbucks as well as the overall profitability of the coffee industry and have put their resources into developing competencies with coffee hoping to attain a share of this highly profitable market.

Local coffee distributors

Starbucks is considered a specialty coffee shop that targets a relatively specific niche market. As Starbucks began their journey they quickly changed the entire dynamic of the market's competitors. In segmenting the competitors of this market Starbucks has managed to challenge all other coffee distributors as well as increasing competition from businesses producing relative substitute products.

This intense rivalry stems from the growing consumption of coffee by citizens of all ages in the U.S. According to the latest National Coffee Drinking Study from the National Coffee Association, a study on daily coffee consumption in the U.S. found that over 75% of U.S. adults drink coffee, and 58% reported drinking coffee daily. Out of the adults ages 18-24 years old 40% are drinking coffee each day which is a sharp rise from the 31% during 2010. In the same National Coffee Drinking Study, 54% of adults age 25-39 reported drinking coffee each day, another significant increase from the 44% during 2010.

This extremely high demand in the U.S. has brought the Annual growth rate of coffee to 5.2% from 2007-2012 (Reaserch report). Coffee sales has inhibited many new rivals to arise, but has also kept local coffee shops in business all over the U.S. ultimately pushing the number of coffee shops in the U.S. to about 20,000 with combined revenues of $10 billion in 2011 (SBDC). Although 70% of sales generated from coffee come from the top 50 coffee shop operators (SBDC), local coffee shops still attain enough profitability to survive and challenge established national brands like Starbucks in the specialty coffee industry.

Local coffee shops commonly have similar success factors. Many local coffee shops have been established over a significant amount of time in their individual cities or town allowing them to know and understand the demographic of their local market well. Their products are differentiated in a way that specifically reaches their target market. In dealing with the same customers on a daily bases they are able to develop a high level of customer loyalty for their business.

Domestic Competitors

Another rival that has had to find new ways of competing in the coffee industry is basic coffee distributors such as Folgers. Business competitors would usually have to be directly based in the same specialty markets, but with Folgers' high distribution of products, they have been able to lower the rate of return for all competitors in the market for beverages inversely raising competition in the market for coffee. These products range from substitute products to basic coffee. Folgers has also newly entered into the sales of specialty coffee through retail businesses.

Also, with the U.S. economy in a recession and most consumers looking for value in all purchases Folgers low cost coffee gives them a significant advantage over high priced specialty coffee. Lastly, Folgers sales running through popular retail businesses and wholesalers gives them the ideal convenient purchase for U.S. citizens who hold much value in finding the most convenient methods to purchase discretionary goods. These ideals, influences, and low cost/value strategies pose a significant threat and can be an intense competitor to Starbucks market.

International Competitors

Starbucks most intense rivalries come from their competitors with involvement in international markets such as McDonald's and Dunkin Doughnuts. McDonald's name and business can be considered as one of the most influential and profitable businesses in the world. They have stores all over the U.S. and in most developing countries especially those who deal in international trade with the U.S.

McDonald's main strength is their convenience. As of year-end 2010, McDonald's Corp. operated 32,737 restaurants worldwide, including 14,027 units in the United States. Their products have the potential to be viewed by more customers than any competitor in any aspect of their competing markets. Similarly Dunkin' currently operates approximately 6,772 stores in the United States allowing same-store sales for Dunkin' Donuts' U.S. division to rise 2.3 percent in 2010 and revenue in the U.S. to total $402.4 million, a 3.8 percent increase over 2009 (Misonzhnik).

As both of these firms entered into the single serve coffee industry they have pursued a low-price strategies which created an ideal purchase because of the current U.S. recession. This along with their extremely large customer base allowed them to gain consistent profitability in the coffee industry. McDonald's has also recently developed new stores (McDonald's Café) which sell low-price coffee as well as specialty coffee sold at a discounted price. This new development has allowed McDonald's to capitalize on penetrating into the coffee market. Although both Dunkin Doughnuts and McDonald's have extremely large customer bases and offer a low-price convenient product, they still run into a similar problem. Dunkin's core competency is their superior doughnuts and McDonald's is Hamburgers and French fries. Although they both sell coffee, they are viewed as a Doughnut and Hamburger store, where as Starbucks core competency and consumer perception is a coffee shop.

Competitive Behavioral Dynamics

Throughout the competitors that make up this market it seems evident that each competitor has different advantages and disadvantages in the coffee industry that they must understand and account for with strategies and objectives to have any chance at competing in this quickly growing market. Each business has to behave differently based on their individual position in ways that highlights their assets.

Local competitors must constantly communicate their hometown values and their dedication to providing the essential needs demanded by their specific demographic. Retaining customer loyalty is the key factor to their continued existence in the market. Folgers and distributors of substitute products must realize that the demand of coffee is rooted in the demand for caffeine. It is essential not just for the retail competitors of Starbucks, but the other sources of caffeine that compete with the coffee industry to utilize this concept in all planning in order to continue growth and success in the coffee market (alpha).

Lastly, international competitors have a much more complicated dynamic considering their main objective is to maximize profits and potentially extract competitors to further control the market. McDonald’s along with Dunkin have a much more standard product that reaches across a larger consumer base that makes their focus reaching the consumers looking for convenience and price value in order to reach their U.S. consumers. They also must use these same ideals in developing expansion strategies.

As McDonald's and Dunkin continue to reach markets in developing countries all over the world, they must put their resources in areas with value based on convenience and cost efficiency. These areas must also have a significant amount of consumer purchasing power in order to achieve optimal profitability and sustainability. Ultimately these international competitors must stick to their competitive advantage and stay consistent in all markets in order to attain success in all demographics of the coffee industry.

Forecast of Future Industry Opportunities (1-5 years)

With continuous growth of both international trade and technology, many opportunities for further success arise for Starbucks. Development of relationships between suppliers and distributors can be one of the key opportunities for success in such a highly profitable market. With the increasing demand for coffee all over the world the number of distributors are increasing as well as the quantity supplied by suppliers. All coffee distributors especially the larger international distributors look to attain reliable and quality coffee bean producers.

In Starbucks' case, they offer a specific high quality Arabic coffee bean. Their large purchasing power allows them to control and improve on their relationship with suppliers. Starbucks can form contracts with their suppliers encouraging them to sell them their coffee beans and in turn gaining sustainable profitability and growth for the coffee grower. As Starbucks grows they will be able to increase the presence of these relationships and making it much more difficult for other distributers to form relationships that provide such quality and profitability.

The flip side to these strategies would be that of Starbucks branching out to other countries. As Starbucks continues to expand, they bring with them a high-level product and service to the consumer. As they move into other markets, they have the opportunity to gain lucrative supporters in growing nations. These supporters in other countries can give access to very profitable investment opportunities for Starbucks as well as possibly investing large amounts of money in Starbucks; both of which can become very profitable opportunities for Starbucks.

Technology has paved the way for innovations in every market especially in the coffee industry. Higher technology means easier communication and operations, which for a company such as Starbucks who deals with other nations on almost every aspect of the value and supply chain, can find to be extremely valuable. Increasing technology can allow Starbucks to find more cost effective ways of transfer their product from the producers to the distributors.

This also means easy quality control, marketing, and distribution. Finding these more cost effective operations factors complimented by Starbucks massive selling power can enable them to lower their total costs significantly, have better quality control in all aspects of the supply chain, and reach new levels of profit maximization. Another technological innovation Starbucks has attempted to utilize is the convenience of smart phones. Starbucks is currently developing an app that allows customers to order and pay for their products online.

These types of innovation are ways that can create rapid growth and change the dynamic of a market. Today’s society constantly embraces more efficient ways of purchasing products; we are constantly looking to make things easier or faster.

Decreasing time spent on each purchase increases opportunity costs and ultimately creates more efficient and effective ways to gain profitability.

Key Industry Success Factors. Changes over time.

Five Years ago to now

As Starbucks began they devised their and it was simple and specific. There was an inelastic market for coffee and no clear dominant force combating the overwhelmingly high demand. So Starbucks developed a business that provided specialty coffee with the compliment of superior customer service. This immediately took off in the U.S. in terms of profitability sustainable growth.

Adults of all ages bought into the ideals and standards of Starbucks because of their consistent quality in all aspects of their business. This gave birth to the unlimited potential growth of Starbucks. Starbucks capitalized on their opportunity by having an aggressive growth strategy. They quickly expanded all across the U.S. with nothing but success using tools such as their catalog. This catalog gave customers the opportunity to order packaged Starbucks' coffee beans from anywhere in the country. Starbucks would then find which areas were making the most orders from the catalog and determined which areas would be most profitable for new store developments.

This strategy gave Starbucks the opportunity to create a loyal customer base before entering these markets by opening new stores. Opening more stores each year and generating increasingly large profit margins across all demographics. They constantly looked for potentially profitable places to locate their stores and had no hesitation in expanding to these areas which elevated them to becoming the most well-known coffee distributor across the U.S. They continued this aggressive strategy expanding further into other countries that valued specialty coffee.

This aggressive strategy gained them not only significant amount of market share in both domestic and foreign markets, but also increased their brand value and the awareness of Starbucks by the consumer. Their consistency through this massive expansion was a major factor to their overall success. No matter what area Starbucks expanded to they took with them their constant quality control on both their products and services.

Five Years Hence

As Starbucks continues to grow they must strive to achieve success in many aspects of their business in order to sustain their dominance for the long run. One key factor is their international expansion. Starbucks must continue to find and utilize new profitable locations. As the success of Starbucks in the U.S. was quick to evolve because of the high demand the U.S. is still only one of many countries that are highly dependent on the consumption of coffee. This factor creates high levels of opportunity in foreign markets.

Another factor that will be beneficial to Starbucks especially as they enter into new realms of technology is setting up a firm reward system for consumers. The more perks customers receive from consistently buying a specific product the more inclined they are to only by from that business. Also the more they are rewarded for their purchases the more loyal the customer becomes to the business in the long run especially in difficult economic times.

Lastly, for sustainable growth Starbucks must continue value adding to all aspects of their product and service. They should improve the setting inside their stores through comfort and functionality. They should also constantly search for better quality coffee beans, and they should improve their quality service ultimately by taking care of their employees. They can do this by rewarding productivity and success. In all businesses success and value for a brand begins at the top level and works its way all the way down the hierarchy. Keeping these ideals at the forefront of their minds will only improve productivity, customer experience, and ultimately profitability.

Assessing Success Factors via Analytical Tools

Certain tools can be used to evaluate the effectiveness of Starbucks' competitive strategy. A Competitive Profile Matrix "identifies a firm's major competitors and its particular strengths and weaknesses in relation to a sample firm's strategic position" (David). **Table 3** below compares Starbucks to large rivals McDonalds, Dunkin Brands, and Caribou Coffee.

Table 3

Competitive Profile Matrix									
		Starbucks		McDonalds		Caribou		Dunkin'	
Critical Success Factors	**Weight**	**Rating**	**Score**	**Rating**	**Score**	**Rating**	**Score**	**Rating**	**Score**
Advertising	0.1	2	0.2	4	0.4	1	0.1	3	0.3
Product Quality	0.15	4	0.6	2	0.3	4	0.6	3	0.45
Price Competitiveness	0.1	2	0.2	4	0.4	2	0.2	3	0.3
Market Share	0.2	4	0.8	3	0.6	1	0.2	3	0.6
Global Expansion	0.05	4	0.2	4	0.2	1	0.05	2	0.1
Customer Service	0.15	4	0.6	2	0.3	4	0.6	3	0.45
Customer Loyalty	0.2	3	0.6	1	0.2	4	0.8	3	0.6
Employee Benefits/Dedication	0.05	3	0.15	1	0.05	4	0.2	2	0.1
Total	1		**3.35**		**2.45**		**2.75**		**2.9**

Here, one can see that Starbucks has a competitive advantage over McDonalds, Caribou Coffee, and Dunkin' Brands because it's relative score is higher.

Another analytical tool that can be used is the External Factor Evaluation Matrix. This tool "allows strategists to summarize and evaluate economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive information" about the firm (David). **Table 4** illustrates the EFE Matrix for Starbucks.

Table 4

External Factor Evaluation Matrix			
Key External Factors	**Weight**	**Rating**	**Score**
Opportunities			
The coffee market is growing each year at over 5%	0.1	4	0.4
Globalization opens new markets for SBUX to enter	0.15	3	0.45
Economic Hardships hurt local businesses more	0.05	3	0.15
National Unemployment Rate is declining	0.1	2	0.2
New technologies lead to greater innovation	0.05	3	0.15
Threats			
Large Restaurant chains offering low priced coffee	0.15	2	0.3
Coffee market is intensely competitive	0.15	3	0.45
Substitutes are readily available	0.15	2	0.3
Commodity prices are increasing	0.1	3	0.3
Total	**1**		**2.7**

Starbuck's Current Strategy

An organization's strategy is the "[mean] by which long-term objectives will be achieved" (David). Like most other companies, Starbucks puts lots of effort into designing a strategy that will launch them profitably into the future while simultaneously balancing their long-standing goal of maintaining social responsibility. The company's mission statement will help one fully understand the strategy of the company, as Starbuck's strategy centers around this one sentence. Starbucks's mission is "[t]o inspire and nurture the human spirit—one person, one cup, and one neighborhood at a time" (Starbucks, Inc.).

To carry out the mission of the company successfully, executives at Starbucks formulated a list of strategic objectives to help align the company with its mission statement. Among these objectives listed in a recent press release were refocusing on customer experience, renewing a focus on store-level economics, increasing brand awareness, streamlining management, and accelerating global expansion.

Customer Experience

A major objective of Starbucks is to increase the quality of the customers' experience at their stores. Chairman and CEO, Howard Schultz, mentioned in recent press release that Starbucks would focus on "improving the current state of the U.S. business by refocusing on the customer experience in the stores, new products and store design elements, and new training and tools for the Company's store partners to help them give customers a superior experience" (Starbucks, Inc.).

Starbucks has long stated its goal of creating the "third place"—or an alternative to work and home for its customers. Many stores have undergone renovations to improve the comfort for customers and hopefully increase foot traffic for Starbucks. The relaxing atmosphere provided by Starbucks reels in customers for more than just coffee giving Starbucks a large competitive advantage over many peers who simply offer beverages and snacks rather than a full relaxing experience.

Starbucks has experimented with several store designs during its lifetime. Since the mid 1990's, Starbucks has employed a "stores of the future" project team to construct a design that would elevate Starbuck's image to a higher level and propel Starbucks into the next generation of coffeehouses (Strickland). Starbucks leaders envisioned a store that offered the aforementioned experience. Schultz and other company executives stated the following vision for their stores:

> [A]uthentic coffee experience that conveyed the artistry of espresso making, a place to think and imagine, a spot where people could gather and talk over a great cup of coffee, a comforting refuge that provided a sense of community, a third place for people to congregate beyond work or the home, a place that welcomed people and rewarded them for coming, and a layout that could accommodate both fast service and quiet moments."

These visions directly lead to the common Starbucks coffeehouse design with which so many are familiar to day.

In addition to these store renovations and redesigns, Starbucks has expanded its product line in an effort to appeal to more customers and add to that relaxing feel. In addition to their regular brewed caffeinated and decaffeinated coffees, Starbucks has begun to sell various products that generates to the comfortable feel for many different types of customers. Products like tea, smoothies, and sparkling beverages called

Refreshers ® give non-coffee drinkers an enjoyable option while at Starbucks. In addition to this, Starbucks created enticing selections for children such as various juices and milk.

Although Starbucks offers several types of beverages, it still maintains its loyal coffee drinkers by keeping its original offerings while also expanding its coffee options. In addition to regular coffee, Starbucks offers espresso, macchiato, latte, mocha, and cappuccino beverages, among others. Their many beverage options along with their food choices, including baked goods, breakfast meals, Paninis, and yogurts and fruit, offer a bit of familiarity to their customers and successfully execute the mission of increasing the quality of the customers' experience at Starbucks Stores.

Focus on Store Level Economics

Another goal of Starbucks was to increase business by "slowing the Company's pace of U.S. store openings and closing a number of underperforming U.S. store locations, enabling Starbucks to renew its focus on its store-level unit economics" (Starbucks, Inc.). This new strategy directly contradicts one of their older objectives of having a Starbucks on every corner. However, company executives believe that an increased focus on individual units rather than the macro level of the company will better position Starbucks for the future.

As Starbucks began to implement this new objective, news stories ran rampant including the following report from the New York Times:

> The coffee store chain announced on Wednesday that it would close 300 more stores, affecting 6,000 employees, and would lay off 700 employees who do not

work in stores. Starbucks also reduced the number of new company-owned stores it plans to open this year to 310, from 470. (Miller)

In this same article, CEO Schultz offered an explanation citing that “these decisions have been made to ensure the company is leaner and prepared to endure a worsening economic climate” (Miller). To grow profitably, Starbucks had to take action that resulted in the closing of multiple underperforming store locations. While many were transferred, many others faced layoffs.

Starbucks employed this strategy and effectively accomplished their object of eliminating underperforming stores. Now the company plans to reach their growth potential by opening more than 3000 stores in the US and abroad.

Global Expansion

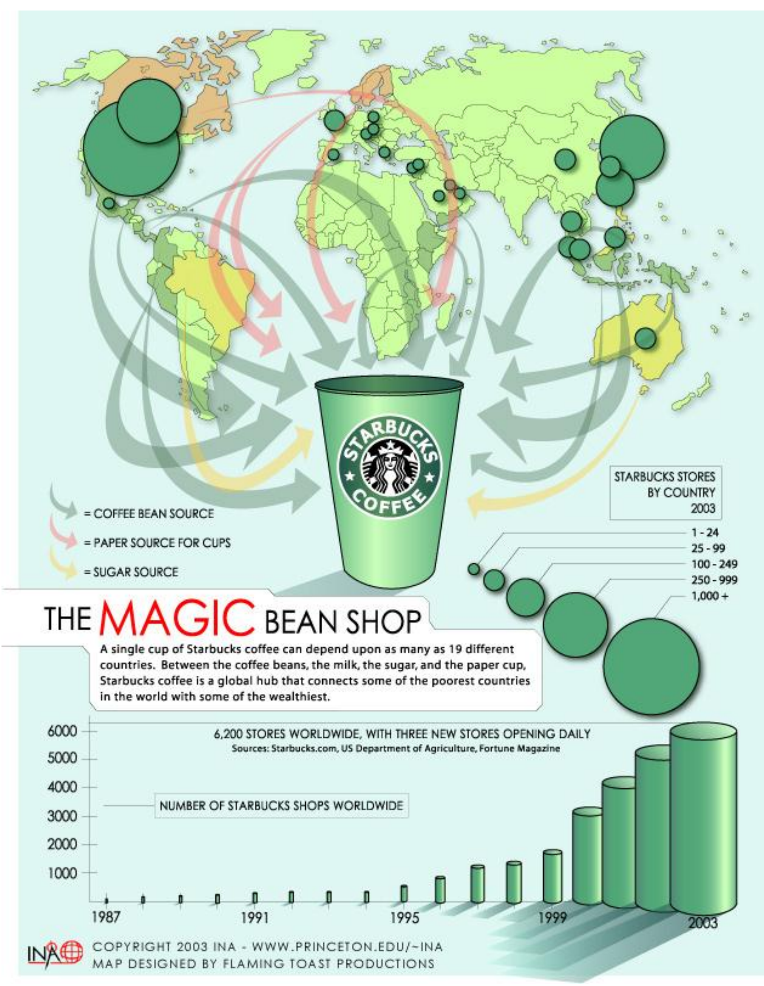


Figure 6 Starbucks has embarked on a stark journey to increase their number of stores globally, specifically in Western Europe and Asia. Company leaders released the objective of “accelerating expansion and increasing the profitability of Starbucks outside the U.S., including by redeploying a portion of the capital originally earmarked for U.S. store growth

to the international business" (Starbucks, Inc.). **Figure 6** depicts the areas served by Starbucks. It is also worth noting the caption, which reads, "[a] single cup of Starbucks coffee can depend upon as many as 19 countries." Starbucks operates in several different countries, not only in a retail sense, but also for their productions.

As mentioned in earlier sections, Starbucks actively collaborates with many farms and other locations to harvest and produce the best quality coffee beans and other products. Since 1996 when Starbucks opened its first international store in Tokyo, Japan, Starbucks has steadfastly expanded into international markets. Through both acquisition and the general opening of new stores, Starbucks has greatly improved its relative position to competitors by increasing its presence throughout the world.

To many industries and individual companies, China has offers an appealing market with very high growth potentials and Starbucks has definitely created plans to capitalize on this great opportunity for increased revenue.

Streamlining Management

One big goal of Starbucks is "re-aligning Starbucks organization and streamlining the management to better support customer-focused initiatives and reallocating resources to key value drivers" (Starbucks, Inc.). Starbucks believes that for the company truly to transform your coffee-drinking experience, not only do the lower, store-level employees need to be the best, but the top-level employees must also be superior. A simple review of Starbucks' Annual report reveals that changes were made to the firm's corporate structure. These changes allow the company to operate more efficiently and focus more heavily on their goals. Many changes included position consolidations, the creation of new positions, and the elimination of uneeded posts.

The resulting restructuring of the company resulted in the replacement of 12 executive and senior staff from the company and the promotion of several remaining officers to fill some of the vacated positions. Additionally, new positions are to be created to help the company better focus on its operational goals. The position of Executive Vice President (EVP), Marketing and Category was created along with EVP and President, Global Products, Foodservice and Seattle's Best Coffee to better meet the needs of a growing market and Starbucks' new product offerings. Furthermore, the position of EVP, Global Strategy was added to the Office of the CEO to place a stronger emphasis on global expansion and development. Other changes included the replacement of a Logistics position with an International Supply Chain office, the merging of the Office of the President for Starbucks USA and Starbucks International with duties from the former Office of the Chief Operating Officer. Partner Resources (HR) was also consolidated with Talent Management.

Current State of Starbuck's Resources

Financial

Value Line rates Starbucks as a company in a fairly sound financial situation. As indicated in the Income Statement (**Exhibit 1)** Starbucks has seen "better-than-expected same-store sales growth of 7% in the core U.S. restaurant segment, which enabled the company to effectively leverage its fixed overhead expenses" (Value Line). In addition to sales, Starbucks's (NASDAQ:SBUX) stock has performed well in the market. The following graphical depiction of Starbuck's common stock shows a comparison to the NASDAQ index over the past 10 years.

Figure 7

Figure 7 shows that Starbuck's stock has outperformed the market for many years, but is also much more volatile than the NASDAQ.

In addition to stock valuation, financial ratios help companies get a firm grasp on their internal strengths and weakness that effectively positions them among their competitors. Fred David likens these financial instruments to "taking a picture because the results reflect a situation at just one point in time" (David). Liquidity ratios measure a firm's ability to pay their short-term obligations, according to David. **Exhibit 3** illustrates the various ratios for Starbucks. The current ratio can be used to measure "the extent to which [the] firm can meet its short-term obligations." For Starbucks, this ratio was 1.9 in 2012. This shows that Starbucks can quickly liquidate their assets if needed to cover their liabilities.

The Average Collection Period is another useful ratio that can be used to value Starbuck's financial strength. The Average Collection Period (ACP), also known as the Days Sales Outstanding ratio, is "the average length of time it takes a firm to collect on credit sales (in days)" (David). Companies with lower ACPs have a stronger financial position than those with higher ACPs. Starbucks is in a good position with a ratio of 13.34 in 2012. McDonald's ratio totaled to be 18.21

Finally, profitability ratios help companies measure their overall effectiveness. One of the most used ratios within this category is the Return on Stockholder's Euity (ROE) ratio. This ratio shows "after-tax profits per dollar of assets." In other words, it indicates how much profit was generated by the company for each dollar that was invested by the shareholders. Starbucks has a relatively high return of over 27%.

Human Resources and Organizational Structure

Starbucks refers to their employees as partners and as of 2012, they employ about 200,000 of them. Starbucks understands that the key to creating a relaxing, "third place" atmosphere for their customers must include having happy, productive workers. Skilled employees are a pivotal part of Starbucks' operations. Starbucks must be able to accommodate fast growth by recruiting and training the best baristas and store managers imaginable. Starbuck's Vice President for Human Resources was once quoted saying, "We want passionate people who love coffee . . . We're looking for a diverse workforce, which reflects our community. We want people who enjoy what they're doing and for whom work is an extension of themselves" (Strickland).

The leaders of Starbucks understand this great need for the best workers and put a lot of effort into the training process. Starbucks partners must undergo an extensive training program that lasts at least 24 hours (not all at one time). Training typically includes classes and hands-on training in virtually every area of store operations. Training activities include classes on coffee history, drink preparation, and customer service, among other topics (Strickland). Baristas also receive training with the cash register, weighing instruments, and Starbucks-specific products.

Managers and baristas must also learn what Starbucks' executives refer to as the "Star Skills" (Strickland). These are: (1) maintain and enhance self-esteem, (2) listen and acknowledge, and (3) ask for help (Reese). Training techniques such as the ones mentioned help set Starbucks employees apart from competitors and add to the experience that Starbucks tries so hard to achieve.

As mentioned in sections above, Starbucks views each partner as an integral part of the entire company, this includes store level employees as well as senior and executive managers. Each partner must effectively and efficiently fit into the company's framework—organizational structure—for the company to work just as effectively and efficiently. Starbucks operates using a combination of Functional and Divisional Structure, also known as Matrix Structure.

The executive and senior teams are divided into functional areas such as Marketing and Supply Chain Management. However, geographic divisions are also noted within the company's structure. This structure allows for more dedication to specific areas of interest to Starbucks, but also maintains the company's commitment to improving all areas of the business. Advantages to such a structure include clearer project objectives and the ability to share functional resources. However, there are some disadvantages as well. The matrix system allows for shared authority and reporting and requires more managers (David).

Core Competencies - Sources of Competitive Advantage

Core competencies are crucial to a company's success in the long-term. A company does not only have to possess core competencies, but they must also be able to identify and focus on those competitive advantages. As for Starbucks, the list of competitive advantages is rather impressive; from global expansion to the quality of the products they produce (see **IFE Matrix**). Perhaps the most important competitive advantage Starbucks holds is its brand loyalty. Keeping consumers' attention and desire for a product is one of the most difficult things in business. As Susan Gunelius explains, "Brand loyalty comes after consumers hear brand messages, develop perceptions of the brand and expectations for it, try the brand, and are happy enough with the branded experience that they want to buy it again and again," (Gunelius).

When selling products from a store with in store service as well as a drive-thru, location is critical. Starbucks has once again set the bar in this category too. With the unique real estate selections, relaxed store design, and friendly, yet efficient, store operations Starbucks has created a place where multiple desires can be satisfied. For instance, people may need to get a cup of coffee quickly or maybe they want to sit down and relax with friends and enjoy the atmosphere. By diversifying their locations, they have diversified the ways in which consumers view, and use, them; only aiding the process of growing their brand to reach out to more and more people with different desires in a coffee shop.

The Internal Factor Evaluation (IFE) Matrix is a summary step in conducting an internal strategic-management audit. This strategy-formulation tool creates a summary of the strengths and weaknesses within Starbucks. The key to the IFE Matrix is to better relate the strengths to the weaknesses to figure out how to fix or eliminate some of the weaknesses; however, the critical factor is to keep the strengths sustainable to create an edge, or competitive advantage, over others in the industry.

IFE Matrix

	Key Internal Factors	Weight	Rating	Weighted Score
	Strengths			
1	Global Expansion (China, Russia, Brazil)	0.19	4	0.76
2	Brand Loyalty	0.08	4	0.32
3	Excellent Service	0.08	3	0.24
4	No use of chemical flavoring	0.1	4	0.4
5	Atmosphere in shops	0.15	4	0.6
6	High Quality Coffee	0.13	3	0.39
	Weaknesses			
1	High Prices	0.13	2	0.26
2	Lack of Marketing and Advertising	0.04	2	0.08
3	Limited Availability of products	0.1	2	0.2
TOTAL		1		3.25

Mentioned above was the idea of a strong brand loyalty being Starbucks's greatest strength, however, in the IFE Matrix it is not weighted as highly as the other strengths. Why? Starbucks has already built one of the strongest brand loyalties of any company in the business of selling consumable products. Do not mistake the low weighting as dismissing the importance of brand loyalty; Starbucks continually reinforces their consumer loyalty with new flavors, new shop layouts, and different locations of their buildings. Brand loyalty has been achieved, now it is just being put on the back burner.

Based on the IFE matrix provided, Starbuck's expansion into the global market has been one of their biggest strengths. Opening their product to new consumers in a foreign country and, in turn, a foreign market creates a whole new target market that has never heard of Starbucks. To be successful, Starbucks has to focus on carrying its sustainable competitive advantages with them. For example, the brand loyalty Starbucks has in the United States is outstanding. People drive out of their way to get a cup of coffee from Starbucks in the morning. Brand loyalty does not happen overnight; but, by providing excellent service, quality coffee, and a relaxing atmosphere within their stores, the new consumers will begin to construct their own perception on the Starbuck's brand.

The atmosphere and quality of the coffee, or other product, are relatively close in weight for multiple reasons. Having a competitive advantage means to have or do something that is difficult to imitate, copy, or substitute. The atmosphere of Starbucks is unique. The relaxing, "chilled-out" setting attracts people to their venue. Attracting people to Starbucks does not gain them profits. Coupling their unique environment with a quality product will hook the consumer; which it seems they have already done for the most part. By continuing the trend of quality, and making subtle changes in the atmosphere to match the seasons of each year (easily seen during the holidays), Starbucks has built a true competitive advantage within the industry.

Of the factors in the IFE Matrix, the most fearful is the high price of Starbucks coffee. A prime example is the idea of reproducing a cup of Starbucks coffee in the comforts of home, "Consumers could brew their own 16-ounce cup at home for as little as $2.66," (Fottrell 2012). Starbucks charges around $7 for the same cup of coffee at their store. Consumers could begin to understand the ridiculousness of Starbucks's prices. The strength of their brand loyalty may not keep consumers under their thumb.

Exposing the overpricing of their products could open the eyes of many consumers and ultimately turn them away from Starbucks; possibly even turn them to competitors.

To continue along the line of the weaknesses mentioned in the IFE Matrix, Starbucks's limiting of the sale of their coffee to only a Starbucks location poses as a problem. Selling their flavors of coffee on the shelves of grocery stores would only help target a larger number of consumers while repositioning their product within the same market. Many people do not feel the desire to go out and purchase a cup of coffee at $6 a cup when they have a coffee maker at home. Of course, Starbucks would rebuttal with the quality of their cup of coffee would far succeed that of any homemade brand. But wait, what if Starbucks was the company selling the homemade brand of coffee on shelves of grocery stores across the nation? Not only would more people begin to drink their coffee, but they would also be more open to pulling off the road and stopping at a Starbucks due to the attractiveness of the brand.

The IFE Matrix deals with the strengths and weaknesses of a company only. What it fails to show is the process and activities required to result in the strengths and those that are not being done resulting in weaknesses. These activities, processes, and operations are a part of the Value Chain Analysis. In this analysis, companies will look at, "the costs associated with organizational activities from purchasing raw materials to manufacturing product(s) to marketing those products," (David 119).

Figure 8

Source: http://eiamsri.wordpress.com

Figure 8 represents a visual depiction of a **Value Chain Analysis**. Although not specifically designed for Starbucks, the sections can each be associated directly to a function, activity, or process of the company.

Primary Activities

The primary activities (Porter, 1985) of the company include the following:

- Inbound logistics

  Starbucks must have a means of maintaining fresh coffee beans throughout the shipping process. Doing so creates the high quality product that gives them a competitive advantage.

- Operations

  The operations in a Starbucks chain café would be to make the orders of the consumers using the beans from the supplier.

- Outbound logistics

  Distribution of a final product from Starbucks's standpoint would be the selling of a cup of coffee, frappuccino, or espresso to the customer.

- Marketing and sales

  Marketing has been a weaker point in Starbucks's competitive strategy as of recently. However, the brand loyalty is at a point where continuous marketing efforts would not have a full effect due to the already excellent brand awareness. Therefore, this is why it is hard to remember the last Starbucks commercial released on television; they simply do not need to incorporate the cost of marketing to increase sales.

- Service

  The service aspect is referring to the friendliness and cooperative characteristics of Starbucks's employees. Their service is the direct service to the customer.

Support Activities

The support activities of a company (Porter, 1985). include the following:

- Procurement

  An efficient procurement department should be able to obtain the highest quality goods at the lowest prices. With the release of a $7 cup of coffee, one could rightfully assume that Starbucks is not very effective in this department. If they have to charge $7, their costs must be around $5.50 to $6; or are they just boosting their prices because they understand the strong bias people feel to buy their brand?

- Human Resource Management

  Human resources are increasingly becoming an important way of attaining sustainable competitive advantage. By hiring the right people to run their stores, Starbucks has equipped each branch with trusted, friendly, and hard-working employees who contribute to the success of their branch.

- Technology Development

  As the company website states, “There are more than 650 people at Starbucks providing technology solutions that help [them] work more productively, make [their] stores run more efficiently and invite [their] customers to connect more closely,” (“Information”). The technology includes innovations to keep up with shipments, distribute resources, and keep track of orders is all aspects in Starbucks’s technological field.

- Firm Infrastructure

  “Starbucks has proved to be a leader in identifying market trends and positioning themselves accordingly,” (Kembell). These two aspects have been the strongest amongst their entire infrastructure.

In the case of Starbucks, its value chain activities started out with great effectiveness. Due, mainly, to the co-ordination between its primary and secondary activities being carefully managed; resulting in added value to its brand. Their operations, marketing and service activities are supported with a good corporate management planning, human resource management, and technological development activities. For example, the previously mentioned competitive advantage, location is carefully studied, taking consideration of even minute and seemingly irrelevant details such as traffic flow, the density of people and demographic characteristics of area. (Clark). These are done to support the primary activities that aim to deliver good quality coffee products to consumers. In the primary activity component, suppliers are cautiously selected, the distribution of coffee beans to each outlet is carefully planned to maintain freshness, and each store are designed to provide comfort to consumers (Clark).

Sustainable Competitive Advantage

Transforming competitive advantages into long lasting ones can be difficult. David defines it as, “Normally, a firm can sustain a competitive advantage for only a certain period due to rival firms imitating and undermining that advantage. Thus it is not adequate to simply obtain competitive advantage. A firm must strive to achieve *sustained competitive advantage* by (1) continually adapting to changes in external trends and events and internal capabilities, competencies, and resources; and by (2) effectively formulating, implementing, and evaluating strategies that capitalize upon those factors,” (David 9). Sustainable, competitive advantages are advantages that are not easily copied and, thus, can be maintained over a long period of time. The competition must not be able to do it right away or it is not sustainable. For example, the company hires designers to come up with artwork for commuter mugs (Gunelius).

Starbucks has many strengths and a number of competitive advantages have resulted from these strengths. Of the mentioned strengths, the most significant sustainable advantage is the brand loyalty Starbucks has built over the years. By continuing to strengthen it, Starbucks will be able to continue its domination in the coffee industry. Competitors will not be able to pull consumers away from Starbucks, or at least enough consumers, to make a significant impact on Starbucks's well-being as a company. It cannot be emphasized enough; Starbucks has built their company with much dependency on brand loyalty. Sustaining the brand loyalty into the future of the company must be the top priority. To do this, however, Starbucks must continue its focus of quality products in a unique atmosphere.

Along with brand loyalty, is the advantage of location. One would agree, Starbucks seems to conveniently place their stores to where the it is the first coffee shop people see when becoming aware of their surroundings. For example, the company has many of the best geographic locations in major metropolitan areas and suburbia locked up. The cost of duplicating Starbucks' real estate would be very high ("Strategies"). Starbucks had, in some critics' minds, stretched themselves too thin by opening too many locations. In Clark's writings he mentions Starbucks's opening of nearly 3 stores a day during 2006-2007. Given the information to be valid as well as it being six years later, it seems Starbucks has silenced the critics and doubters with the continuous growth and expansion of the company.

Starbucks is in a great position within the industry. They have planted themselves in a firm position in the eyes of the consumer, created a respected brand, and have made plans to expand even further. McDonalds, Dunkin Donuts, and local coffee shops have all incorporated, or mimicked, an aspect of Starbucks's success in some fashion. These competitors are doing well in terms of finances; however, none have challenged the level of Starbucks. Granted, all companies have their ups and downs, but if Starbucks can maintain their course, it will be hard to imagine them easing off anytime soon.

Starbucks SWOT Analysis

Starbucks Strengths

Starbucks from a competitive stand point can be considered an example of a dominant force in its industry that has no plan of slowing down. Since Starbucks's conception they have constantly reach for new heights while still sticking to their core values and competencies. Considering their plunge from conception to globalization, certain aspects of their organization stand out as vital strengths contributing to their sustained growth in both productivity and profitability. Some of these strengths consist of their brand recognition, product and service consistency, financial profitability, and international expansion.

As Starbucks has rapidly pushed their brand through various markets they have been able to ultimately use their brand awareness as a key factor for continued success. One researcher writes, "[a]s Starbucks began in 1971, a small coffee roaster, they rapidly pushed towards an estimated 20,000 stores, operating in 61 countries, and employing about 200,000 employees in 2014" (Alpha). With these types of expansion capabilities it is hard to argue that they are not seen as the ideal coffee distributor by consumers.

This large presence also influences the majority of coffee consumers to think one thing when they think about coffee, Starbucks. Although their presence may be growing in large numbers they still keep their focus set on quality management of both products and service in all locations. "As Starbucks prides itself as the best quality coffee in the world it tries to control much of the supply chain for quality control and product assurance" (Beverly). "Starbucks' strategy of creating a personalized service that is vital for the customer's satisfaction is pivotal in ensuring his loyalty; personalized services include personal greeting, flexible changes to the drink/order and memorizing the favorite order of each customer, all with a genuine smile and friendly spirit" (Beverly). With these ideals of quality product and service Starbucks allows themselves to gain repeat customers and attain consistent profitability from a financial stand point.

Financially Starbucks has been able to generate $13.3 billion in 2012 up from $9.8 in 2009 as well as seeing an increase of; 13% in comparable stores sales growth (stores open 13 months or longer), 1.435 million in operating income, $.99 per diluted share, and 361 million in operating cash flow (Starbucks). Such rapid financial growth gives Starbucks the ability to fund the strategic planning, implementing, and evaluating of many different aspects of their organization; ultimately giving them a competitive stance in developing new strategies that range across all departments and markets.

This advantage gives light to another of Starbucks much strength which is their international expansion. "Starbucks has experienced expansion globally, and has created licenses throughout Asia, the Middle East, Africa, and the Americas, and maintains a 40% market share internationally" (Banger). Growth into international markets allows Starbucks to both grow and learn more about coffee in all markets. It also allows them to capitalize on emerging economies with this similar demand for specialty coffee.

Starbucks Weaknesses

Although Starbucks has exhibited their dominance in the coffee industry they have not done so without flaw. As in all organizations there are always weaknesses or aspects which have room for improvement. In Starbucks case these weaknesses consist of; rising prices, small customer base, and lack of cultural understanding in international coffee industry.

The Starbucks business as a whole competes in the niche market of specialty coffee which is expected to be a more pricy choice when compared to competitors, but the rising prices for this luxury product can become a hindering weakness especially in receding economies such as the U.S. “Starbucks announced a 12% hike for the packaged brand that's sold in grocery stores. The café-chain also raised prices of some of its more labor intensive drinks late last year” (CNN Money). These types of increases in coffee prices brings up another weakness for Starbucks in that it can narrow the customer base significantly through eliminating consumers looking for more cost effective products.

Although Starbucks indicates that they control the majority of the market for coffee “selling almost as much coffee as do fast food and convenience stores combined, the bulk of its consumers are in cities or upscale suburban areas with relatively high income, professional careers, and a focus on social welfare. This customer base accounts for around 33% of the market share for coffee in the U.S.” (Chron). Although this percentage generates large profits it still leaves a significant amount of coffee consumers left looking to competitors to fulfill their coffee needs.

As Starbucks continues to push into various international markets they have encountered difficulties in assimilating cultural differences. As explained by Liz Alderman, “after eight years spent setting up 63 French Starbucks stores, the company has never turned a profit in France. And even in the parts of Europe where the company does make money, sales and profit growth lag far behind results in the Americas and Asia.

Europe’s debt crisis and sluggish economy are also a factor. So are high European rents and labor costs, which impinge on profits more than in any other region in which Starbucks operates. But the biggest challenge may lie in tailoring the Starbucks experience to appeal to a variety of European tastes which center around a different type of coffee café experience” (Business Day). As Starbucks continues to grow and learn they must be able to overcome these cultural deficiencies and adapt to their new market for any chance in sustainable success in international markets.

Starbucks Opportunities

Starbucks large scale success in productivity and profitability has put in a highly competitive position to access and capitalize on newly emerging opportunities in the coffee industry. Some of these opportunities consist of; reaching emerging economies, advancement in technology of both their product and service, developing new coupons, deals, and reward systems, and potential of dominating U.S. market segments.

As Starbucks continues a very aggressive expansion strategy they explain that, “as the equity of our brand thrives around the world, we anticipate having 20,000 stores on six continents by 2014. In the China and Asia Pacific region in 2012, we once again posted strong annual returns, including 11 consecutive quarters of double-digit comparable store sales growth. This success showcases how with nearly 3,300 stores, plus hundreds more planned throughout Asia Pacific we are mastering the transferable ability to scale our brand’s core attributes and expertise, while respecting and reflecting regional customs and cultures so we may be locally relevant. A concurrent trust is established when a delicate balance is struck between the two. This also ensures the company has opportunities for continued growth everywhere we do business. That includes the 36 countries in EMEA, where revenues grew 9 percent last year and where we continue to apply lessons of the past to reconnect with our customers in this economically challenged but important region.

Starbucks consolidated global revenues reached a record $13.3 billion, a 14 percent increase, with revenue growth driven by a 7 percent rise in global comparable store sales and a 50 percent rise in revenue from Channel Development. Our operating income was $2 billion, a 16 percent increase, with our consolidated operating margin rising to 15 percent, up 20 basis points from last year" (Starbucks). With these examples of Starbucks successful expansion projects it can be inferred that they have the opportunity and ability for profitable expansion globally.

As Starbucks continues to achieve new levels of profitability they also create opportunities for reaching new levels of productivity for their product and service through technology. Some of these new technology innovations include, "smartphone-wielding Starbucks customers in the United States getting a new way to pay in early November when the world's biggest coffee chain begins accepting Square Wallet mobile payments at its roughly 7,000 company-operated U.S. stores" (Fox Business). Accompanying this new mobile payment plan Starbucks said, "It also plans to add digital tipping next summer.

Users of these payment plans will show Starbucks cashiers a bar code on their phones. That code will be scanned for payment. That process eventually will change to one where Square's global positioning system, or GPS, technology detects the customer's phone in the store. The customer then will "pay" by giving his or her name to the cashier, who will verify it with a name and photo displayed on the register's screen" (Fox Business).

This example of technology innovation has the capability of generating high increases in employee productivity as well as profitability especially as this plan is implemented into their international markets. "Globally, transactions paid for with mobile technology are forecast to increase nearly fourfold to more than $1.3 trillion annually by 2017, according to a recent report from Juniper Research" (Fox Business). Another key opportunity for Starbucks to attain higher market share in the market for cost effective coffee is to further develop their coupons, deals, and reward systems.

Reward systems such as, "Starbucks Rewards: you'll earn 1 Star every time you pay with your registered Starbucks Card or the Starbucks mobile app at a participating store or at StarbucksStore.com. As you collect Stars, you move up to bigger benefits. There are three reward levels" (Starbucks rewards), along with more coupons or deals will allow customers looking for cost effectiveness to feel that they are getting a great deal in these purchases. Also potentially influencing them to become repeat customers to fully retain all befits and ultimately gets them the most for their money. This will in turn create more business for Starbucks and improve their market share in varying markets. Lastly Starbucks success in the U.S. has created the potential opportunity for total domination in their U.S. market.

As the statics relating to market share and profitability mentioned earlier Starbucks is consistently developing their presence in the U.S. and have reached a very dominate position. Although competition is continuously growing in this highly profitable market if Starbucks continues effective strategic planning, implementing, and evaluating in their adaptation to all segments of U.S. consumers they have the potential to overtake all competitors and label themselves as the monumental coffee distributor.

Starbucks Threats

As Starbucks continues to show just how profitable the market for coffee can be, they give rise to many threats that have the potential to negatively influence their grip on the coffee industry. Some of these threats consist of; increasing number of powerful competitors in restaurant and beverage industries, recessions, cultural values and routines of foreign markets, and ethical conflicts pertaining to union workers.

Although Starbucks has been able to generate rapid growth in profitability and market expansion, they have showed just how high the demand is for coffee ultimately influencing competitive businesses such as McDonalds and Dunkin Doughnuts to pursue portions of the market for coffee. With competitive leaders such as these dipping into the coffee industry Starbucks must continuously strategize to counter any influence these competitors make on the industry. With McDonalds and Dunkin having such a large customer base as well as pursuing low-cost strategies they have the potential to acquire a large number of customers from Starbucks especially in the segment with more cost effective taste. This affect can be magnified even further when taking into account another threat that is an economic recession.

In the U.S.—especially where employment rates, consumer discretionary incomes, and the demand for luxury products have dropped—many consumers are looking to seek more cost effective budgets and cut spending. This influence pushes many coffee consumers toward cheaper alternatives ultimately creating the potential for large losses in customers and profitability for Starbucks.

Another threat to Starbucks business as explained earlier in the example of Europe comes from differing tastes and routines in foreign cultures. Many countries have operated around the demand for coffee just as long as the U.S., some for even longer. This makes some of the more highly developed and profitable locations stubborn to the idea of change in the coffee culture. Countries such as these enjoy a very specific coffee consumption culture pertaining to the coffee itself, the service, and the environmental culture. As Starbucks has not had time to fully acclimate themselves to these new ideals and values they can potentially fall victim to a negative perception in the eyes of foreign consumers. This negative affectivity can result in large losses of international profits which can also limit their opportunities of further expansion into these foreign markets.

Negative affectivity has also become a threat for Starbucks through ethical dilemmas in association with union workers. Claims that give rise to wrongful ethical practices and develop negative perceptions of their business can be detrimental to customer loyalty. An example being that of Chelsea News, “Last December, an administrative law judge for the National Labor Relations Board found that Starbucks had illegally fired three New York City baristas as part of an effort to squelch a union organizing effort. The judge’s 88-page ruling also says the company broke the law by giving negative job evaluations to other union supporters and by prohibiting employees from discussing union issues at work” (Examiner).

As the U.S. becomes more ethically conscious customer loyalty can be severely damaged by claims of ethical wrong doing. Also considering that the U.S. represents the largest percentage of Starbucks overall sales and profits the potential threat of ethical wrongdoing can result in extreme losses of customer loyalty. Starbucks must have constant societal awareness to reduce this threat and avoid any serious gains of negative affectivity. This consciousness is vital to continuing an ethically sound image and retaining high levels of customer loyalty.

SWOT Matrix

	Strengths 1. Brand Recognition 2. Product & Service Consistency 3. Financial Profitability 4. International Presence	**Weaknesses** 1. Rising Prices 2. Small Customer Base 3. Lack of International Coffee
Opportunities 1. Reaching Emerging Markets 2. New technology in product 3. Domination of US market Segment 4. More promos, deals, coupons, etc.	**SO Strategies** 1. Create better reward system to generate more repeat customers (S3, O5, O4) 2. Mobile media technology in foreign markets (S2, S4, O3)	**WO Strategies** 1. Add low-cost standard coffee (W1, O2) 2. Franchise Stores to college campuses (W2, O1)
Threats 1. Increasing competition 2. Economic Recession 3. Intl Cultural values and routines 4. Ethical Issues	**ST Strategies** 1. Promo program giving back to less fortunate countries (S1, S4, T4) 2. Coffee beans bulk purchase on Website (S3, T2) 3. Make all stores drive thru (S3, S2, T1)	**WT Strategies** 1. Hire marketing & operations admin from Europe (W3, T3) 2. In depth feedback survey on website & foreign markets (W2, T1, T3)

Competition's SWOT Analysis

Competitors Strengths

As Starbucks has found and capitalized on their niche in the coffee industry, they have been met with intense rivals that range from large publically traded companies such as McDonalds and Dunkin Doughnuts as well as by small local coffee shops around the U.S. Each of these competitors has found means of providing their own unique characteristics to gain a share of the market for coffee. McDonalds and Dunkin have been able to use their key strengths consisting of their; large customer base, low-cost, quick service, and immense resources. On the other hand Small local coffee shops strengths consist of their; experience in perspective demographic, quality product and service, and customer loyalty.

The first strength for these large organizations comes from their impressive customer base. "In 2010, McDonald's operated 32,737 restaurants worldwide including 14,027 units in the United States, and Dunkin' currently operates in several foreign countries as well as approximately 6,772 stores in the United States allowing same-store sales for Dunkin' Donuts' U.S. division to rise 2.3 percent in 2010 and revenue in the U.S. to total $402.4 million, a 3.8 percent increase over 2009 (Misonzhnik). With their customer base spreading across nearly all markets and demographics they have a high potential to gain a wide range customers looking to purchase coffee at any of the many stores conveniently located all over the U.S.

Another strength of these large organizations is their low-cost strategy and the quick service of fast food restaurants. Especially given the economic downturn of the U.S. economy consumers are always looking for the quickest and cheapest alternative.

Cheap coffee that can be bought through the drive thru makes for a great option for all the consumers working on tight budgets. As explained previously both McDonalds and Dunkin have been able to generate very large profit margins and have shown their ability to achieve sustainable in both profitability and productivity. These large profit margins and their continued expansion brings fourth another of their many strengths in their extensive capital funds and resources. These publically traded companies are so well funded that their resource capabilities and market awareness are almost limitless. This strength gives them the ability to pursue any type strategy they want as well as allowing them to reach their target markets immediately because of their extremely high level of brand awareness.

Contrary to these large organizations, local coffee shops have the strength of providing a more quality product in their specialty coffee. Coffee is considered by many consumers to be a means of social welfare and cultural experience. As local coffee shops provide a niche product and a quality experience they are able to more adequately meet the needs of the coffee drinkers influenced by value as opposed to the standard low-cost product and service of large scale coffee distributors.

Although local coffee shops may not have nearly the market presence of these large organizations they have far more experience with their specific demographics and target market. This strength allows them to differentiate their products to satisfy the needs of a much smaller target market. Because of this experience and dedication to a small niche market they are able to create a very high level of customer loyalty. The fact that local coffee shops have had time to develop a more personal relationship with their customers gives them the potential to retain local customers and steer them away from doing business with impersonal publicly traded companies.

Large coffee distributors Weaknesses

Large scale coffee distributors have been able to grow and profit significantly in the coffee industry, but have some weaknesses that can potentially hinder their ability to achieve sustainable growth and profitability in new markets. Some of their weaknesses consist of their; inferior service, low-quality products, and core competency being in markets other than coffee. Both McDonald's and Dunkin have similar weaknesses.

First, although their coffee is consistent and convenient considering its relativity to their diverse product line as they compete with specialty coffee distributors their product still remains of less quality to that of Starbucks and local coffee shops. Their low-cost strategy limits them to providing a much more generic and standard brew of coffee. Also given their little expertise in the coffee market they are limited in their ability to attain the same high level of coffee suppliers as their competitors. This inexperience working with coffee brings forth another weakness in their inferior service.

Another factor that contributes to their subpar service is their employee productivity. McDonalds and Dunkin must employ a very large work force with minimum wage salaries and little to no relative benefits to account for their extremely large number of stores. This factor also makes it difficult to implement sufficient job training practices and ultimately results in their employees having less motivation and job satisfaction. With employees having low levels of job satisfaction and McDonalds stores being consistently crowded creating pressure to rush through transactions it is nearly impossible to develop a high quality service or environment.

Lastly, both Dunkin Doughnuts and McDonalds run into a similar problem in the perception of their core competencies. Dunkin's core competency is their superior doughnuts and McDonald's is Hamburgers and French fries. Although they both have a large presence in the coffee industry they are viewed as a Doughnut and Hamburger store where as Starbucks and local coffee shops core competency is coffee. This perception leads coffee consumers to lean towards a specialty coffee shop when they are just looking for a cup of coffee.

Small coffee shop weaknesses

Local coffee shops across the U.S. have managed to survive even though their constantly faced with a difficult existence due to large scale coffee distributors' rapid increases in market presence. Local coffee shops have some key weaknesses that put them at a significant disadvantage consisting of their; low brand awareness, high prices, small customer base because of their niche market, and limited resource funding. Although many of these local shops have managed to avoid extinction their brand awareness remains very low in comparison to their competitors. Each individual shop has local awareness, but their ability to reach out into other markets and attain any sort of growth is limited significantly because they do have the resources or presence to make them known. This restraint on their ability to expand keeps them stuck in one location and if faced with any influential competitors moving to their area they run the risk of losing valuable customers and possibly being quickly put out of business.

The next weakness is their high prices. Specialty coffee is considered a luxury item, and depending on the demographic along with the economy this can become a detrimental weakness. If the demographic is made up of consumers with cost sensitive tastes or low rather than high incomes then the coffee buyers will be inclined to embrace new or cheap alternatives rather than sticking with the high priced specialty coffee. Another weakness of local coffee shops is their small customer base. This weakness can also be magnified through receding economies. An example being the U.S. current economic position, recession can cause the market to eliminate luxury items from their budget especially with the easy accessibility of cheap coffee this could lead Specialty coffee distributors to rapid negative profit margins and even unrecoverable losses. Although in high demand specialty coffee is still considered a niche market because the main consumers of this specialty product are limited to mostly those with professional careers or focus on social welfare. These consumers only make up a small segment of the overall market for coffee. This ultimately leaves specialty distributors at the mercy of this one segment, and if tastes change the business will ascertain large losses.

Lastly, local coffee shops are primarily sole proprietorships or partnerships which make their funding limited to the owner or limited partners. The problem that arises with this is in their ability to fund new projects, objectives, or strategies. This limited funding makes local coffee shops susceptible to potentially threatening businesses moving to the area and taking advantage of opportunities that require more funding than local shops can afford.

Large coffee distributer's opportunities

Large coffee distributers being primarily publicly traded and highly capitalized have the capabilities to find and fund any new ideas or strategies they want. This provides them with many opportunities such as their; increased demand due to recession, coffee cafés with specialty coffee, and international advancement into emerging economies. As we have seen in the U.S. recession many consumers are tightening budgets and cutting spending on luxury items. This creates a great opportunity for businesses like McDonalds and Dunkin to capitalize on their production of low-cost coffee. Their convenience and low prices make them an ideal option for all customers looking to save money while still meeting their coffee needs. Another opportunity for large coffee distributers is to develop cafés where they can provide specialty coffee of higher quality than in their drive thru restaurants. This will give them the ability to provide a wide variety of coffee products ranging from low- cost standard coffee to high priced specialty coffee and everywhere in-between.

Also because companies such as McDonalds and Dunkin have already managed to push their brand into international markets they have access to the opportunity of reaching many emerging economies across the globe. Demand for coffee is not only high in the U.S.; it is integrated into cultures all over the world and in some more so than the U.S. This allows these large distributors to pursue aggressive expansion strategies and take advantage of other emerging economies that have high demand for coffee. Also with their coffee products being low-cost it will pose as a viable option in both receding and expanding economies.

Local coffee shop opportunities

With local coffee shops being central and integrated into their perspective demographic they have the potential to find quick and accessible business opportunities. Some of which consist of; managing information on their demographic in a timely manner, sponsorships, and promotional local events. As these local coffee shops have developed influential relationships with many segments of the local market they gain access to very timely information.

They can also quickly manage and capitalize on local opportunities because their span of control is much smaller than that of the larger competition. This brings forth another opportunity in sponsorships. Local shops have a presence within the community and they can easily make that presence known through sponsoring other local school or business activities. Sponsorships such as these will increase their customer awareness as well as their customer loyalty ultimately making the local society more inclined to give their business to them and prevent large distributers from moving to the area and overtaking their customer base.

Lastly, considering the first two opportunities local coffee shops have the opportunity to create promotions that cater to the needs of their specific demographic. As local coffee shop owners are primarily involved citizens in their city they can develop these promotions in a way that gives them the label of socially responsible within the community.

Competitor's threats

Although the coffee industry is growing rapidly it is also highly competitive with all rivals constantly making improvements both in productivity and profitability. As the competitors of Starbucks have been able to attain success they encounter many threats such as; Starbucks high level of brand awareness in the coffee industry, increasing number of substitute products, and receding economies lowering demand for single serve coffee.

The first and most influential threat to competing coffee distributors is the simple fact that when the word coffee is mentioned the next thought that comes to mind is Starbucks. Starbucks has continued their aggressive campaign pushing their brand awareness through all areas of the U.S. and into global markets. With this high brand awareness present and future coffee buyers are influenced to believe that the most viable option for meeting their coffee needs is through Starbucks. Starbucks brand awareness also raises the barriers to entry in the coffee market as well as making it difficult for existing competitors to grow in market share or expand on areas of the U.S. already controlled by Starbucks.

The next threat comes from the growing number of available alternatives that fulfill the same needs of consumers. Energy drinks such as Redbull, Monster, and 5 hour energy as well as beverages such as Coke products are making their presence known in today's market. All of these products provide energy through caffeine or other additives which is the root of demand for coffee. Some consumers drink coffee for the taste and culture, but the majority drinks coffee to meet their caffeine needs and give them energy to perform at a high level. Other alternatives that provide the result can be a severe threat to the sustained growth of the overall coffee industry.

Lastly, receding economies can pose a threat to all coffee competitors. In any economy that experiences recession the consumers tighten budgets eliminating luxury items from their purchases. Although coffee is still in high demand throughout most recessions, a severe recession that in which challenges consumers ability to access highly profitable jobs will ultimately decrease their discretionary income. As incomes decrease people will cut less important purchases out of their budget. If an economy recedes far enough more and more consumers will eventually either cut coffee off their list or only purchase in bulk through wholesalers or retailors which will in turn cause all single serve coffee distributers to experience profit loses.

Identification of Strategic Gaps in the Marketplace

Starbucks as a whole has done a great job throughout their existence of capitalizing on all opportunities in the marketplace while still sticking close to their core competencies. As we see that Starbucks is a specialty coffee distributor that has a growing presence in today's coffee industry; they must continue to improve on all of their key strengths, find new and innovative opportunities, while minimizing threats and weaknesses, and even turn some of their weaknesses into strengths if they want to continue to achieve sustainable success.

In order to do this Starbucks must identify some strategic gaps in the marketplace such as; taking on a more financially conscious approach that would improve their rewards system and produce some sort of base level standard coffee that they can sell through their stores all over the world at a low price. This will allow them to increase their customer base and reach both high and low income segments of the coffee market while still maintaining their reputation of quality service. Because of the current U.S. economies recession this will also allow them to show the public that they are being more socially conscientious creating more positive affectivity and ultimately generating a higher level or customer loyalty. Lastly this strategy will take from the strengths of many of their competitors and give coffee consumers even less reason to choose anywhere but Starbucks for any type of coffee needs.

Another gap that Starbucks could identify and approach would be; developing a promotional program that accessed how many cups of specialty (high priced) coffee they sell in the U.S. monthly and donating a percentage of the profits in the form coffee to less privileged foreign countries. This strategy would help them reconcile or avoid any perception of ethical shortcomings while increasing their brand awareness across the globe. It will also increase the perception of the personal and environmentally aware characteristics of their business while giving light to the diversity of their promos and reward programs. Starbucks could also push their new technology in mobile media transactions into their international markets allowing their international markets to more easily purchase and give feedback on ways to improve their stores in foreign markets. This will allow foreign markets to see their devotion to integrating products and service to meet their unique demands. It will also show a more technologically advanced level of business far beyond that of any competitive coffee distributors.

All of these approaches are ways in which Starbucks could bridge gaps in the coffee market; capitalizing on strengths and opportunities while improving weaknesses and minimizing threats.

Identification of Critical Success Factors and Measures

Starbucks has many critical success facts that affective its business. These success factors are advertising, product quality, price competitiveness, market share, global expansion, customer service, customer loyalty, and employee benefits dedication. Each critical success factor is given a weight from zero to one. If a factor is given a weight of zero it means it is not important and if it is given a weight of one it is very important. These factors all also have a rating from one to four. A rating of one means that factor is a major weakness, two means it is a minor weakness, three means it is a minor strength, and four means it is a major strength. The third determinant of whether the factors are beneficial to the company is the score. A factors score is acquired by multiplying the weight and rating of the factor. Then these scores are added together to determine the company's total weighted score. The total weighted score is used to determine Starbucks to other companies in the same industry.

The first critical success factor is advertising. For Starbucks advertising received a weight of 0.1. Because advertising weight is show low it shows that it is not important for the entire industry. Each of the companies in Starbuck's industry has the same weight for advertising. The rating for advertising for Starbucks is two, which makes it a minor weakness. To determine the score for advertising for Starbucks multiply 0.1 and two together, which would make the score of advertising 0.2. When advertising is compared to McDonalds, Caribou, and Dunkin' it is below McDonalds and Dunkin', but above Caribou.

Product Quality is the second critical success factor. The weight for product quality is 0.15 for the industry. Starbucks has a rating of four for this factor. That means that it is a major strength. Starbucks has a high product quality. The score for Starbucks in the product quality sector is 0.6. when compared to other companies in the same industry Starbucks is above McDonalds and Dunkin', and it is equal to Caribou.

The third critical success factor for this industry is price competitiveness. The weight of this factor is 0.1 for the industry. Price competitiveness for Starbucks is rated two. This means that price competitiveness for Starbucks is a minor weakness. The score for this factor is 0.2. The industry ranges from 0.2 to 0.4 in price competitiveness, which puts Starbucks as the lowest in this factor.

Market share is another critical success factor for Starbucks's industry. The weight of market share is 0.2 for the industry. For Starbucks the market share is rated a four. This means that the market share is a major strength for Starbucks. The score is 0.8, which when compared to the other companies it this industry is the higher than McDonalds, Dunkin' and Caribou.

Another critical success factor is global expansion. The weight of global expansion for the industry is 0.05. It is rated a four, which means like market share it is a major strength. When comparing the scores, Starbucks ties for first with McDonalds with a 0.2.

Customer service is the sixth critical success factor for the industry. It is weighted for the industry with a 0.15. Starbucks is rated a four in customer service. This means that customer service, along with market share and global expansion, is also a major strength for Starbucks. It scores a 0.6 in this factor. Compared to the other companies Starbucks and Caribou have higher scores than McDonalds and Dunkin'.

Yet another critical service factor for Starbucks's industry is customer loyalty. This factor weighted at 0.2 in the industry. Customer loyalty at Starbuck is rated three. This means that customer loyalty is a minor strength for Starbucks. When multiplying the weight by the rate, Starbucks scores a 0.6. Caribou is the only company in this industry that scores higher than Starbucks with a 0.8, Starbucks and Dunkin' tie, while McDonalds comes in last with a 0.2.

The last critical service factor for this industry is the employee benefits dedication. In this industry it is weighted with 0.05. For Starbucks employee benefits dedication is ranked at 3, which means that it is a minor strength along with customer loyalty. It scores second to Caribou with a 0.15.

Starbucks scores highest in the total weighted scores. Its score is 3.35 out of four. This means that out of all four of these companies Starbucks is the strongest in this industry. Knowing this can help Starbucks to move forward with its competitive strategies so that they can raise their scores even higher.

Choice of Future Competitive Strategy - Next 5 Years

In order for Starbucks to choose a future competitive strategy it must go through three stages in the strategy formulation process. Theses three stages are the input stage, the matching stage, and the decision stage. The input stage includes the external factor evaluation matrix, competitive profile matrix, and internal factor evaluation matrix. The matching stage includes the strengths-weaknesses-opportunities-threats matrix, strategic position and action evaluation, Boston consulting group matrix, internal-external matrix, and grand strategy matrix. The decision stage includes the quantitative strategic planning matrix. These three stages together help Starbucks to make a decision. All of these steps have been discussed earlier.

Table 7 <u>SPACE Matrix for Starbucks</u>

Financial Position	RATING
A Starbucks asset is financed through equity and is safe if creditors start to demand repayment of debt. Long term debt-to-equity ratio is only 0.0017.(*Starbucks case study*)	5
Starbucks Return on Asset ratio shows that in year 2005, the efficiency of using assets to generate earning has increased from 12% to 14%. (*Starbucks case study*)	4
Starbucks net income increased to $494.5 million in the year 2005 compared with $388.9 million in 2004. There is an increase of 21.3% in the income of Starbucks.(*Starbucks case study*)	4
Total Financial Position	**13**
Industry Position	
1. Starbucks Coffee Liqueur was the top selling new spirit product, grossed sales over $8million annually.(*Starbucks case study*)	**4**
2. Starbucks agreed to serve Starbucks Coffee in all United flights.(*Starbucks case study*)	**3**
3. “Starbucks Everywhere” approach has increased foot traffic for all the stores in area. This makes customers easy to fine Starbucks all the places in town. (*Starbucks case study*)	**5**
Total Industry Position	**12**

Stability Position	RATING

Starbucks products prices are high compared with competing coffee houses. They price their products several dollars below then Starbucks price.(*Starbucks case study*)	-4
Demand for Starbucks products to be supplied in supermarkets increase. But, doing that will put Starbucks business in risk as customers don't know the way to brew the coffee. (*Starbucks case study*)	-2
Increase in world coffee bean price in 2001, forced Starbucks to increase its beverages and coffee sold at retail.(*Starbucks case study*)	-3
Total Stability Position	**-9**
Competitive Position	
Starbucks coffee and beverages are high in quality brewed by well trained employees.(*Starbucks case study*)	**-1**
Starbucks teamed up with T-mobile WI-Fi service to provide internet access to all over Starbucks Coffeehouse (*Starbucks case study*)	**-1**
There are 16,120 Starbucks coffeehouses worldwide and plan to open another 1800 stores.(*Starbucks case study*)	**-2**
Starbucks is a customer oriented Coffeehouse.(*Starbucks case study*)	**-2**
Total Competitive Position	**-6**

CONCLUSION

FS Average is 13/3 = **4.3**

IS Average is 12/3 = **4.0**

ES Average is -9/3 = **- 3.0**

CA Average is -6/4 = **- 1.5**

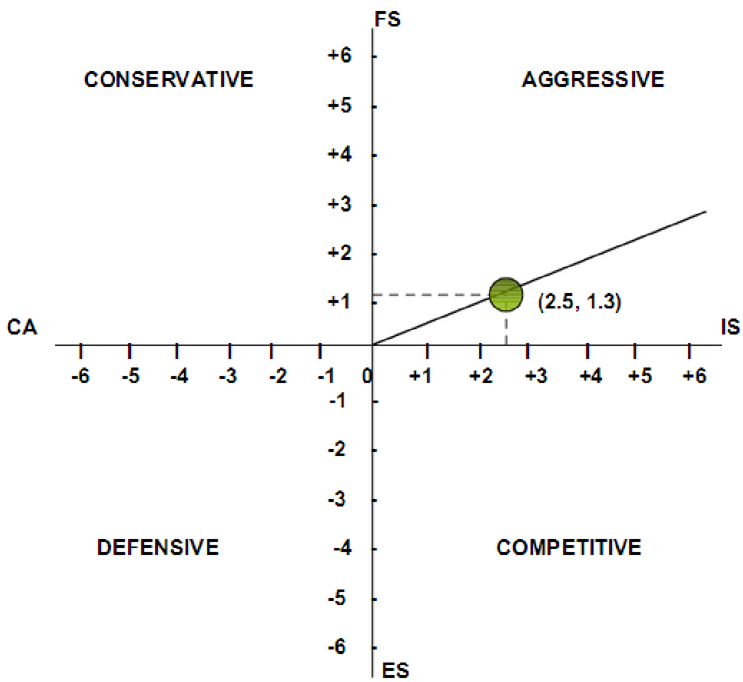
Directional Vector Coordinates: X- axis: 4.0 + (-1.5) = **2.5**

Y- axis: 4.3 + (-3.0) = **1.3**

(*Starbucks case study*)

According to the Starbucks case Starbucks's strategy profile show it to be aggressive (*Starbucks case study*) . This means that Starbucks is strong financially and that it also has major competitive advantages in a stable and growing industry. Because Starbucks is striving in this industry they should try to expand their industry further.

Figure 9 SPACE MATRIX



Knowing that Starbucks is in an aggressive strategy profile helps the company to know whether or not it would be a good idea to implement competitive strategies for the future. Starbucks is a strong firm financially and they are also in a very competitive industry. Even though the industry is competitive it is still stable and continues to grow. Starbucks has many opportunities in this industry. Some of these opportunities are that Starbucks can learn from a variety of markets, there is room to advance with technology in its products and services, and that they could have more coupons and promos to encourage more people to come to Starbucks. When determining what strategies Starbucks should implement they must also look at the threats in their industry. Some of these threats are that there are an increasing number of competitors in this market, people desire more luxury items, and routines of international markets are changing. It is important to look at the threats so that Starbucks can know how to prepare their company for what ever is to come in their industry in the future. Strengths and weaknesses are also things that a company needs to know before they form a plan to move forward. Some of Starbucks's strengths are they are well established and their brand recognition is growing, they are financially profitable, and they have international presence. The weaknesses of Starbucks are the prices are rising, there is a small customer base due to niche strategy, and lack of international understanding of coffee.

Using Starbucks's strengths, weaknesses, opportunities, and threats the company comes up with strategies for the future. One of the major issues that Starbucks is facing is that their coffee is more expensive that its competitors. This is in part because they use only high quality coffee beans, which in turn increases the price. Although the quality of the coffee is better than its competitors there are still people in the market who are looking for cheaper products that are not as high quality. Another major issues that Starbucks is facing are that they have a poor marketing strategy on advertising. The only advertising they really have is customers walking around with Starbucks cups and other potential customers seeing it. The third major issue that Starbucks is facing is that because they are concerned about the quality of their product they do not stress having their products in supermarkets. Because their product is so fresh when it is bought from a Starbucks store they found that when people bought Starbucks at the supermarket and brewed it themselves it did not taste as good because it was not as fresh (*Starbucks case study*) .

Implementation Plan

There are many ways that Starbucks could implement strategies to cure these issues. One way to cure the issue that Starbucks is too expensive is to have a lower quality coffee that can be sold at a lower price for the segment of the market that is more worried about price than quality. Another way to solve this issue is to have move coupons or promotions so that customers are able to buy the high quality coffee that they want, but cannot afford. Having coupons or promotions also brings new customers into the shop, which is expanding Starbucks's market. Coupons and promotions can also solve the second issue of poor marketing strategies on advertising because as stated before it would bring new customers into the Starbucks stores and lets them encounter the Starbucks environment first hand. Another way to solve the poor marketing issue is by market penetration. Having advertisements or coupons online, or distributing trial size packages so that potential customers who have never tried Starbucks have the opportunity to do so and not have to worry about paying for something they may not like. In order to solve the last issue that Starbucks is not widely in supermarkets Starbucks would have to develop the right mixture of the coffee beans and have them packaged in a container that would not sacrifice any of the freshness. Starbucks should also provide directions on how to mix different drinks on the container so that customers can make their favorites in their own home (*Starbucks case study*).

Appendix

Exhibit 1

Starbucks Corp. (NMS: SBUX)	Income Statement				
Exchange rate used is that of the Year End reported date					
As Reported Annual Income Statement					
Report Date	**09/30/2012**	**10/02/2011**	**10/03/2010**	**09/27/2009**	**09/28/2008**
Currency	**USD**	**USD**	**USD**	**USD**	**USD**
Audit Status	**Not Qualified**	**Not Qualified**	**Not Qualified**	**Not Qualified**	**Not Qualified**
Consolidated	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
Scale	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**
Company-operated retail revenue	10,534,500	9,632,400	8,963,500	8,180,100	8,771,900
Specialty revenue - licensing	-	-	1,340,900	1,222,300	1,171,600
Specialty revenue - foodservice & other specialty revenue	-	-	403,000	372,200	439,500
Total specialty revenue	-	-	1,743,900	1,594,500	1,611,100
Licensed stores net revenues	1,210,300	1,007,500	-	-	-
Global consumer products group (CPG), foodservice & other net revenues	1,554,700	1,060,500	-	-	-
Total net revenues	**13,299,500**	**11,700,400**	**10,707,400**	**9,774,600**	**10,383,000**
Cost of sales including occupancy costs	5,813,300	4,949,300	4,458,600	4,324,900	4,645,300
Store operating expenses	3,918,100	3,665,100	3,551,400	3,425,100	3,745,100
Other operating expenses	429,900	402,000	293,200	264,400	330,100
Depreciation & amortization expenses	**550,300**	**523,300**	**510,400**	**534,700**	**549,300**
General & administrative expenses	801,200	636,100	569,500	453,000	456,000
Restructuring charges	-	0	53,000	332,400	266,900
Total operating expenses	**11,512,800**	**10,175,800**	**9,436,100**	**9,334,500**	**9,992,700**
Gain on sale of properties	-	30,200	-	-	-
Income from equity investees	210,700	173,700	148,100	121,900	113,600
Operating income (loss)	**1,997,400**	**1,728,500**	**1,419,400**	**562,000**	**503,900**
Interest income & other income, net	94,400	115,900	50,300	36,300	9,000
Interest expense	**32,700**	**33,300**	**32,700**	**39,100**	**53,400**
Earnings (loss) before income taxes	2,059,100	1,811,100	1,437,000	559,200	459,500
Current federal income taxes provision (benefit)	466,000	344,700	457,500	165,300	180,400
Current state income taxes provision (benefit)	79,900	61,200	79,600	35,000	34,300
Current foreign income taxes provision (benefit)	76,800	37,300	38,300	26,300	40,400
Total current income taxes provision (benefit)	622,700	443,200	-	-	-
Deferred federal income taxes provision (benefit)	49,200	111,600	-	-	-
Deferred state income taxes provision (benefit)	(700)	8,300	-	-	-
Deferred foreign income taxes provision (benefit)	3,200	0	-	-	-
Total deferred income taxes provision (benefit)	51,700	119,900	(86,700)	(58,200)	(111,100)
Income taxes	674,400	563,100	488,700	168,400	144,000
Earnings before cumulative effect of change in accounting principle	-	-	-	-	315,500
Net earnings (loss)	**1,384,700**	**1,248,000**	**948,300**	**390,800**	**315,500**
Net earnings (loss) attributable to noncontrolling interests	(900)	(2,300)	(2,700)	-	-
Net earnings attributable to Starbucks Corporation	1,383,800	1,245,700	945,600	-	-
Weighted average shares outstanding - basic	754,400	748,300	744,400	738,700	731,500
Weighted average shares outstanding - diluted	773,000	769,700	764,200	745,900	741,700
Year end shares outstanding	749,300	744,800	742,600	742,900	735,500
Earnings (loss) per share - continuing operations - basic	-	-	-	-	0.43
Net earnings (loss) per share - basic	1.83	1.66	1.27	0.53	0.43
Earnings (loss) per share - continuing operations - diluted	-	-	-	-	0.43
Net earnings (loss) per share - diluted	1.79	1.62	1.24	0.52	0.43
Cash dividends declared per share	0.72	0.56	0.36	-	-
Total number of employees	160,000	149,000	137,000	142,000	176,000
Number of common stockholders	18,500	21,900	21,700	21,600	21,000

Exhibit 2

Starbucks Corp. (NMS: SBUX)	Balance Sheet				
Exchange rate used is that of the Year End reported date					
As Reported Annual Balance Sheet					
Report Date	**09/30/2012**	**10/02/2011**	**10/03/2010**	**09/27/2009**	**09/28/2008**
Currency	**USD**	**USD**	**USD**	**USD**	**USD**
Audit Status	**Not Qualified**	**Not Qualified**	**Not Qualified**	**Not Qualified**	**Not Qualified**
Consolidated	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
Scale	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**
Cash & cash equivalents	**1,188,600**	**1,148,100**	**1,164,000**	**599,800**	**269,800**
Short-term investments - available-for-sale securities	790,800	855,000	236,500	21,500	3,000
Short-term investments - trading securities	57,600	47,600	49,200	44,800	49,500
Short-term investments, net	848,400	-	-	-	-
Accounts receivable, gross	491,500	389,800	306,000	276,000	334,000
Less: allowance for doubtful accounts	5,600	3,300	3,300	5,000	4,500
Accounts receivable, net	**485,900**	**386,500**	**302,700**	**271,000**	**329,500**
Coffee - unroasted	711,300	431,300	238,300	381,600	377,700
Coffee - roasted	222,200	246,500	95,100	76,700	89,600
Other merchandise held for sale	181,600	150,800	115,600	116,000	120,600
Packaging & other supplies	126,400	137,200	94,300	90,600	104,900
Inventories, net	**1,241,500**	**965,800**	**543,300**	**664,900**	**692,800**
Prepaid expenses & other current assets	196,500	161,500	156,500	147,200	169,200
Deferred income taxes, net	238,700	230,400	304,200	286,600	234,200
Total current assets	**4,199,600**	**3,794,900**	**2,756,400**	**2,035,800**	**1,748,000**
Long-term investments - available-for-sale securities	116,000	107,000	191,800	71,200	71,400
Equity method investments	393,900	334,400	308,100	313,200	267,900
Cost method investments	66,000	37,900	33,400	39,100	34,700
Equity & cost investments, net	459,900	372,300	341,500	352,300	302,600
Land	46,200	44,800	58,000	58,200	59,100
Buildings	225,200	218,500	265,700	231,500	217,700
Leasehold improvements	3,957,600	3,617,700	3,435,600	3,349,000	3,363,100
Store equipment	1,251,000	1,101,800	1,047,700	1,073,400	1,045,300
Roasting equipment	322,800	295,100	290,600	282,900	220,700
Furniture, fixtures & other property, plant & equipment	836,200	757,800	617,500	586,700	517,800
Work in progress	264,100	127,400	173,600	119,200	293,600
Property, plant & equipment, gross	6,903,100	6,163,100	5,888,700	5,700,900	5,717,300
Less: accumulated depreciation	4,244,200	3,808,100	3,472,200	-	-
Less: accumulated depreciation & amortization	-	-	-	3,164,500	2,760,900
Property, plant & equipment, net	2,658,900	2,355,000	2,416,500	2,536,400	2,956,400
Long-term deferred tax assets	97,300	-	-	-	-
Other intangible assets	143,700	-	-	-	-
Other assets	144,700	-	-	-	-
Total other assets	385,700	-	-	-	-
Other assets	-	297,700	346,500	253,800	261,100
Other intangible assets	-	111,900	70,800	68,200	66,600
Goodwill	399,100	321,600	262,400	259,100	266,500
Total assets	**8,219,200**	**7,360,400**	**6,385,900**	**5,576,800**	**5,672,600**

Accounts payable	**398,100**	**540,000**	**282,600**	**267,100**	**324,900**
Accrued compensation & related costs	-	364,400	400,000	307,500	253,600
Accrued occupancy costs	-	148,300	173,200	188,100	136,100
Accrued taxes	-	109,200	100,200	127,800	76,100
Other accrued expenses	-	319,000	262,800	147,300	164,400
Accrued compensation & related costs	381,600	-	-	-	-
Accrued occupancy costs	126,900	-	-	-	-
Accrued taxes	138,300	-	-	-	-
Accrued dividend payable	157,400	-	-	-	-
Other accrued liabilities	329,600	-	-	-	-
Accrued liabilities	1,133,800	-	-	-	-
Insurance reserves	167,700	145,600	146,200	154,300	152,500
Deferred revenue	510,200	449,300	414,100	388,700	368,400
Current portion of long-term debt	-	-	-	200	700
Commercial paper & short-term borrowings	-	-	-	-	713,000
Total current liabilities	**2,209,800**	**2,075,800**	**1,779,100**	**1,581,000**	**2,189,700**
Senior notes	549,600	549,500	549,400	549,200	549,200
Other long-term debt	-	-	-	100	400
Long-term debt, net	**549,600**	**549,500**	**549,400**	**549,300**	**549,600**
Deferred rent	201,900	215,200	239,700	266,000	303,900
Unrecognized tax benefits	78,400	56,700	65,100	55,100	60,400
Asset retirement obligations	42,600	50,100	47,700	43,400	44,600
Minority interest	-	-	-	11,200	18,300
Other long-term liabilities	22,400	25,800	22,600	25,100	15,200
Other long-term liabilities	345,300	347,800	375,100	400,800	442,400
Total liabilities	**3,104,700**	**2,973,100**	**2,703,600**	**2,531,100**	**3,181,700**
Common stock	700	700	700	700	700
Additional paid-in capital	39,400	1,100	106,200	147,000	-
Other additional paid-in capital	-	39,400	39,400	39,400	39,400
Retained earnings (accumulated deficit)	5,046,200	4,297,400	3,471,200	2,793,200	2,402,400
Net unrealized gains (losses) on available-for-sale securities	(100)	(500)	(900)	(800)	(4,100)
Net unrealized gains (losses) on hedging instruments	(72,100)	(45,300)	(40,500)	(23,700)	(22,200)
Translation adjustment	94,900	92,100	98,600	89,900	74,700
Accumulated other comprehensive income (loss)	22,700	46,300	57,200	65,400	48,400
Total shareholders' equity	5,109,000	4,384,900	3,674,700	3,045,700	2,490,900
Non-controlling interests	5,500	2,400	7,600	-	-
Total equity	**5,114,500**	**4,387,300**	**3,682,300**	**-**	**-**

Exhibit 3

Liquidity Ratios					
	2012	2011	2010	2009	2008
Current Ratio	1.90	1.83	1.55	1.29	0.80
Quick Ratio	1.34	1.36	1.24	0.87	0.48

Leverage Ratios					
	2012	2011	2010	2009	2008
Debt-to-Equity Ratio	0.38	0.40	0.42	0.45	0.56
Long-Term Debt-to-Equity Ratio	0.61	0.68	0.73	-	-
Times-Interest-Earned Ratio	61.08	51.91	43.41	14.37	9.44

Activity Ratios					
	2012	2011	2010	2009	2008
Inventory Turnover	10.71	12.11	19.71	14.70	14.99
Fixed Asset Turnover	3.31	3.28	2.95	2.76	2.65
Total Assets Turnover	1.62	1.59	1.68	1.75	1.83
Accounts Receivable Turnover	27.37	30.27	35.37	36.07	31.51
Average Collection Period	13.34	12.06	10.32	10.12	11.58

Profitability Ratios					
	2012	2011	2010	2009	2008
Gross Profit Margin	13.43%	13.03%	11.87%	4.50%	3.76%
Operating Profit Margin	15.02%	14.77%	13.26%	5.75%	4.85%
Net Profit Margin	10.41%	10.67%	8.86%	4.00%	3.04%
Return on Total Assets (ROA)	16.85%	16.96%	14.85%	7.01%	5.56%
Return on Stockholder's Equity (ROE)	27.07%	28.45%	25.75%	-	-
Earnings Per Share (EPS)	1.85	1.67	1.27	0.52	0.42
Price-Earnings Ratio	31.52	34.97	46.03	111.69	138.34

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