

Starbuck Case Analysis

I. Business Model ?

- Americanized version of a specialty coffee provider of coffee shop services
- Beyond being a coffee house or coffee brand
- To engage customers

Key Elements?

- High quality coffee
- Delivery of coffee with specialty service
- High quality service
 - Effective Employee Training + health care benefits
- Special pastries + selected music = warmth and comfort
- Creating "3rd Place"
 - Not at home
 - Not at work
 - But at Starbuck

II. Three Key Factors to StarBuck Success

1. People Management
 - pure product focus < customer service
 - raise employee motivation with health care benefits
2. Supply Chain Management
 - coffee bean market : fragmented
 - multiple layers of players
 - farmers, collectors, exporters, brokers, importers
 - high transaction costs
 - challenge to quality control
 - operational efficiency
 - develop expertise + relationship with coffee growers
 - raise quality of coffee beans
 - take cost out of supply chain

3. Expansion Strategy

- heavy emphasis on location
 - o maximize customer traffic
 - o high visibility, max. exposure

A. market swarming expansion technique

- in-filling every possible high traffic coners : high store proliferation
- Ubiquitous – Starbuck is everywhere you look.
 - o Cannibalize existing stores sales
 - o Prevent competitor entry

B. Ruthless in real estate practices

- pay premium over existing rental prices to push price up
- retain close property to prevent competitor entry

III. International Expansion

Japan :

- 1995 JV with "Sazaby" Japanese retailer
 - own chain of "Afternoon Tea Stores"
 - 1996: 1st store in Ginza
 - 2002: 250 stores, 2003: 500 stores
 - key factor ?
 - smart marriage with a local partner who share same characters
 - o shared values, corporate culture
 - o strong multi-unit retail experience
 - o dedicated human resources
 - o quality image
 - o customer service
 - o creative ability, local knowledge
 - o brand building skills
 - o strong financial resources

Europe :

threats ?

- resistance to American corporate
- European tradition of coffee consumption style : small café, established coffee houses
- 2001 : Switzerland & Austria
- 2002: Spain, Germany, Greece

Critical tasks prior to Int'l Expansion?

- focus group
- quantitative market assessment
- identify appropriate local partners
- training foreign managers at headquarter office

IV. Procurement

Traditionally :

- market pricing
 - o buy from wholesaler at global market price
 - o price fluctuate based on global market conditions

Starbuck Strategy :

- outright pricing
 - o direct negotiation with small, medium farmers
 - o bypass middlemen
- long term contract with growers
 - o guarantee price for 3-5 years
 - o offer loan guarantee program for coffee farmers.

Implications?

- low transaction costs
- competitive advantage
- maintain stable supply chain
- facilitate quality control