STARBUCKS - EMERGING FROM THE GLOBAL PANDEMIC

Assessment 1

Marketing Communications

Word Count: 1647

Contents

Introduction

Founded in 1971 in Seattle, USA, Starbucks is the largest roaster and retailer of speciality coffee in the world with over 32,000 stores in 83 countries (Case Study, p.3). Historically, Starbucks has differentiated itself from its competitors by offering high-quality customer service and exclusive products that consumer cannot find elsewhere. However, due to rapid expansion, questions have been raised about whether Starbucks can continue to differentiate itself within the speciality coffee industry or if it is at risk of falling out of favour with its consumers. This analysis will consider how the external environmental and internal factors from within the company to determine how turbulent the current marketing environment is for Starbucks.

Macro-Environment

The term "marketing environment" refers to forces that may impact an organisation's ability to act on its marketing strategy (Copley 2014, p.16). Typically, these forces can be divided into two categories - the macro–environment and the micro-environment. Macro-environmental factors are forces from outside of the company that may impact its ability to reach its goals. These forces are broad and affect other players as well as the company in question (Fahy and Jobbler 2019, p.32). One way that the macro-environment can be deconstructed is using PESTEL analysis. PESTEL is an acronym for six categories of factors that should be considered within the macro-environment - namely, political, economic, technological, social, environmental and legal (Fahy and Jobbler 2019, p.33).

One recent political factor (Appendix 1) to consider is the Covid-19 pandemic. As every country has had varying lockdowns at different points throughout the last two years, it has become harder to prepare for the future as countries have had different restrictions at different times. Also, Covid-19 has increased the level of economic uncertainty (Appendix 2) and there will likely be a global recession in the near future. Furthermore, due to the pandemic, consumers spending is down as people have been unable to leave their homes. On the positive side, this means that consumers have been saving more and will have money to spend when restrictions ease.

Socially (Appendix 3), Covid-19 has disrupted people's abilities to socialise together due to lockdowns. Also, people's preferences are shifting away from office culture and workers are now showing a preference for working from home (Case Study, p.4). Aside from the pandemic, customers are also shifting their preferences and are now looking to move towards adopting a healthier and more sustainable diet. From a technological perspective (Appendix 4), the increased adoption of digital technology has made mobile-based technologies such as apps more accessible to consumers. Environmentally (Appendix 5), climate change has affected farming practices and has made it harder to accurately predict yields (Case study, p.5). Finally, Covid-19 'stay at home' and social distancing regulations have affected consumers abilities to leave their homes to work or socialise as they typically would (Appendix 6).

Industry Analysis

The other types of factors that make up the marketing environment are called the micro-environment. The micro-environment refers to factors that closely affect the organisation in question such as competitors, customers, suppliers, intermediaries and publics (Blythe and Martin 2019, p.26). Firstly, this report will be using Porter's 5 forces (Appendix 7) to analyse the speciality coffee industry that Starbucks sits within. The five forces that this tool considers are the threat of new entrants, bargaining power of buyers, power of suppliers, threat of substitutes and rivalry amongst existing competitors (Porter 2008, p. 80-85).

The threat of entry into the speciality coffee industry is high. Due to the ease and low cost of setting up a speciality coffee shop, consumers have a wide range of stores to choose from including other chains and local coffee shops.

Due to the large number of competitors, the bargaining power of buyers is also high as consumers can vote with their wallets on which brands should remain in the industry.

As well as this, the threat of substitutes for the speciality coffee industry is also high. With restaurants such as Dunkin Donuts and McDonald's now offering coffee at lower prices, consumers may choose to substitute their speciality coffee for a cheaper alternative (Case study, p.3). Other potential substitutes include at-home coffee brewing, retail products such as iced coffees and alternative beverages such as energy drinks, juice and water.

The bargaining power of the suppliers is also high in this industry. Particularly when considering the coffee beans, suppliers can change their prices depending

on supply and demand (Case study, p.5). Since speciality coffee shops rely heavily on having a consistent supply of these beans, they are forced to pay the price set by the supplier.

Overall, the threat of rivalry in the speciality coffee industry is high as everyone from local coffee shops up to large chains are competing in the same space and are vulnerable to external forces.

Company Analysis

Another way to analyse the micro-environment is by using SWOT. SWOT is used for strategic planning and management by examining a company's strengths, weaknesses, opportunities and threats (Gürel and Tat 2017, p.995). Starbucks has many strengths in the speciality coffee industry (Appendix 8). Their stores are in high-traffic and high-visibility locations meaning a large number of consumers can access them (Case study, p.6). Also, Starbucks is less vulnerable to supplier price fluctuations than independent stores as they have long term relationships and agreements with their suppliers (Case study, p.5). They have also adapted to changing needs of consumers by adopting new technologies such as their app (Case study, p.6) and by changing their products to meet evolving needs such as creating products using plant-based milk (Case study, p.7).

However, Starbucks is currently struggling to differentiate themselves from their competitors (Appendix 9). Although expansion allowed them to increase the number of storefronts they operate, Starbucks has lost their key differentiation point of having high quality products and customer service (Case study, p.4). Also, their price point is significantly higher than their competitors. This means they do

not follow any one of Porter (1980, p.3)'s generic strategies of cost, differentiation or focus suggesting they lack direction.

Despite this, the speciality coffee industry leaves Starbucks with many opportunities (Appendix 10). For example, no company has a significant leadership position within the industry (Case study, p.3) meaning Starbucks could establish itself as the market leader. Also, there is an opportunity for them to expand into the CAP area as it is a high growth market yet only accounts for 14% of their revenues (Case study, p.8). Due to their history of advocating for social change, (Case study, p.7), Starbucks could also differentiate themselves by being a brand that centres around CSR and social activism.

In terms of threats (Appendix 11), Starbucks exists within a competitive industry meaning there is an ongoing threat from new entrants to the market (Case study, p.3). As well as this, climate change has reduced the predictability of farming yields which may affect their ability to have consistent supplies of ingredients. Also, Covid-19 has resulted in consumers changing their behaviour by working from home more which may decrease the amount of traffic they get at their stores.

Business Portfolio

Another way to analyse the micro-environment is by using a BCG matrix (Appendix 12). A BCG matrix is a grid that businesses can use to analyse their SBUs based on their market share and the level of growth to see where they should be allocating resources (Madsen 2017, p.19).

For Starbucks, their whole bean coffee is their 'star' product as they have a high market share and the market is growing rapidly. (Case study, p.8) This suggests that this is an area where Starbucks should continue to innovate and invest in to gain a leadership position in the market. Both their food and retail beverages are Starbucks' 'cash cows'. This means that they have a high market share but are in a relatively low growth market making these areas good for generating a steady cash influx for the brand to invest in other places. Starbucks' merchandise falls into the 'dogs' sector as they have a small market share and the market is not growing. If the brand needs to move money around, they should take it from here. The fact that the brand has nothing in the question marks segment (areas where they have a low market share in a growing market) suggests that Starbucks is failing to identify new growing markets that they could innovate in and expand into.

SBUs can also be evaluated using McKinsey's GE matrix (Appendix 13). This matrix evaluates industry attractiveness against the business's strength in this area (Coyne, 2008). Starbucks' whole bean coffee is highly attractive and has high competitive strength as it is a high growth market that they have a very high market share in. Their retail beverages are medium in both attractiveness and competitive strength as it is a growing industry and they have a good market

share. Their food is low in industry attractiveness as it is an industry with lots of competition but Starbucks has a moderate competitive strength as they already have 1.1x market share. Finally, their merchandise is low in industry attractiveness and competitive strength as it is growing slowly and they have a low market share (Case study, p.8).

Dynamics of the environment

The level of turbulence within a macro-environment is based on how likely the environment is to change and how predictable that change is (Perrott 2008, p.24-25). Currently, the turbulence level is at 3 which means the environment is changing on a regional scale but this change will be predictable. In terms of the micro-environment, Starbucks sits within a highly competitive environment yet they are failing to innovate in new markets or strategically plan for the future. As the world continues to be affected by the Covid-19 pandemic, Starbucks needs to utilise its core competencies of brand management, adapting to consumer insights and CSR to ensure that they can continue to grow their brand.

Bibliography

Blythe, J. and Martin, J., 2019. E*ssentials of Marketing PDF EBook* [online]. Harlow: Pearson Education, Limited.

Copley, P., 2014. *Marketing Communications Management: Analysis, Planning, Implementation* [online]. London: SAGE Publications Ltd.

Coyne, K., 2008. Enduring Ideas: The GE–McKinsey nine-box matrix. *McKinsey Quarterly* [online]. 1 September 2008. Available from: https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/enduring-ideas-the-ge-and-mckinsey-nine-box-matrix [Accessed 20 November 2021].

Fahy, J. and Jobber, D., 2019. *Foundations of Marketing* [online]. 6th edition. London: McGraw-Hill UK Higher Ed.

Gürel, E. and Tat, M., 2017. SWOT analysis: a theoretical review. *The Journal of International Social Research* [online], 10 (51), 994 – 1006.

Madsen, D., 2017) Not dead yet: the rise, fall and persistence of the BCG Matrix. *Problems and Perspectives in Management* [online], 15(1), 19–34.
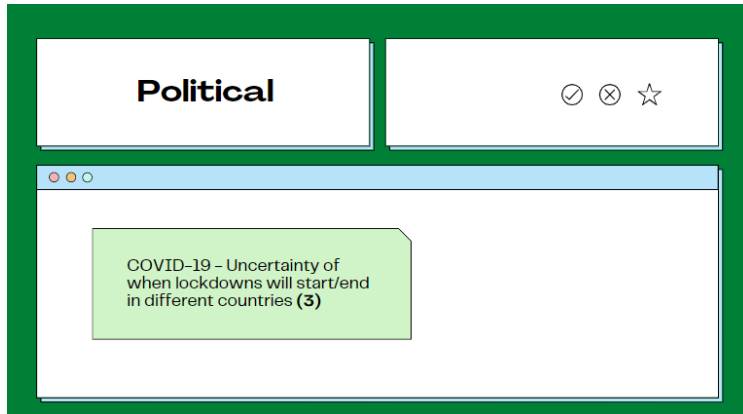
Perrott, B., 2008. Managing strategy in turbulent environments. *Journal of General Management* [online], 33(3), 21-30.

Porter, M., 1980. *Competitive Strategy: Techniques for Analyzing Industries and Competitors* [online]. New York: Free Press.
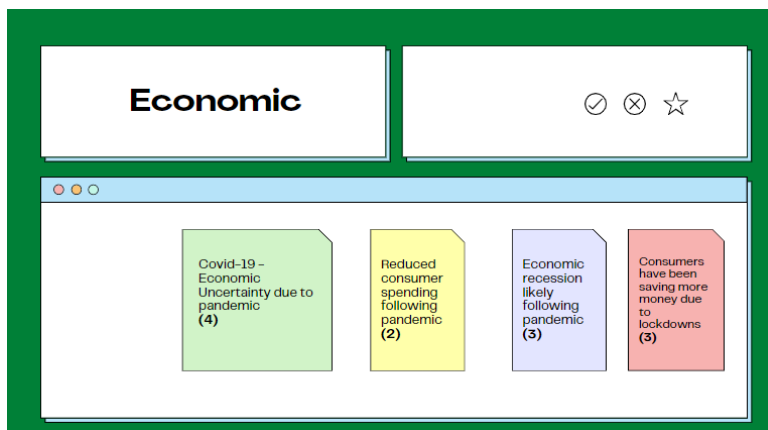
Porter, M., 2008. The five competitive forces that shape strategy. *Harvard Business Review* [online], 86(1): 79-93.
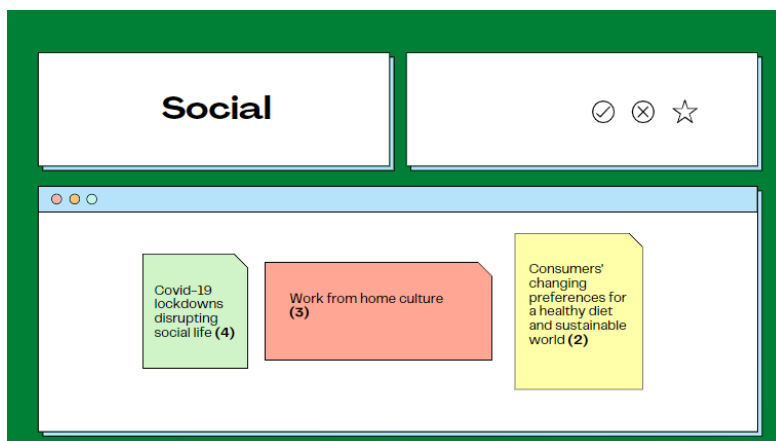
Appendices

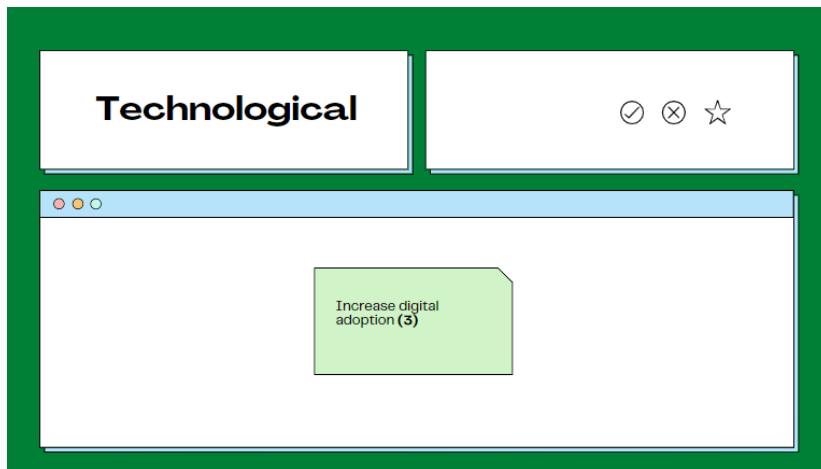### Appendix 1 – Macro Environment – Political Factors

Political

⊘ ⊗ ☆

COVID-19 – Uncertainty of when lockdowns will start/end in different countries **(3)**

Appendix 2 – Macro Environment – Economic Factors

Economic

⊘ ⊗ ☆

Covid-19 – Economic Uncertainty due to pandemic **(4)**

Reduced consumer spending following pandemic **(2)**

Economic recession likely following pandemic **(3)**

Consumers have been saving more money due to lockdowns **(3)**

Appendix 3 – Macro Environment – Social Factors

Social

⊘ ⊗ ☆

Covid-19 lockdowns disrupting social life **(4)**

Work from home culture **(3)**

Consumers' changing preferences for a healthy diet and sustainable world **(2)**

Appendix 4 – Macro Environment – Technological Factors

Technological

⊘ ⊗ ☆

○ ○ ○

Increase digital adoption **(3)**

Appendix 5 – Macro Environment – Environmental Factors

Environmental

⊘ ⊗ ☆

○ ○ ○

Spread of COVID–19 was sudden and gave rise to uncertainty and lock downs **(5)**

Climate Change – makes coffee farming productivity unpredictable **(3)**

Seasonal Fluctuation affecting the productivity of coffee **(1)**
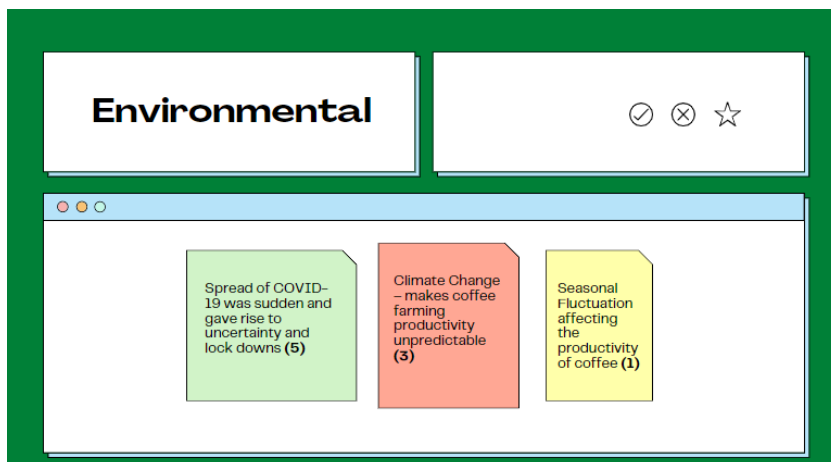
Appendix 6 – Macro Environment – Legislative Factors

Legislative

⊘ ⊗ ☆

○ ○ ○

COVID–19 'stay at home' and social distancing regulations **(4)**

Future trade contracts with suppliers to protect against volatile pricing **(2)**
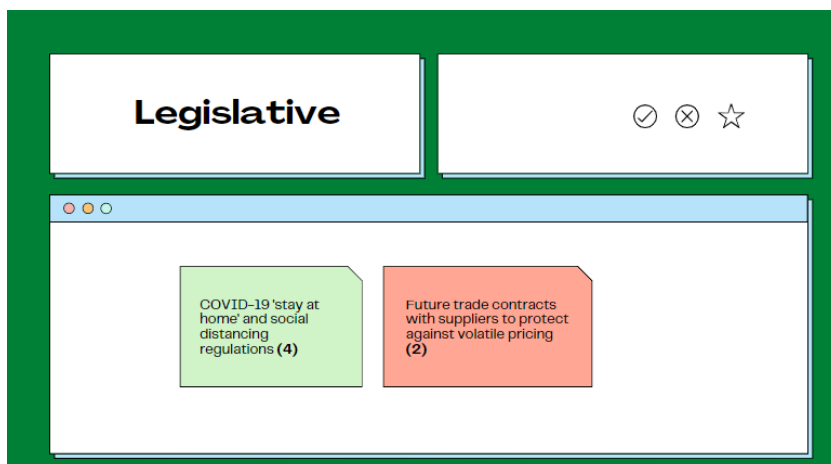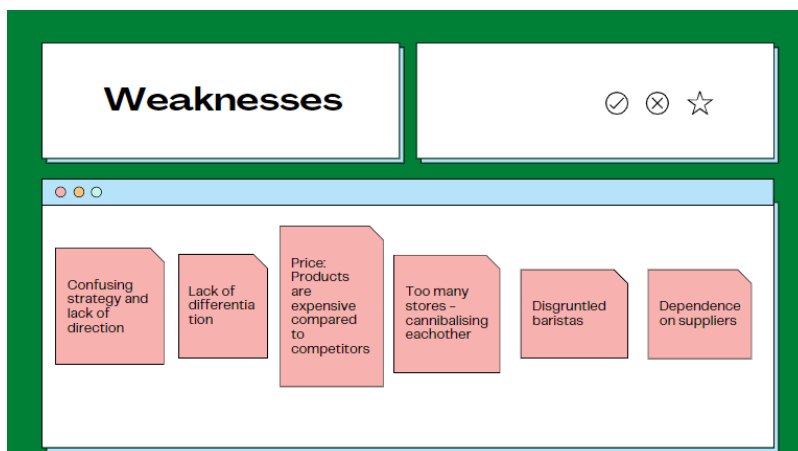
Appendix 7 – Industry Analysis - Porter's 5 forces
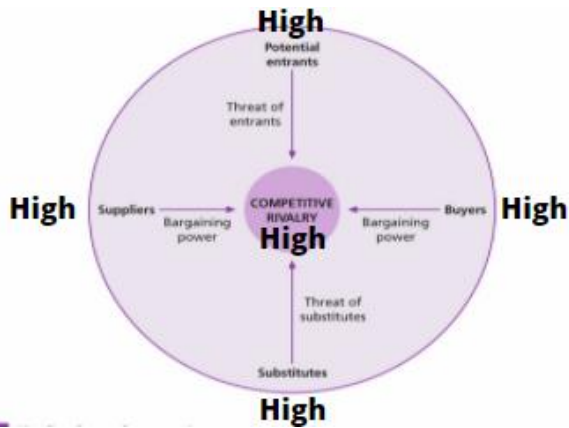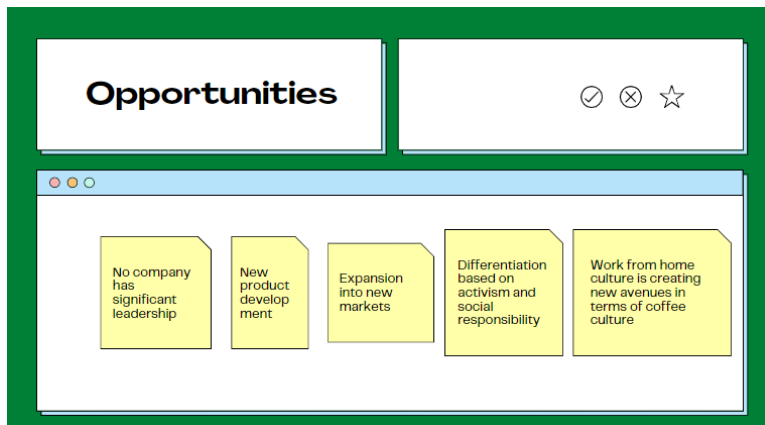

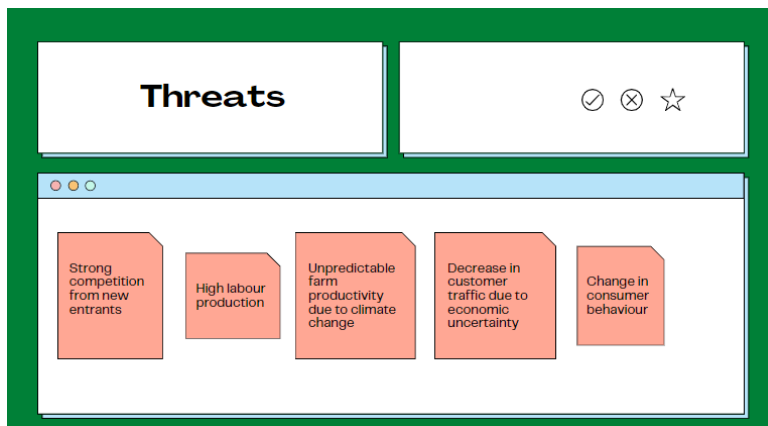## Appendix 8 – Company Analysis - Strengths
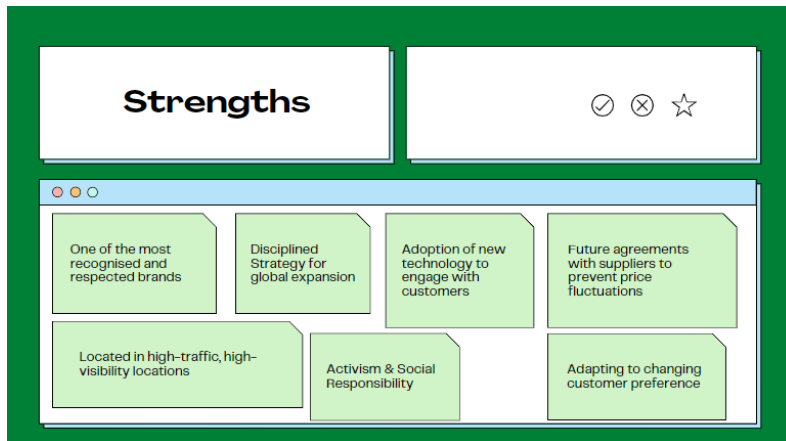
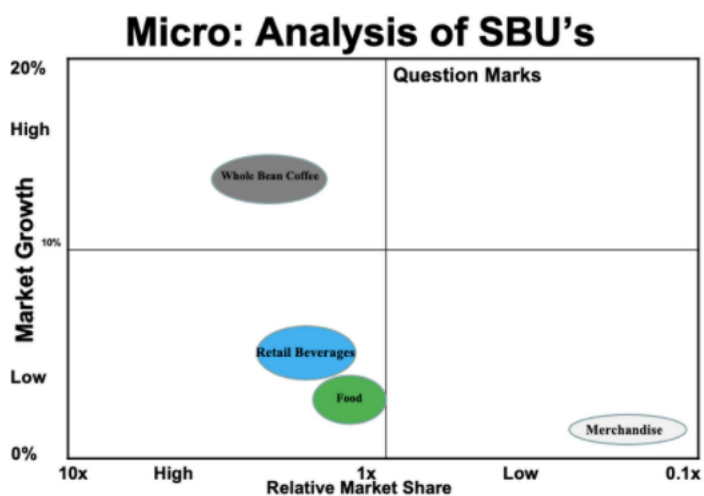## Appendix 9 – Company Analysis - Weaknesses

Appendix 10 – Company Analysis - Opportunities

Appendix 11 – Company Analysis - Threats

Appendix 12 – Business Portfolio - BCG Matrix

Appendix 13 – Business Portfolio – GE Matrix