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Title:
Strategic Analysis Of Starbucks Coffee Company

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Abstract:

In English

This document contains an evaluation of the internal and external business environment of Starbucks Coffee Company. The report includes an assessment of strategic resources used by Starbucks to fit in a competitive environment. The report will also include the success factors of Starbucks and conclude whether it is the competitive advantage. Moreover, there will be an evaluation of strategic options to improve the performance of Starbucks Coffee Company. The Company runs business in many countries of the world and the main point would be to evaluate strategies that can improve the actual performance.

In Spanish

Este documento contiene una evaluación del entorno comercial interno y externo de Starbucks Coffee Company. El informe incluye una evaluación de los recursos estratégicos utilizados por Starbucks para encajar en un entorno competitivo. El informe también incluirá los factores de éxito de Starbucks y concluirá si tiene la ventaja competitiva. Además, se evaluarán las opciones estratégicas para mejorar el desempeño de Starbucks Coffee Company. La empresa opera en muchos países del mundo y el punto principal sería evaluar estrategias que puedan mejorar el rendimiento real.

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1. Introduction

Recently, there has been growing interest in the coffee industry. Not only does coffee power your day, but it also helps power your country's economy. USA's National Coffee Association concluded that the coffee helps communities across the country in different ways from creating jobs to generating tax and from the supermarket to the dairy farm.¹

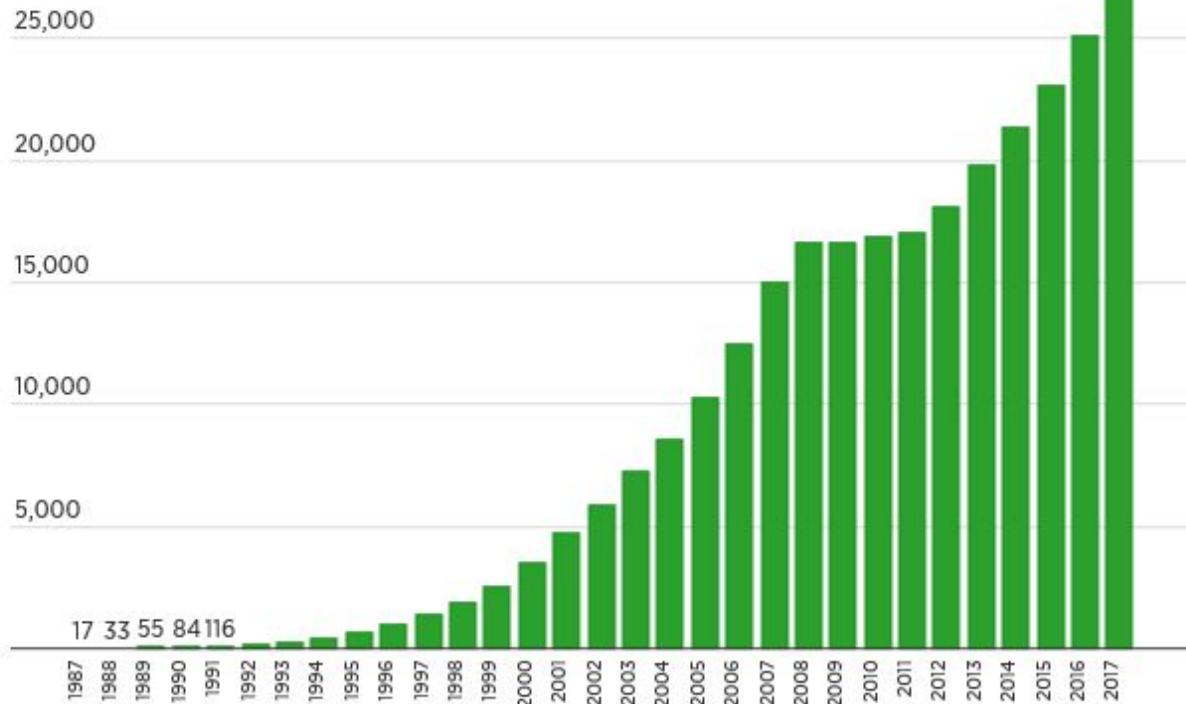
Coffee is consumed at all times of the day and in many cases. An important part of coffee is the social component of it. Social factors also contribute to the fact that coffee is one of the most widely consumed beverages in the world today. People enjoy the taste and effects of caffeine, as well as associated coffee with social interaction.

According to FDF Magazine, Starbucks holds the top position in the coffee industry.² Therefore, the purpose of this project is to analyse the strategy and the sources of competitive advantage of the Starbucks Coffee Company and how it has been able to achieve the success of going from a single coffee bean store to more than 30,000 stores worldwide in 47 years. In Figure 1, we can see the evolution of number of stores of Starbucks in the world throughout the years.

1. Association, N., Resources, I. and Impact, E. (2019). *The Economic Impact of the Coffee Industry*. [online] Ncausa.org. Available at: <http://www.ncausa.org/Industry-Resources/Economic-Impact> [Accessed 3 Nov. 2019].
2. Rowe, S. (2019). *Top 10 coffee companies in the world*. [online] Fdfworld.com. Available at: <https://www.fdfworld.com/top10/top-10-coffee-companies-world> [Accessed 3 Nov. 2019].

Figure 1: Number of Starbucks Store worldwide

Number of Starbucks Stores 1987 - 2017



Source: cnbc.com (2019)

The main purpose to carry out the strategic analysis of Starbucks coffee company is to determine the strong and weak business strategies of the company and to examine which factors pave way for Starbucks into being on top of the other coffee companies. The other aim of this report is to suggest strategic recommendations to the company that can help it to sustain their competitive advantage.

Through this project the researcher expects to be able to deepen and specialize in the area of interest, to become familiar with the research procedure, data

collection, analysis and interpretation and writing of a final work and to be able to defend orally the arguments of the work done.

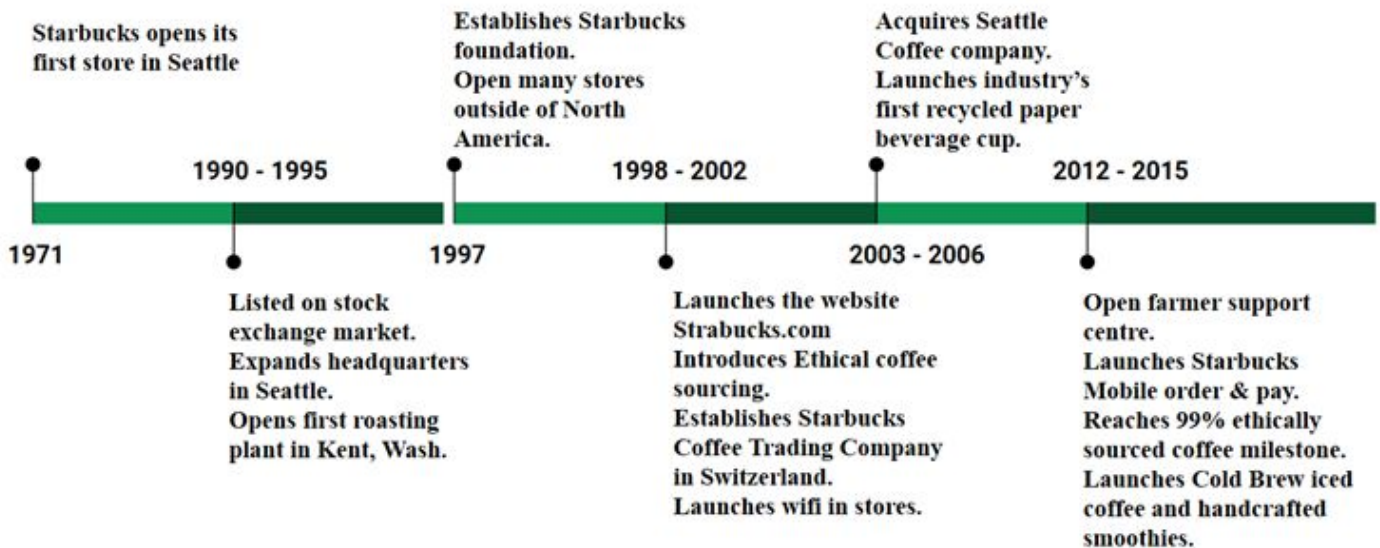
In order to develop the strategic analysis, this project follows the traditional structure proposed by authors such as Grant (2016) and Rothaermel (2019). For this reason, the document is structured as follows. The next section 2 offers a brief introduction of the company and its background. Section 3 describes all the products that Starbucks company offers and also tells us about the market and the industry in which the company competes. Section 4 develops the strategic analysis of the firm and its environment. First, section 4.1 explains the external analysis of how the environment and the rivalry among the competitors affects the company in decision making process. It also includes an analysis of the strategic group that the company belongs to. Second, section 4.2 deals with the internal analysis containing the value chain and the VRIO analyse. It also identifies the types of resources Starbucks company uses and its capabilities and core competences. Finally, section 4.3 takes in the conclusions from the previous subsections and summarizes SWOT and suggests the main strategic lines of action. Section 5 outlines the competitive strategy and analyses to what extent the company has a sustainable competitive advantage over its competitors. Section 6 provides details about its corporate strategy. Section 7 explains the social strategy and tells us about how the company is taking action to fulfill social corporate responsibility. The final section presents and discusses the conclusions abstracted from this study. Moreover, it also suggests some recommendations to improve the performance of the company based on the prior strategic analysis.

Throughout this report, we will talk about Starbucks globally, however we will use the example of US market in order to specify Starbucks data with source.

2. Starbucks Coffee Company

Starbucks was founded by three local businessmen from Seattle, Washington in 1971 to sell the high quality whole bean coffee. One of the three businessmen and the CEO of Starbucks, Howard Schultz, who after visiting Italy tried to adapt the same principles in order to build a strong bar culture and a strong company and planned to expand the high quality coffee business with the name of Starbucks. The main objective of Starbucks is to provide high quality of coffee to its customer and to achieve product innovation, retail expansion and best customer service for long term.

Figure 2: Important events in the history of Starbucks



Source: Own elaboration

Starbucks opened its first coffee store in Seattle, Washington. Starbucks expanded its headquarters in Seattle in 1990 and built a new roasting plant in Kent, Wash. In the early 90s Starbucks became the first privately owned US company to offer stock exchange program. In 1997, The Starbucks Foundation was established benefiting local literacy program. In the late 90s Starbucks opened its stores outside of North America such as in Japan, Singapore, Thailand, Taiwan, Qatar, China, Kuwait, Malaysia and South Korea etc.

In 2001, Starbucks introduced ethical coffee sourcing and established Starbucks Coffee Trading Company (SCTC) in Lausanne, Switzerland. Moreover, in the same year, Starbucks launched Wi-Fi in their stores.

In the early 2000s, Starbucks launched the coffee industry's first paper beverage cup containing post consumer recycled fibre.

In 2010, Starbucks expanded digital offering to its customers with unlimited free wifi. In 2015, Starbucks launched Cold Brew iced coffee and handcrafted smoothies. Additionally, Starbucks achieved the 99% ethically sourced coffee.

Coffee is one of the rapidly growing industries in the world due to its business strategy. Throughout the years, Starbucks kept expanding its business and opening new stores not only in existing markets but also all around the Europe.

Starbucks remains popular for its coffee because their coffee buyers individually travel to coffee farms in Latin America, Africa and Asia to select the best quality coffee beans. Moreover, Starbucks does not only consider profits but also looks factors such as ethical sourcing which helps farmers for a stable future and a stable climate for the world which makes the company environmental friendly.

Starbucks picks places for its stores in the first floor of blocks of offices, underground main entrances and urban areas which has proved effectiveness.

Company's retail stores and certified retail operations generate sales for Starbucks. However, the company sells its products via many other channels like distribution targeting hotels, restaurants, universities and many other workplaces. According to Fleisher & Bensoussan (2012), Starbucks target market was wealthy, upper class and educated people who are willing to pay high prices of Starbucks due to its high quality and customer services.

3. The product, industry and market

3.1. Definition of the product

Starbucks believes in serving the best coffee possible. Their main goal is that the coffee used in their stores has to be grown under the higher standards of quality using the ethical sourcing practices.

Starbucks offers a range of various products that customers enjoy in their stores, at home and on the go.

Subsequently the main products are detailed below³:

- **Coffee:** There are more than 30 blends and single-origin premium coffees available.
- **Handcrafted Beverages:** Fresh-brewed coffee, hot and iced espresso beverages, Frappuccino coffee and non-coffee blended beverages, Starbucks refreshers beverages and Teavana teas.

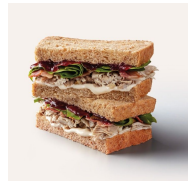


3. Starbucks.com. (2019). *Starbucks®*. [online] Available at: <https://www.starbucks.com/menu> [Accessed 29 Nov. 2019].

- **Merchandise:** Starbucks offers coffee and tea brewing equipment, mugs, accessories, packaged goods and shopping bags.



- **Fresh Food:** Baked pastries, cold and hot sandwiches, salads, grain bowls, oatmeal, yogurt parfaits and fruit cups.



- **At Home Coffee:** Whole bean, Verismo pods, via instant and cold brew.



Every product offered by Starbucks has a wide range of varieties and different flavors.

3.2. Definition of the industry

The most consumed beverage in the world is coffee. Around 161.74 million 60 kilogram bags of coffee were consumed worldwide in 2017/2018. In the previous year 158 million bags were consumed.⁴

4. Starbucks Coffee Company. (2019). *Mission Statement*. [online] Available at: <https://www.starbucks.com/about-us/company-information/mission-statement> [Accessed 30 Dec. 2019].

The coffee industry has been innovating new methods for brewing coffee and the way of serving it. The new innovation of single cup brewers offer a quick and mess free coffee when only one wants a single cup of coffee without the hassle of brewing an entire pot.

Starbucks primarily operates and competes in the retail coffee and snacks store industry. "Consumers are getting more and more aware of health issues with fatty foods and are going out of their way to avoid them," its latest Coffee & Snack Shops industry report noted.

In a press release of Starbucks, President and CEO Kevin Johnson recognized his client's evolving tastes and stated: "We must move faster to address the more rapidly changing preferences and needs of our customers."

With that, the industry is trying to get more innovative and versatile. In response to changes in customer's preferences Starbucks added nontraditional, high-margin menu items, such as iced coffee drinks, breakfast items and wraps.

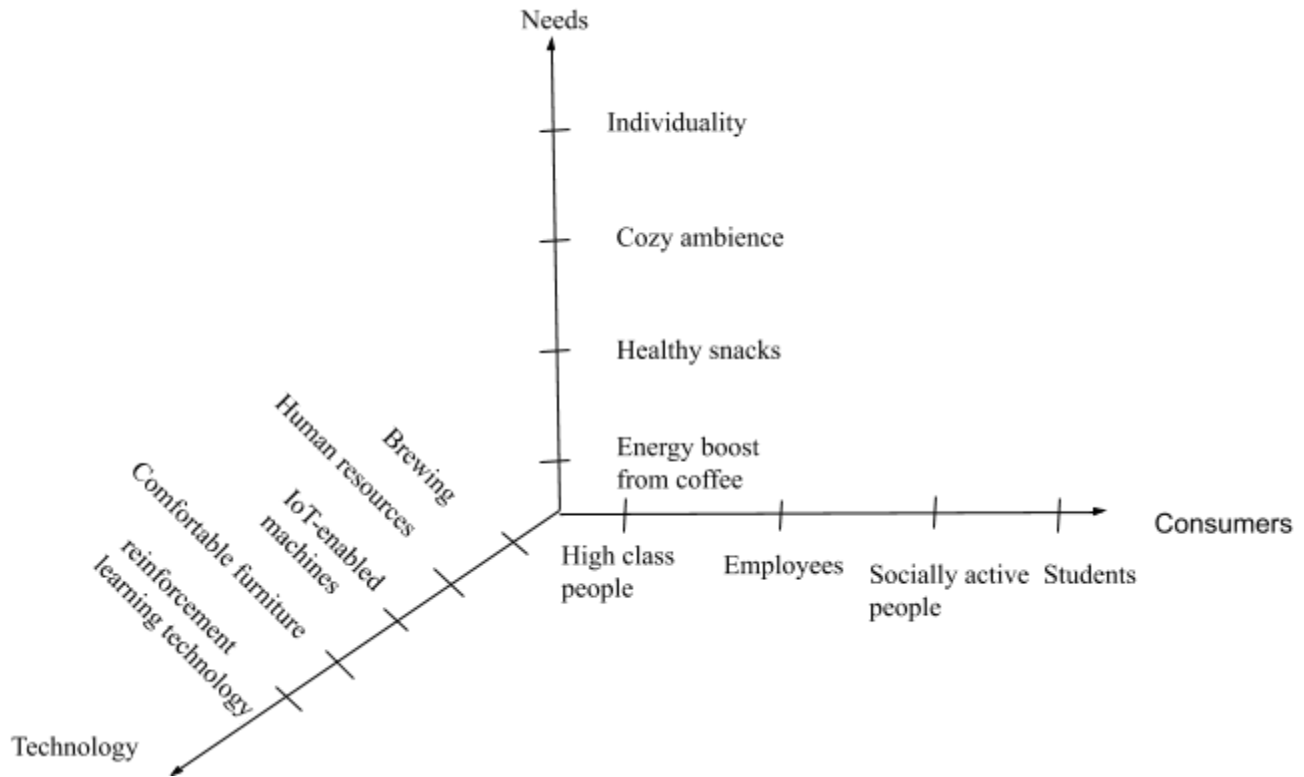
Abell analysis

Abell Model is a three dimensional model for defining the business of the company and finding areas for growth and diversification along its axis. The company's mission is created when three strategic questions to be answered:

- Who is the company's target consumer?
- What function does the company provide the consumer?
- How the company provides for that function with technology?

Figure 3 shows the Abell model of Starbucks and how they are satisfying their consumers' needs.

Figure 3: Abell analysis of Starbucks' company



Source: Own elaboration

Consumers:

Starbucks attract people from different ages with its appealing and comforting ambience. High class people don't mind paying a high price for a cup of coffee or snack if they can get good atmosphere and warm welcome which Starbuck provides. Whereas , for working people, they like to grab a cup of coffee on their way to work to get some energy boost. Students usually go to get some coffee after or in between classes to relax and to work on some group projects.

Needs:

Starbucks focuses very hard on satisfying its customers' needs. The main reason for Starbucks' success is their ethically sourced coffee which consumers are willing to pay for. Their coffee gives them an energy boost and offer them a wide range of snacks. Starbucks has added diet snacks into their menus because their customers are getting more and more health conscious. Everytime you walk into a Starbucks, you know you will be greeted with a smile and a friendly attitude. Starbucks nice ambience makes you feel at home and it's beautiful decor spreads positivity and motivation to which the customers are attracted to. At Starbucks, they make you feel individually special just by writing your name to your coffee cup. This small gesture of customer service and care means a lot its consumers.

Technology:

Starbucks recently purchased single-cup coffee maker known as the "Clover." The Clover uses precise technology and a calculated algorithm to brew coffee within one degree Fahrenheit of its ideal temperature and produce the ideal flavor. It also controls how long the grounds and water interact and the flow of water brewing. Moreover, Starbucks sees its human resources as a key part of its view of itself as a business serving the community; its employees are vital for its growth, helping the business grow and thrive. Starbucks uses reinforcement learning technology to provide a more personalised experience for customers who use the Starbucks mobile app. Starbucks offers a comfortable furniture in their stores because they know what its customers' needs are. People like to have coffee in a good ambience where they are provided the best care and experience. They are provided with free wi-fi and charger plugs so not only its customers fulfill their needs but also their mobiles. Additionally, the IoT-enabled machines collect more than a dozen data points for every shot of espresso pulled, from the type of beans used to the coffee's temperature and water quality, generating more than 5 megabytes of data in an eight hour shift.

In accordance with the Starbucks business definition previously presented, companies such as McDonalds, Costa Coffee and Dunkin Coffee are the main direct competitors of Starbucks. McDonalds is always a serious competitor , given their scale. They are a threat and have plans to upgrade their breakfast business. The products offered by Costa Coffee and Starbucks are quite the same. The main product offered by these two is coffee, however both companies also offer hot and cold breakfast options and snacks. In the case of Dunkin Coffee, its main product used to be donuts but that changed throughout the years and now they also offer a wide range of lattes, hot and iced coffee, donuts and other snacks.

The other independent neighbourhood coffee shops are considered as the indirect competitors. It is the small artisan roast cafes that offer the customers an experience because they are doing what Starbucks has done for years in terms of service and atmosphere. These small coffee shops are the indirect competitors of Starbucks.

However, tea, juice, soft drinks and energy drinks industries can be considered as substitutes industries for coffee, whereas pubs and bars can be highlighted as substitute places to meet someone and spend their time outside of home and work environment

3.3. The market: definition and evolution

Starbucks' target market is often described as affluent or high income. That's why every affluent neighborhood has a Starbucks not far away. Starbucks courts those who are willing to pay 10 CU for a snack and beverage without thinking about the cost. However, numerous Starbucks cafes are surrounded by middle-income neighborhoods where people don't have such high incomes. Ever since offering wifi to the public in 2002, companys' on-the-go audience has seen Starbucks not

just a stop but as a mini-office where they can set up their laptops and attend to business while sipping their favourite beverages.

Starbucks appeals to its customers by working to keep its products up to date as status symbols. They are consistent in its advertising, decor and speciality. Starbucks obtain most of its revenue from the US market as the company is the leading market player in the USA with a market share of 39.8%. On account of this, we will use the example of US market to detail specific data.

Starbucks operates in 4 market segments. However we will distinguish them in two criterias.

A. Geographic criteria

1. **Americas:** includes US, Canada and Latin America. The Americas segment is the most mature business and has achieved significant scale as its headquarters lies in Seattle, Washington.
2. **China and Asia Pacific (CAP):** It includes China, Korea, Singapore, Thailand, Philippines and Malaysia.
3. **Europe, Middle East and Africa (EMEA):** Operated and licensed stores are included in CAP and EMEA segment. Certain markets under this segment are either undergoing transformation or in stages of development of their business models. This region includes 37 countries, reaching from Norway to Oman, Portugal to Russia.

B. Channel criteria

1. **Channel Development:** This segment includes a variety of products such as roasted whole bean, round coffees, beverages, iced tea and numerous other products which are sold worldwide outside of their company operated and licensed stores.

According to CSIMarket report, Starbucks market share is 10.5% in Restaurant category and owns 39.8% share of US CoffeeMarket followed by Dunkin Coffee which owns 29.1%.⁵

5. Statista. (2019). Market share of major U.S. coffee chains | Statista. [online] Available at: <https://www.statista.com/statistics/250166/market-share-of-major-us-coffee-shops/> [Accessed 7 Nov. 2019].

If we compare the results to its competitors, Starbucks reported Total Revenue increase in the 2nd quarter of 2019 by 8.12% year on year. The sales growth was above Starbucks competitors average revenue growth of 4.33% in the same quarter.

We can see the comparison of revenue growth of three previous years in the US market with this on going year driven by primarily contribution of Company Owned Stores in Figure 4.

Figure 4: Revenue growth of Business Segments



Source: Forbes.com (2019)

- ❖ The highest contributor to total revenue is the company operated stores and there has been tremendous growth over the years. The segment revenue has increased from \$16.8 billion in 2016 to \$19.7 billion in 2018. The revenue is estimated to be around \$22.9 billion FY 2019.
- ❖ There has been a good growth for the licensed stores over the past few years as the company continues to add stores. The revenue in this segment

grew from \$2.2 billion to \$2.7 billion in 2018 and predicted to be around \$2.8 billion in FY 2019.

- ❖ The consumer packaged goods segment is expected to have a fall in revenue after the company's deal with nestle. The revenue is predicted to be around \$1.5 billion in FY 2019.

Starbucks is expected to obtain 84% of its total revenue from Company Owned Stores.⁶

4. Strategic Analysis

In this section, we are developing the external and internal analysis. These analysis will help us describe the environment in which the company operates and then we will be able to see how Starbucks is using their resources to achieve their goals.

4.1. External Analysis

External analysis is the analysis of the external environment and provides insight into opportunities and threats within a business environment. This forms the input for a SWOT analysis with which we will conclude our strategic analysis section. In our study, external analysis includes PEST analysis, Porter's five forces analysis and analysis of strategic groups.

4.1.1. PEST analysis

PEST analysis is a management method where an organization can assess major external factors that influence the company's policy. In the case of Starbucks, the factors that hold the most influence are political, environmental and technological factors.

6. Forbes.com. (2019). *Starbucks Top Line To Grow By 10% in FY 2019*. [online] Available at: <https://www.forbes.com/sites/greatspeculations/2019/09/26/starbucks-top-line-to-grow-by-10-in-fy-2019/#3dcf59b9494f> [Accessed 7 Nov. 2019].

- **Political factors**

Starbucks pay a higher prices for the coffee it purchases in those countries where high taxation are imposed on farmers. As a result, consumers are affected by any fluctuations in taxation levels in the coffee industry. While importing and exporting goods, trade issues affect Starbucks predominantly. Changes in government can change the taxation and legislation so Starbucks should take caution when considering new ventures. A high tariff imposed by a country's government can not only result in an efficiency loss for Starbucks but also large income transfers can become inconsistent.

Starbucks moved its EMEA business headquarters to London following a row over corporate tax avoidance in 2014. The company stated that this move will mean that they pay more tax in Uk.

- **Environmental factors**

Starbucks uses plastic cups to serve its beverages and as a consequence the company has achieved a large amount of criticism from the environment activists groups. Starbucks' primary customer base is millennial who are highly concerned about the environment and because of this reason Starbucks has introduced reusable cups to avoid the loss of customer base and promised to increase its current usage of reusable cups by 2020 which will be from 1.4% to 2.8% of all of its cups.

- **Technological factors**

Starbucks has been using the technical development and is trying to get the maximum benefits from the emergence of mobile wave. The revolution of mobile phones in the form of apps helps the companies for discount coupons. The availability of Wi-Fi in Starbucks' stores provided to the customers to carry out their work. This is the best use of technological development for the

customers and adds value for the brand and enhance its customers' experience. Starbucks has also introduced new technological developments through the mobile payment.

4.1.2. Porter's five forces analysis

Bargaining power of suppliers - Low

Starbucks are sourcing its raw materials by a large number of suppliers across worldwide. Starbucks requires massive supply which makes it supreme for the suppliers. Arabic coffee of high altitude is traded at a premium which is why its switching cost is high and the rest of the coffee beans acquired by Starbucks are easily available. Because of the massive supply, the suppliers do not attempt bargain with Starbucks or to influence its prices. Therefore, the bargaining power of the suppliers against Starbucks is low.

Bargaining power of buyers - Low

The bargaining power of buyers for Starbucks is low. The size of individual purchases is small therefore single buyers do not hold enough influence. Apart from it the coffee brand has a diverse customer base. The certain environment of Starbucks has gained its brand loyalty and its customers are less sensitive to its prices and they are willing to pay higher prices for premium quality products.

Threat of new entrants - High

Many small local coffee shops with nice ambience and decor has opened and they are successfully running their businesses. Establishing a small and beautiful cafe does not require a huge investment. However, earning a brand loyalty takes time. Moreover customer addiction to Starbucks coffee is making it difficult for new entrants to attract them. Since Starbucks mostly target people of high

income, small coffee shops with nice decor and environment attract people of all groups. Therefore, the threat of new entrants is high for Starbucks.

Threat of substitutes - High

All the products offered by Starbucks have substitutes. Starbucks serves coffee, tea and food items. Nowadays, many people have home made tea and coffee machines. The substitutes of these beverages are juices, soft drinks and other energy drinks. Food items can also be substituted with low cost switching prices. This makes the threat of substitutes high for Starbucks.

Rivalry among existing competitors - High

The competitors of Starbucks are Dunkin Donuts, McDonalds, Costa Coffee and many other small local coffee houses. The competitors are working continuously to innovate, specialize and come up with strategies to attract more customers. The switching cost is very low for customers to make the competition even more intense. The products served by Starbucks are also served by its competitors. Thus the competitive rivalry is very high for Starbucks.

Conclusions from the Porter analysis

We conclude from the Porter's five forces analysis that there is a strong force of competition in this industry. Every coffee house is trying to be more innovative and specialize in coffee just as Starbucks. The most concerning thing for Starbucks is the threat of substitutes and the company should focus on maximizing its strengths. The company can implement strategies to make its brand even more stronger. Starbucks can increase its marketing aggressiveness to attract and retain more customers.

4.1.3. Industry Structure

Table 1 shows the structure of coffee industry. The industry is in a mature stage with a medium level of concentration. As we have detailed above in the Porter's analysis that the competition in this industry is high with low barriers to entry. Additionally, to set up a small coffee shop does not require a large amount of capital. The revenue volatility is medium in this industry because it depends on the inflation of the country where the coffee has been produced and imported from. The advanced technology affects the coffee industry in a way that the coffee brands use different technologies to brew their coffee and they also use it in their coffee shops in the form of Wi-Fi and apps.

Table 1: Industry Structure

Life cycle stage	Mature	Regulation level	Medium
Revenue Volatility	Medium	Technology change	Medium
Capital Intensity	Medium	Barriers to entry	Low
Industry Assistance	None	Industry globalization	Medium
Concentration level	Medium	Competition level	High

Source: IBIS World Report (2019)

4.1.4. Analysis of strategic groups

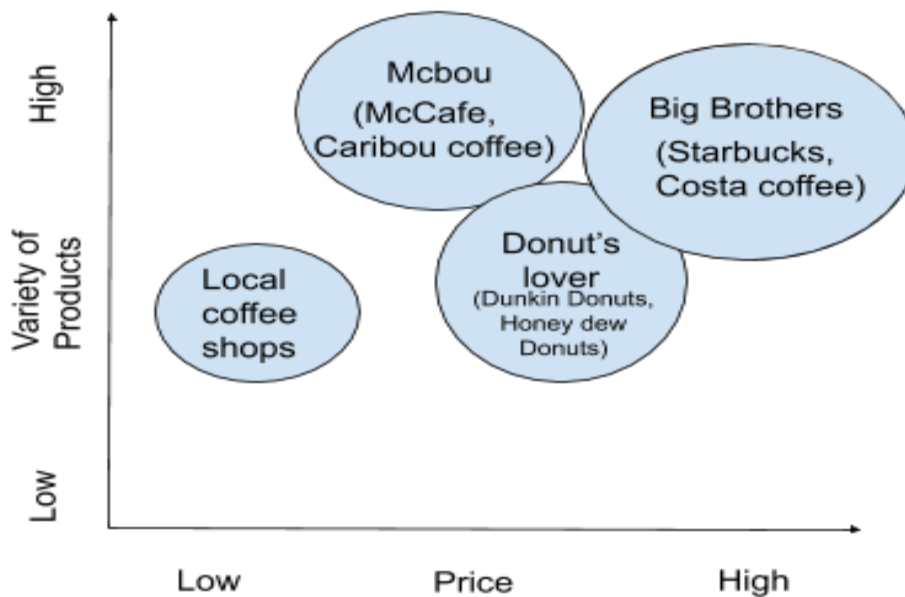
Strategy group mapping is used for displaying the competitive positions that rivals occupy in the industry. It is important to analyse the industry competitive structure in order to contemplate which companies enjoy strong market positions than others.

In our report we chose two variables, variety of products and price, to determine the positions of the companies within the coffee industry. As we can see in Figure 5, we divide the companies in four strategic groups.

1. Big Brothers

In this group, Starbucks and Costa Coffee are included. The price of their products is higher than the others and they offer quite a range of different products. For example, a tall latte in both stores cost more or less 4 CU.

Figure 5: Map of strategic groups



Source: Own elaboration

2. Donut's lover

In this group, we included Dunkin Donuts and Honey Dew Donuts. The headquarters of both companies are in America. Both companies specialized in Donuts however, they are getting more and more involved in the coffee business. The price of latte in both company's stores is around 3 CU. The products offered by these two companies are limited. They have more options in donuts than in coffee.

3. Mcbou

In this group, we included McDonald's McCafe and Caribou Coffee. These two are also American companies. The price for latte of these companies are lower than the companies in other strategic groups. It is more affordable. Nevertheless, McCafe and Caribou Coffee offer a wide range of products in coffee line and also in food item.

4. Local coffee shops

Local coffee shops have a major part in the coffee industry. They offer their coffees often of good quality for lower prices. Most of them have been running their business successfully. They also offer a variety of products in their shops.

There are always competitive pressure and driving forces which adversely affect the firms in strategic groups. Therefore, some firms may try to shift to a more favorably situated group. This shifting is however difficult if the mobility barriers of the target strategic group are high.

For instance, if Dunkin Donuts wants to move to Big Brothers' group of Starbucks they would have to imitate the workforce which is most likely impossible because workforce is not something that can be imitated easily. Moreover, they would have to invest more to increase their product varieties to compete with Starbucks and there is a price difference between these two groups which makes it difficult for Dunkin Donuts to move to the other group.

4.2. Internal Analysis

An internal analysis highlights several areas of interest to understand and prioritize benefits as competitive advantage. In this section, we will specifically examine the usefulness of resources alongside a company's primary objectives, mission and strategies. We will be illustrating value chain analysis, types of resources Starbucks is using, its capabilities and its core competences. Moreover, we will determine its competitive advantage through VRIO analysis.

4.2.1. Mission, vision and values

The Starbucks mission statement is as follows:

“To inspire and nurture the human spirit - one person, one cup and one neighborhood at a time”.

The mission statement of Starbucks does not say anything about business. Its statement revolves around its customers. The company emphasis on the welfare of the human society. It focuses on ethical sourcing, maintaining ethics and compliance in its business and investing more in empowerment and to better the environment. Starbucks has created a harmonious work environment which is free of discrimination and is trying to maintain that. Its employees worked hard to achieve customer satisfaction.

Values play an important role with regards to the achievement of the business goals. Here are the core values of Starbucks:

- Creating a culture of warmth and belonging, where everyone is welcome.
- Acting with courage, challenging the status quo and finding new ways to grow our company and each other.
- Being present, connecting with transparency, dignity and respect.

- Delivering our very best in all we do, holding ourselves accountable for results.
- We are performance driven, through the lens of humanity.

Starbucks' core values are focused on three main things. Culture plays a very important role in its success story. It is a key part of its business because this is where its success story began. A culture of collaboration and empowerment within the companies has helped them to increase their employees' productivity. Starbucks has always focused on transparency, dignity and respect and all three are related to ethics and accountability.

4.2.2. Value Chain analysis

The value chain is a breakdown of the firm into the key operations within the primary and support activities that need to be taken into account in order to sell a product or service.



Support activities:

Firm infrastructure: It includes all the departments of Starbucks such as planning, financial, accounting, quality and strategic management. The

headquarters of the company are located in Seattle, Washington. The chosen locations for Starbucks allowed to maximize its market share and create a regional reputation through store clustering in retail outlets. Starbucks infrastructure location choices would allow the company to take advantage of sales areas such as train stations, street corners, malls, etc.

HR Management: Starbucks is known for its strong workforce which is a key attribute for its success and growth over the years. There are many training programs for its employees in a setting of its work culture which keeps its staff motivated and efficient.

Technology development: Starbucks has used technology for coffee related process and also to make a connection to its customers. A lot of customers go to Starbucks to place a meeting or to make an office shift because of the unlimited and free Wi-Fi availability. Starbucks launched mystarbucksidea.force.com as a platform in 2008 where customers can ask questions, make recommendations and just openly express their opinions and thoughts. Starbucks also works with Apple's iBeacon system which helps customers to make an order through the Starbucks phone app and get a notification as they walk in the store.

Procurement: This involves sourcing the raw materials for the final product. Nowadays, companies are focusing especially because it has impacts on their efficiency and profitability. Starbucks has set strict rules related to the selection of its suppliers and product quality. The company has launched a Supplier diversity program for the selection of their suppliers and the program has been a great success.

Primary activities:

Inbound logistics: Starbucks inbound logistics involves company agents choosing coffee bean products in Latin America, Africa and Asia, communicating the standards related to the quality of coffee beans and establishing strategic relationships with suppliers as well as organizing the supply chain management. It starts from the farm to exporting, importing and finally to packaging.

Operations: The operations of Starbucks are conducted in more than 80 countries either in the form of direct stores operated by the company or as licensed stores. Starbucks has more than 30,000 stores globally. Starbucks started its benchmark roasting in 1971. The company roasts its coffee a while longer than the other coffee makers to bring out the deep and intense flavor which is one of its distinguishing quality.

Outbound logistics: There is very little or no presence of intermediaries in product selling as majority of the products are sold in their own or licensed stores. The products are directly shipped from the warehouses to the retail stores or distribution centres where they are displayed and sold. Other than that, Starbucks uses online channels to sell their products and merchandise.

Marketing and sales: Marketing plays an important role in a company's success. Advertisement can get a lot of value to the brand. However, Starbucks does not use the traditional methods of marketing its brand such as advertising. Starbucks uses social media for marketing and customer engagement purposes. Starbucks mostly relies on word of mouth marketing, its customer service and merchandise.

Service: Starbucks has given priority to customer service from the beginning and it has helped the company to create a brand value of a premium quality and customer friendly environment. In this environment created by the company, customers can easily interact with the Barista and staff and they can relax and enjoy their time in Starbucks without any hassle. It has made the company a third place between their homes and offices.

In all, Starbucks has maintained a competitive advantage since the creation because of its ethically sourced coffee, customer experience and stores' ambience. For Starbucks to remain current, it will need to majorly focus on its core competencies. In order to avoid big competences like Costa Coffee, McDonalds and other coffee chains, Starbucks creates a new value innovation by enhancing the customer experience and investing in online content and interactivity.

The fact that Starbucks does not rely on outbound logistics and look out for all of its operations by itself goes in favor of the company's success.

4.2.3. Resources, capabilities and core competencies

The important resources of Starbucks are retail stores, brand value and human resources. Starbucks chooses its stores location strategically, mostly in an elite neighbourhood where its consumers are not very sensitive to price. In Starbucks stores customers feel a sense of belonging. It has become a place where people come to have a break from their outside worries. It's about the enjoyment at the speed of life, sometimes slow and savored and sometimes faster.

Brand value is an important core strength for any company. Starbucks has this advantage which differentiates it from its competitors. Starbucks built its brand value on selling the finest quality coffee and other products by giving its

customers a unique experience, which is obtained from good customer service, well maintained stores that reflect the culture of the communities in which they operate, therefore by developing a high level of customer loyalty. Starbucks has built a strong internal and external relationships with suppliers which helps it in the success of its business strategy of expansion into international markets.

According to Forbes' list of the World' most valuable brands, Starbucks is at number 35 followed by other companies from technology, automotive and luxury sectors. However it is on the top from the coffee industry and there is no other coffee company in the list.

Starbucks has invested globally \$245.7 million in advertising in the end of the fiscal year of 2019. However, in 2018 the investment was \$15 million higher than this year.⁷

Starbucks has also invested in developing solutions that seek to improve the sustainability of their products. Their stores are focused on recycling and reducing waste. They have built a goodwill among communities they operate in. they have undertaken strong social responsibility initiatives.

Starbucks is known for its highly knowledgeable employees. They are the main assets of the company and they are provided with lots of benefits such as stock options, retirement account and healthy culture.

Product innovation staff that design and develop its offerings and the store associates who serve the items. An important physical resource is its network of farmer support centers, it maintains to ensure a supply of high quality green coffee, they are staffed with agronomist and sustainability experts.

7. Statista. (2020). *Starbucks: advertising spending 2019* | Statista. [online] Available at: <https://www.statista.com/statistics/289363/starbucks-advertising-spending-worldwide/> [Accessed 27 Jan. 2020].

Starbucks is evolving and improving their ethical sourcing by working closely with local and international organizations including NGOs, government organizations and certifiers to ensure their approach to have a positive impact.

4.2.4. VRIO analysis

In this analysis we will check what resources and capabilities detailed in the section above helps Starbucks achieve the sustainable competitive advantage.

Table 2: VRIO analysis of Starbucks

Resources and Capabilities	Valuable	Rare	Costly to Imitate	Organized to capture value	Competitive implication
Human resources	Yes	Yes	No	Yes	Temporary competitive advantage
Stores appeal	Yes	No	No	Yes	Competitive parity
Brand value	Yes	Yes	Yes	Yes	Sustainable competitive advantage
Customer loyalty	Yes	Yes	Yes	Yes	Sustainable competitive advantage
Social responsibility image	Yes	Yes	Yes	Yes	Sustainable competitive advantage

Strong global presence	Yes	Yes	Yes	Yes	Sustainable competitive advantage
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Source: own elaboration

Human resource is a strong and valuable factor for Starbucks regarding its fame globally. Not every company has the human resource similar to Starbucks. However, it does not ensure the sustainable competitive advantage for Starbucks because it is not costly to imitate. All coffee shops, whether small ones or globally expand, can easily train their staff with a little investment. Although human resources can give the company a temporary competitive advantage until other companies start imitating it.

Regarding the stores appeal, it is valuable because the customers would love to go to a coffee shop with unique decors. However it is not rare and it can be imitated easily by other coffee shops. Thus, this factor provides competitive parity for Starbucks.

Brand value is a core strength for any company. It can not be achieved by imitating. A company has to take a lot of measurements in order to gain brand value and Starbucks owns it which provides the company a sustainable competitive advantage.

Starbucks is highly known for its customers loyalty. Its customers are quality sensitive and they do not care much about the high prices as long as they get good customer service which is rare and it is impossible to imitate. To gain someone's loyalty is hard to achieve. Therefore, this factor also helps the company get a sustainable competitive advantage.

Starbucks has taken certain measurement to be socially responsible by introducing recycled paper cups, minimizing its environmental footprint and by addressing climate change challenge. Starbucks has gained an image of socially responsible globally which is not easy to imitate and it helps Starbucks to achieve sustainable competitive advantage.

Starbucks has expanded globally with the presence of its more than 30,000 stores all over the world. It is not an easy landmark to achieve. Every person from every corner knows the Starbucks coffee, no matter if the person goes to its stores for a coffee but all of them know its name. Starbucks has not stopped growing. Its financial statements report has stated that approximately 2000 new stores will be opened in 2020.⁸ This shows that Starbucks has sustainable competitive advantage with the help of its expansion factor.

4.2.5. Conclusion from strategic analysis: SWOT analysis

☐ Strengths

- Starbucks has a significant geographical presence across the globe and maintains high market share in the coffee industry.
- Starbucks has implemented loyalty based program to drive loyalty with its rewards programs and Starbucks card. These programs provide convenience and increase frequency of visits by cardholders.
- There is a huge mobility barrier because a new company would need a large amount of investment to enter into the strategic group where Starbucks competes.
- Starbucks' human capital is one of its main strengths which translated into great customer service that has helped them gain popularity and loyalty.

8. Investor.starbucks.com. (2019). *Starbucks Reports Q4 and Full Year Fiscal 2019 Results*. [online] Available at:

<https://investor.starbucks.com/press-releases/financial-releases/press-release-details/2019/Starbucks-Reports-Q4-and-Full-Year-Fiscal-2019-Results/default.aspx> [Accessed 31 Dec. 2019].

- Starbucks is very well known for its brand value. It has built its reputation by creating a friendly environment of warmth and belonging where everyone is welcome.
- Starbucks has been including in its menu health conscious products that attracts diet conscious consumers. Not many other coffee shops offer these products which makes Starbucks unique.

❑ Weaknesses

- Starbucks environment condition can easily be imitated by its competitors. Moreover, small local competitors could develop beverages that are not the same but similar to Starbucks' products.
- The high prices of its products can pose a weakness for its success where its customers are more sensitive to prices.
- Because of its good image of social corporate responsibility, Starbucks has to maintain tight control over its labor practices which needs capital and human resources.

❑ Opportunities

- Starbucks has great potential and is capable of further expanding into many emerging and developing markets. They can leverage their experience, size, efficiencies and financial power to make new market share.
- Coffee culture has been growing everyday. Coffee is an excuse for people to get together and enjoy each other's company in a nice ambiance that Starbucks provides.
- Starbucks can enter into a new market of packaged coffee and products.

❑ Threats

- Starbucks yield most of its revenue from the US market which makes it more sensitive to prospects of US economy and growth.

- The biggest fear that Starbucks face is the growing competition that puts pressure on it from competitors like Dunkin’ Donuts, McDonalds and Costa coffee especially in the US market.
- There has been significant fluctuations in the labor costs and the prices of high quality coffee beans which Starbucks cannot control and it’s a possible threat for its revenues.
- The rules and regulations in most countries where Starbucks operates might pose threat for Starbucks as it directly affects its primary activities.
- All the products offered by Starbucks have substitutes which are juices, soft drinks and tea. People have home made coffee machines and their products can be substituted with low switching costs by its buyers.

Table 3: Strategic alternatives from SWOT

<p>❖ Strengths</p> <ol style="list-style-type: none"> 1. Brand image 2. Loyal customers 3. Human and financial capital 	<p>❖ Opportunities</p> <ol style="list-style-type: none"> 1. Further expansion 2. Diversification of the products 	<p>❖ Threats</p> <ol style="list-style-type: none"> 1. Substitutes 2. Fluctuations in prices 3. Growing competition 4. Dependence on US economy & growth
<p>❖ Weaknesses</p> <ol style="list-style-type: none"> 1. High prices 2. Imitation by other firms 3. Maintain control over labor practices 	<p>Strategic Alternatives:</p> <ol style="list-style-type: none"> 1. Consider pricing strategies to attract more customers and address the competition and substitutes threat. (W1,T3,T1) 2. Expand to new markets with the diversification of its products and reduce the dependency on US growth. (T4,O1,O2) 3. Implement a hedging strategy to avoid fluctuation. (T2,S3) 4. Invest in human capital and loyal customers to tackle the imitation problem. (S2,S3,W3) 	

Source: Own elaboration

5. Competitive strategy

Competitive strategy is the means by which the companies increase profitability. There are three types of competitive strategies: low cost strategy, differentiation strategy and focus strategy. Starbucks has developed differentiation strategy. Starbucks keeps customers on the centre of attention. The company is known for making necessary changes in order to meet customers' needs and wishes. The differentiation strategy can be achieved in different ways. It varies from service to service, product to product and industry to industry. The differentiation could be achieved from quality, functionality, durability and in some ways customer support and brand's image.

The products of Starbucks are differentiated on the basis of quality and the company provides an entirely different customer experience. Moreover, Starbucks has developed a brand image which is also makes it different from others and makes its brands better than the competitors.

In case of quality based differentiation, the company only serves premium quality coffee for the coffee drinkers which permits the company to fix a higher price. Starbucks does not compromise in terms of the quality of its coffee beans. The Arabica beans that the company uses is different from the regular ones. Arabica beans have an exquisite flavor because they are found at higher altitudes where the beans are denser. The flavor of these denser beans are found in every cup of Starbucks. The differentiation not only comes from the quality of the beans but also the preparation is a huge part of its flavor. Starbucks roasts its coffee beans deeper to bring out the flavor. It produces satisfaction and superior taste. Starbucks tends to do everything in its power to distinguish its quality and products from its competitors. This provides a sustainable competitive advantage

to Starbucks that show in the form of better sales, revenues and larger market share.

However, the quality of the product is not enough solely to achieve differentiation from its competitors. In the case of Starbucks, it is backed up with the brand image. Starbucks has always focused on ethics inside and outside of the company. The company sources 99% of its beans ethically which is good for its marketing too. The company is known for its friendly environment which helps create a good customer experience. Not all companies can provide good customer experience which is why Starbucks has proved that customer experience can be a source of sustainable competitive advantage.

Up until now Starbucks has opened more than 30.000 stores globally. All of these stores provide a nice ambiance that provides customers a relief from their daily stress. To create an ethical image, Starbucks works hard on responsible sourcing and helps the farmers and community through its CSR strategy which we will be developing in the last section.

6. Corporate strategy

Starbucks corporate level strategies are the main factors that led to Starbucks success. According to Bradley (2016), “corporate level strategy concerned with the strategic decisions a business makes that affect the entire organization. Vertical, horizontal integration, diversification and internationalization are considered part of corporate level strategy.

❑ Vertical integration

Starbucks buys and roasts and sells all of its own coffee beans, rather than outsourcing anything in the process. This is an example of a highly backward vertical integration. Rather than buying the coffee already roasted and made, they do it themselves to keep costs low and process within the managed over sight. Starbucks competitive advantage also comes from the quality of its beans and how they are roasted because this is both rare and valuable. The company takes full control of the roasting process to make sure that beans are roasted at a high quality.

It has company owned stores and it is not vertically integrated in distribution and warehouses. Starbucks vertically integrates in retail because of its main strategy line of selling a unique Starbucks experience. Moreover, Starbucks’ aim to create a stimulating, inviting and consistent environment that evoked the romance of coffee which shows the company’s passion for coffee.

❑ Horizontal integration

Tazo, a tea company was founded in 1994 and was acquired by Starbucks in 1999 for \$8.1 million. However, Tazo tea was sold to Unilever for \$384 million in 2017.⁹ Starbucks acquired its hometown rival Seattle’s Coffee Company from its parent company , which included 129 Seattles’ best coffee shops and 21 Torrefazione coffee shops, for \$72 million in 2003.¹⁰

9. Food Dive. (2020). *Unilever acquires Tazo tea for \$384M from Starbucks*. [online] Available at:

<https://www.fooddive.com/news/unilever-acquires-tazo-tea-for-384m-from-starbucks/509987/> [Accessed 9 Jan. 2020] .

10. Nytimes.com. (2020). *COMPANY NEWS; STARBUCKS AGREES TO ACQUIRE SEATTLE COFFEE COMPANY*. [online] Available at:

<https://www.nytimes.com/2003/04/17/business/company-news-starbucks-agrees-to-acquire-seattle-coffee-company.html>

[Accessed 9 Jan. 2020].

Starbucks acquired Ethos water in 2005 in an effort to raise awareness about water access issues for people in developing countries.¹¹ Since then Starbucks has invested more than \$12 million in water, sanitation and hygiene education in coffee growing countries in Africa, Indonesia and Latin America.

Moreover, Starbucks acquired Evolution Fresh in 2011 for \$30 million. Evolution Fresh fruit smoothies and packaged yogurt products are available at Starbucks stores.¹²

In 1993, Starbucks formed an alliance with Barnes and Noble bookstores to offer coffee within the book store that provided profit to both parties. The company made an alliance with Pepsico to distribute “Frapuccino ready to drink coffee” in 1996. Starbucks’ partnership with Kraft foods is an example of an alliance that did not work out. They formed an alliance in 1998 to distribute Starbucks packaged coffee in supermarkets. Starbucks claimed that the Kraft food did not do a good enough job for marketing its products.¹³ Starbucks made a partnership with Apple on selling music as a part of customer experience in 2006.

❑ Diversification

Starbucks was initially created to offer high quality coffee beverages, the firm has continued to expand and diversify its brand in an effort to gain a competitive edge. In addition to coffee, the firm has been adding new snacks and has introduced Evolution Fresh products by making new alliances throughout the years. As a result of making new alliances, Starbucks has introduced new products alongside expanding to markets outside American market where its headquarters are located. Starbucks’s diversification mostly falls within the realm

11. Stories.starbucks.com. (2020). *Starbucks*. [online] Available at: <https://stories.starbucks.com/stories/2015/starbucks-finds-a-new-source-for-ethos-water-outside-california/> [Accessed 9 Jan. 2020].

12. CNNMoney. (2020). *Starbucks buys juice maker Evolution Fresh*. [online] Available at: https://money.cnn.com/2011/11/10/news/companies/starbucks_juice_evolution_fresh/index.htm?iid=EAL [Accessed 9 Jan. 2020].

13. Capital Raising and Business Exits in Australia. (2020). *Strategic Alliances in Action: Starbucks*. [online] Available at: <http://www.benkillerby.com/snippets/strategic-alliances-in-action-starbucks/> [Accessed 9 Jan. 2020].

of the retail food and beverage industry and hence, would likely be considered a single-business firm.

❑ Internationalization

Until 1995 Starbucks opened 700 stores across the US and began exploring foreign opportunities by opening its very first store in Japan outside of the US. Starbucks established a joint venture with a Japanese local retailer and it was charged with taking over responsibility for growing Starbucks' business in Japan. By the end of 2009, the company had more than 800 stores and a profitable business in Japan.

After Japan, Starbucks had continued growing and investing in foreign countries. At the end of the 1990s the company opened stores in Taiwan, China, Singapore, Thailand, South Korea, Malaysia and New Zealand. In Asia, Starbucks gave license of its establishments to local operators in exchange for initial licensing fees and royalties on store revenues.

By 2002, Starbucks was pursuing an aggressive expansion in mainland Europe. Starbucks chose Switzerland as its first entry point and later on opened new stores in other European countries.¹⁴

7. Corporate social responsibility

Starbucks' social responsibility strategy is based on three pillars: strengthening community, ethical sourcing and the environment.

Community service is a part of its heritage and its partners contributed more than 66,000 hours of service to the neighbourhoods they serve. More than 10 million meals have been shared through its FoodShare program including 7.4 million meals in 2018. Starbucks has pledged to hire at least 10,000 veterans and military

14. Starbucks Coffee Company. (2020). *Starbucks Company Timeline*. [online] Available at: <https://www.starbucks.com/about-us/company-information/starbucks-company-timeline> [Accessed 9 Jan. 2020].

by 2018 and focuses on diversity and inclusion in the workplace. The company also provides training opportunities for youth in their communities and has developed the Starbucks Foundation whose goal is to strengthen those communities further. Starbucks develops community stores that partner with local nonprofits. The nonprofits, these stores works with, offer services aimed to meet the needs of the communities they are located in. Starbucks, in return, donates \$0.05 to \$0.15 per transaction to the nonprofit partner.¹⁵

Starbucks purchases its products through ethical sourcing. The company makes sure that its coffee, tea and other manufactured goods are responsibly and ethically produced and purchased. Starbucks' coffee was verified as ethically sourced under C.A.F.E (Coffee and Farmer Equity) in 2018 for the fourth time consecutively.

Climate change represents significant immediate and long term risks to coffee farmers around the world. Therefore, Starbucks is investing in innovation to offer farmers new climate resilient coffee tree varieties and support coffee farming communities through its Global Farmer Fund to make sure farmers have access to low interest financing that will help them reinvest in their farms.

Starbucks has taken a comprehensive approach to reduce its environmental impact. They have committed to recycling and conserving water and energy to address climate change on a global level. The company is working on doubling their use of recycled cups by 2022.

In 2018, 1.3% of customers in company operated stores in the US, Canada and EMEA received a discount for bringing their own mug or tumbler, saving more than 42 million disposable cups.¹⁵ They are continuing to find new ways to encourage customer adoption of reusables.

Starbucks purchases enough renewable energy to power 100% of its more than 9000 company operated stores in the US, Canada and UK with clean energy. More than three quarters of Starbucks operations are powered by renewables worldwide.¹⁵

8. Conclusion

Starbucks has maintained its place in the coffee industry by becoming a coffee giant that continuously grows and expands. Organisations such as Starbucks are the first ones in the market with trend-centric products and the company has become a recognizable leader and gained loyal customers with brand loyalty.

Starbucks faces a growing competition from quick service restaurants like McDonalds and with its coffee line McCafe, Dunkin Donuts, Costa Coffee etc. Starbucks coffee price is higher than its competitors which gives them cost advantage over Starbucks.

In order to tackle the competition, Starbucks could make long term agreements with the food service companies in which they are competing. In this way, they will be able to enter in the new markets by increasing their sales and decreasing their competition.

Starbucks does not distribute their products to supermarkets because they would not want to compromise their product's quality and brand image. However, Starbucks aggressive expansion can affect its brand image because as corporation grows the focus diverts towards increasing output and locations and it might neglect its product's quality and brand image.

15. Globalassets.starbucks.com. (2020). [online] Available at: <https://globalassets.starbucks.com/assets/5064028EB31B40FA86C13DD54497DE1F.pdf> [Accessed 11 Jan. 2020].

Therefore, Starbucks should remain loyal to its core competencies and capabilities and transfer them from country to country with great caution and according to each country's culture and regulations.

Starbucks has great opportunity to grow in sector of packaged coffee and products. It should build relationships with big retailers to get enough shelf space and to increase the efficiency of distribution channel.

Starbucks maintained its competitive advantage in spite of fixing high prices because the company chooses wisely the locations of its unique stores such as high visibility areas which gives rise to the stores revenues.

The environment and ambiance created by the company in its stores is hardly imitated by its competitors and is also a source of a sustainable competitive advantage. The company's workforce plays a big role in its brand loyalty. Customers feel at home when they enter into a Starbucks store and they would not mind paying a high price for a cup of coffee of good quality and for a nice ambiance.

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