



IST

Fallstudienreihe

Innovation, Servicedienstleistungen und Technologie

Case Studies on

Innovation, Services and Technology

Starbucks

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Starbucks

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1. Case Study

The first Starbucks store was opened in 1971 in Seattle's Pike Place Market, under the name of Starbucks Coffee, Tea and Spices.¹ There, freshly roasted, high-quality coffee was offered, as well as accessories for coffee roasting. The company founders and old college friends were English teacher Gerald Baldwin, writer Gordon Bowker and history teacher Zev Siegel.² In later years, the company was only known as „Starbucks“³, and in 1980 it became the largest coffee roaster company in Washington with 6 branches.

Two years later, in 1982, Howard Schultz was hired as director of retail operations and marketing.⁴ Prior to that, Schultz was a vice president and head of sales at Hammarplast, a manufacturer of kitchen equipment and houseware which supplied Starbucks with its high quality coffee machines. Before he was hired, Schultz, who personally visited Starbucks while still at Hammarplast, was impressed by the quality of the coffee. Until then, he was only familiar with the usual freeze-dried coffee powder and thinly brewed coffee.⁵ By recruiting Schultz, Starbucks also extended its business division and started selling its coffee to noble restaurants as well as espresso bars.⁶

In 1983, shortly after being hired, Schultz made a business trip to Milan in Italy where he was attracted by the local popularity of espresso bars. There were cafés in every street, where locals could not only get their espresso or other coffee-based beverages, but also meet friends and acquaintances. Delighted with the Italian cafés, he returned to the USA and opened the first Starbucks coffee house in downtown Seattle in 1984 after he was able to persuade the Starbucks owners that his idea would work.⁷ With 400 customers on the first day and an average number of 800 daily customers in the next two months, the

¹ Cf. Starbucks (2010a), for URL see bibliography

² Cf. Wikipedia (2010), for URL see bibliography

³ Cf. Starbucks (2010a), for URL see bibliography

⁴ Cf. Starbucks (2010b), for URL see bibliography

⁵ Cf. Wikipedia (2010), for URL see bibliography

⁶ Cf. Starbucks (2010b), for URL see bibliography

⁷ Cf. Starbucks (2010b), for URL see bibliography

coffee house proved a great success. By comparison, the daily total in the other Starbucks shops was approximately 250 customers. Spurred by the success, Schultz was allowed to install espresso machines in two other shops, which were also very successful. In 1984, Starbucks also served its first caffè latte. Nevertheless, the founders were very sceptical about the idea because they felt that the new approach could destroy their core business. Therefore, Schultz decided to launch his own café in 1985 named “Il Giornale”. In Italian, Il Giornale means “the daily newspaper”.⁸

In 1987, Schultz bought up Starbucks with Il Gournale. Il Gournale was renamed to Starbucks⁹ In the course of this process, the six coffee bean roasters were also transformed into classical and comfortable coffee houses following the model of Italian cafés. In the following years, the company experienced a considerable expansion and in 1996 it had already 1,015 locations. In the same year, the company opened its first shops outside the U.S. in Japan and Singapore.¹⁰ In the late 1990s, Starbucks became one of the most popular brands in the U.S. and established itself as the leading coffee bean roaster and retailer in North America. A further opening up of continents such as Europe followed. At the end of 2007, there were about 15.000 Starbucks-Shops worldwide,¹¹ whereas 29% of the shops were located outside of the United States.

But in mid-November 2006, the steep upward trend came to a halt and stock prices began to fall. This trend continued until the beginning of March 2009 when the share price fell by 78% from US \$ 37.89 to US\$ 8.36. In the meantime it has seen some recovery standing at US \$ 22.37 (reference date: 08 February 2010).¹² There are many reasons for Starbucks’ continuing problems. One of them is the bad economic situation caused by the financial crisis which forced consumers to save money on products which are so-called “luxury goods”.

⁸ Cf. Starbucks (2010b), for URL see bibliography

⁹ Cf. Starbucks (2010b), for URL see bibliography

¹⁰ Cf. Starbucks (2010b), for URL see bibliography

¹¹ Cf. Starbucks (2010b), for URL see bibliography

¹² Cf. Nasdaq (2010), for URL see bibliography

These „luxury goods“ also comprise expensive Starbucks coffee. Another aspect is the rising costs of distribution, the costs of opening new stores as well as all the material costs which soared to absolute peak levels. In addition, prices of milk and coffee beans increased significantly. Besides external factors, there are also internal factors which explain why the company is no longer flourishing. At the beginning of its success story, Starbucks had dedicated itself to an upscale clientele - elegant coffee houses and top cafés where predominantly young, wealthy people with a good income stopped at. The company quickly developed a reputation for a small oasis of well-being, which makes one feel like home and where people could meet friends for a cozy chat. The rapid expansion between the end of the 20th and the beginning of the 21st century, however, had a significant impact on the image of Starbucks. For a start, Starbucks lost its exclusivity, as the feeling of well-being was counteracted by the large urban concentration of Starbucks stores. Furthermore, shops were opened in busy and hectic places such as airports.

2. Definition of Task

As Starbucks' new managing director, you are in charge of finding a way out of the downward spiral and bringing the company back on the old road to success.

2.1 Resource-based View

To do this, analyze the advantages of your company over competitors using the resource-based view (RBV) and discuss Starbucks' resources at the lowest level of resource typology in detail. For this purpose, briefly outline the basic assumptions of the RBV and list all of the resources as such.

Based on the fundamental assumptions and the resource list, select Starbucks' three most concise resources which you consider particularly well-suited to achieve rents (profits). Describe in detail, why these resources generate competitive advantages. Furthermore, justify your answer explaining why you have chosen these three competitive advantages.

Once you have described the resources, you can specifically deal with the question which particular type of rent (profit) can be achieved by each of the selected resources. To do so, please list the types of resources first and explain them in theory before referring specifically to your three resources.

2.2 Innovation development and categorisation of innovation

In order to be able to get the company back on track again, you need an additional innovation. Develop one meaningful innovation idea for Starbucks without destroying the Starbucks identity. At first, please describe which types of innovation would be theoretically possible (content-related differentiation). Following the innovation types, please describe and explain your specific innovation idea in detail. Assign your innovation to the innovation types already described.

After you finalized your innovation idea, please also explain whether the three most important resources of Starbucks identified by you provide a good basis for your innovation or not.

2.3 Generic Strategies

In a final aspect of your deliberations, comment on Starbucks' strategy. To do this, describe in theory which generic strategies exist and which strategy Starbucks is currently pursuing. In addition, please explain whether your innovation supports the current strategy or not, and why this is so.

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