

## Best Solution for Starbucks to Overcome Potential Difficulty Based on a Systematic Framework

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**Abstract:** In recent years, with the increase of local coffee companies, Starbucks faces more and more competitors in the coffee market in China, which makes it difficult for Starbucks to maintain its original market share. In this paper, we provide an analysis framework with an attempt to help Starbucks mitigate the problems. Firstly, we utilize Strength, Weakness, Opportunity and Threats Analysis to analyze internal environmental and external environments of Starbucks. Then, we use Political, Environmental, Social, Technological, Legal, and Economical Analysis to identify the factors that affect the external marketing environment of the organization. Thirdly, we use Value, Rarity, Imitability and Organization Analysis to analyze the company's sustainable competitive advantages according to the internal resources and capabilities. Fourthly, we use Customer Analysis to determine target customers. Fifthly, we use MECE to find solutions based on needs. Finally, we use Criteria Grid to analyze and find the best solutions. And based on the analysis results, we propose some suggestions for Starbucks- to exemplify, opening pickup windows, introducing tea, and opening experience stores. With these four solutions, we believe that Starbucks will receive approximately \$122 million in net income in its first fiscal year in China. It is estimated that the average net income for each fiscal year in ten years is \$301 million. These solutions will promote the Starbucks brand image, expand and stabilize the consumer base, and maintain sustainable profits and market dominance and advantages.

### 1. Introduction

By 2019, Starbucks has been operating in China for 20 years [1]. Different from other coffee brands, Starbucks has its unique brand image and concept -the third-place positioning. Basically, the third-place positioning intends to provide a cozy place where consumers are able to enjoy their coffee and connect with others. Staying at such a place, consumers would not mind paying a higher price for their foods. Once the concept is introduced by Starbucks to other nations, its revenue has been dramatically increasing in recent years. According to a report of 2020, Starbucks revenue rises from 7,787 million dollars to 23,518 million dollars in 14 years [2]. It is clear from the statistics that Starbucks has established a successful concept, which enables them to gain profit owing to it.

China is a market with a high potential to Starbucks; however, in the 2020s, high-advanced technology provides convenience to consumers but violates Starbucks particular notion. In order to cater to highly digitalized consumers, Starbucks undertook several actions such as designing its mobile apps and collaborated with local delivery companies.

Although Starbucks has made efforts to develop its brand as the time goes, threats and challenges exist. To begin with, the emergence of new brands is one of the threats. Luckin, a competitive “substitute”, quickly appears in the public's sight by providing coupons and relatively affordable products. This strategy catches consumers' eyes, especially these young workers who intend to save their money for necessities such as food and rent. Unlike Luckin, Starbucks only provides traditional coffee drinks and rare discounts, so it is not able to attract as many consumers

as before. One report shows that from 2019 to 2020, the revenue of Starbucks declines 8.06% year over year. Undoubtedly, pandemic is one of the causes, but we should not ignore the problem of continuing using unified strategy over years.

In order to provide solutions to help solve the problems Starbucks faced, we conduct analyses of Starbucks' internal and external sustainable competitiveness and weakness based on Strength, Weakness, Opportunity and Threats (SWOT) , Political, Environmental, Social, Technological, Legal, and Economica (PESTLE), Value, Rarity, Imitability and Organization (VRIO), Customer Analysis, Mutually, Exclusive, Collectively Exhaustive (MECE), and Criteria Grid method. In the research process, these methods help to analyse Starbucks in a comprehensively [3].

The rest of this paper is structured as follows. The second section regards the methods which we used to analyze Starbucks in Chinese market and solutions we suggest accordingly. We discussed our analysis in detail in Section 3 including the external factors analysis and comparison between solutions. At last, based on solutions we chose, we calculated the possible revenue Starbucks may receive if our suggestions have a desirable positive effect while taking no other factors into consideration. In the end, we evaluated the weakness of our study and stated our future plans for further research of this topic.

## 2. Methodology

The unifying operating strategy of Starbucks is unable to satisfy consumers with different preferences. Consumers are losing interest in Starbucks's products. Overcrowded stores drive people away. In this case, our solution is to separate consumers with different objectives through offering diversified options. The solution is based on five frameworks for analysis, SWOT, PESTLE, VRIO, Customer Analysis, MECE, and Criteria Grid.

Figure 1 presents a mind map showing the 6 methods we used to analyze Starbucks. They are SWOT, PESTLE, VRIO, Customer Analysis, Criteria Grid, and MECE.

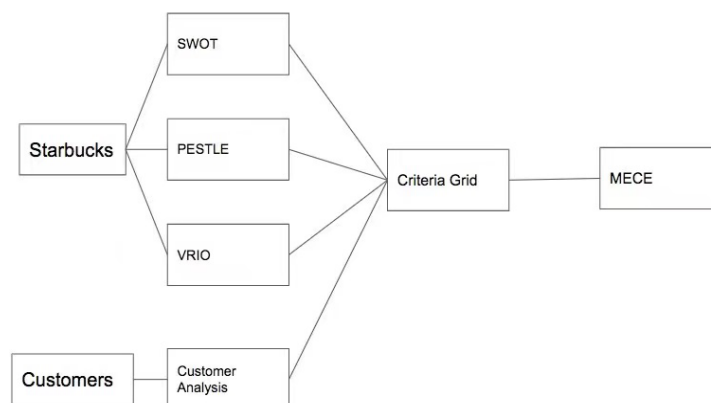


Figure 1. Mind map of Analysis

### 2.1 SWOT Analysis

Strengths, Weaknesses, Opportunities, and Threats is usually referred to as SWOT. Strengths and Weaknesses are attributed to internal environmental analysis and evaluation. Strengths are things that one's company is particularly good at, or how it differentiates one from its competitors. Strength is the ability of the organization, including financial resources, transfer capabilities, staff capabilities, and brand and customer loyalty, etc. Weaknesses are things that one might need to improve on to be competitive. Opportunities and Threats are classified as external environments. Opportunities are the chances that can help a company succeed, like evolving technology or new ideas and things. Threats include any factors that may negatively affect a company or brand image from the outside, including trend changes, cash flow shortage, new replacement products, negative public image, etc. Through SWOT, we can evaluate the internal and external environment of a company, which can help a company to achieve its goals.

## **2.2 PESTEL Analysis**

PESTEL is a strategic management tool used to identify and analyze the factors that affect the external marketing environment of the organization, and the results are used to identify threats and weaknesses used in SWOT analysis. PESTEL including Political, Economic, Social, Technological, Legal, and Environmental. PESTEL analysis can help companies better understand the market and business conditions and then make strategic planning. Political is an analysis of the impact of the government on the business economy, including local government policies, taxation policies, and trade policies. Sometimes companies need to adjust their commercial marketing plans according to changes in government policy. Economic factors can be divided into the macroeconomic and microeconomic analysis. The impact on the company's economy mainly depends on industry growth, inflation, international exchange rates, consumer disposable income, monetary policy, and raw material costs. Social factors including local culture, religion or belief, environment, population growth, age, careers, family size, and lifestyle trends. These factors can help the company better develop and attract customers locally. The main analysis and observation of technology are whether there are any innovations and technological advances available or about to appear, and whether it will affect the company's operations. The analysis of environmental factors is aimed at climate change, pollution, recycling, waste management policies, endangered species, and renewable energy, etc. to make adjustments to the company's marketing. The legal part is to determine what is legal and illegal in the company's marketing or production. Legal factors including consumer protection and law, product safety and health, data protection, etc. [4].

## **2.3 VRIO Analysis**

VRIO stands for Value, Rarity, Imitability, and Organization. It is used to analyze the company's internal resources and capabilities, and to help the company find a sustainable competitive advantage so that it can stay ahead of competitors and promote growth. Valuable is to evaluate whether the company's resources are valuable. Rare assesses whether the resource is owned by only one company or by multiple companies. If only one company owns the resource, then the resource is rare. Imitability assesses whether the company's resources are difficult to imitate by other companies. The organization analyzes whether the resources are supported by existing arrangements and whether the organization can use them well [5].

## **2.4 Customer Analysis**

Customer analysis is to analyze and determine target customers and to make marketing plans based on the needs, characteristics of target customers, the target market and the relevant demographics so that this information can be used in market segmentation for further steps of market research [6].

## **2.5 Criteria Grid**

Criteria grid, a decision-making technique, is used to compare and choose the best choice among a number of options. In the grid, criteria are listed in the table, as well as these options. Decision makers take one option each time and compare with every criterion. Then, decision makers rate each option from 1 to 5. By calculating the sum of the score, researchers choose the one with the highest score, which is the best choice [7].

## **2.6 MECE Method**

MECE is called Mutually Exclusive Collectively Exhaustive. It is a framework for problem-solving, which can help companies eliminate confusion and focus on key data that points the way for success. Some examples of mutually exclusive collectively exhaustive segmentation include grouping customers in the following ways, defined age ranges without overlapping categories, country of birth (assuming no geographic overlap), highest education, clear income class, and number of workers [8].

### 3. Result

We perform detailed analysis and evaluation of Starbucks' internal, external and market by using six different frameworks, namely, SWOT, PESTLE, VRIO, Customer Analysis, MECE, and Criteria Grid.

#### 3.1 Starbucks' Internal and External Environments Analysis

##### 3.1.1 SWOT of Starbucks

Starbucks has a huge market in the coffee industry, and Starbucks stores can be seen in most countries. Among many countries, China is one of Starbucks' larger markets. Starbucks has a high brand value, stable finances, and a strong brand image. It is very famous and popular in the world and its size and number of stores have kept growing over time. Starbucks has high-quality coffee beans, a stable supply chain, superlative brand experience, and advanced coffee equipment. Also, it has a clean, relaxed, comfortable, and high-end environment for customers to drink coffee, relax, and socialize with friends. However, there are some China indigenous coffee chains start-ups growing fast, and their products' prices are lower than Starbucks. Because most Starbucks stores are decorated with plush interiors, the cost of decoration of Starbucks stores is higher than many other local Chinese coffee stores. At the same time, its menu is very simple, not many new products, only a few regular ones. And Starbucks' advertising is not very good. Compared with other brands, Starbucks has very little advertising. Starbucks can launch and develop new products according to local tastes, culture, or festivals in China, which will be very popular in the market. Nowadays, many white-collar office workers do not have time to go to the store to buy or pick-up coffee due to their busy work, so Starbucks should optimize and develop new and convenient online orders and pick up delivery. The threat that Starbucks faces is that other competing brands also have products similar to Starbucks, but the price is cheaper than Starbucks, which may cause Starbucks to lose many of its customers. Increase in raw material costs due to rising coffee prices. Table 1 is the result of SWOT analysis on Starbucks.

Table 1. SWOT analysis on Starbucks

Strengths	Weakness	Opportunity	Threats
<ul style="list-style-type: none"> <li>-Good reputation</li> <li>-Strong Brand Image</li> <li>-Wide distribution of stores</li> <li>-Great amount of assets</li> <li>-Stable supply chain</li> </ul>	<ul style="list-style-type: none"> <li>-Relatively high price</li> <li>-Poorly diversified menu</li> <li>-Small customer population</li> <li>-Poor advertisement</li> </ul>	<ul style="list-style-type: none"> <li>Favorable External factors: Potential to increase consumer population in the future</li> <li>What we should improve:               <ul style="list-style-type: none"> <li>-Provide various of products</li> <li>-Boost efficiency</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>-Lots of competitors</li> <li>-Increase costs of raw material-higher price of coffee beans</li> <li>-Change in consumers' preference</li> </ul>

##### 3.1.2 PESTLE of Starbucks

Due to changes in the US government and the impact of the trade war with China, Starbucks may be affected in the Chinese market. And changes in the exchange rate of RMB and dollars may affect Starbucks' economy. Modern lifestyle changes have increased people's demand for coffee. Starbucks should optimize the Wi-Fi in the store to ensure that consumers can surf the Internet and work in the store, and also need to upgrade the mobile payment and online ordering app. Climate change causes low production of coffee. Starbucks needs to pay attention to environmental issues like recycling, decrease in use of plastic, and "green". Starbucks must ensure that all procurement and business activities do not violate the law like Introduction of stricter customs and trade regulations and licensing regulations related to the industry. The PESTLE analysis on Starbucks' result is shown below in Table 2.

Table 2. PESTLE analysis on Starbucks

<b>Political</b>	<b>Economic</b>	<b>Social-cultural</b>	<b>Technological</b>	<b>Environmental</b>	<b>Legal</b>
-Tense relationship between USA and China	-Fluctuation of currency -Recession caused by Covid-19	-Increase in workload which leads to high consumption of coffee- Change in lifestyle rises demand of coffee- Acceptance of foreign culture-coffee culture	-High-tech coffee machines -Wi-Fi covered in every store -Digital platform gives consumers more access to Starbucks -Collected data helps to analyze consumer preference	-Focused on environmental issue-decrease in use of plastic -Climate change causes low production of coffee	-Policies related to foreign brands being imposed by China

### 3.2 Starbucks' Internal Resources and Capabilities Analysis

#### 3.2.1 VRIO of Starbucks

Reputation determines sales. Starbucks is an influential brand, and it has been developed for many years. Therefore, Starbucks has an excellent reputation and high position which cannot be reached easily. Reputation can also help it get more innovations and progress. The store distribution symbolizes the owner's commitment to the store. Efforts must be made for more customers and better organizations, which is vital. We think Starbucks did it well including providing the third place, creating more new items and also having more selling activities nowadays. However, for every store, the owners always take a lot of time and care since they want to reach their life goal and also earn more money. As a result, store distribution is not rare and inimitable. Assets are a symbol of one store's finance ability. Actually, assets are also standards to evaluate the store's profitability. Starbucks has a strong finance ability as an experienced and famous coffee. It is an irreplaceable previous condition if the store wants to have more breaks and innovation. More importantly, Starbucks has a mature organizational system, but also because it has sufficient funds and facilities to train employees in order to provide better services to customers. It is difficult to reach the same level as Starbucks, but it is still possible. Table 3 below is the VRIO analysis on Starbucks.

Table 3. VRIO analysis on Starbucks

	<b>Valuable</b>	<b>Rare</b>	<b>Inimitable</b>	<b>Organized</b>	
Reputation	Yes	Yes	Yes	Yes	Sustained Competitive Advantage
Store Distribution	Yes	No	No	Yes	Strong Competitive Advantage
Assets	Yes	Yes	No	Yes	Strong Competitive Advantage

### 3.3 Customer Analysis of Starbucks

For elites, they always have more spare time. What’s more, they have enough power for consumption and higher life quality. As a result, they may become the main customers in the experience store. For workplace rookies, they always need to take the time to get to know their surroundings in order to get familiar and adapt to the new place quickly. So, they would love to try experimental retail. For youths are trendy and stylish. Therefore, they want to explore the new experience store which is innovative. Especially for the undergraduates and teenagers since they have just come back from a stressful period of study. Beverages and desserts in Starbucks have nice qualities and tastes. As we all know, Starbucks left the public an impression which symbolizes coffee’s upper class. Therefore, customers consciously pursue the better taste instead of any coffee with a cheaper price. Additionally, the experience store is a new style and there are many limited and new items there. It is a no-brainer choice for them. In the past, Starbucks is also famous for its “third place” providing. By comparison, the experience stores have made more progress than before. The experience stores break up the simple “third place” providing, but also set more themes and decorations. As a result, the people who are environment focused certainly want to try it. The fashion trend followers are good at finding all kinds of new and stylish things. The experience store of Starbucks is a symbol of it. Also, one may also invite some hot anchors and stars to advertise it online so it will start a new trend. The fashion trend followers will be addicted to this new and interesting limited form just like pursuing the web celebrity stores punches out. As we all know, even though Starbucks has higher prices than the other brands it also has the better taste and environment, so it always appeals to the taste-conscious, environment focused and the fashion trend follower. All in all, based on our analysis, our main targets are teenagers and the fashion trend followers. Table 4 below is the Customer analysis on Starbucks.

Table 4. Customer Analysis

Preference	Life Stage
Taste Conscious	Elite
Environment Focused	Workplace Rookie
Fashion Trend Follower	Teenagers

### 3.4 Criteria grid of Starbucks

There are 5 criteria used to compare 7 possible solutions. Feasibility measures how effective the solution to the problem occurs in Starbucks. If this solution is executed, how much profit the company could earn through this method. Since the drinking brand requires a large number of customer-based population, reputation is essential. The company should be mindful of the popularity which a certain solution could bring. One way to avoid the brand being threatened by other new brands is to increase one’s market share. Market share closely connected with customer loyalty. Hence, the higher the market share could be increased, the more effective the solution is. Convenience measures the costs of executing the solution. Starbucks may have a limited budget each year, so if the solution is costly with low efficiency, then the company should not consider the solution. In sum, by rating each solution, Starbucks can select the best decision among these 7 solutions. In Table 5, solutions are placed in order from the higher score to the lowest. Experience store is the highest, so it is the best solution for Starbucks to use. The second-best solution is Pick-up Window. Compared to Experience store, its feasibility is higher, which reaches the full mark 5, but Pick-up window merely helps Starbucks increase a few proportions of market share. Hence, considering the sum of the score, experience store is the best solution. It is also demonstrated in the table that Tea Product has the same score-16-as the delivery service. However, due to the reason that Delivery Service only has one criterion that is higher than Tea Product, holistically Tea Product is better. The evaluation of Starbucks is shown in Table 5 below.

Table 5. Criteria Grid

Rank 1-5	Feasibility	Profitability	Reputation	Market Share	Convenience	Sum	Decision
Experience Store	3	2	5	5	3	18	Yes
Pick-up Window	5	3	3	1	5	17	Yes
Tea Product	4	3	3	4	2	16	Yes
Delivery Service	3	3	2	3	5	16	No
Opening new stores	4	2	2	3	4	15	No
Drive-thru	1	2	3	1	5	12	No
More coffee-flavor	4	1	1	4	2	12	No

### 3.5 MECE of Starbucks

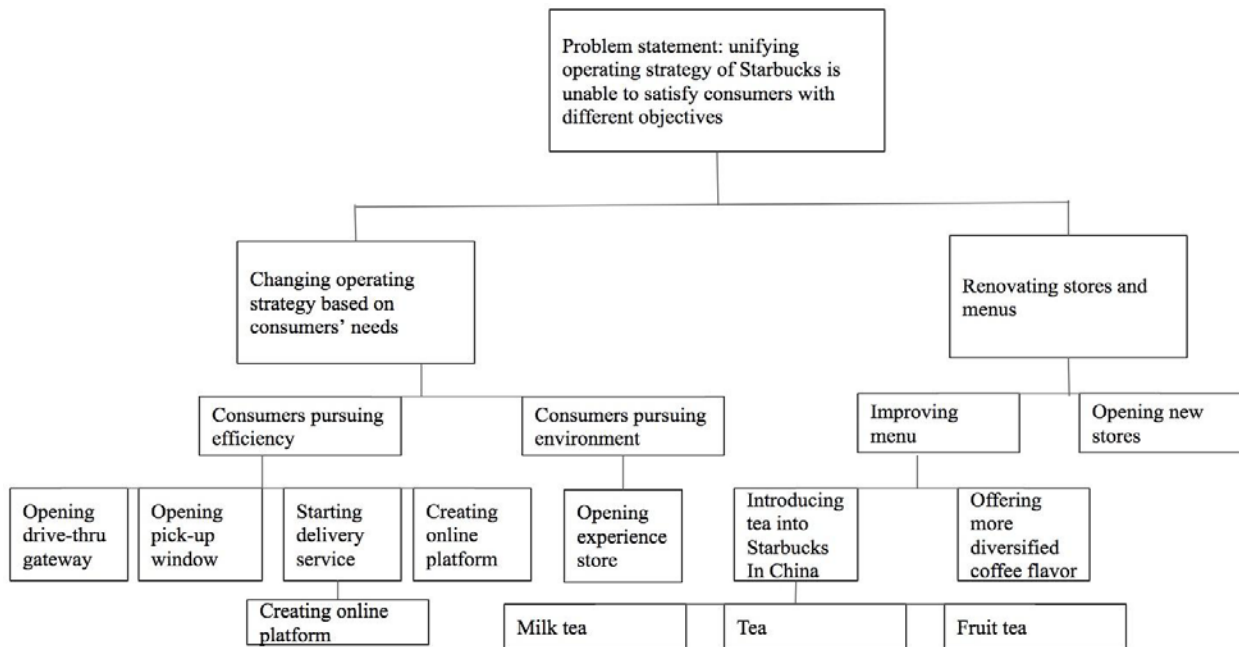


Figure 2. MECE of Starbucks

Our problem statement is that the unifying operating strategy of Starbucks is unable to satisfy consumers with different objectives. We divided the solution to the problem into two directions, changing operating strategy based on consumers' needs and renovating stores and menus. In changing operating strategies based on consumers' needs we have consumers pursuing efficiency and environment? There are four solutions for consumers pursuing efficiency, opening drive-thru, starting delivery service, opening pick up windows, and creating an online platform. For consumers pursuing the environment, we suggest opening an experience store. Also, we have two plans for renovating stores and menus, improving the menu (adding some tea beverages and more diversified

coffee flavor) and opening new stores. Figure 2 below has more details of the MECE analysis on Starbucks.

#### **4. Discussion**

According to the analysis, we choose three good solutions for Starbucks- pickup window, introducing tea, and experience store.

The benefit of the pickup window is efficient. Many people want to buy a cup of coffee on the way to work but don't have enough time to enter the store and line up. So, for this group of customers, they can order by phone in advance and then go to the pick-up window to get their drinks, it's very convenient for them. At the same time, because we set up a pick-up window, it will reduce the number of people rushing in and out of the store, so this will make consumers who want to enjoy the third place in the store have a better experience. And this also improves the sales efficiency of the store.

In addition, tea has a long history in China, it is pretty much a part of Chinese culture. Many Chinese people like to drink tea. So, we suggest that Starbucks can provide some tea beverages, such as milk tea, iced tea, and fruit tea.

And finally, an experience store, or one can also call this type of store the Starbucks Museum. It is neither a museum nor a shop, but somewhere in between. People need to buy a ticket to enter the store. Starbucks Museum gives consumers a sense of ritual and experience, and this is something that online consumption cannot give. From the moment consumers enter the experience store, service staff begins to provide full service to them, including greetings, handing drinks, and knowledge explanations. The decoration style of the Starbucks Museum is ins style. There are photographers to help people take pictures if they need to. There is also staff in the Starbucks Museum to explain the coffee history and related information. At the same time, Starbucks can provide some samples for consumers to try. There are also related products for people to choose and buy, such as coffee beans and coffee machines. Starbucks can also put in some entertainment facilities for customers to enjoy and play with their friends and families. In the rest area, there are some drinks and food for people to order, and videos for people to watch. What's more, a DIY area in the SM. People can design and learn latte art, make coffee, or make their own drinks and food. And there can also be some co-branded products such as makeup, toys, bags, water bottles, etc. for customers to choose from and buy. Furthermore, each city has its own limits and style.

Suggestions are helpful only when it could bring profit to the brand. In order to see the profitability which, the experience store can bring particularly, we firstly assume that the daily population of visitors is 4000. By setting the ticket price at 15 RMB per person, we calculate that approximately 600.686 million dollars is earned by Starbucks. Adding the sales of souvenirs, the revenue exceeds 700 million dollars. Afterward, we calculate possible costs such as rent and advertisement fee, so EBIT (earnings before interest and tax) is 162.307 million dollars and the profit is 122.73 million dollars. Overall, in 2021, 14% increase in profit can be achieved by Starbucks.

To some extent, opening an experience store is risky. Firstly, the popularity after the opening is unpredictable. It is difficult for researchers to know whether the public will accept this new tactic. Plus, the pandemic situation brings uncertainty to the whole solution. If the COVID-19 pandemic is getting worse in the future, social distancing does not allow the experience store to be as successful as the managers think. However, based on previous experience from other brands such as Armani and Chanel which opened pop-up stores before, the young generation shows high acceptability of such brand-new event. Chinese influencers have the power to attract more consumers for the pop-up store as well. Thereby, Starbucks can hold the highest market share in China's coffee market. There is no denying that, in the short term, Starbucks is not going to be easily replaced by other brands.

#### **5. Conclusion**

In China, tens of drinking brands arise in the market every single year. Nevertheless, Starbucks



insisted on their unifying strategy for years and was not able to attract as many consumers as they once did. In particular, the young generation in China prefers to experience new events and products; hence in order to prevent a takeover by another brand, we analyze Starbucks cases from the four frameworks and give our own suggestions to Starbucks.

To the most and foremost, we use SWOT to analyze internal factors of Starbucks. For instance, we analyze that Starbucks has a huge amount of assets which is able to support them even through economic downside. Besides, the weakness, relatively higher price, is a possible threat which competitors such as Luckin can bring. Since Starbucks uses higher quality coffee beans and machines, it is impossible for them to lower the price, but the huge amount of assets could support them to do breakthroughs in other areas. PESTEL is being utilized to analyze external factors of Starbucks. By analyzing environmental factors and political factors, we are able to give suggestions that have no effect on these aspects. VRIO is a further development of SWOT, we specifically make discussion on how competitive these strengths are. Reputation obviously is a sustained competitive advantage which is not imitable by other brands. Lastly, consumers are essential for a brand, so we use customer analysis to derive the target consumer of Starbucks. This framework enables us to come up with solutions that target these consumers.

After analyzing the case, we come up with 7 solutions. In Criteria Grid, a decision-making technique, we derive the top three solutions: Experience Store, Pick-up Window and Introducing Tea Product, which are useful and separate them into different categories like changing operation strategies based on consumers' needs. In the nutshell, after calculating possible profit in 2021, we could see Experience Store is effective.

Although we give several suggestions, still, some drawbacks exist in the research. To begin with, the data we collect is not sufficient enough. For instance, we had a difficulty in looking for data of Starbucks revenue in 2018 to 2019. Since its competitor, Luckin, arises in China recently, data of Starbucks in recent two years is crucial in order to directly compare these two brands. Besides, in the previous analyses PESTEL and SWOT, we predict future opportunity and possible political constraint which involves a high level of uncertainty.

In the future research, more data should be collected for a more precise analysis and stronger conclusion. Plus, we will also keep tracking on policies and regulations implemented by the government, because these legislations potentially affect the development of Starbucks.

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