Application of Strategy Dynamics: Starbucks Corporation

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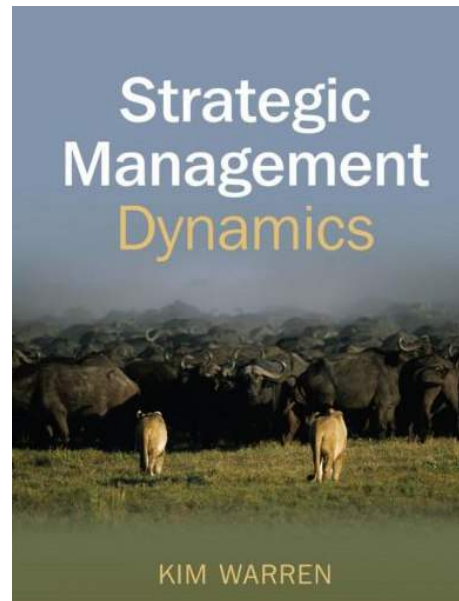
Motivation
Learning Strategy Dynamics

Masters Program
in System Dynamics

+

Strategy Dynamics course
taught by Kim Warren, Fall 2008

+

Addiction

Demonstrate the usefulness of Strategy Dynamics in addressing business performance issues for a real-world company - Starbucks Corporation

Starbucks Business and Strategy Model Scope

- Starbucks Revenue Breakdown (76% US, 20 % Intl, 4% Other)
  - 84% - Company-owned Stores (using Store Staff)
  - 16% - Specialty (using Specialty Staff)
    - 8% - Licensed Stores (staffed by licensee)
    - 8% - Other Licensing (Pepsi Co – Frappuccino drinks) and Foodservices (packaged coffee and tea)
- Strategy Dynamics Models (November 2008)
  - Focus on US Stores, especially company-owned store business
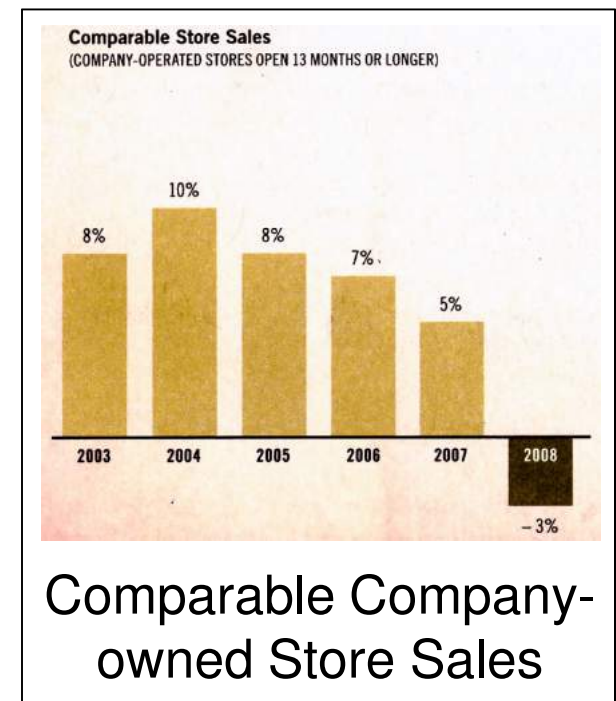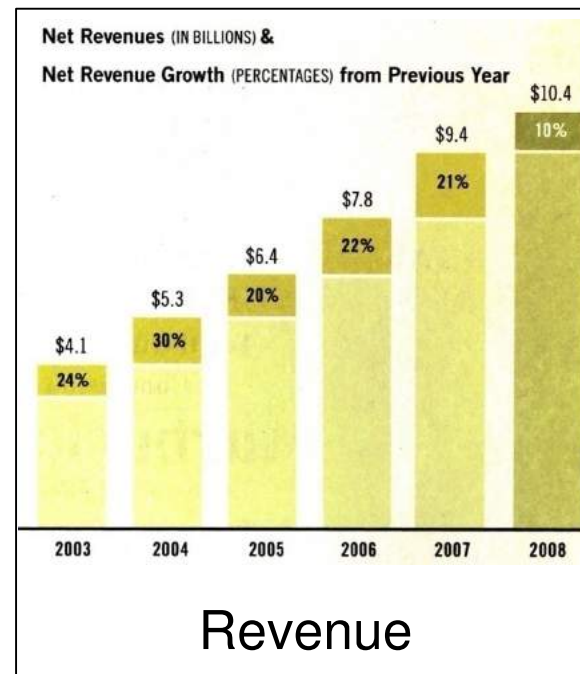 - Starbucks Resources (used to create system dynamics models)

Supply Side	Demand Side
Company-Owned Stores	Store Customers
Store Staff	Licensed Stores
Specialty Staff	

"To inspire and nurture the human spirit— one person, one cup, and one neighborhood at a time."   Starbucks Mission, Starbucks website

Starbucks Performance

Net Earnings (IN MILLIONS) &
Return on Equity (PERCENTAGES)

$673
$564
$494
$389
$315*
$265

29%
25%
20%
17%
14%
13%

2003 2004 2005 2006 2007 2008

Profits

Data from 2008 Annual Report

Net Revenues (IN BILLIONS) &
Net Revenue Growth (PERCENTAGES) from Previous Year

$10.4
$9.4
$7.8
$6.4
$5.3
$4.1

10%
21%
22%
20%
30%
24%

2003 2004 2005 2006 2007 2008

Revenue

Comparable Store Sales
(COMPANY-OPERATED STORES OPEN 13 MONTHS OR LONGER)

10%
8%
8%
7%
5%

2003 2004 2005 2006 2007 2008

− 3%

Comparable Company-owned Store Sales

From a profit, revenue and comparative store view
Starbuck's business appeared to be stalling (November 2008)

CSC

Strategy Dynamics
A resource-based view of strategy

- Examine performance over time
  - Why has Starbucks reached its current state?
  - Where will it go if it takes the same approach?
  - How can it set appropriate objectives to improve performance?

- Issues examined in paper
  - Customers with less discretionary income
  - Increased staff turnover
  - Dealing with rivals
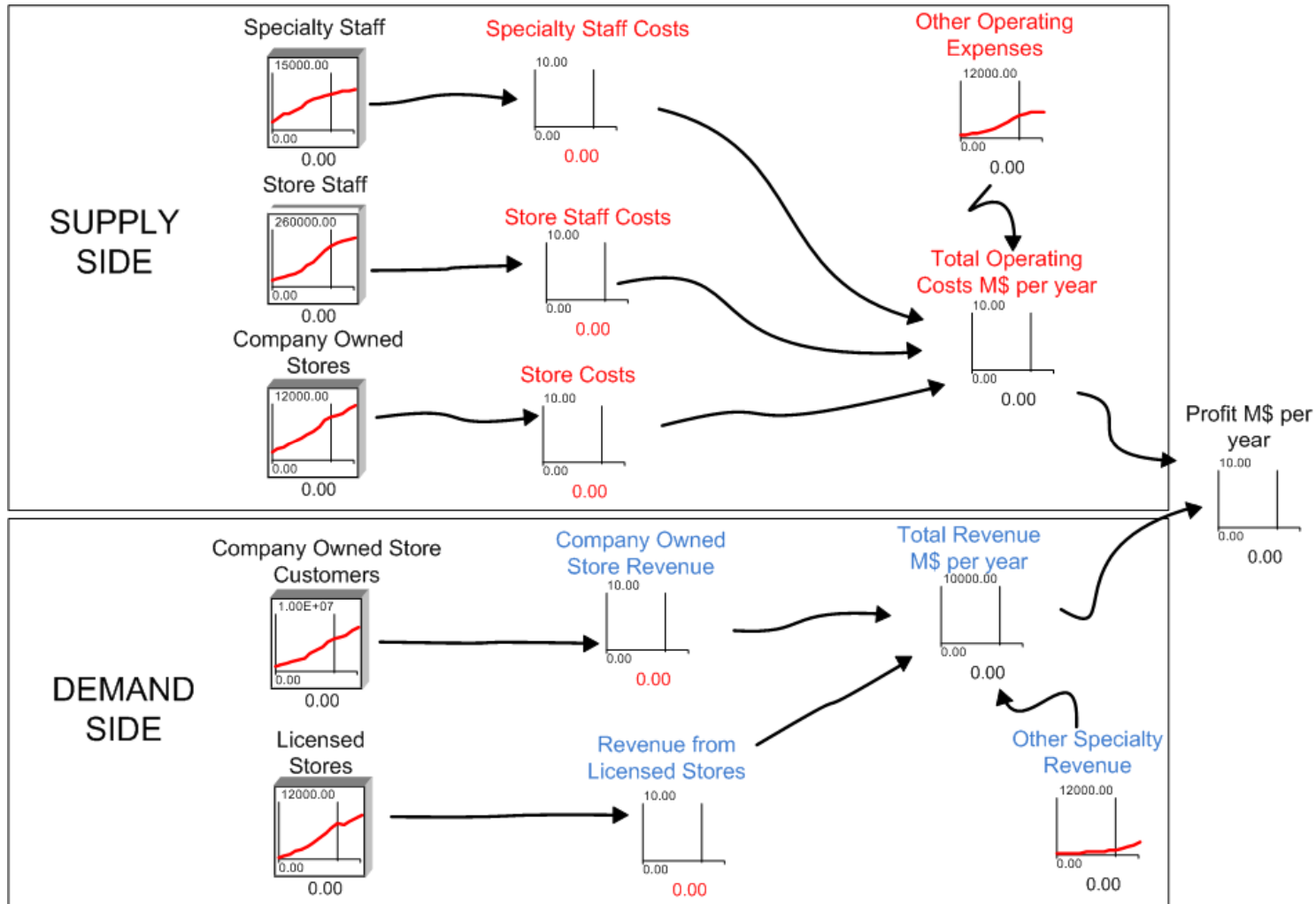 - Creating loyal customers
  - Expanding too fast
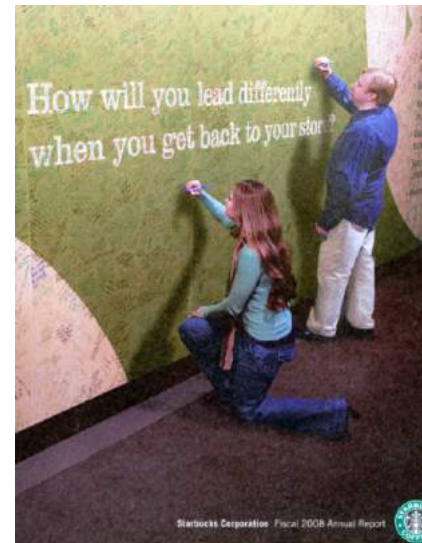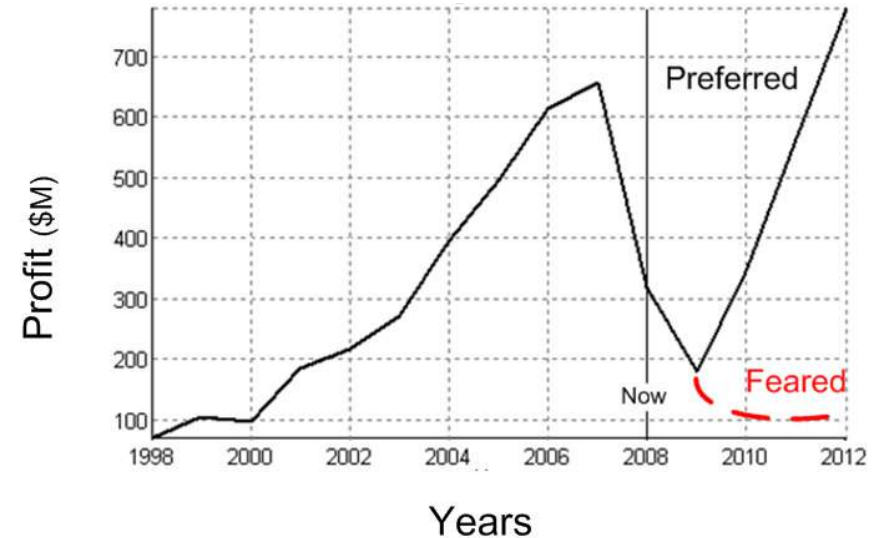
- Sources – Public Information
  - Annual reports
  - Case Studies
  - Articles

Strategy Dynamics provides a quantitative, resource-based approach to understanding a firm's performance over time
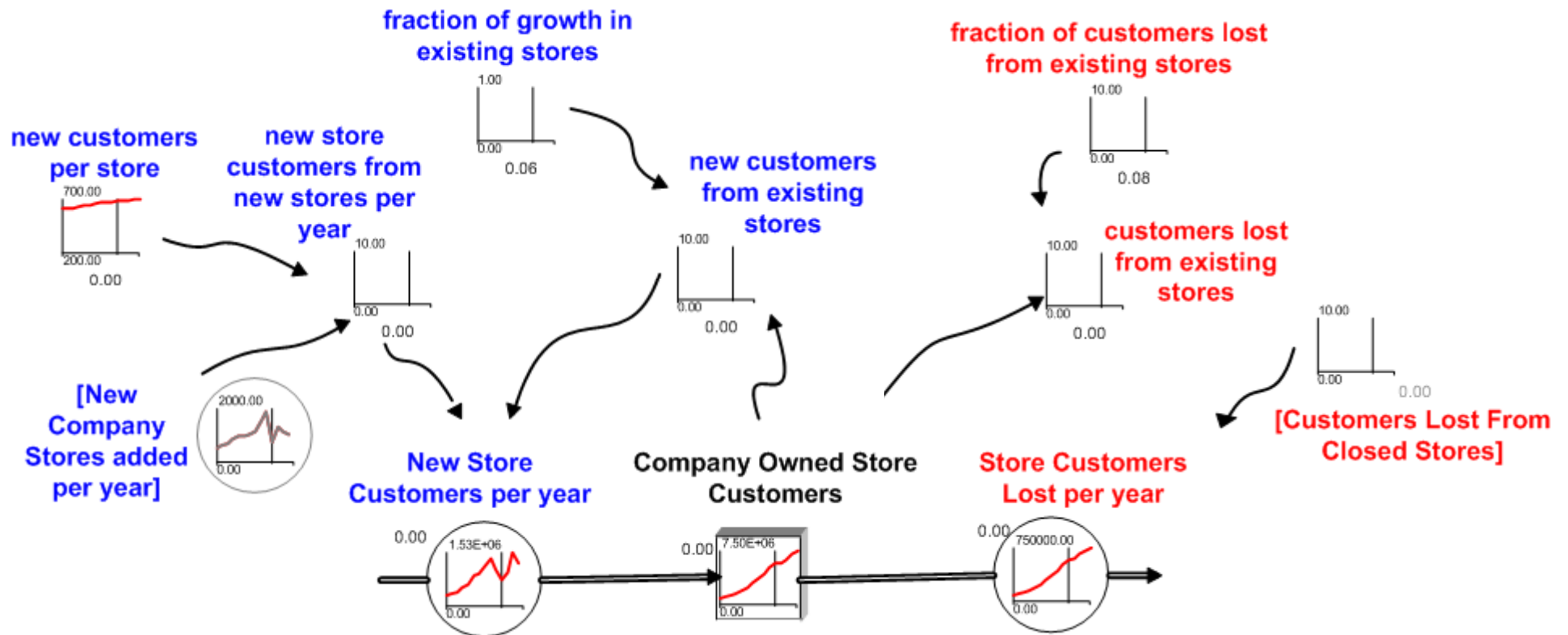
Accounting for Starbucks Profit
Expanded, it will become the Strategic Architecture

Model created by working backwards from Starbucks public information.

Part of Strategic Architecture
## Expanded customer model

Impact of Economic Crisis
Less Discretionary Income

- Company-owned store business
  - Accounts for 84% of Starbucks revenue
  - Two runs mirror current conditions
    - Rate of store expansion fixed for both runs, slowing in 2008 and 2009, increasing in subsequent years
    - Customers spend 20% less in 2008

- Effect can be significant drop in profits
- Possible Recommendations
 - Lower beverage cost
  - Cut costs

Business as Usual after Initial Drop in Revenue	Recession - 20% Less Customer Store Purchases
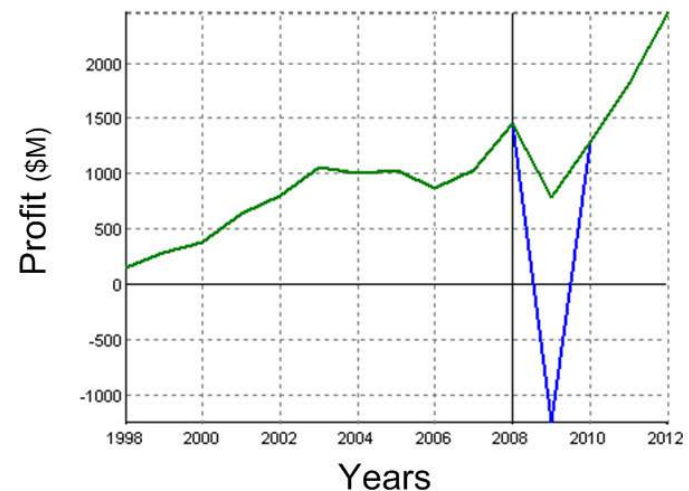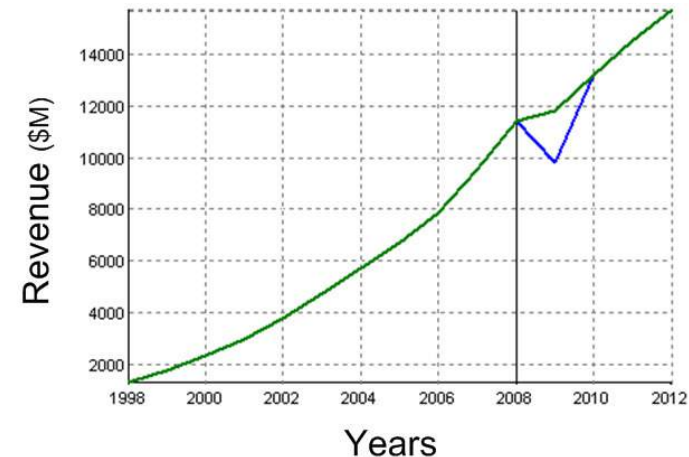
"Starbucks ... is changing its tack after discovering that its most faithful customers are saving money in part by making fewer visits to the chain"
– Janet Adamy, Wall Street Journal, Dec 5, 2008

Staff Turnover
## Experienced Staff are Need to Make Perfect Coffee
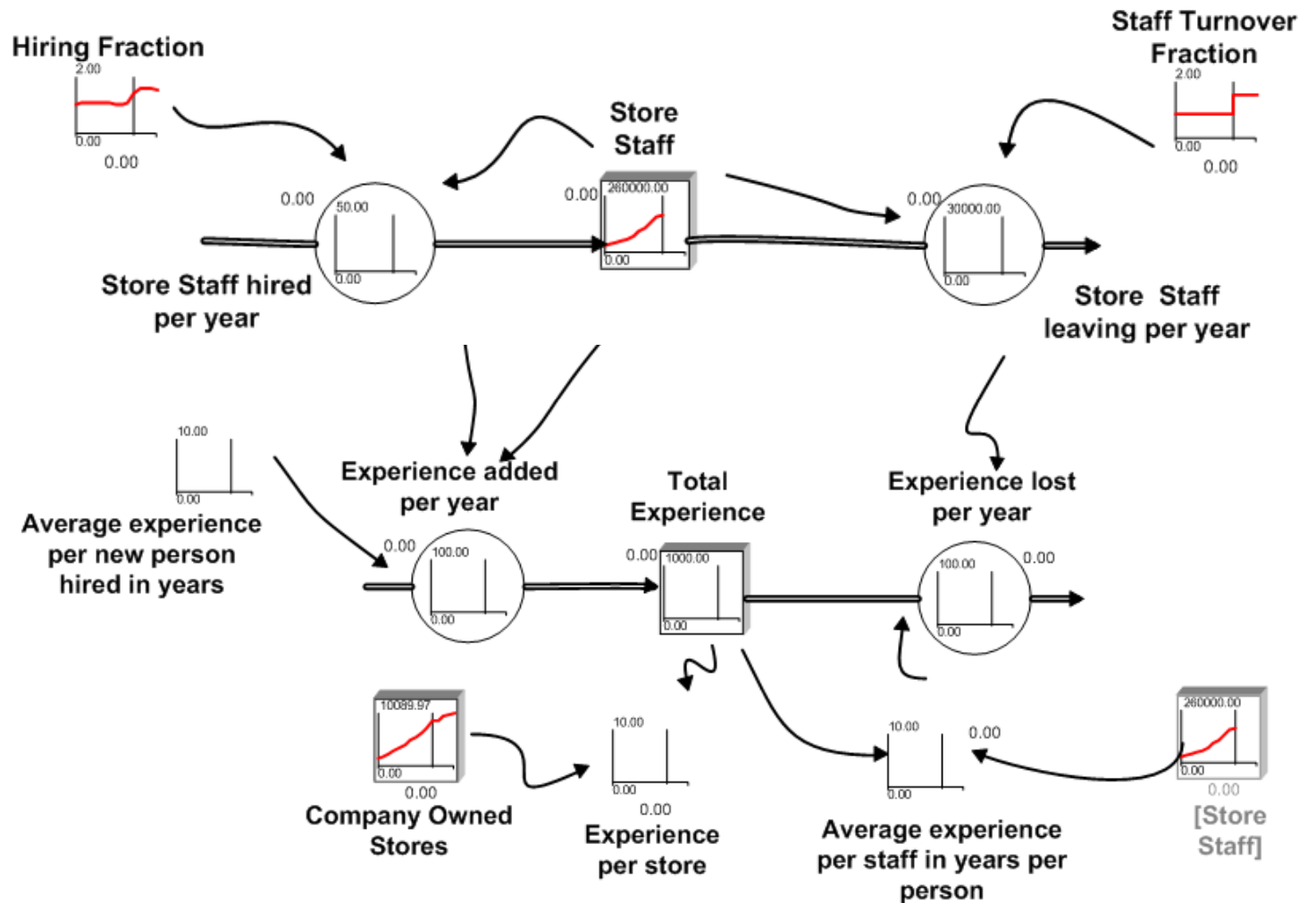
Staff Turnover

- Starbucks considering staff policy changes
  - Some lay offs, others required to be ready to work 70% available store time
  - Short term effect could be higher turnover as unhappy or fired workers leave

- Model runs
  - Run 1 – 80% turnover rate (current)
  - Run 2 – 150% turnover rate beginning in 2008
  - Hiring rate chosen so "store staff per store" was approximately the same from 2007 through 2012

- Staff experience can affect quality of service

- Starbucks may need to monitor quality of service as staff changes, and increase training or staff change policy
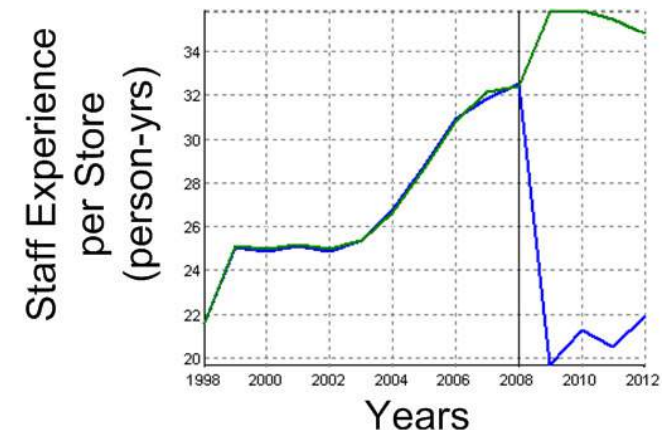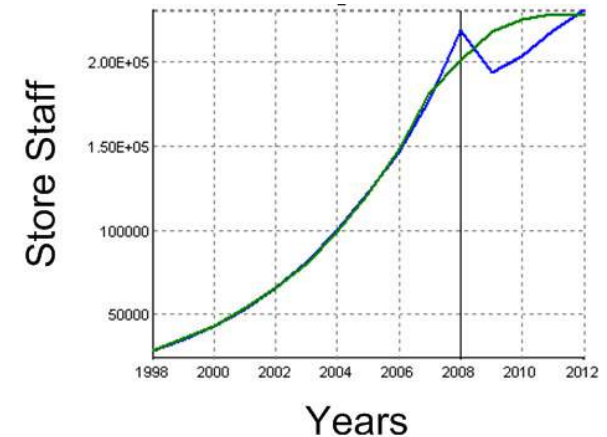
"After many years of rapid expansion, Starbucks has lately ... reduced its workforce in attempt to regain solid profitability. "
Earthtimes.org July 22, 2009

Other Issues Considered in Paper

- Rivalry
  - How can Starbucks win customers from rivals and increase revenue?
  - Competition with coffee houses in a small college town, Boulder Colorado
  - Compete on price, product performance, store atmosphere

- Getting and retaining customers

Customer Pipeline
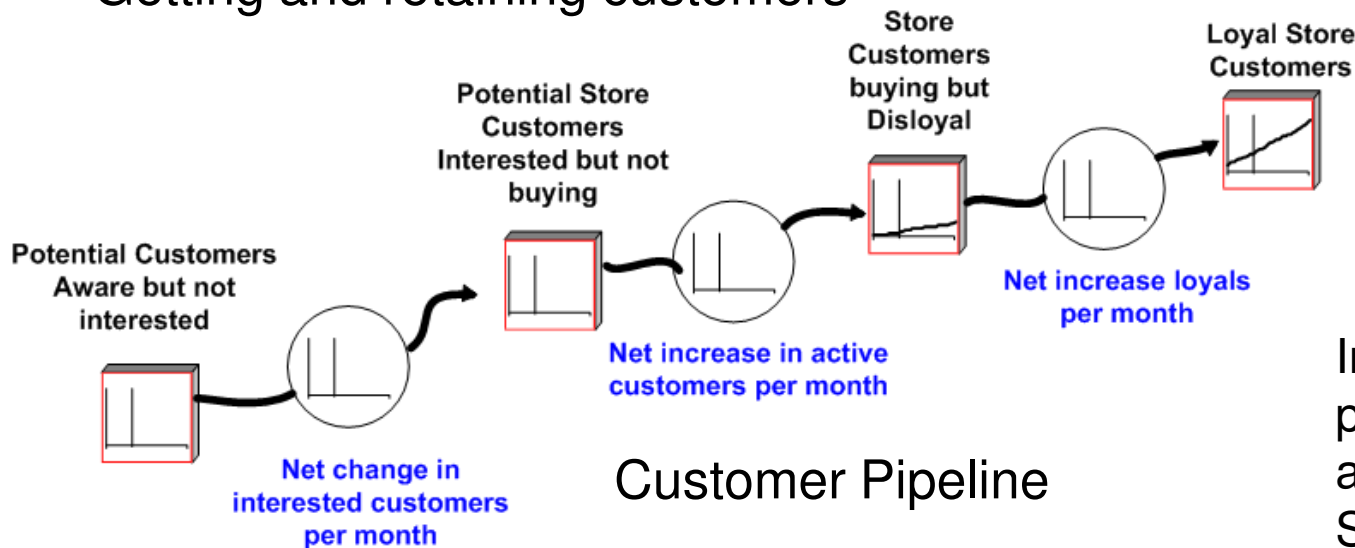
Interventions depend on pipeline position, e.g., ads, promotions, Starbucks cards

Conclusion & Observations

- Applied Strategy Dynamics to Starbucks
  - Created resource-based models
  - Discussed how Starbucks could improve performance
- Observations
  - Not just one model, but several related ones depending on the issue
  - Models can be used as a communication and brainstorming vehicle
  - Strategy Dynamics would be great in creating business school case studies
  - Even a financial analyst who follows a particular company would see benefit
- Starbucks itself is finding ways to innovate and improve performance
  - Starbucks Stealth Stores - Seattle Neighbor Coffee Shops (beer, wine, live music, poetry readings)
  - Seattle now – maybe Boulder Colorado later?

15th Ave Coffee & Tea, Seattle

Future Work

- Continue with Starbucks analysis, or
- Look at another company, like …
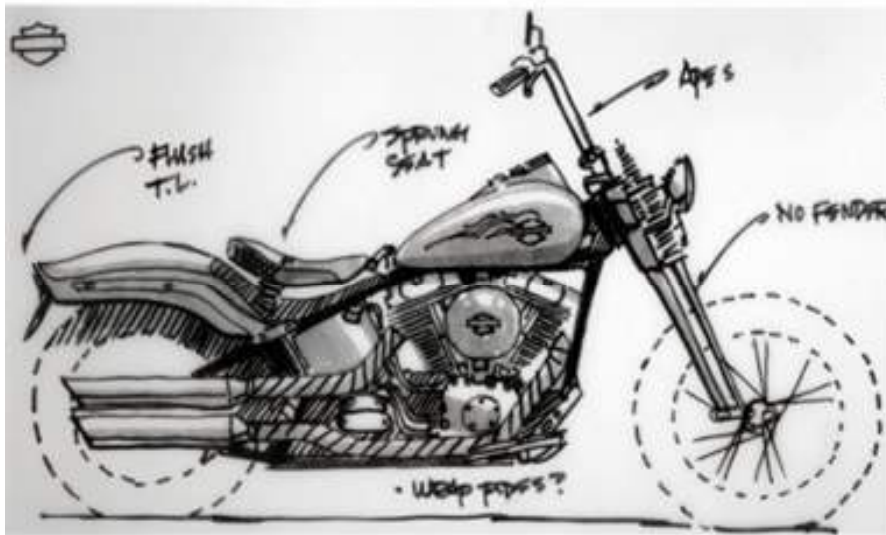
We've Built an Enduring Business ...

Harley-Davidson, Inc 2008 Annual Report

By Building the World's Greatest Motorcycles

Data from 2008 Annual Report

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THANK YOU