

PEOPLE & ECONOMIC ACTIVITY



STAGE 6: Geographical investigation

'Students will conduct a geographical study of an economic enterprise operating at a local scale. The business could be a firm or company such as a chain of restaurants.'

1. Nature of the economic enterprise – chain of restaurants, Starbucks

- Overview of coffee restaurants – types sizes and growth. Latte towns, coffee shops in gentrified inner suburbs and coffee sold in grocery stores, petrol stations and book stores. Drive through coffee places and mobile coffee carts. Order via technology-on demand. Evolving coffee culture.
- Growth of coffee restaurant chains

2. Locational factors

- Refer to website for store locations and Google Earth
- Site, situation, latitude, longitude
- Scale – global, national, local
- Reasons for location – advantages
- Growth in Asian countries <https://www.starbucks.com/store-locator?map=40.743095,-95.625,5z>

3. Flows

- People: customers – ages
- Goods: coffee, milk, sugar, food
- Services: training, different types of coffee, drinks and food sold
- Ideas: new technology, coffee species and brewing methods. Social media – Facebook, Apps. Waves of coffee. Re-invent Starbucks – 'Reserve' stores

4. Linkages

- Internal linkages: mission statement, goals, brand, revenue, business operations, managers, staff, roasting and brewing methods, packaging, advertising. Business times, types of coffee, drinks and food, gifts, incentives, promotions
- External linkages: trade, commodity prices, transport, advertising. Digital links, Wi-Fi. Growth in Asian markets-production and consumption. Links to Australia

5. Ecological dimension

- Inputs: coffee, sugar, milk, food, energy, water, transport, buildings
- Outputs: carbon and water footprints; waste.
- Environmental goals: sustainability 'Grounds for your garden', green power, reduce ecological footprints and waste, recycling, corporate social responsibilities, farmer equity practices, Fairtrade, Ethos water, donations of leftover food

6. Environmental constraints: climate change, environmental laws (local, national).

7. Effects of global changes on enterprise:

prices, trade agreements, tariffs, climate change, competition (e.g. McDonalds, soft drinks, tea, water), changing consumer tastes. Growth of organic and speciality coffees. Future trends – Waves of Coffee

Starbucks chain of restaurants

Today Starbucks is the largest coffee chain in the world, as well as the premier roaster and retailer of specialty coffee. Originally an American company founded in 1971, is now located in over 72 countries, and operates in more than 23,768 places. This \$19 billion a year company, also has 4,962 independently licenced Starbucks. The majority of Starbucks stores are located in USA, followed by China and Canada.

In the 1980s Howard Schultz purchased Starbucks and became CEO and chairman of the company. At this time Americans were ignorant of the difference between coffee made from high grade coffee beans and Nescafe instant coffee. Shultz's mission was that Starbucks would provide 'premium coffee to the masses', while copying the style of 'Italian espresso bars', as well as become the 'third place' in a person's life-after work and home.

Schultz said, 'We're not in the business of filling bellies; we're in the business of filling souls.' Over time the ambiance and service provided by Starbuck stores evolved into a social phenomenon, copied by many of its competitors.

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Location of Starbucks – globalisation (external linkages)

As of 9 June 2016, Starbucks is in 72 countries and territories

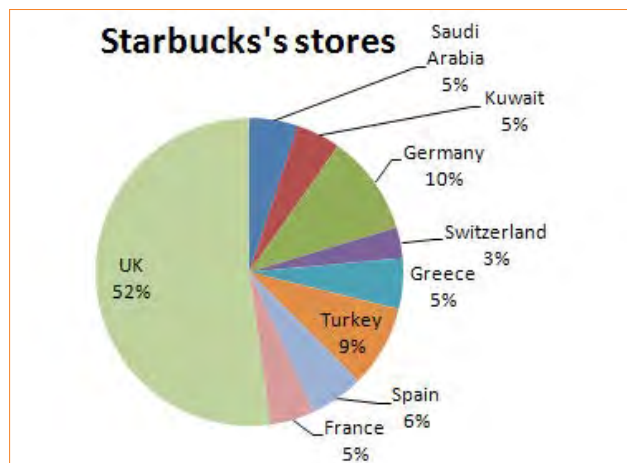
AFRICA	NORTH AMERICA	OCEANIA	SOUTH AMERICA	ASIA	EUROPE
Egypt Morocco South Africa	Aruba Bahamas Canada Costa Rica Curaçao El Salvador Guatemala Mexico Panama Trinidad and Tobago United States – Puerto Rico	Australia New Zealand	Argentina Bolivia Brazil Chile Colombia Peru	Azerbaijan Bahrain Brunei Cambodia China Cyprus Hong Kong Macau India Indonesia Japan Jordan Kazakhstan Kuwait Lebanon Malaysia Oman Philippines] Qatar Saudi Arabia Singapore South Korea Sri Lanka Taiwan Thailand Turkey United Arab Emirates Vietnam	Austria Belgium Bulgaria Czech Republic Denmark Finland France Germany Greece Hungary Ireland Luxembourg Monaco Netherlands Norway Poland Portugal Romania Russia Slovakia Spain Sweden Switzerland United Kingdom – Guernsey

Map showing Starbucks locations globally

■ Current locations
 ■ Former locations
 ■ Future locations

Table: <https://en.wikipedia.org/wiki/Starbucks>

Global percentages of Starbucks stores



Pie graph – Source: https://staticseekingalpha.a.ssl.fastly.net/uploads/2012/9/2983141_13486987343659_rld8.png

Cartoon: Starbucks located all over world



Cartoon: https://s3.amazonaws.com/lowres.cartoonstock.com/sport-mountain_climbing-mountain_climber-climb-climber-mountain-smb070124_low.jpg

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Starbucks Supply Chain – Flows and linkages

Starbucks has a large supply chain. With more than 70,000 outbound deliveries a week to retail stores, distribution networks and outlets, the movements from suppliers to customers is complicated.

Effectively managing the coffee supply chain is complex as it is multifaceted with a network of multiple businesses and contracts. The outsourcing of inputs (e.g. coffee), increasing volume of regulations, striking workers, growing competition, trade agreements, and mounting economic volatility, frequently disrupts the smooth operation of the supply chain. Additionally, the impacts of climate change, pests, diseases, droughts and hail storms have led to changes in the production of Arabica coffee species sold by Starbucks.

As a consequence a simpler more transparent supply chain has evolved aimed to reduce costs and inefficiencies, eradicate delayed orders, improve quality and become environmentally and socially sustainable.

Starbucks supply chain-external linkages and flows



Map: http://www.supplychain247.com/images/article/starbucks_sourcemap_article_image3.jpg

From 'Bean to mug' – External and internal linkages and flows

Starbucks roasts its own beans and manages distribution of products to all retail locations.

Starbucks buys green coffee beans Primarily from Africa, South America and Asia C.A.F.E regulates contaminated coffee e.g. fungus, diseases



Green coffee beans transported by ship to warehouses and roasting plant locations e.g. Gaston USA, Amsterdam



Roasting, Cooling, Blending, Waste produced



Quality testing (Failed beans are discarded)



Storing, Packaging, Labelling



Transported to:

- nine regional distribution centres: Five in the USA, two in Europe and two in Asia
- 48 other distribution centres contain dairy, paper and baked goods for Starbucks stores-33 in the USA, seven in Asia, five in Canada and three in Europe



Starbucks stores are all over the world



Coffee Beans – Linkages and flows

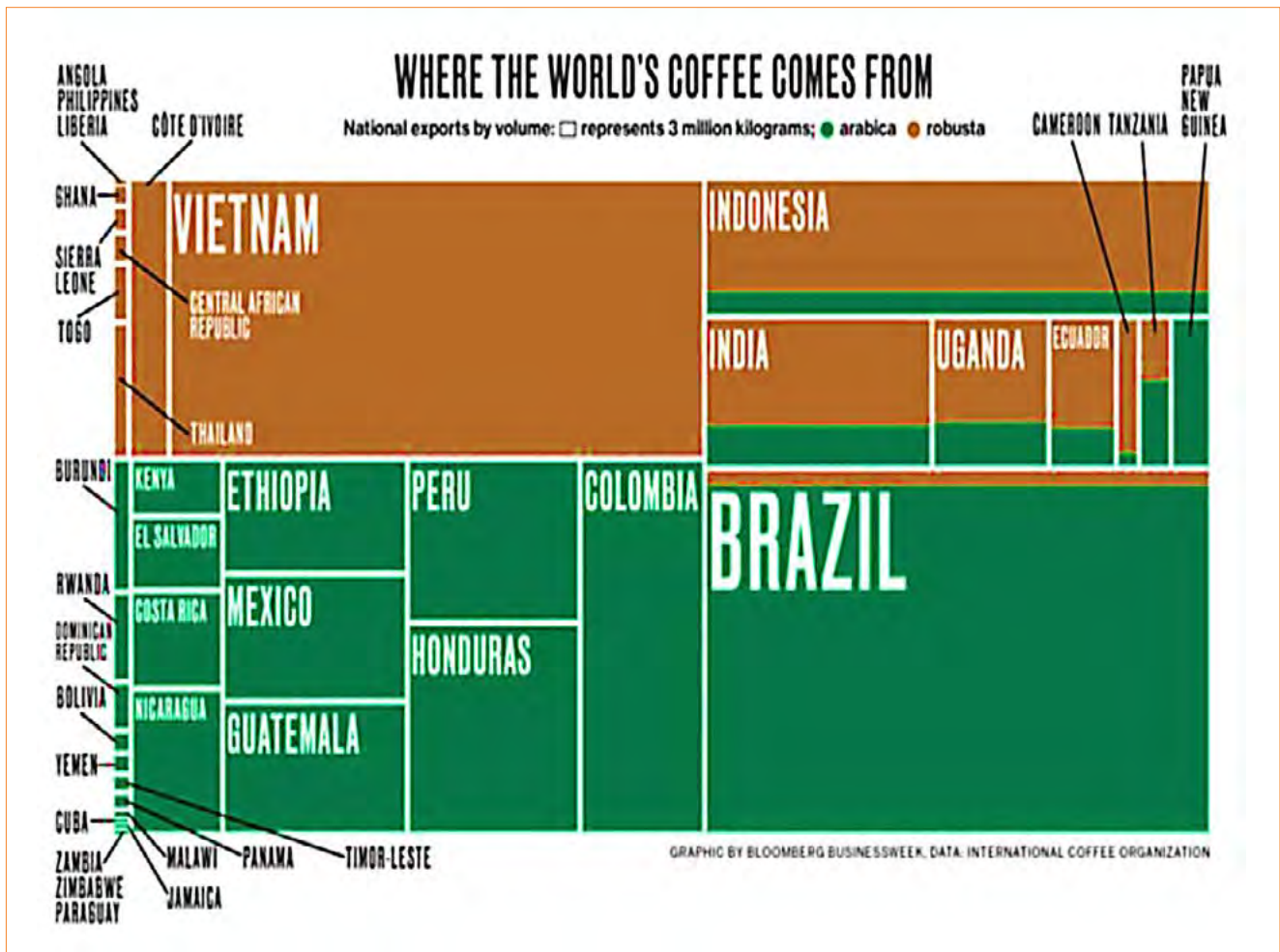
Starbucks sources Arabica high quality coffee from Latin America, Africa, and Asia-Pacific. However, their 'signature coffee blends' are mostly from the Asia-Pacific region. Starbucks seeks coffee that is environmentally and socially responsibly grown and ethically traded. This means farmers produce coffee that benefits their business, community and environment. Starbucks ethical sourcing also extends to merchandise, furniture and other items in their stores.

The popular Arabica species from countries such as Kenya, Sumatra and Guatemala have a narrow genetic makeup. This means the strains have been around for only a few centuries. This is a relatively short span for the species to naturally mutate and develop resistance to diseases. As a result, climate change has caused a growth in pests and diseases such as the Coffee Berry Borer and leaf rust.

Coffee farmers are facing constant challenges to their sustainability. Starbucks is assisting these farmers by buying a research coffee farm in Costa Rica and aims to train 200,000 coffee farmers by 2020 on sustainable farming practices

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Main source of coffee beans to Starbucks – Latin America, Africa and Asia



The map: <https://www.bloomberg.com/news/articles/2014-02-13/to-stop-the-coffee-apocalypse-starbucks-buys-a-farm>

Stop the coffee apocalypse!

A massive fungus outbreak hit Central and South American coffee crops, reducing harvests of Arabica species up to 40% over two years. As a consequence, in 2013 Starbucks bought a Costa Rican coffee farm to cultivate disease-resistant beans. The farm called Hacienda Alsacia, located on the slopes of the Poas Volcano, was converted into a global agronomy and research centre. Work included the development of hybrid coffee tree seedlings to address impacts of climate change including increased incidences of coffee leaf rust. Howard Schultz, said *'It also opens up an opportunity for Starbucks to innovate coffee varieties that support development of future blends.'*

Starbucks Global Agronomy Centre in Costa Rica focuses on an 'open-source agronomy'

- Open-source refers to sharing information
- Agronomy the science of soil management and crop production.

Location of Hacienda Alsacia, Costa Rica



Map: <https://dg9f2badvburd.cloudfront.net/media/1912pike/2016/06/21/hacienda-map-illustration.png>

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Starbucks linkages to organisations

Coffee and Farmer Equity (C.A.F.E.) is an environmental, social and economic coffee buying guideline to support coffee farmers, ensure high quality coffee is grown, and promote equitable relationships. In 2012, 93% of Starbucks coffee was ethically sourced through C.A.F.E., Fairtrade and other certified programs.

Starbucks works in partnership with Conservation International (CI) and shares research and resources through Farmer Support Centres – located in coffee-producing countries. The company, now part of the Sustainable Coffee Challenge, aims to make coffee the world's first sustainable agricultural product.

Starbucks – Farmer Support Centres

Starbucks currently operates Farmer Support Centres in key coffee producing countries from Costa Rica to Rwanda. There, farmers obtain free access to the latest findings from agronomists, including new varieties of disease-resistant trees, and soil management techniques.

Starbucks Farmer Support Centre Locations: Guatemala; Kigali, Rwanda; Mbeya, Tanzania; Addis Ababa, Ethiopia; Manizales, Colombia; Yunnan, China; Alajuela, Costa Rica (Hacienda Alsacia); North Sumatra, Indonesia; and Chiapas, Mexico

Map – Farmer Support Centre



<http://www.starbucks.com/responsibility/community/farmer-support/farmer-support-centers>

Farming community support



<https://www.starbucks.com.au/Farmer-Support.php>; <https://globalassets.starbucks.com/assets/84265bac47674ea4a3c25b9e17bf314a.jpg>

Production linkages – Vertical and horizontal integration

Howard Schultz calls Starbucks's business model 'vertical integration to the extreme,' because the company buys and roasts its own coffee and sells it through company-owned stores.

Starbucks vertical integration – flows and linkages

- Ability to control all stages of production
- Controls coffee sourcing, roasting and retail sales around world.
- Purchasing coffee bean farms in China and Costa Rica – backward vertical integration (i.e. increasing number of value chain stages that move farther away from a product's ultimate customer). Backward vertical integration is an effective means of innovation and experimentation.
- Training and educating employees
- Purchase agreements with coffee growers, roasting plants, warehouses and distribution facilities. Agreements with growers in three main growing regions – Africa/Arabia, Latin America and Asia-Pacific.
- Advantages-controlling value chain to maintain higher level of quality rather than employing external partners
- Problems-more people working and business units to manage. Leads to higher complexity and too many layers in the command structure for a quick response. Everything occurs at a slower pace.



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Starbucks horizontal integration - flows and linkages

Starbucks is in 72 countries and territories. It is the largest coffee chain in the world. Over the years Starbucks has developed mergers and alliances with other companies to expand into new markets.

- In 2003, Starbucks executed a horizontal merger with “Seattle’s Best Coffee” to reduce competition and exploit distribution channels. As a result Starbucks acquired 129 North American stores and 21 stores in Italy. This acquisition extended reach into other markets and acquired wholesale contracts to 12,000 stores that distribute Starbucks coffee beans. <https://kabrown9.wordpress.com/>
- In 1993, Starbucks partnered with Barnes and Nobles bookstores to offer their coffee products benefiting both companies. Since then Starbucks has created successful alliance with the PepsiCo bottling company and an alliance with United Airlines to offer their drinks on flights.

Source: <https://kabrown9.wordpress.com>

In addition to the company’s Starbucks-branded businesses, it also owns and operates other beverage and food companies— Seattle’s Best Coffee, Teavana, Evolution Fresh, Torrefazione Italia Coffee and Ethos Water

Improved linkages in Starbucks supply chain

As a result of the improved supply chain, by 2010 Starbucks had reduced costs by \$700 million.

Manages a Centralised System

- Starbucks manages its complex and large supply chain across six continents.
- The centralised the company to operate and manage multiple global distribution centres (five in USA, two in Europe and two in Asia).
- Starbucks uses a ‘scorecard system’ to evaluate supply chain efficiency, costs and savings

Uses digital technologies

- Production and distribution plans are developed and modified giving Starbucks’s supply chain flexibility to address sudden changes in demand.
- Digital technologies, constantly update information on stock, transport scheduling and storage capacity. Starbucks leverages cloud technology like Enterprise Resource Planning (ERP) systems

Ensures a green and sustainable supply chain

- The company’s Coffee Sourcing Guidelines (CSG) sets strict standards for its coffee-producing suppliers and ensures that they support the company’s sustainable, green and efficient approach to business. In addition, suppliers must meet Starbucks’s social responsibility standards, such as a Zero Tolerance policy regarding working with suppliers who employ anyone under the age of 14

Constant innovation

- Faced with a decline in production due to a fungus, Starbucks addressed the serious threat to its supply chain by purchasing a farm in Costa Rica.
- It is also engaging with social media (Facebook, Twitter) and introduced apps to receive customer feedback and develop new ideas

Sustains beneficial supplier relationships

- With Coffee and Farmer Equity (C.A.F.E) and Supplier Relationship Management (SRM). The later ensures the majority of its suppliers in isolated, rural locations are an integral part of Starbucks operations. Starbucks maintains control of the production processes by communicating with farmers to secure beans. The Starbucks’ C.A.F.E. practices requires suppliers to inform Starbucks what share of the wholesale price paid, reaches the farmers.

Refer to this website for video on Starbucks supply chain http://www.supplychain247.com/article/behind_the_scenes_at_starbucks_supply_chain_operations



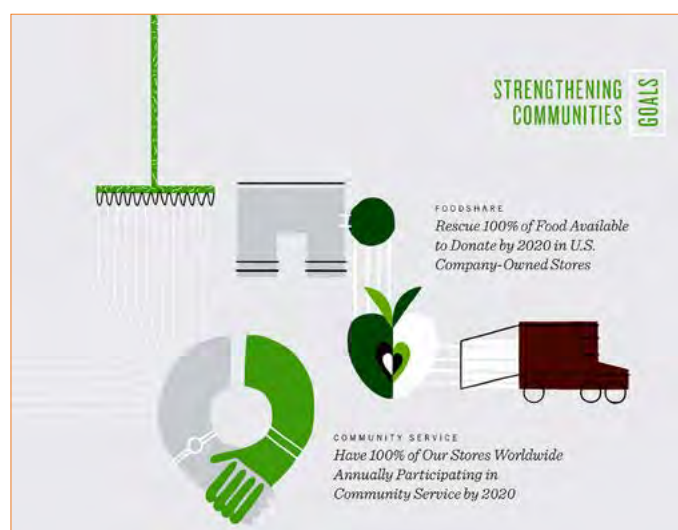
Original Starbucks store, Pike Place Seattle

Image source: https://upload.wikimedia.org/wikipedia/commons/5/53/Starbucks_street_musician.jpg

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Towards a sustainable coffee future



Diagrams from starbucks.com/socialimpact – <https://globalassets.starbucks.com/assets/9265e80751db48398b88bdf09821cc56.pdf>;

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Steps towards a sustainable business model

Addressing Climate Change

- minimise use of energy
- greater use of renewable energy
- upgrading existing stores and building new stores to use 25% less energy
- more than doubling 'green' energy purchases
- work with Conservation International to address climate change by protecting tropical forests that surround coffee farms

Caring for the environment

- Reduce environmental footprints through energy and water conservation, recycling and use of 'green' energy

Working towards 100% reusable or recyclable cups

- Encourage customers to use their own reusable mugs

Striving towards 100% recycling in all stores

Using biodegradable disposable plates and cutlery in all stores

- Bagasse plates: Biogasse is the cane fibres left (waste) after the extraction of sugar. It is pulped to produce disposable tableware

- BioCutlery: Made from 70% starch (renewable resource) and 30% polypropylene. This material has a smaller carbon footprint than conventional plastic cutlery.

Committing to community (local and global)

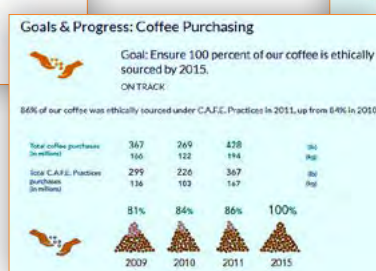
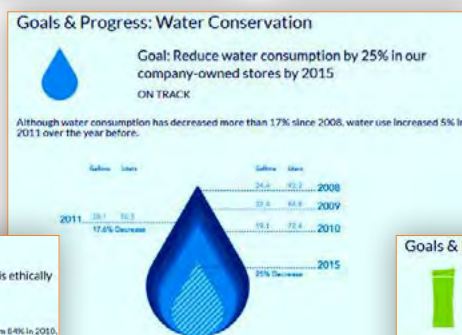
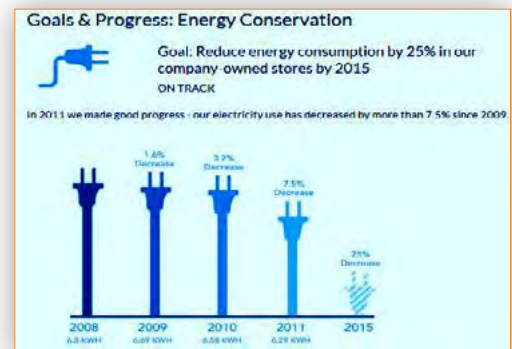
- Starbucks V2V (Volunteer to Volunteer) is an online social network that helps connect volunteers all over the world, especially countries where coffee is grown

Triple Bottom Line

- The company strives to achieve the Triple Bottom Line-sustainable business economically, environmentally and socially



Progress – Internal and external linkages



Graphs: http://www.supplychain247.com/article/what_your_supply_chain_can_learn_from_starbucks_chains/
www.starbucks.com/responsibility/global-report/environmental-stewardship/reusable-cups
puttingprintopractice.files.wordpress.com/2012/04/awfwf.jpg

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Internal linkages

Starbucks is linked to people, as stores have become a place where people can start and end their day. Other linkages include:

- Located at strategic locations where customers can easily access their coffee drinking ritual
- Offers fast service in a pleasant atmosphere
- Created a 'third place' for everyone to go between home and work
- Contemporary design and décor of stores appeals to 25–40 year olds
- Offers free Wi-Fi to attract a young clientele. Ideal location of 18–24 year old college students to spend their leisure time and meet friends
- Starbucks coffee, ice cream, and bottled cold coffee drinks are also sold at grocery stores
- 'Starbucks Evenings' stores offer beer, wine and appetisers

Diversified products-craft beer



Diagram: <https://beersportsbabes.files.wordpress.com/2012/02/starbucks-makes-plans-to-serve-beer-and-wine-and-is-one-step-closer-to-world-domination.jpg>

Exclusive water bottles

Lilly Pulitzer is collaborating with Starbucks Coffee and S'well (the reusable water bottle company) to create four exclusive 17oz. bottles. Each bottle is hand-painted by Lilly Pulitzer Print Studio.



Bottles: <http://i1.wp.com/pmcwwd.files.wordpress.com/2017/02/sara-kauss-photography-0218.jpg?crop=0px%2C688px%2C1366px%2C912px&resize=640%2C415&ssl=1>



Branding (internal linkages)

Paramount to sustaining customer loyalty, Starbucks nurtured its brand with logos and designs. However, recently a decline in sales and increased competition, forced Starbucks to redesign and reinvent itself, to accommodate current and future customers. The chain's high-end coffee has the letter "R" which stands for "Reserve"

Core competencies and competitive advantages (internal linkages)

The company has developed core competencies to gain competitive advantages.

'Starbucks core competencies can be defined as high quality coffee and products at accessible locations and affordable prices, a community to share in the coffee drinking experience, and a variety of choices. Starbucks also values ethics and good business practices. Starbucks competitive advantage is based off of: quality, service, ambiance, and culture. Starbucks directly controls every important step of its business, from buying high-quality coffee beans to designing its franchise decor. Starbucks is also so large that it has enormous influence over its suppliers and it can ensure competitive prices, superior quality, and the necessary quantities at the right time. To keep its competitive advantage, Starbucks is constantly innovating, improving its menu, and starting new businesses, such as selling energy drinks or coffee machines. Starbucks has recently concentrated on redesigning its sandwiches and bakery business, as well as integrating its Teavana products into stores.'

Source: <https://www.linkedin.com/pulse/core-competency-competitive-advantage-patrick-connors>

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Core competencies

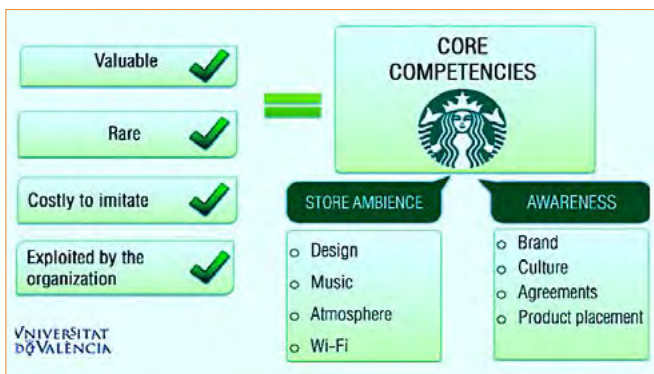


Diagram: <https://www.slideshare.net/DavidSorianoMcGuinness/starbucks-coffee-analysis>

Competitive advantages



Diagram: <https://image.slidesharecdn.com/starbuckscoffee-120306122143-phpapp02/95/starbucks-coffee-strategy-8-728.jpg?cb=1331087440>

Drivers of Starbucks' success (internal linkages)



Diagram: <https://image.slidesharecdn.com/howardschultzstarbucks-150413102130-conversion-gate01/95/howard-schultz-starbucks-11-638.jpg?cb=1429008031>

Corporate social responsibilities (internal linkages)

- Starbucks has a positive impact on communities they serve. 'One person, one cup and one neighbourhood at a time'
- Community involvement-provides employment opportunities. Promotes diversity and inclusion.

- Hiring 25,000 Veterans, Military Spouses, Guard and Reserve members by 2025
- Ethical sourcing-ensure sustainability of premium products from coffee farms
- Environment-water and energy conservation and recycling to reduce waste
- Global responsibly-pioneering green retail



Diagram http://s3.amazonaws.com/libapps/accounts/119951/images/csr_starbucks.png

In 2017 Outgoing CEO Howard Schultz pledged that the company would hire 10,000 refugees in its stores worldwide, including some who helped the U.S. military, in response to President Donald Trump's executive order to bar entry of refugees from several predominantly Muslim countries. The statement from Schultz sought to reassure his employees after Trump's immigration ban. However, Starbucks faced boycotts after pledging to hire refugees <http://fortune.com/2017/01/30/starbucks-boycott-refugee-hiring/>

Upstanders (internal linkages)

In 2016, Starbucks unveiled an original content series called *Upstanders*. The series highlighted ten individuals across USA working to make a difference in their communities. The series features podcasts and videos distributed via the Starbucks mobile app, online, and through the company's in-store digital network. It bolsters Starbucks' image as a valued- based organisation.



Poster http://mms.businesswire.com/media/20160907005637/en/542989/5/Upstanders%2C_a_original_Starbucks_series.jpg

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More details at <http://www.businesswire.com/news/home/20160907005637/en/%E2%80%9CUpstanders%E2%80%9D-Starbucks-Original-Series-Inspires-Positive-Change>

Setting prices

(internal decisions influenced by external forces)

How much you could save in one year, based on where you buy your cup of coffee in the morning in the UK. Of course, you can spend as little as £1 a cup in Wetherspoon's, compared to nearly £3 in Starbucks



Column graph: <http://www.cityam.com/226358/where-does-your-morning-coffee-cost-the-most>

Marketing a socially engaged brand (internal linkages)

Starbucks has successfully incorporated digital marketing and social media into its operations. Social media allows Starbucks to develop products, services and new revenue streams by observing how customers interact with them as well as listening to their feedback. Starbucks has built a large fan base on social media:

- Facebook-over 36 million likes.
- Twitter-tweeting about 10 times a day. It re-tweets and replies to most customers. The customers feel their voices are heard. 11.4 million followers
- Instagram-posts eye catching images of products to attract customers-7.5million followers
- Pinterest-daily coffee recipes and boards such as Coffee Crafts

More than 130,000 'ideas' were submitted to Starbucks over the past five years. 'Ideas' implemented include: Free Wi-Fi; New Flavours e.g. Mocha Coconut Frappuccino, Pumpkin Spice latte; Frappuccino Happy Hour; Mobile Payment Drive Thru; and Free Birthday treats.

Diagram: (left) <http://my.mastersindigitalmarketing.org/digitalmelodie/wp-content/uploads/sites/553/2015/10/starbucks-story-digital-strategy-social-integration-23-638.jpg>

Digital media strategy



Poster: <https://image.slidesharecdn.com/finalpresentation-141125122609-conversion-gate01/95/starbucks-digital-strategy-plan-5-638.jpg?cb=1416918417>

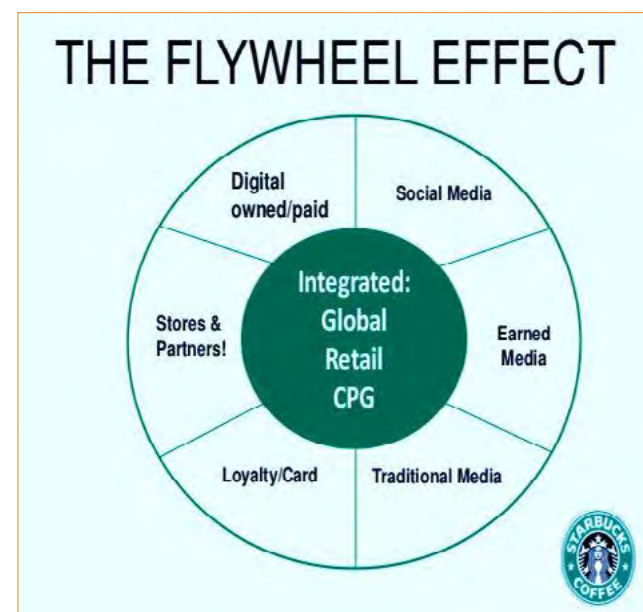
ICT links

Starbucks supports the Power Matters Alliance (PMA) along with Google to create a wireless charging standard that customers use to recharge smartphones. It has also released the 'Mobile Order and Pay' app allowing a customer to choose a close Starbucks location and order their Starbucks online to have ready when they arrive.

Marketing – Flywheel effect (internal linkages)

Starbucks has become a wave of acquisitions and growth spurts. The massive wheel of Starbucks' is grabbing consumers looking for coffee, food, grocery items, tea, and smoothies. Although selling physical goods is what ultimately drives revenue, the company spends vast sums of money investing in **marketing**, mainly through digital media and other innovative techniques. This drives consumers back into stores.

Adapted: <https://seekingalpha.com/article/1612552-the-flywheel-approach-for-starbucks>



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Types of media

- Social media and email databases
- Earned media- 'other' people promote Starbucks products
- Traditional media- advertisements using a variety of media

Promotions

- Sales promotion through their loyalty program. For every transaction a customer can earn stars for free beverages or food. The company runs competitions, provides discounts, and has holiday promotions
- Starbucks Vampire Frappuccino is offered during Halloween, and eggnog latte at Christmas
- In the Asian market gift cards are decorated with Swarovski crystals
- Starbucks Green Apron Delivery Service –tenants in the Empire State Building can order food and beverages

Components of Starbucks digital flywheel

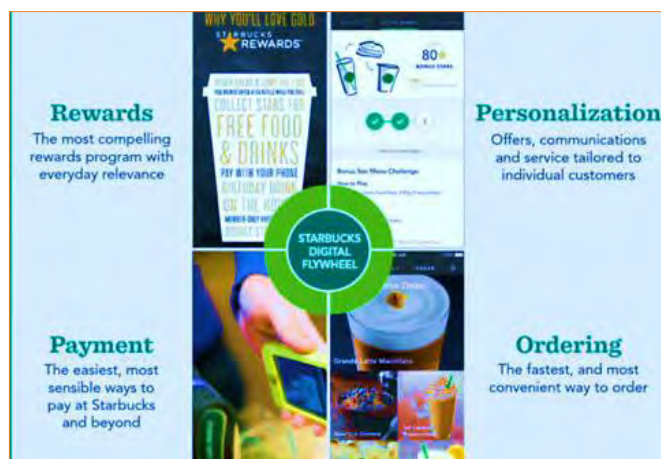


Diagram: <https://cdn.geekwire.com/wp-content/uploads/2016/12/four-parts-of-digital-flywheel-3-630x353.png>

Personalisation and digital flywheel (internal linkages)

'Starbucks digital flywheel has gained momentum with the launch of one-to-one personalisation. Starbucks hyper-personalised e-mail reward offerings – with more than 400,000 variations have more than doubled customer response rates over previous segmented email campaigns, translating into increased customer engagement and, importantly, accelerated spend.

With Starbucks Rewards™, the company's new spend-based loyalty program, customers are finding increased value when being rewarded for bigger purchases.'

Source: http://www.supplychain247.com/article/starbucks_unveils_plans_for_12000_new_stores_over_next_5_years

Personalised order using technology

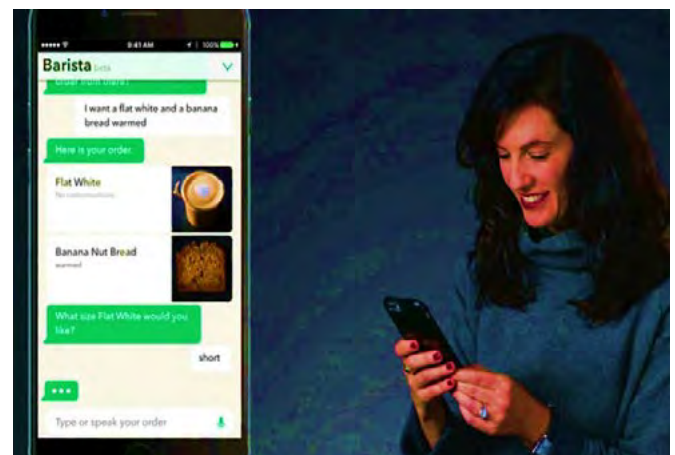


Diagram: <https://cdn.geekwire.com/wp-content/uploads/2016/12/sbux3-1240x726.png>

Future of personalisation – artificial intelligence

Big Data is providing Starbucks with more information about you, aimed to boost sales.

Imagine pulling into a Starbucks drive-thru and seeing not just your drink order but your name on the screen — along with the suggestions of what foods you might like with your drink, automatically generated by the weather, your buying history, and the choices that others with similar preferences have made.

Coming soon to a Starbucks drive-through near you — and to your smartwatch, and possibly to each store's cash register — are serving suggestions generated by artificial intelligence. It's all part of the coffee giant's plan to use AI and the cloud to drive sales and growth,

Source: <https://www.geekwire.com/2016/starbucks-using-artificial-intelligence-connect-customers-boost-sales/>

Starbucks using artificial intelligence to connect with customers and boost sales

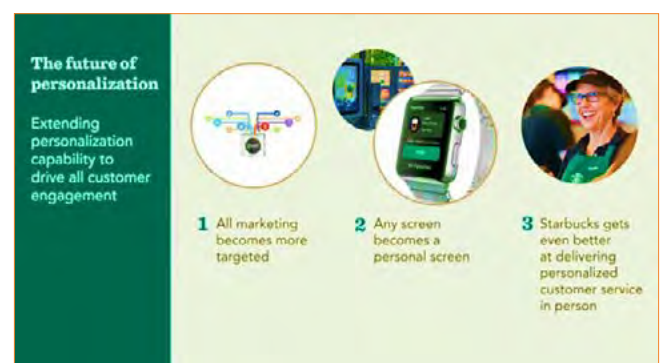


Diagram: <https://www.geekwire.com/2016/starbucks-using-artificial-intelligence-connect-customers-boost-sales/>

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Coffee Waves (internal and external linkages)

In the 1970s Starbucks was the main representative of 'second wave coffee', initially distinguishing itself from other coffee-serving venues in USA by taste, quality and customer experience.

Since the 2000s, 'third wave coffee' customers have become knowledgeable about coffee and as a consequence Starbucks targets hand-made coffee based on different roasts. At the centre of third wave coffee shops are the baristas, and their ability to use a range of equipment to make coffee acceptable to knowledgeable coffee connoisseurs. Brewing methods can vary from aeropress, chemex, V-60 and cold-drip coffee.

Today coffee is a culinary experience focusing on where the beans are grown, different brewing methods and the nuances of its flavours. Speciality coffee is challenging Big Coffee like Starbucks that no longer has such a strong influence on the market, as customers are more aware of specialty and organic brands as well as Fairtrade, ethical and sustainable business practices. To cater for changing tastes and competition, Starbucks' is promoting craft-inspired coffee drinks at stores across USA, such as the Nitro Cold Brew launched at 500 Starbucks locations and the introduction of Reserve Coffees.

Coffee has gone through various waves over the last 100 years. These movements have spurred changes that effects corporations, growers, coffee shops and customers. Mat North, owner of a coffee shop in the UK said the *'fourth wave isn't about the coffee, or agronomics, or espresso machines, or superstar baristas, these are all third wave concepts. The fourth wave is about people.'*

Future: Premium Starbucks experience

Inside Starbucks' ambitious plan to combat the 'seismic shift' that could kill its business it plans to build 12,000 new stores by 2021, aimed to increase its annual revenue by 10%. These will be classified as Reserve Roasters and Reserve Tasting Rooms. The chain's high-end coffee will have the letter 'R' which stands for 'Reserve'.

Since opening two years ago, the Starbucks Reserve® Roastery in Seattle has become recognised as the most dynamic coffee retail experience in the world, with handcrafted, small-batch coffees within metres from where they are roasted. The New York Times called it *'part retail store, part manufacturing facility and part theatre.'*

Starbucks plans to accelerate the Roastery experience around the world, opening in Shanghai in 2017, Tokyo and New York City in 2018, and a fifth location in Europe.

Starbucks is simultaneously innovating and expanding its food menu with a variety of products such as the Sous Vide Egg Bites – a wheat-free, low calorie, high protein and convenient breakfast

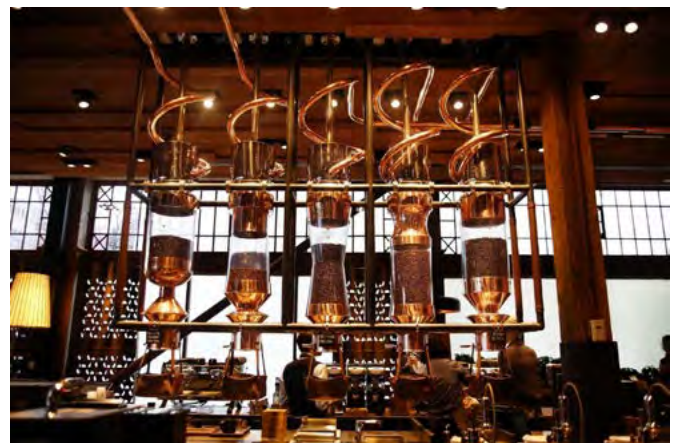


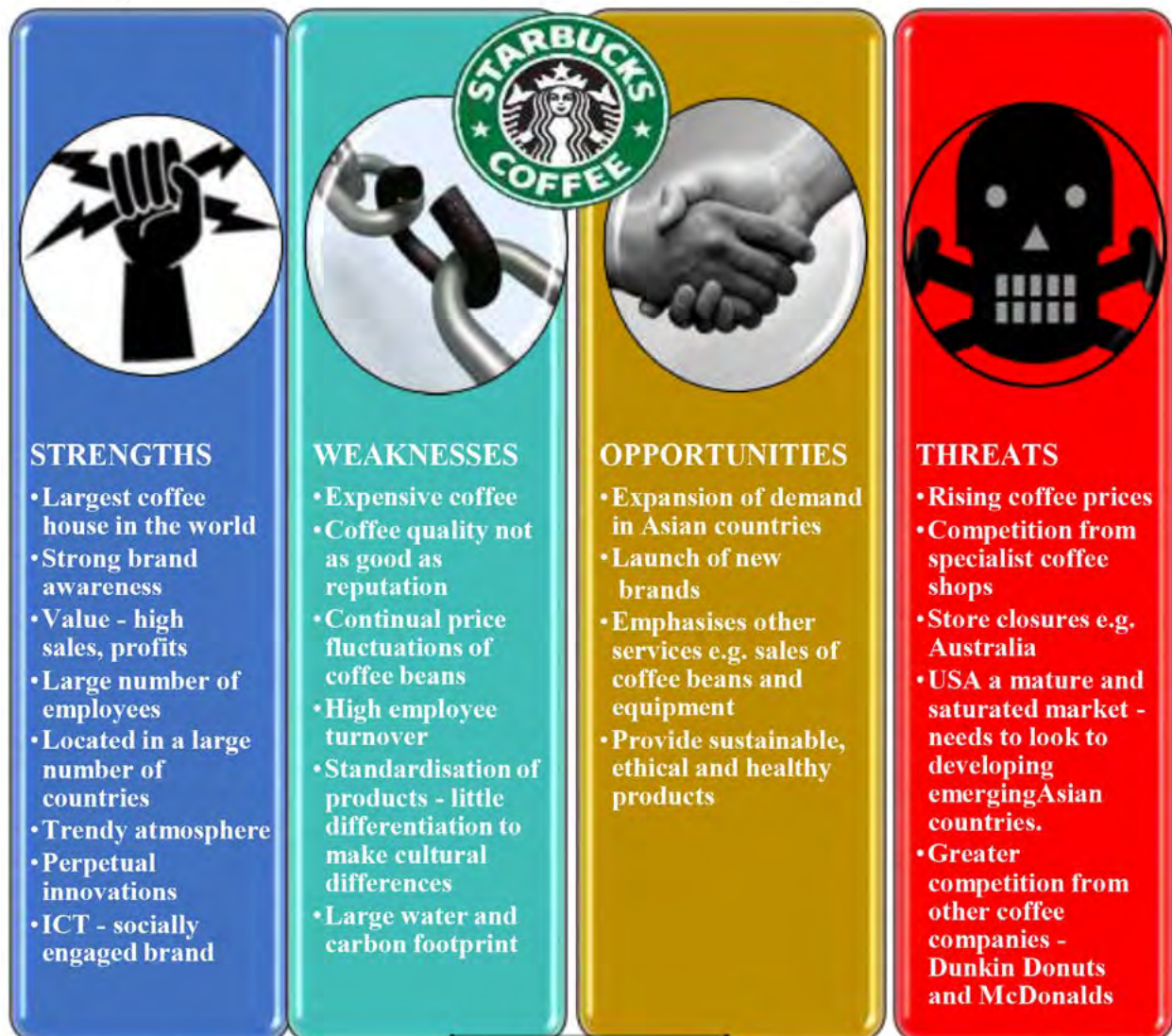
Image: Reserve Roaster <https://medium.com/the-starbucks-collection/the-starbucks-reserve-roastery-675144de1065>



Blackboard <http://3.bp.blogspot.com/-vSWBIMsOGnA/UzJEqf301LI/AAAAAAAAAF6s/6a6kLt4BjJI/s1600/P3200501.JPG>

PEOPLE & ECONOMIC ACTIVITY: STARBUCKS

SWOT analysis of Starbucks (internal and external linkages)



Notes/diagrams S. Bliss

Competition



Starbucks and McDonald's have a lot in common – they both promise quick and easy food and beverages and have recently focused on sustainability

Diagram: <https://image.slidesharecdn.com/starbuckscoffee-120306122143-phpapp02/95/starbucks-coffee-strategy-5728.jpg?cb=1331087440>

PEOPLE & ECONOMIC ACTIVITY: STARBUCKS

Asia Perspective (external linkages and flows)

The growth of new competitors and changing consumers' coffee tastes is an evolving management issue. However, Starbucks has significant growth opportunities in the Asia region especially China, by expanding from 1,700 stores at present to 3,400 by 2019. As the domestic supply of coffee in China is small, the company has ventured into China's Yunnan Province for Arabica coffee. For example Starbucks Farmer Support Centre in Pu'er has trained 10,000 farmers in Yunnan Province on sustainable farming practices. More than 1,200 farms, covering nearly 11,000 hectares of land, are certified through the company's Coffee and Farmer Equity (C.A.F.E.) Practices. C.A.F.E. ensures high-quality coffee is grown in a socially and environmentally responsible manner.

While Starbucks business in China is in the early stages of development, the company has made strategic moves by engaging digital and mobile technology to extend customer engagement, to further sales.



Starbucks in Yu Garden, Yuyuan China. Source: Wikimedia Commons



China fastest growing market for Starbucks

General facts about Starbucks

1971

- Created by three students
- Starbucks Coffee, Tea and Spice

1972

- Howard Schultz hired
- Most important acquisition ever made

1985

- Schultz acquired Starbucks
- Joined with Il Giornale

2000

- 88th in the 100 Best Global Brands

2011

- 24,000 outlets in USA and Canada
- 100 in the United Kingdom
- 700 in China

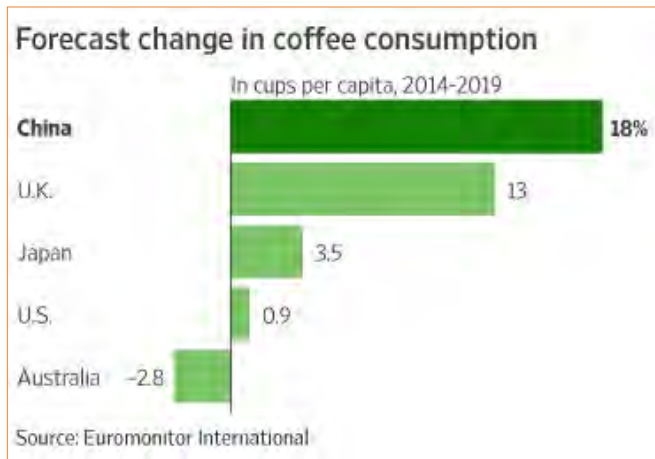
2017

- Starbucks fully owns 1,500 outlets across China
- Buys out joint partner in 1,300 stores in Shanghai, Jiangsu and Zhejiang
- Starbucks owns 100% of its China stores (<http://www.rtvchannel.com.au/starbucks-to-own-100-of-its-china-stores-after-buyout-deal/?lang=en>)

Time line: Adapted <https://www.slideshare.net/alexadima/starbucks-product-strategy-in-the-chinese-market>

PEOPLE & ECONOMIC ACTIVITY: STARBUCKS

Forecast change in coffee consumption – China versus Australia



Bar graph: https://static.seekingalpha.com/uploads/2017/4/6915901_14921187992089_rld9.png

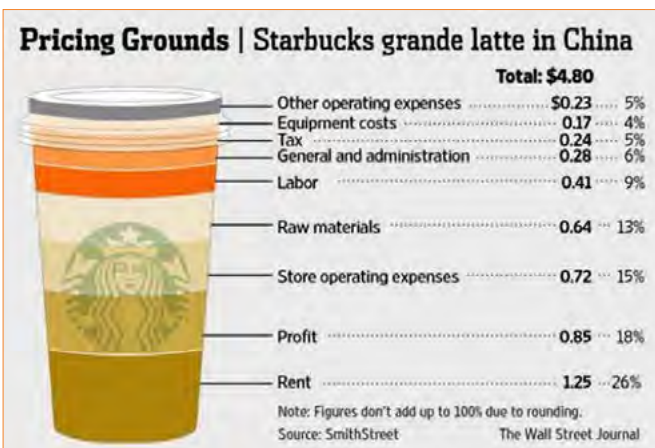
Starbucks outlet within the Forbidden City, Beijing.



Source: Wikimedia Commons

Price of Starbucks' grande latte in China

'Imagine walking into Starbucks and discovering that your grande latte cost \$27. China's per capita income, at about \$7,200, is around five and a half times less than the American figure. Yet at a Starbucks in Beijing, a grande latte costs about \$4.80—or a dollar more than it costs in United States. An espresso and steamed milk is pretty damned expensive in China.'



Graph: <https://cdn.theatlantic.com/assets/media/img/posts/ws/starbucks.jpg>

Cultural issues in China

In 2007 Starbucks was forced to close a coffee house in China's Forbidden City in Beijing. It highlighted Chinese sensitivity about cultural symbols and its uneasiness over an influx of foreign popular culture. Despite this hiccup Starbucks has a 70% market share of coffee in China

Starbucks outlet in North Kunming, China



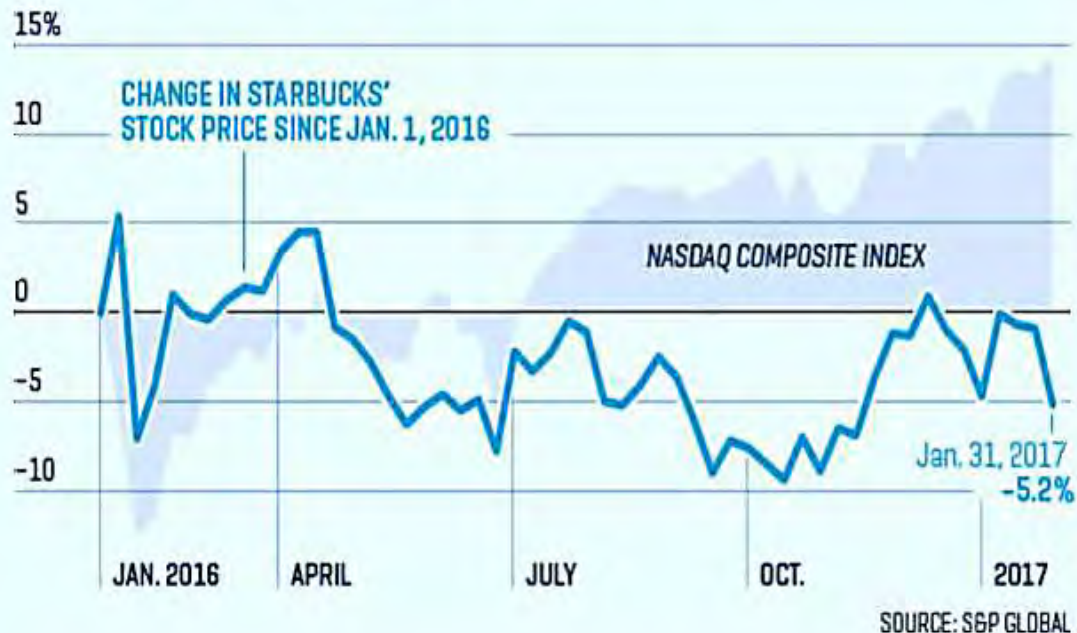
Source: Wikimedia Commons



PEOPLE & ECONOMIC ACTIVITY: STARBUCKS

STARING WHILE MY COFFEE GROWS COLD

Starbucks' stock price rose more than 10-fold between 2009 and 2015. But the winning streak ended in 2016, as slowing sales growth cooled investors' ardor.



In 2017 Starbucks shares fell 3.5% after the company posted its lowest store sales growth since 2009. The slow and steady decline of retail that's shuttering department stores and putting malls out of business is also taking a toll on Starbucks.

Howard Schultz said we can't hide behind the fact that there is a seismic change that we're experiencing as a brick-and mortar retailer. As customers increasingly shop online instead of in person, Starbucks can no longer rely on foot traffic as a way to get people in the door. Despite the challenging retail climate Starbucks plans to open 12,000 new stores around the world in the next five years, with projections of 10% revenue growth. Schultz said that, in order to make this growth a reality, the company is banking on two strategies: becoming a destination and investing in digital. Additionally it is investing in Reserve Stores serving up small-batch coffee and a menu of food made in-house.

Additionally, Starbucks Corp. says it has become a victim of the success of its mobile order app. The coffee chain created the app to reduce long lines at the cash register, but Starbucks Operating Chief Kevin Johnson said the lines have just shifted to the pickup counter.

Source: <https://www.businessinsider.com.au/starbucks-battles-death-of-in-store-retail-2016-12?r=US&IR=T>

ACTIVITIES

Refer to the graph and information to answer the following questions:

- 'Is Starbucks coffee growing cold?' What is the evidence behind this statement?
- 'It is difficult to grow at an outsized rate,' says Jeffrey Bernstein of Barclays Capital. Why is it hard to keep growing at a high rate that attracts investors?
- Will the Reserve Stores be the answer?
- How can digital technology change the decline in business?

PEOPLE & ECONOMIC ACTIVITY: STARBUCKS

Fieldwork/ Investigation – Australia

Whatever your style – long black, latte, espresso or flat white – Australians love a good brew. And let's face it, everyone's day starts better with a solid shot.

In most cities around the world you'd be hard pressed not to find a Starbucks on every corner – but on our turf they just haven't delivered.

Starbucks opened the doors to its first store in Australia in July 2000. To date, Starbucks Australia has coffee houses in Sydney, Brisbane, Gold Coast and Melbourne. In Sydney they are located in the following places: Sydney CBD (4); Parramatta (2); Manly; Sydney Airport; and Mt Druitt.

Competition – can't crack the Australian market

In an Australian takeaway coffee market worth about \$2 billion, Gloria Jeans has more than 450 branches in Australia while Coffee Club has 350 outlets. In comparison, there are a mere 22 Starbucks. Racking up losses of \$143 million on its Australian operations, in 2008 Starbucks sacked 700 staff and closed 66 branches leaving a rump of cafes in the CBDs of Melbourne, Sydney and Brisbane mostly serving tourists familiar with the brand.

In 2016, Starbucks leased a prime beachfront site at Manly, described as **'the jewel in the crown'** of commercial real estate. This store focuses on the re-invention of Starbucks.

Problems – failure of Starbucks in Australia

- Competition from McDonalds, Gloria Jeans and specialist coffee shops. Gloria Jeans dominates the coffee retail market followed by McCafe and Coffee Club
- High price – low quality
- Insufficient stores
- Cultural differences between Australia & USA. Australians prefer their coffee stronger without any flavoured sugary syrups, unlike Americans
- Unsustainable business mode
- Declining service quality

Prezi <https://prezi.com/upi6nba2zwmk/starbucks-failure-in-australia/>

Starbucks at Manly, Sydney



Photograph: <http://www.dailytelegraph.com.au/newslocal/manly-daily/american-coffee-giant-starbucks-confirms-lease-of-prime-beachfront-site-but-is-met-with-lukewarm-response/news-story/310fcea92cb8141f1704c1206350c8f2>

Fieldwork/Investigation

- Survey your local supermarket and a coffee shop. Include questions in your survey such as: What brands of coffee do they sell? Where do they get their beans? Who are the main distributors? How many sell Fairtrade coffee?
- Compare the price of Fairtrade coffee with other brands
- Discuss how you can become a responsible consumer of coffee. Present findings as an oral report to the class
- Draw a map locating the shops/mobile vans selling coffee in your local area. Compare the prices. Discuss the reasons for differences in prices.

Large coffee chains in Australia

- Starbucks store locator – <http://www.starbucks.com.au/Store-Locator.php>
- Gloria Jeans – <http://www.gloriajeanscoffees.com.au/>
- McDonalds/McCafe Australia, location and differences – <https://mcdonalds.com.au/mccafe>; <https://mcdonalds.com.au/find-us/restaurants>
- Coffee Club – <http://www.coffeeclub.com.au/>
- Oxfam – Visit an Oxfam shop and interview the employees about the success and problems of the Fairtrade Coffee campaign – <http://www.oxfam.org.au/explore/trade/fairtrade-coffee-campaign>. Oxfam shops in Australia <http://www.oxfamshop.org.au/retail>



PEOPLE & ECONOMIC ACTIVITY: STARBUCKS

Investigation: Starbucks store in Australia

Refer to the Starbucks Australia store locator at <https://www.starbucks.com.au/Store-Locator.php>. Download a map showing the location of stores in Australia. Annotate the map

- Select three Australian Starbucks stores and list the reasons for the location of these stores.
- Visit a Starbucks or another coffee retailer and interview the manager. Ask questions such as:
 - When did the business start?
 - Why select this location?
 - What competition does the store face?
 - What are the most popular coffee drinks?
 - Where do the coffee beans come from?
 - Who does the roasting and distribution?
 - What are the prices and profit margins on coffees?
 - How many people are employed? How are they staff trained?
 - What are the links between Australian stores and head office in USA?
 - What are the waves of coffee sold – first, second, third or fourth wave coffees?
 - What are the stores' environmental and social responsibilities?
 - What are the stores' links to ICT?
 - How does the store accommodate the millennials?
- People perceive Australians as 'coffee snobs' and the main reason for the closure of Starbucks in many Australian places. Do you think this is the major reason for the closures? Why do you think Starbucks has problems establishing a business in Australia?
- In 2016, Starbucks coffee quietly expanded in Australia after a humiliating retreat eight years before. Investigate the present progress

Extended response

Discuss the operation of an economic enterprise such as Starbucks and include the following questions

1. What is the nature of the economic enterprise?
 - Starbucks-global chain of coffee shops
2. What are the locational factors of a Starbucks coffee shop in Australia?
 - Site, situation, latitude, longitude
 - Reasons for location – advantages. Refer to the Starbucks Australia store locator at <https://www.starbucks.com.au/Store-Locator.php>. Download

a map showing the location of stores in Australia. Annotate the map

3. What are the different flows essential for the operation of the economic enterprise?
 - People: customers-ages
 - Goods: coffee, milk, sugar, food
 - Services: training, different types of coffee, drinks and food sold
 - Ideas: new technology, coffee species and brewing methods. Social media-Facebook, Apps.
 - Waves of coffee
4. What are internal and external linkages involved in management of the economic enterprise?
 - Internal linkages: goals, revenue, business operations, managers, staff, roasting and brewing methods, packaging, advertising. Business times, types of coffee, drinks and food, gifts, incentives, promotions
 - External linkages: trade, transport, advertising. Digital links, Wi-Fi
5. What are the ecological dimensions of the economic enterprise?
 - Inputs: coffee, sugar, milk, food, power, water, transport, buildings
 - Outputs: carbon and water footprints; waste. energy
 - Environmental goals: sustainability. reduce ecological footprints and waste, recycling, corporate social responsibilities, Fairtrade, Ethos water
6. What are the environmental and social constraints imposed on the economic enterprise?
 - What are the Environmental laws (local, national)?
 - Is the business sustainable (environmentally, socially and economically)?
 - What are the future environmental plans?
7. What are the effects of global changes on the enterprise?
 - Prices
 - Competition (e.g. McDonalds, soft drinks, tea, water)
 - Changing consumer tastes
 - Growth of organic and speciality coffees.
 - Future trends- decline of shopping centres

However, next time you drink their coffee, contemplate on what percentage of the cost of coffee is returned to the farmer and whether the coffee is produced using environmentally and socially sustainable practices.

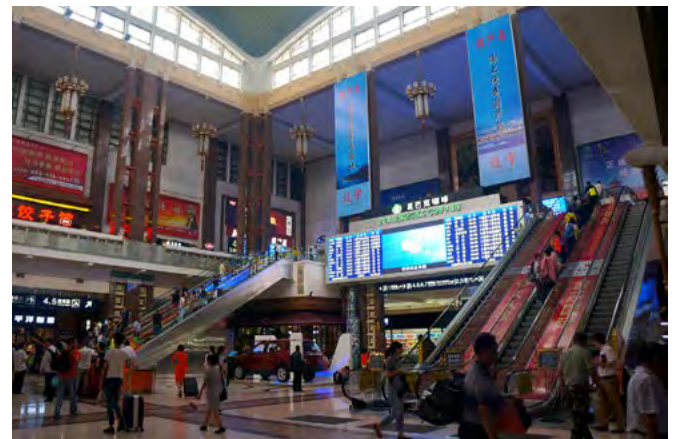
PEOPLE & ECONOMIC ACTIVITY: STARBUCKS



Cartoon: <http://www.cartoonaday.com/images/cartoons/2014/05/complicated-starbucks-coffee-cartoon2-598x363.jpg>

Geofacts

- The rollout of food service now accounts for 20% of sales.
- In 2017 Howard Schultz was replaced by Kevin Johnson as CEO of Starbucks
- Logo was inspired by Moby Dick and the seafaring tradition of the early coffee traders.
- How many Starbucks coffees do we drink every year? Four billion cups are used – 35 times longer than the Great Wall of China; 100 million gallons of milk, enough milk to pour over Niagara Falls for two minutes
- If everyone gave up drinking Starbucks it would be enough money to tackle 33% of world hunger
- Starbucks averaged two new locations daily between 1987 and 2007.



Starbucks advert above destination board, Beijing Railway Station foyer.
Source: Wikimedia Commons



Starbucks Park St, Sydney. Source: Wikimedia Commons

ICT

- Starbucks – NGO Partnerships. A corporate social responsibility facade – https://gps.ucsd.edu/_files/faculty/gourevitch/gourevitch_cs_cebrian.pdf
- Analysis of Starbucks Corporation – https://scholar.harvard.edu/files/nithingeereddy/files/starbucks_case_analysis.pdf
- Starbucks supply chain. Prezi and video – <https://prezi.com/exahcrxysnaa/supply-chain-management/>
- Starbucks linkages – <https://image.slidesharecdn.com/starbucks-140923185308-phpapp01/95/starbucks-supply-chain-13-638.jpg?cb=1485436794>
- Environmental impacts – <https://www.starbucks.com/responsibility/environment/water-and-energy>
- Behind the Scenes at Starbucks Supply Chain Operations – http://www.supplychain247.com/images/article/starbucks_sourcemap_article_image3.jpg
- Starbucks Global Social Impact Report Summary 2017 – <https://globalassets.starbucks.com/assets/9265e80751db48398b88bdf09821cc56.pdf>