

Name

Course

Tutor

Date

## **Engineering Management**

### **Introduction**

This is a report about Starbucks and how it understands internalization and sustainability and how the company is managing all the aspects of business. The author interviewed one of the senior managers of the company in charge of management. He gave out the history of the company and how it has ensured it remains competitive giving its SWOT analysis. The paper gives a report about how the company understands about internalization and sustainability giving its strengths, weaknesses as well how it embraces diversity and multiculturalism.

### **Company background**

Starbucks is an American global coffee company and coffee house chain which is headquartered in Seattle, Washington. Starbucks was founded in 1971 as a single coffee shop and has since become the largest coffee house company globally with about 21,000 stores in 62 countries. Most of the company's stores are located within the United States. However, it has since expanded to other countries across the world using a multitude of well-focused strategies that enable the organization to capture a larger market share and remain on top of the competition. The company retails specialty coffee and has continuously introduced new products that contribute to its competitiveness. Through its strategies, it has been able to create a coffee

culture in regions and communities which were traditionally non-consumers of coffee. The company has also been able to dominate the coffee market and create a brand synonymous with loyalty, integrity and longevity (Larson 36).

### **Analysis of Starbucks**

Starbucks is one of the most successful companies in the world. Today, the company has the highest revenue among the private companies and at the same time ranked among the world's greatest employers. However, despite the success of the company, it has been faced by various cultural issues that hindered its growth in some markets, and have even caused it to shut down in some countries. One of the issues is the management techniques. The company has failed to realize that the management technique used in one country may not necessarily fit another. In addition, the use of English speaking managers even in regions where English is not part of their dialect has been a major problem. The company has also been faced by cultural issues in relation to ethical codes.

### **SWOT Analysis**

There are factors that constitute the company's strengths, weaknesses, opportunities and threats. These factors have to be clearly identified so that effective strategies can be adopted for the organizational success.

### **Strengths and Weaknesses**

Starbucks has several strengths that give it a better competitive advantage in coffee and beverage market. The company is a market leader in coffee industry and this makes smaller company unable to compete. The other key strength is the resources that allow rapid expansion both in the domestic and global markets. Starbucks also has strong brand recognition by consumers globally. It has been known for high quality products and personalized services. One

of the key strengths of Starbucks is cost leadership strategy. The company has been able to remain competitive because of being able to provide quality and reliable services to customers at relatively lower cost than its close competitors. Its focus on quality products has also compromised its ability to incorporate customers' views when producing its products. For example, the use of non-fat milk leads to production of low quality products hence the company might ignore such requests Starbucks (Corporation SWOT Analysis 10).

The company may also take advantage of the low investment requirements to invest more in the emerging markets. There is also opportunity to diversify its products. Starbucks can diversify its products to venture into other food products and non food products. Starbucks company faces competition from both large scale coffee retailers and small scale coffee retailers.

The core competence of the company is its positioning of its products. The company positioning of its products as quality products has made the company gain competitive advantage over its competitors (Corporation SWOT Analysis 10). It has been able to dominate the coffee business in the United States and around the world.

Despite numerous strengths, the company also has some internal weaknesses. One of the weaknesses is pricing. Starbucks' prices are the highest in the industry and this has been used by some of its competitors such as McDonald's to take some of its market share (Roby 48). The other weakness is that it mainly relies on coffee for its revenue and this may affect its performance. This makes the company vulnerable to escalating coffee prices (Corporation SWOT Analysis 10).

### **Opportunities and Threats**

There are several opportunities in the international markets that can be exploited by Starbucks to increase its growth. The emerging economies such as Brazil, Russia, India and China present a good opportunity for growth. The changing taste and preferences of the people countries in Asia Pacific and other regions also increases the market opportunities. People are changing their preference from tea to coffee. There is a lot of growth potential for the company.

There are also factors that cause threat to Starbucks performance and growth. One of these factors is competition. Major competitors such as McDonald's and Dunkin Donuts are also expanding. There are also new entrants attracted by the expanding coffee market. The consumers are also becoming more health conscious and demanding healthy products.

Generally, Starbucks has more strengths than weaknesses and these strengths have been used to provide the competitive advantage over its competitors. This has also made the company to be most successful coffee company in the world. Starbucks also has more opportunities than threats. It has taken advantage of the opportunities to become the most successful coffee company.

### **What the company understands by multiculturalism and internalization**

#### **Cultural issues facing Starbucks**

Over the years, Starbucks has been faced by various cultural issues. These issues have been major impediments towards the success of the company.

One of the most notable cultural issues that have affected the company is the management issues (Holt and Cameron 2). In many occasions, the company failed to realize that the management techniques that apply in the United States could not always apply in the foreign countries in which it carries out its business. The company failed to realize the need to first

examine the management techniques that are applied in a country, and look for ways in which they could adopt them.

Across the world, companies have realized that one of the ways in which they can be successful is to ensure that employees are managed in a manner that is in line with their culture. This is upon the realization that the management techniques in the parent company's country might be different with the management techniques employed in other regions. For example, the management techniques that are employed in the UK can be very different from the management techniques that are employed in China (Modood 33)

Managers around the world have been equipping themselves with knowledge on cross-cultural management issues. This is because of the increasing globalization which is making inter-cultural management to be in great demand in many organizations around the world. The continued search for equivalence and comparability across nations and cultures appears as a natural undertaking when in it comes to cross-cultural research, be it in management, sociology or psychology studies.

Another cultural issue that the company has been facing is the use of English speaking managers in its various branches across the world. The company, after its adoption of its internationalization process, it made use of American top managers to help in the expansion. The initial places that the company entered into were Canada and Britain. These were English-speaking nations and hence the language and the culture could easily blend.

However, the greatest failure of the organization on the culture front was experienced when it entered into non-English speaking countries. The company, just like in Canada and English, also introduced the English-speaking managers from the United States. This was a major problem in the countries.

Today, one of the most notable culture aspects that help organization to succeed is the introduction of managers that fully understand the various cultural aspects in the region. One of the ways that it could do this is through employing managers from the local cultural. Although in some occasions the CEO might be foreign, the lower managers should be from the local culture. These individuals, since they full understand the various norms, values, beliefs and traditions present in the culture, they can easily help the organization to blend in.

### **How the company deals with the cultural issues**

The senior manager at Starbucks argued that the world is enjoying diverse cultural practices from all corners whereby cultural practices differ from one community to the other. Many countries globally are composed many different communities who are practicing different cultures. Each country is unique in its own way and all businesses going global ought to understand that they will meet different cultures and how to manage the cultural differences determines whether they succeed or not (Alcantara-Pilar et al. 74)

The market globalization demands has found many business managers operate in countries which are not their own. The expatriate managers have been facing many challenges which they only meet successfully if they are trained and properly prepared in cross-cultural management.

It is true that the increasing economic globalization is spurring the continued expansion of multinational corporations. This has led to multiplication of the human capital moving across the globe. To maintain global competitiveness, MNCs like Starbucks ought to rely on finding the best people who will be able to maintain effectively and operate their businesses overseas. Expatriate assignments however, are not successful always with failure ranging from 16-40%.

**Advice to the company's expatriates according to the survey**

An expatriate should be advised to understand that working in a culturally different environment is not a walk in the park and is always challenging. Lack of cultural knowledge as well as language ability and difficulties in adjusting to the local culture will contribute to expatriate failures in foreign countries. On the other hand, earning and training about different cultures will make an expatriate to be aware of cultural differences. They ought to be competent in cross cultural communications so that they can be able to adjust to new cultural environments and this enables them to carry out successful overseas assignments (Marquis 23).

The competitive global business environment has made the expatriate assignment a necessary but risky proposition. An expatriate ought to understand that there is a competitive advantage that will be gained from them if they perform effectively. Expatriates are conceptualized as people who are not nationals of the country they are currently working for. When the expatriate will be assigned our host country, they will be coming into a new business and cultural environment. How to adapt to the new cultural environment in the host has been perceived to be major challenge the expatriate will face on his international assignment and will determine the failure or success of the company.

The expatriate ought to know that working in a foreign country with different cultural, economic and political characteristics; he/she will be faced with job related as well as personal problems. The expatriate will face different management techniques from those of his country. Whether management concepts or techniques that haven developed in one country can be successfully transferred to other cultures in the world has remained a debated issue.

The expatriate ought to answer this question for him/her to succeed in their assignments. The job enrichment theory for example will reflect the strong achievement needs of countries; like the US and the UK's individualistic culture. This culture may however be inappropriate in cultures like China that downplay individual competition and encourage relationship. In the Scandinavian feminine countries for instance, self-managed work group may be more appropriate as opposed to job enrichment schemes since this promoted close interpersonal relationships in the workplace. Also in the Arab countries, the relationship between western expatriate managers and the local colleagues and employees has been complicated. This has been attributed to differences in religion, values, time concepts and different attitudes to organizational structures and planning.

### **What affects Starbucks as it enters the global/international markets?**

#### **PESTLE Analysis**

PESTLE is an analysis of the macro-environmental factors that affect the operation and performance of the organization. It helps in determining the most appropriate strategies that will contribute to the organizational success. By understanding the environmental factors that surround the business operations, managers are able to develop effective strategies that may contribute to the improvement in organization's performance and success.

#### **Political Factors**

There are certain policies that may be adopted in the countries which Starbucks operate that may affect the operations and performance of the company. Policies such tax policies may increase the cost of doing business and increase the price of its products. Increased costs and prices reduce the profit margin and cause fluctuations in the company's market share. Starbucks is a global organization which sources its coffee beans from different countries and operates its



coffee shops across the globe. International trade tariffs also affect Starbucks operation. Some countries may suddenly increase tariffs on coffee beans and this will affect the company's profit margins.

The other political factor that needs to be put into consideration is political stability. Starbucks operations are likely to be affected by the political situations in the countries in which it operates. The political instability such as the recent instability in Arab countries such as Egypt affects the operations of the company. However, more stable political environment such as in countries like U.S. and UK positively influence the performance of the organization. Stable political environment allow effective and efficient operations and improved profitability.

### **Economic Factors**

The prevailing economic conditions that exist affect the operation and performance of Starbucks. The recent economic meltdown has had its negative impact on the performance of the organization. Economy is still undergoing recovery in some regions such as Europe and this has affected its ability to pursue its expansion strategy. Recent economic recession has affected the disposable income of the people and this affects their purchasing power and the consumption of coffee. Starbucks will be adversely affected in countries such as China where its coffee is perceived to a luxury product.

Starbucks sources most of its coffee beans from different countries and a fluctuation in exchange rates is likely to affect its performance. Fluctuation in US dollar against other currencies will affect its import of coffee beans and this will make the company pay higher prices. This implies that the cost of operations will increase and reduce its profit margins.

### **Social Factors**

There are social and cultural issues that affect the consumption of coffee products. One of the social issues that have influence on the performance is consumer taste and preferences. In the past coffee was not being consumed in certain countries such as China. The people in these countries have been consuming tea. However, there have been changes in taste and preferences and people who were initially not coffee consumers have adopted the coffee culture. Level of income is also a factor which affects consumption of Starbucks coffee. Starbucks is specialty coffee which attracts premium prices and this makes it unaffordable to low income population.

The fact that consumers are increasingly becoming health conscious is also a factor that the company has to put into consideration (Bradley, Becker, and Smidt 370). The company needs to provide coffee products which are healthier and able to meet the standards of living. The level of education of the population within the markets in which Starbucks operates is also changing and they are becoming more aware of their product needs. People's lifestyles are also changing and many people among the population are embracing consumption of coffee.

### **Technological Factors**

Technological changes also have major impact on the organizational performance. The new machines and technologies are being developed that can help organizations to improve the quality of their coffee products. Starbucks needs to do thorough research to identify these new technologies and utilize them to improve the quality of their product and services.

There new technologies that are helpful in marketing the product and services that are offered by the company. One of the key factors is the developments in online networking sites. Online networking sites such as Facebook and Twitter provide the company with the platform to promote its brand to a larger audience of online communities. There are also other mobile technologies such as Wi-Fi which can be used by the company to enhance the service delivery.

The company may also use the newly developed online payment systems such as online payment cards.

### **Sustainability and how it affects Starbucks Corporation in its global markets**

In the recent past, sustainability is one of the areas that have gained widespread popularity in the business sector. By definition, sustainability is the process in which organizations engage in strategies that provide them with cultural and economic benefits that are attained through environmental responsibility (Bithas 1704). The need for these strategies has been occasioned by the understanding that the natural environment is a major element in the academic and business community.

Starbucks Company is well aware of the sustainability needs in the industry. Being a major player in the market, the company realizes that it needs to engage in sustainability so that it can fit properly in the industry (Torsten, Kühlmann, and Ramona 58).

The company, after every financial year, releases a sustainability report to show the actions that the company has been undertaking to ensure that it is sustainable. In the 2014 sustainability report, the company stated that it had placed more commitment into addressing its responsibilities with regards to the environment. The company is well aware that irrespective of the fact that the services that it provides have a positive impact on the economic and social welfare, they also have a negative impact on the environment. For this reason they always try to minimize their impact as much as possible. In addition, the company also appreciates that it may not take one or two years to achieve its sustainability targets, but it may take some time. Looking at the actions of the organization, it is good to note that the company is making some progress in ensuring that sustainability has been achieved (Brinkmann 25).

### **Issues/questions/Lessons the survey report generates**

There are various issues, question and lessons that the case study generates. First, this case study shows that the level of commitment of organizations in regards to sustainability is different among different organizations. They are those that show great commitment while others do not lay much emphasis. The question that arises is how these companies can be made aware that sustainability is very good for the organization.

Looking at this issue therefore, there is a lesson that can be learnt. The greatest lesson is the shift of consumers towards organizations that are engaging in sustainability (Sandanayake, Manewa, Kumaraswamy and Chung 56). The times when consumers would engage with organizations because they had to are long gone. For this reason, it is important for organizations to consider engaging in this activity to avoid losing out on these consumers.

In the future, the issue of sustainability will be a major issue in organization. Based on the increased efforts for organizations to engage in this concept today, in the future, the efforts will even be greater. For this reason, it will be important for all organizations, Starbucks Company included, to step up their efforts in engaging in sustainability (May 25). In doing this, they will ensure that they do not lose out on the benefits that will be associated with this concept.

### **About internalization**

Globalization has led to many companies and organization entering the global market to be able to expand their businesses. The international market provides them with many opportunities they may not be able to enjoy while operating solely on the domestic market. Nevertheless, the international market is more complex as compared to domestic market. With this being the case, multinational companies find it more challenging when operating on global market as compared to when operating on domestic markets. There are also differences between

domestic and international markets (McGrory 212). For one, business culture differs from one country to another. The levels of competition and risks are also high on international markets as compared to domestic markets. Language, traditions, customs, and fluctuating exchange rates are some of the barriers multinational companies have to deal with on a daily basis. Multinational companies that lack experience on the global markets should avoid entering international markets directly. Starbucks has been able to operate on the international market with great success. Its success can be attributed effective people management, investment in research and development, engaging with customers, and effective business environment analysis among others (Yi et al. 68).

A company that intends to make decision to market its products in the international market has to make decision based on certain considerations. It has to consider the market potential on whether the foreign opportunities and the firm's resources are attractive enough to justify the need for marketing in a foreign country (Guerrero 296). In the international marketing many companies have recognized people with different needs across the world and they have branded their products so that they can be recognized all over the world.

Many of these organizations that have moved to other nations of the world understand the laws, the values, languages and the currencies of those countries they are trading with. Freedom boundaries are essentially important in international marketing and are also as part of life. There is the need to maintain ethics when marketing the products in the international market. The role of freedom boundaries is to make clarity on what is supposed worked upon interpersonally. Relationships must be there since one needs the other in marketing of the product and therefore there is need for ensuring the boundaries are clearly defined and maintenance of high skills is up help (Kostovski, Gjurcevski and Nanevski 50). The boundaries need to be healthy to ensure that

there is strong relationship and this fosters the growth of the markets. The healthy boundaries protect the integrity of the international marketing by keeping it suitable section.

### **Concluding analysis and discussion**

The recent have seen more and more companies and organization enter the international market. Most of them have entered the market in order to enjoy more opportunities. There are those that have found their home markets to be saturated hence look for more expansion opportunities on the global market. The international market is more complex and complicated as compared to local market. With this being the case, it is imperative for multinational businesses to come up with strong strategies to be able to survive. Starbucks is one the companies that have been able to compete effectively on global scale (Kvint 23). The company has been able to develop from a small coffeehouse to the largest multinational companies in the world. Currently, it is ranked as the largest coffeehouse corporation in the entire world.

International markets expose companies and organizations to numerous opportunities. Opportunities on the domestic markets in time dry up. This means that businesses may not be able to expand more or reach out to more customers. This is one of the main reasons to why most companies chose to enter the international market. Basically, they stand to benefit more on the global market. However, there are a number of differences between the domestic and international markets that may affect multinational companies either in a positive or a negative way. Multinational companies must be aware of the differences as their ability to succeed on the market in dependent on it.

Starbucks has been operational on the international for quite some time. The company has been able to achieve great success even when critics thought otherwise. It has been able to

enter more and more markets through different strategies. As mentioned in the introduction, the international market is more complicated than local markets hence require the management of multinational companies to develop strong competitive strategies. For instance, countries have different business cultures. A business whose home country is a western nation may find it problematic to survive an Asian market. This is because business cultures from the two regions differ from one another. People's lifestyles, needs, and preferences also differ from one country to another. For example, Chinese people's lifestyle differs from that of American people. This explains the reasons to why Starbucks has employed a different business culture in the two countries. It is essential for a business to have a clear understanding of the differences to be able to compete effectively on this market.

One of the major reasons to why Starbucks has been able to compete effectively on the market is having a strong management team. Its management has been able to understand the company's business environment hence their capability to develop effective strategies. They have capitalized on their past experiences to outsmart their competitors on the global scale. The company's management treats its employees in the desired manner. This is a strategy it has been able to apply both on the local market and international markets.

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