
Starbucks Corporation: Leading Innovation in the 21st Century

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Abstract: *The purpose of this article is to review recent trends related to Starbucks Corporation and the characteristics of innovation and change in the global coffee industry. Starbucks has 5,415 licensed stores in the Americas; 1,143 licensed stores in Europe/Middle East/Africa; 3,000 licensed stores in China/Asia Pacific; and 66 in all other segments (See Appendix A). There is strong global consumer market demand for Starbucks in Brazil, China, India, South Korea, and Vietnam. This demand presents challenges related to ethics and responsibilities within social norms, innovative organizational principles and practices, and application to the system theory of the organization. Starbucks Corporation, in the 21st century, has begun to explore new core aspects of leadership, hindrances to leading innovation and change, and the effects of leadership ethics. Starbucks Corporation remains a top leader in the coffee industry by conceptualizing globalization from a broader international context and investing \$8.1 million in Costa Rica.*

Keywords: *Starbucks Corporation, leadership and power, Starbucks SWOT analysis, application system, ethics, global coffee presence, and innovation change.*

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1. Introduction

Starbucks Corporation Background

The Starbucks brand originated in 1971 by opening its first store location in Seattle, Washington. In the 1970s and 1980s, Starbucks Corporation experienced success in the U.S. market. By 1987, Howard Schultz purchased Starbucks after serving for 5 years in the operation department at Starbucks Corporation. By the end of the year 2000, Schultz had increased from 17 coffee shop to the number of coffee shop to 4,000. Moreover, until the year 2000 Schultz assumed the responsibility as CEO, chairman, and chief global strategist. As soon as Schultz took command of Starbucks Corporation the company was driven in a new avenue in the coffee market. Schultz moved Starbucks Corporation into a new golden business era not just locally but internationally (Loyd, Jackson, & Gaulden, 2001).

Starbucks Corporation History

In 1971, Starbucks Corporation was founded by Gordon Bowker, Jerry Baldwin, and Zev Siegl in Seattle, Washington. In 1972, driven by the success of the first store, they opened a second store in University Village, Washington. Starbucks began selling and distributing coffee at wholesale businesses. Within the next decade, leaders made the decision for Howard Schultz to purchase the company and manage the sales of the retail stores as well as to support the marketing campaign. Starbucks Corporation began to experience the spirit of success that was present when the organization was established in 1971 (David, 2013).

By 1993, Starbucks expanded its horizons by entering into a business venture with Barnes and Noble on the East Coast of Washington. The goal was to sell Starbucks coffee in bookstores where people came to spend quality time reading books. At that time, Starbucks Corporation had licensed 12 stores and was operating 260 company owned facilities with revenues of \$176.5 million and reaching net earnings of \$8.3 million. Furthermore, in the year 2000, leaders at Starbucks

Corporation decided to expand the business concept out of the United States by opening a total of 200 new store locations. As soon as the concept was introduced overseas, 150 new stores were opened in the Asia-Pacific region by opening the first stores in Dubai and Hong Kong, and the remaining population of stores in both Japan and the United Kingdom. Starbucks Corporation found a unique market niche in continental Europe by opening the first store in Zurich, Switzerland. A new historical precedent marked an important position for Starbucks Corporation securing more holding value in the coffee industry (David, 2013).

Starbucks Corporation, in 2002, encountered its first major loss (i.e., \$3.9 million) in the market from its Japanese operation expansion. This loss did not discourage leaders from continuing to foster new opportunities in the market. As a result, Starbucks Corporation opened its first store in Turkey and as a strategic alliance acquired 129 Seattle's Best Coffee houses. Moreover, by 2004, Starbucks Corporation announced plans to open 15,000 new stores domestically and 30,000 internationally. By 2007, the economic recession hit the Anglo-Saxon market and along with the economic recession McDonald's entered into the coffee business. However, the economic recession forced Starbucks Corporation to close 600 stores because of bad performance in the U.S. market. In 2009, Starbucks Corporation began a new business venture by opening 200 new stores and launched the new Starbucks card iPhone app to attract more customers, as well as opened new stores in Aruba, Poland, and East Africa. By 2010, Starbucks expanded its digital network to provide unlimited Wi-Fi and reinvested in the company's brand name by expanding its line of business to El Salvador, Hungary, and Sweden. By 2011, Starbucks Corporation celebrated its 40th anniversary, supporting the outreach of the global community by opening new stores in Guatemala. The total number of stores that Starbucks Corporation had in place as of 2012 was 17,651 (David, 2013) in the following countries:

Argentina, Aruba, Australia, Austria, Bahamas, Bahrain, Belgium, Brazil, Bulgaria, Canada, Chile, China, Costa Rica, Curacao, Cyprus, Czech Republic,

Denmark, Egypt, El Salvador, England, Finland, France, Germany, Greece, Guatemala, Hong Kong/Macau, Hungary, Indonesia, Ireland, Japan, Jordan, Kuwait, Lebanon, Malaysia, Mexico, Morocco, New Zealand, Netherlands, Northern Ireland, Oman, Peru, Philippines, Poland, Portugal, Qatar, Romania, Russia, Saudi Arabia, Scotland, Singapore, South Korea, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Arab Emirates, United States and Wales. (p. 1)

Starbucks Corporation Leadership and Power

In 1987, after Howard Schultz purchased Starbucks Corporation he became the new CEO and Chairman. In addition, Schultz had the innovative idea in 1987 to open 125 new stores in the market and deliver high results to investors in the company. Schultz decided to keep the official brand name as Starbucks for competition purposes only, because the brand name already had recognition in the market. According to Schultz, having a name people could remember and recognize . . . and relate to provides enormous equity” (Loyd et al., 2001, p. 42). The effort of the Starbucks management team was to continue opening more local stores as they had initially planned and to expand their service forces globally by opening more than 4,000 new store locations worldwide. Schultz’s vision and mission leadership guidance were to encourage employees and investors to drive Starbucks in a healthy financial avenue and to continue growing its venture capital investment overseas (Loyd et al., 2001).

Schultz was successful as an entrepreneur but had to admit his limitations of skills in the new business era in which Starbucks Corporation was embarking. In addition, senior management at Starbucks had decided that Schultz should step down because Starbucks grew so fast that it quickly became a global company and needed to be managed from an entrepreneurial perspective. Schultz knew that senior management could drive Starbucks toward a safe operational and financial position in the market. Senior management and Schultz worked together to locate

professionals who would be suited to adequately manage and deliver the outcomes of Starbucks Corporation in the global arena. For example, the management team was driven from an entrepreneurial avenue to deliver results. By 2000, Orin Smith became the new CEO of Starbucks and was hired to turn around the business horizons of the organization. Smith recruited seasoned professionals in specific areas in the company such as finance, legal, supply-chain operations, and management information systems. Smith brought a transformational leadership style to Starbucks Corporation by keeping a clear path of the company's direction, following the vision and mission statement of Starbucks Corporation, and serving as a role model in the organization (Lloyd et al., 2001).

Social media is a valuable tool for Starbucks Corporation because it drives the sustainability of the company's brand. In addition, integrating the team management as part of the cultural aspect of the organization is key because it helps solidify the business transition in the market. Chua and Banerjee (2013) determined three major innovative steps that Starbucks had implemented over the years: (a) deploying social media to effectively support the branding and marketing position of the product, (b) understanding the role of a new channel to use the social media, and (c) relying on effective strategies to protect consumers' engagement with the products (Chua & Banerjee, 2013).

The evolution of corporate social responsibility (CSR) was one avenue of innovation for Starbucks Corporation in that it helps to protect both the brand image and the environment. Additionally, CSR has given Starbucks Corporation a new position in the market by demonstrating a balance among economic prosperity, social integrity, and environmental responsibility. Starbucks Corporation has proven through CSR that its long-term commitment and projects can be sustainable and achievable (Katrinli, Gunay, & Biresselioglu, 2011).

Marques (2008) reported that in the Fortune 100 Best Companies to work for in 2007, Starbucks Corporation was listed as number 16 because it had implemented spirituality

in the workplace as an innovative approach to enrich the ethical values of management and employees. Five factors come along with the implementation of spirituality at work: (a) leadership position in the market, (b) financial sustainability of the organization, (c) work environment, (d) commitment to innovation, and (e) meeting CSR requirements. Shareholders at Starbucks Corporation concluded that spirituality at work helped Starbucks to increase work productivity and employees' motivation levels to strive for excellence (Marques, 2008).

The rationale for the expansion of Starbucks was to enable the company to increase the position of its products in different markets around the globe. In addition, opening new stores set a leading path for Starbucks in the market because the company was specializing in success and continued to have positive effects among its competitors. Moreover, Starbucks holds strong values related to the sustainability of employees, coffee farmers, and coffee growing practices. The supply chain of the company's retailing venture has created new partner efforts. The Starbucks philosophy is to engage employees and management at all levels within the organization. Starbucks continues to grow rapidly and expand the frontiers of the company's vision and mission (Koehn, Besharov, & Miller, 2008).

Starbucks receives strong financial support from its stockholders. After 1992, Starbucks went public by creating a new perception of business value. Koehn et al. (2008) revealed in their study that Starbucks was able to finance its international expansion by building a solid presence in the stock market. Furthermore, historical sales have provided a great appreciation to the company's stock price. In 2000, Starbucks funded the company's expansion into the international arena by utilizing at full capacity the funds from the Statement of Cash Flows rather than financing the operations through external sources (Koehn et al., 2008).

The international expansion relied on new products and services to drive future growth. In addition, Starbucks was able to engage innovative avenues by introducing its products into grocery stores, warehouse clubs, and retail

outlets to increase public awareness. Starbucks saw the opportunity to offer classical music, books, and movies. However, Starbucks had a broader objective of what the company would become in the near future. The product expansion also provided a source of incremental revenue that would help the company to continue to meet investors' growth expectations. Starbucks brought a transformation of the new business era to the coffee industry (Koehn et al., 2008).

The importance of creativity to Starbucks is to focus on individuals, the organization, and creating new ways of thinking in the global coffee industry. Creativity refers to organizing an idea based on its impact on the organization's goals and objectives. Moreover, Starbucks ensures that organizational success is met by increasing the quality of its products and constantly committing to new challenges with competitors and employees. Starbucks defines creativity in the organization by applying the three components of expertise, motivation, and new way of thinking. The first component of the creativity level is individual expertise that consists of combining work-related procedures and product expectations. The second component of the creativity level is motivation that drives the passion of the organization to be creative about the company brand name. The third component of creativity is new ways of thinking; that is, the capacity to put into place new ideas to determine the flexibility and approach to the problem. Therefore, the innovation creativity of Starbucks brand can fuel the company's prosperity and promote the company's product development process (Certo & Certo, 2012).

2. Starbucks SWOT Analysis – Creativity

Starbucks Corporation is known as a roaster, marketer and retailer of specialty coffee. Starbucks Corporation has set a retail footprint in the global coffee retail industry. In emerging economies market such as Brazil, Russia, India and China has expanded new stores by acquiring local companies. As indicated by Canadean Company Reports (2014) "However, higher commodity costs, intense

competition, and legal proceedings could have an adverse impact over the business, operating results and financial condition of the company” (p.31).

Internal	
Strengths	Weaknesses
<ul style="list-style-type: none"> • Established 40 years in the market • Adequate financial sustainability • Company’s culture contribution • Ethical for best business practice • Experience in the market • Top brand leader in the market • Largest chain of coffee farm houses around the world • Worldwide partners • Strong management guidance • Longstanding efforts to balance profits with CSR 	<ul style="list-style-type: none"> • High price of coffee beans in the market • Brand criticism • Product price • Standardizing of work processes
External	
Opportunities	Threats
<ul style="list-style-type: none"> • Starbucks has stores in 50 countries with 5,500 coffeehouses • Synchronization of supply chain coordination in the market • New venture capital expansion investment in the emerging economies market • Setup of worldwide retail operations • Improving farmers’ access to carbon markets • Provide opportunities to employees to study • Business model development is based on diversity and team guidance 	<ul style="list-style-type: none"> • Starbucks cannot control the price of coffee beans • Trademark violations • Capture economies of scale in the emerging economies market • Seeking opportunity market niche in developing economies • Economic, political, social, legal, financial, and weather climate risks will add cost to the supply chain distribution channel

Starbucks SWOT Analysis – Leadership

Internal	
Strengths	Weaknesses
<ul style="list-style-type: none"> • Starbucks possesses flexibility and innovation • Building knowledge by facilitating individual and team learning experience • Sharing knowledge and ideas • Demonstrates optimism and commitment in the market • Communicates a clear vision through a business plan • Values organization change • Supports the mission and vision statement of the company • Continually audits the vision statement • Solid organization structure 	<ul style="list-style-type: none"> • Emphasize criticism of the mission and vision statement • Lack of long-term production results • Management has to learn how to be modest • Capital investment well-being
External	
Opportunities	Threats
<ul style="list-style-type: none"> • Extend opportunities to talented individuals • Empower competent individuals to support the planned implementation change • Use task goals and objectives to guide the team assignment implementation • Design its own management implementation plan system • Employee retention is a top priority • Organization values • Support organization change 	<ul style="list-style-type: none"> • Expansion of strategic objectives • Organize team activities • Encourage mutual trust among competitors • Analyze cautiously competitive environment, political processes, and emerging problems

3. Starbucks Corporation Creativity

Creativity is not just selling an idea and is more than the innovation of new ideas. As illustrated in the first portion of the SWOT analysis, innovation requires flexibility and new ways to successfully address and overcome new problems in the industry. Starbucks continues expanding its new business venture capital investment; investors want to understand consumer behaviors. Furthermore, Starbucks has been successful in the market through being able to balance between the flexibility and rigidity of the organization. Therefore, the SWOT analysis serves as both an internal and external tool to evaluate alternative strategies by allocating resources effectively and efficiently (Osland & Turner, 2011).

Osland and Turner (2011) argued that conducting adequate research and development in the market will lead to gaining a competitive position. The decisions surrounding designing new stores are quite innovative and represent a new consumer class. The way Starbucks treats innovation is by following procedures and product lines with teams that are expected to meet the demand in the local and global market arenas (Osland & Turner, 2011).

4. Application of the System

The application system of Starbucks Corporation is to successfully add a brand, because a brand creates the foundation for sustainable financial assets in an organization (See Appendix B). In addition, brand equity is considered a key factor in the application system of Starbucks because it creates the value of marketing and business strategy in the market (Doyle, 1998). Czinkota, Ronkainen, Moffett, and Moynihan (1998) emphasized that a company's brand name helps to distinguish the company's image among competitors in the market. Zhenjia (2012) indicated that a successful brand can help a company achieve a good reputation in the market. The majority of consumers around the globe are familiar with and know the quality service provided by Starbucks Corporation. Therefore, throughout the application system process, Starbucks has a positive brand name, which influences the

decision-making process surrounding building customer loyalty (Zhenjia, 2012).

The application system process of supporting employees and customers plays an essential role, because as Hoffman and Bateson (2002) indicated, service personnel will dictate the product differentiation among existing competitors in the market. In addition, Starbucks faces a tremendous challenge in promoting the organizational value of the company as it expands. Starbucks treats customers in a friendly manner and makes them feel at home, and treats employees as partners which ultimately is a great approach because employees feel they are valued assets. The main philosophy in the Starbucks application system process is to provide knowledge about the company's culture, service skills, and self-training development. Throughout the years Starbucks has shown a consistent pattern in re-engineering the vision and mission statement of the company (Zhenjia, 2012).

Starbucks has created a positive relationship between job satisfaction and customer satisfaction (Kotler et al., 1999). In addition, the management team at Starbucks believes that employees can expand their knowledge and at the same time satisfy the organization by offering great quality customer service. Starbucks provides training to employees because management believes in human capital development within the organization's expectations. For example, one of the most appropriate training techniques within Starbucks is that employees help the customers select a specific product based on their personal taste. Therefore, Starbucks remains a top competitor in the market by guiding staff in the proper direction (Zhenjia, 2012).

Starbucks provides diversification of products in the market. In addition, Starbucks customers value the differences that exist between the company's quality product (Kotler, Brown, Adam, & Armstrong, 2004) as well as the cost to obtain the same. Starbucks is committed to offering the highest quality coffee in the market and continues to capture a large retail opportunity by keeping fresh coffee and an updated selling position, and enhancing the customer experience by designing creative and original store concepts.

Throughout the years Starbucks has provided legendary customer service. Innovation and the product (Doyle, 1998) are the keys to Starbucks strategic application process to succeed in the market. For example, another innovative channel of the company is the strategic position of expanding the food offerings in coffee shops, new coffees, and continuing to inspire the brand name to do well in the market. Therefore, the focal point of Starbucks is product innovation (Zhenjia, 2012).

In the past decade, leadership has been one of the most attractive topics in the business discipline. Luu (2012) suggested that there is an existing relationship between patterns of leadership and organizational trust and unethical behavior. A pattern of leadership is related directly to the transformational and transactional leadership styles. Luu defined transformational leadership as being built solely on trust, where unethical acts are less acceptable. Starbucks leadership possesses a transformation leadership style because of the belief in personal identification by influencing the inspirational level of leader and followers' perceptions about the internalization of the organization aspects. However, top corporations in the United States are concerned about ethical behavior. Therefore, the organization's cultural environment is highly reflected through the ethical leadership behavior that supports the vision and mission statement of an organization (Luu, 2012).

Starbucks Corporation has been able to surpass competitors in the international market because over the years it has perfected its international joint venture (IJV) channels. In addition, Starbucks has been successful in South Korea because leaders were able to engage the organization's cultural values with South Korean market strategies. Moreover, the Starbucks team in South Korea follows the company's goals and objectives by meeting critical demand in the market. The IJV in South Korea has helped expand the corporate values. Starbucks has proven in the coffee industry that organizational culture, corporate values, and team orientation play essential role in the international marketplace. Therefore, Starbucks is an organization that involves all leaders from different levels to

help create a flexible work environment (Lee, Madanoglu, & Ko, 2013).

5. Conclusion

In conclusion, the background of Starbucks Corporation reveals its presence in the market since 1971. Schultz brought a transformational leadership style to Starbucks Corporation by keeping a clear path of the company's direction by following the vision and mission statement and serving as an organizational role model. Starbucks Corporation is a solid and sustainable organization in the global coffee market because the company strives to surpass excellence by meeting the five factors of spirituality at work: (a) strong leadership position in the market, (b) organizational financial sustainability, (c) suitable work environment, (d) innovation commitment, and (e) CSR requirements. Throughout the years Starbucks Corporation has shown a consistent pattern of re-engineering the company.

The new growth platform of Starbucks Corporation is by supporting company's ethical values and branding organizational demand. Starbucks is a global company that meets the demand for innovation at a global level. As a result, Starbucks continues to accelerate its international presence. In essence, it continues to be one of the top leaders in the coffee industry and a customer oriented organization. Starbucks possesses the intellectual creativity needed to meet the company's goals and objectives. For example, its successes rely on principles and practices by surpassing challenges in the local and global markets. Starbucks has 141 coffee shops across Malaysia and more than 700 coffee shops around the Southeast Asian region, including the following countries: Indonesia, the Philippines, Singapore, Thailand, and, most recently, Vietnam.

6. Recommendation for Future Studies

The authors of this article suggest that the following aspects be considered for future studies into the global

presence of Starbucks Corporation and the business world in the international market arena:

- Starbucks Corporation will need to improve the product value creation.
- Starbucks will need to reduce its liability exposure risk related to advertisement and promotion, because in 2008 advertisement expenses were reported at \$129.0 million, in 2000 were reported at \$103.5 million, and in 2006 were reported at \$107.5 million (Ng, 2011).
- As Starbucks continues its efforts to buy out its Japanese local chain partner, leaders should focus on standardizing products by acquiring new resources, centralizing cost leadership, and reinventing the logistics material management.
- In 2017, Starbucks intends to increase the coffee quality standard in the Brazilian and Vietnamese markets.

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