

Starbucks Case
Management Analysis

October 11th, 2018

Dominican University
7900 Division St,
River Forest, IL 60305

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Kevin Johnson
CEO Starbucks
2401 Utah Ave S.
Seattle, WA 98134

Dear Mr. Johnson,

Thank you very much for the generous offer to review your company's management style. We, as a team, are truly honored to evaluate a company as prestigious as Starbucks. We look forward to working with you. Attached is our report, hopefully, you can find it helpful.

Sincerely,

Introduction

When a company reaches such high success, it is only natural to have the desire of maximizing brand appeal and continuously expanding business. Your company has thrived since the beginning of its establishment by having the customer as the focus of your business. You have not only provided quality products but focused on the customer's experience. Instead of having a traditional storefront, you've aimed for an intimate environment where the customer isn't seen as a transaction, but rather, as a valued member in a codependent relationship. Loyal customers are pleased when the business remains devoted to providing the experience originally introduced. For your company, that value is customer satisfaction. Although it has been a priority to your business, you have slowly deviated from it due to expansion and product innovation.

By focusing on reaching new markets, the satisfaction of existing customers has progressively worsened. With the addition of new locations and broadening the now extensive beverage menu, a disconnect has formed between customers and the needs that they desire. Previously, beverages were narrowed down to solely coffee, with drinks being created by only some of the best beans on the market. However, now that customers have been given complete creative freedom in customizing their drinks, the quality has significantly reduced. What was once an intimate experience between a barista and customer has now become a race against time to ensure that the customer is given their customized beverage. Out of everyone who walks through the door, almost half of customers customize their drinks (Booth, 2018). This leads to a domino effect of a longer wait time. Although the company has taken action to resolve this problem by retraining baristas to create beverages within a three-minute period, the problem is still relevant.

Main Issues

With the introduction of Customer Snapshot, a mystery shopper program, each store is secretly visited several times a quarter and is evaluated to see if they meet service, cleanliness, product quality standards. Three out of the four categories had overall positive trends, with the average wait time being the outlier (Bean-Mellinger,2018). The decline of quality drinks has correlated with the decrease in the general customer satisfaction rate. Due to your company's "Just Say Yes" policy, a drink must be remade upon request of the customer. Potential profits are lost due to the additional time required to better serve an unsatisfied customer.

Customer snapshot scores for service has seen an increase from quarter two of 2002 to quarter three of the same year. Although service scores have increased, the average wait time still remains above the three-minute mark. Despite innovative implementations of new and quick equipment, as well as the introduction of a drive-through option, your company is still struggling to provide fast service. By providing more options to the customer you've increased your target market.

Ashley Lutz of Business insider calculates that Starbucks serves 500 customers per day, per location as of 2018. 10% of these customers are believed to want faster and more efficient service. This is still the case in 2018, on average, therefore, there are fifty customers per location (10% of 500 customers) considered unsatisfied. Typically, an unsatisfied customer visits a store four times per month and on average spends around \$3.88. We calculate that each location could see a net loss of \$756.60. From a company-wide perspective, we calculate a potential loss of \$6,220,765.20 due to low customer satisfaction (specifically from a lack of fast and efficient service throughout all 8,222 U.S. locations).

While opening new coffee shops worldwide, it is important to pinpoint any potential problems that could slow down the growth process. With labor being the company's biggest

expense, it is important to ensure that your partners are trustworthy. Unfortunately, with an employee base as large as yours, a dishonest employee is inevitable. Thefts can hurt your company's bottom line significantly. There are lots of opportunities for an unethical employee to steal from the company while handling gift cards (S.P. & Coulter, 2018). According to Starbucks Investigators, some employees reported stealing as much as \$42,000 in gift cards (Robbins et al, 2014). Another example occurred in 2018 when a partner stole a customer's credit card information and racked up a \$200 dollar grocery purchase (Watch, 2016). This issue, if unaddressed, can end up costing the company several customers, due to their lack of trust.

Customer satisfaction is also low due to low-quality beverages. When your company was first starting off you really only sold beans (S.P. & Coulter, 2018). Due to low beverage orders, baristas had the time to prepare each drink properly. As time has gone on, however, the extreme growth of the menu, as well as an increase in customization, has made it very difficult to make each drink perfectly. Today the extensive menu offers over 87,000 drink combinations. The low-quality drinks are costing Starbucks money. According to the service profit chain, the level of employee service and quality influences a customer's perception of a Starbucks. Service value is not where it needs to be therefore customer satisfaction declines and profits are lost. The control process is a procedure that involves measuring performance, comparing it to a standard, and taking action.

Through the implication of the control process, 34% of customers, when surveyed, "How could Starbucks make you feel more like a valued customer?" responded that they want an improvement in service. Out of those who responded, 19% want an improvement in friendlier or more attentive staff and 10% want a faster, more efficient service.

As demographics change Starbucks needs to train its employees to serve its evolved target market. When the store opened it primarily catered to affluent, well educated, white-collar

patrons (skewed female) between the ages of 25 and 44. However, the demographics from this era (1980s-1990s) have changed. Today Starbucks' customers have expanded to the ages of 22 to 60, with the teen audience growing steadily. Other than the age differences, Starbucks has expanded demographically, racially, and socially (S.P. & Coulter, 2018). It is more common to see a Hispanic male in the low-income bracket at a Starbucks than it was when the company first opened. According to your website, 66% of your employees are women, and of those women, unfortunately, only 38% are minorities. There should be a greater focus on teaching diversity. To avoid situations like the one that happened in Philadelphia (which led to the closure of many stores for retraining of staff).

Analysis

Your approach to management is substantially organic. Starbucks', as a company, utilizes cross-functional and cross-hierarchical teams with very low formalization. You have a very wide decentralized span of control with free-flowing information. Some of these qualities are extremely valuable and are key to Starbucks' success, but others are the cause of several of your issues.

Therefore, Starbucks should introduce some aspects of a mechanistic style of management. Increasing your mechanistic management styles, therefore lowering your organic style of management, would fix a majority amount of your problems. This includes an increased formalization to counter employee theft and increase efficiency, therefore bringing down wait time. In addition to these, having a narrow span of control would bring down employee theft and encourage a closely knit work environment. Overall, adding some mechanistic approaches to your solely organic corporation could benefit Starbucks in the long-run.

For example, if a customer is unsatisfied with a low-quality drink, it has to be remade. The feedback given by the customer would show which stores are doing well and why; Using the

feedback given, Starbucks can measure satisfaction and compare it to benchmarks. Therefore, implementing the measuring tool, customer snapshot, and increasing product quality.

External Factors & Assumptions

Another type of training Starbucks needs to improve food safety. Assuming that Starbucks provides a clean service environment. All employees should be required to obtain Food Service Certification or Servsafe. In Illinois and some other states, it is a requirement that all people who have contact with food have these certifications. Requiring all employees to have these certifications assures a higher standard of cleanliness, and of product quality.

Your employee (partner) theft is a concern that has been on the rise since 2002 (Expanded Ramblings, 2018). Starbucks should implement feedforward control to prevent future employees from stealing. You should carefully screen job applicants using honesty testing and thorough background checks. However, that does not address thieves who are currently employed; adding an aspect of concurrent control could address this. If Starbucks increased management's presence, through the use of cameras, it could combat employee theft. On average, the installation of a modern camera security system costs about two thousand dollars, which would be per store (Homeadvisor, 2018). Taking into account the 8,222 company-owned stores in the USA, Starbucks would spend \$16.5 million of the \$40 million budget to combat employee theft. In addition to these measures, a store's management could publicize progress in reducing theft, to discourage theft and reassure innocent partners.

Recommendations

Although there are some weaknesses to this adjustment. Overall the installation of cameras may not abide by the typical Starbucks culture or protocol, but it is necessary. This change could benefit your control over employees, therefore, increasing accountability and

integrity. Due to the obvious honesty issues that are present at the partner level, environmental or cultural change is needed.

Another issue Starbucks has is a long wait time and low-quality drinks. The complexity of customizable drinks leads to extended wait times and low-quality drinks. Assuming all Starbucks operates the same way and has the same menu, the complexity of customizable drinks is similar on average. These problems could be fixed simply by adding a drive-through to shorten the wait time and limit customization. If you implement a limit of customization for drive-through orders, it would ensure quality drinks while hastening the ordering process. Adding a drive-through would cost on average thirty-five thousand dollars per store (Lang, 2016).

Although adding drive-throughs would not guarantee consistent customer satisfaction. Starbucks can lose specific customers because of the lack of customization and; customers, in general, due to long wait times. Adding drive-throughs would be an efficient way of solving this issue. We recommend that you, as a company, utilize the remaining \$23.5 million to build drive-throughs in stores with high volumes.

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