

Case Study: Starbucks' Structure

What happens when a highly successful business formula begins to run out of steam? For more than two decades, Starbucks had reconfigured the coffee marketplace by changing the way people viewed the product. Until the company entered the market, coffee was often perceived as a rather banal item consumers purchased as needed. Price often determined which brand someone would buy at the store.

Howard Schultz became convinced that he could turn coffee drinking into a cultural experience. He had traveled to Italy and watched with interest as city dwellers would stop to begin the day at a coffee bar. Using the same type of model, Schultz purchased and opened his first location as *Il Giornale*. The company evolved into Starbucks, where multitudes of consumers began purchasing designer coffees, such as *espresso*, *cappuccino*, and *coffee mocha*. Store interiors encouraged lounging and relaxing with a newspaper, magazine, laptop, or friends. Each cafe featured enticements such as jazz music in the background, additional merchandise to examine, and comfortable seating.

The original Starbucks chain emphasized location. Cafes were placed on commuter routes and in other places where people were likely to gather and socialize. Over time, units expanded into other major traffic routes, including airports.

Starbucks employs people who enjoy coffee. They are retrained using motivation programs that include buy-in options. They are known as *baristas*, or bar persons, rather than servers, who become experts in coffee brewing while providing friendly service to patrons. The company insists on a diverse workforce that reflects the makeup of the local community. Employees are also encouraged to pass along ideas about how to improve operations. Those who make suggestions that are adopted are rewarded. *(continued)*

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Until the 2008 recession, Starbucks had continued to grow. Some of the units in larger cities experimented with selling additional products, including lunch service. Then a quickly collapsing economy, possibly coupled with other problems, including overexpansion, sent the corporation on a downhill slide. Founder Howard Schultz worried that the addition of so many locations had watered down the Starbucks experience.

Increased competition became an additional factor that led to declining sales, the closing of stores, and a loss rather than profit at the corporate level. McDonalds, Dunkin' Donuts, and numerous smaller operations began to chip away at Starbucks' share of the market. Many analysts believed that when Starbucks was no longer the only place to purchase high-quality coffee products, and when others were selling at least acceptable brews at lower prices, the drop in sales would become inevitable.

Schultz, who had previously stepped down as CEO, returned to try to bring Starbucks back to prominence. As the economy continues to recover, time will tell if the company will return to its previous status.

1. Complete a job description and job specification for a Starbucks employee.
2. What form of departmentalization should Starbucks use? Should the form be changed in stores offering food products and lunch? Why or why not?
3. When the company began to experience financial problems, should the leadership have tried to centralize power and decision making, or decentralize the operation?
4. What form of organizational configuration best fits Starbucks?