White Paper: Examining Starbucks utilizing the 7s method and less than perfect information

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Table of Contents

Executive Summary 3
Introduction 5
The company: Starbucks 5
Overview of the 7s Framework 7
Shared values 9
Strategy 10
Structure 11
Systems 12
Skills 12
Staff 13
Style 13
Aligning the Ss 14
Overall Assessment 16
Conclusion 16

Executive Summary

- The "seven s" method is an effective way of analyzing an organization. The architects of the model, all consultants at McKinsey & Company, suggested that an organization could be understood in terms of a dynamic relationship among seven key elements:

  - Strategy
  - Structure
  - Systems
  - Shared values
  - Style
  - Staff
  - Skills

- A major premise of the model is that many performance issues are rooted in a lack of alignment among the various antecedents. Subsequently, in high performing organizations, the various Ss tend to be aligned, interconnected, and working together.

- There are two primary approaches to analyzing an organization. The first is an internal examination, looking within the firm through analyzing where the organization stands today, and what steps are needed to take it to some point in the future. The second is an external examination of a firm through the eyes of a potential employee, investor, or competitor. The availability, quality, and detail of information available to the analyst varies, depending on whether one is conducting an internal or an external analysis.

- This paper examines the coffee maker Starbucks using an external focus, utilizing less than perfect information.

The analysis uncovered the following conclusions:

- Shared values: The organization constantly refers to the "Starbucks experience", and rallies employees behind delivering and satisfying this notion.

- Strategy: Starbucks has aggressively expanded throughout North American and to locations around the world. The number of retail locations increased by 35% from 1998 to 2000. In bringing the Starbucks experience to consumers world wide, the company has decided that it must focus on its core competency; namely coffee.

- Structure: Starbucks has a functional structure that can be defined as unstructured. This emphasizes the need for new ideas and employee input.

- Systems: The firm has several important systems in place within the organization. These deal primarily with product knowledge, and product development.

- Skills: Starbucks has a distinct competitive advantage with its front line employees who are knowledgeable and friendly. Further, the Starbucks coffee experience is reinforced through strategic alliances with major grocery stores, hotels, and airlines.

- Staff: Through generous benefits packages, and comprehensive training, Starbucks is able to have high quality employees in a retail environment, while minimizing the challenges facing many other traditional retailers including employee turnover or employee motivation.

- Style: The style for the organization is defined as innovative, flexible and team-orientated.

Organizational Behaviour:

An examination of an organization utilizing the 7s method and less than perfect information

Introduction

The "seven s" (7s) method of examining and understanding companies is a well-known tool available to managers, providing a succinct overview of an organization. Having a broader view of a firm is important from a strategic, marketing, organizational behavior, and competitive perspective.

This paper examines and evaluates an organization (Starbucks) utilizing the 7s method with less than optimal conditions.

In this case, "optimal conditions" is defined as having perfect knowledge of an organization, or have the time or resources available to conduct necessary market research (customer interviews for example) to augment available information. For the most part, this condition is available when the firm decides to look inwards at itself and has perfect access to, and a complete understanding of, culture, systems, customers, and strategy.

On the other hand, less than optimal conditions could occur when perfect information about the firm is not available, or an analysis is required in a shorter time than it would take to conduct extensive primary or secondary research. For the most part, these conditions are present when examining a competitor's organization. Information can be obtained based on industry publications, annual reports, and other secondary sources, but a true insider's perspective is usually not available. This type of analysis will often result in gaps in information; distances between information that is commonly known, and readily available, compared to what is assumed or inferred.

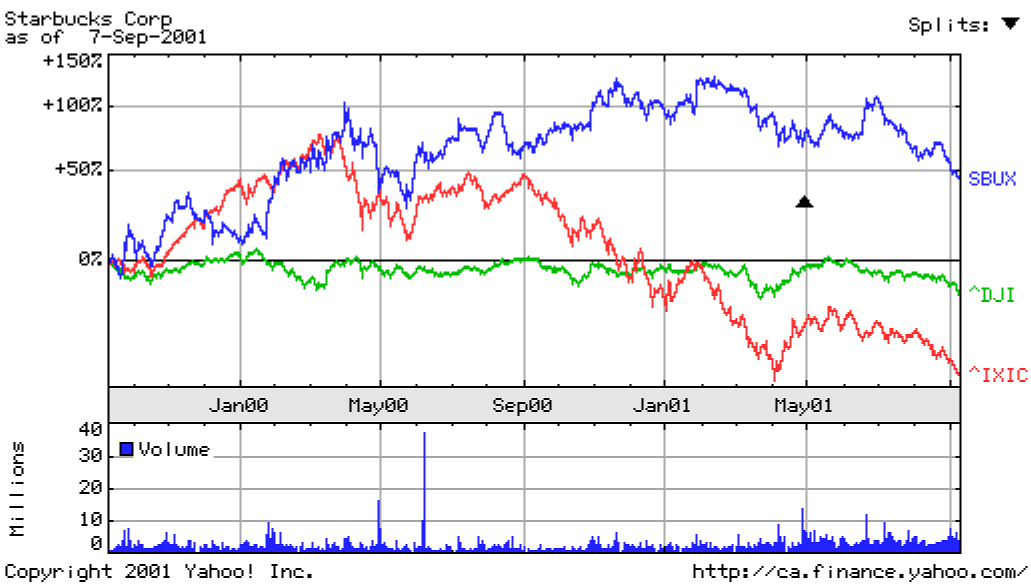
Through this analysis, the importance of how, or more specifically what, a firm communicates about itself to the marketplace becomes apparent. Although an organization needs to provide information about itself to shareholders, investors, stakeholders, employees, and customers, the breadth and sensitivity of information provided must be considered in the context of what is also, therefore, readily and easily available to key competitors.

The company: Starbucks

The company selected for this analysis is Starbucks (SBUX:Nasdaq), the 30 year old Seattle based coffee retailer. Starbucks corporation purchases and roasts high quality whole bean coffees and sells them along with fresh, rich-brewed coffees, Italian style espresso beverages, a variety of pastries and confections, coffee related accessories and equipment, a line of premium teas, and lifestyle music, primarily through its company-operated retail stores[1]. Starbucks also sells whole bean coffees through a specialty sales group, a direct response business, supermarkets, and online at Starbucks.com[2]. In addition, Starbucks produces and sells bottled Frappuccino coffee drink, through its joint venture with Pepsi Cola, and offers a line of premium teas produced by its wholly owned subsidiary, Tazo Tea Company.

Starbucks has been very successful in delivering an experience; an ambiance present in both retail locations and co-branded delivery outlets (for example, coffee served onboard United Airlines). The brand initiative has been successfully positioned as a luxury item, affordable to virtually everyone.

Over the past two years, Starbucks has consistently outperformed both the NASDAQ composite (IXIC), but also the Dow Jones Industrial Average (DJI) as illustrated below:



Corporate Objective:

The company objective is to "establish Starbucks as the most recognized and respected brand in the world".[3] To achieve this goal, the company plans to continue expanding its retail operations rapidly, growing its specialty operations and selectively pursuing other opportunities to leverage their brand through the introduction of new products and the development of new distribution channels. By the end of 2000, Starbucks had more than 3,500 locations worldwide, servicing more than 12 million customers per week in 17 countries[4].

Starbucks was created in Seattle, Washington in 1985, and by 1987 had expanded to 17 stores with locations in Chicago and Vancouver Canada. The company issued its first

[1] Briefing.com, Starbucks overview.
[2] Starbucks.com/aboutus/overview
[3] Starbucks 2000 Annual report, pp. 20.
[4] Starbucks 2000 Annual report, pp. 17.

IPO in 1992, and expanded in the United States by opening stores in California and Oregon, bringing the total number of stores to 165. Through 1996, the company continued to expand in the United States, and also added additional locations in Canada, Japan and Singapore, bringing the total store count to 1,015.

Overview of the 7s Framework

Richard Pascale identified seven qualities in his best selling book “The Art of Japanese Management”, as being areas in which Japanese companies excelled over American firms[5]. This book was followed by “In Search of Excellence: Lessons from America’s Best Run Companies”, written by Tom Peters and Robert Waterman[6].

Pascale, Peters and Waterman all worked together at the management consultancy McKinsey. The seven S’s are:

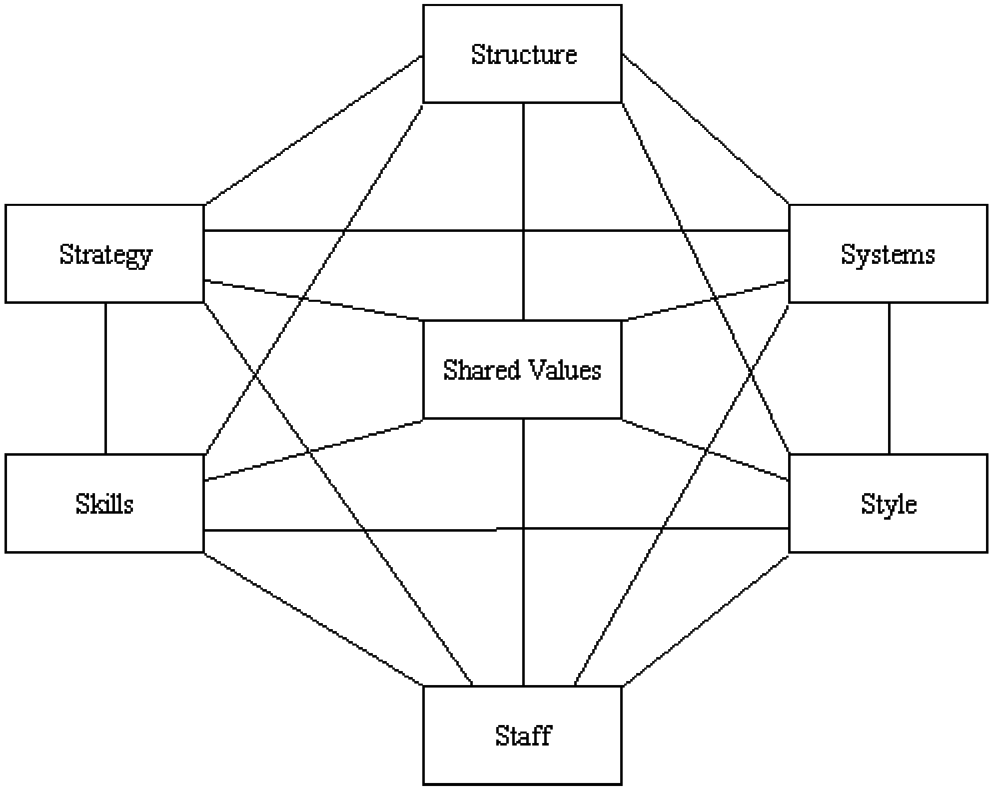
- Strategy
- Structure,
- Systems,
- Style,
- Shares values,
- Skills, and
- Staff

The first three are often called the hard Ss and the last four the soft Ss. This relationship is often depicted using the hub and spoke illustration as follows:

Figure 1 – McKinsey Seven S Framework

[5] Pascale, Richard and Anthony Athos, “The Art of Japanese Management”, Warner Books, New York, 1982.

[6] Peters, Tom and Robert Waterman, “In Search of Excellence: Lessons from America’s Best Run Companies”, Warner Books, New York reissued 1988.



At the highest level, the framework illustrates that the management, structure, and strategy of an organization are related through a complex network of interdependent factors within the organization, each of which is individually and collectively important. The illustration depicts a wheel (or should!), indicating that the seven antecedents incorporating the overall framework should work in concert, and that no single component is more important than others. This indicates that an organization without common goals and strategy is not functioning as efficiently as it could be if the goals and strategy were aligned; it is impossible to make significant progress in one area without making progress in others[7].

This paper examines an organization from the perspective of the 7s model. Not all firm's, many of them successful and profitable, believe that it is important to have an alignment of all seven factors as a precursor for success. Many profitable companies do not actively seek opinions of their employees, nor do they pay them very well (consider the minimum wages paid by many retail firms and fast food outlets). Others, particularly those with unionized workforces including teachers, nurses, health care workers, airlines and manufacturers have a downright hostile relationship.

This indicates that it adherence to this model is not a prerequisite to success; rather, it is an interesting and useful method for evaluating an organization.

[7] Waterman, Robert H., Tom Peters, and Julien Phillips, "Structure is not organization", Business Horizons, June 1980.

The remaining sections of this paper will first discuss each of the factors in the 7s model, and then examine how each applies to Starbucks.

Shared values

"Shared values" refers to the underlying attitude of the company; a combination of core values and core purpose. **Core values** are the essential guiding principles and doctrines that do not require external justification and that the company would keep even if business circumstances changed[8].

Shared values also includes a **core purpose**, a firm's stated business goals, how it will achieve them, and the values it will uphold in doing so; a mission statement.

Shared Values and Starbucks
The Starbucks shared values variable has the following components.

1- Leverage the Starbucks experience: Throughout all marketing communications (everything from press releases, websites, to annual reports), Starbucks consistently refers to the **Starbucks Experience**. However, the Starbucks experience itself is never defined. The website states that an objective is to deliver an "inspiring, inviting, and reliable" product[9], but that hardly defines an experience. The Starbucks experience appears to be more than simply selling coffee, it is the conscious decision to position the brand as a lifestyle entity, capturing an attitude, and therefore is a re-invention of coffee itself. Any retailer can sell coffee; Starbucks sells an experience. This experience includes coffee, friendly staff, interesting music, and a comfortable meeting place.

2- The Starbucks Mission Statement: As posted at Starbucks.com, the mission statement for the firm is: "Establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles while we grow. The following six guiding principles will help us measure the appropriateness of our decisions:

- Provide a great work environment and treat each other with respect and dignity.
- Embrace diversity as an essential component in the way we do business.
- Apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee.
- Develop enthusiastically satisfied customers all the time.
- Contribute positively to our communities and our environment.
- Recognize that profitability is essential to our future success" [10].

3- Environmental mission statement: Starbucks also circulates an environmental mission statement: "Starbucks is committed to a role of environmental leadership in all facets of our business. We fulfill this mission by a commitment to:

- Understanding of environmental issues and sharing information with our partners.

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8 Pascale, Richard and Anthony Athos, "The Art of Japanese Management", Warner Books, New York, 1982.
9 Starbucks.com
10 Starbucks.com

- Developing innovative and flexible solutions to bring about change.
- Striving to buy, sell, and use environmentally friendly products.
- Recognizing that fiscal responsibility is essential to our environmental future.
- Instilling environmental responsibility as a corporate value.
- Measuring and monitoring progress on each project"[11].

Strategy

In the broadest sense, strategy is about setting corporate goals, and then defining the steps needed to achieve those goals. Just as Stephen Covey argues that for personal development a long-range goal is simply a dream with a deadline, and that personal achievement can be mapped by first identifying specific objectives and then outlining the steps needed to achieve these objectives, the same holds true for organizations[12].

One of the foremost authorities on competitive strategy is Michael Porter, a professor of business at Harvard University. Porter argued that the "essence of strategy formulation is coping with competition" and that competition in an industry comes not simply from direct competitors, but from the underlying economics of the industry itself.[13]

Porter believes that businesses should search for new, sustainable, competitive advantages. These advantages come from developing a distinctive way of competing. An advantage comes from either having consistently lower costs than rivals, or by differentiating a product or service from competitors[14].

Part of this advantage stems from being firmly grounded in a core competency; not abandoning core products or over extending a firm's brand in search of products or services that are glamorous today.

Strategy and Starbucks

The Starbucks strategy has the following components.

The company's objective is to establish Starbucks at the most recognized and respected brand in the world[15]. Further, Starbucks hopes to achieve this goal by "continuing to rapidly expand its retail operations, grow its specialty operations and selectively pursue other opportunities to leverage the Starbucks brand through the introduction of new products and the development of new distribution channels"[16].

Starbucks is on its way to meeting this objective. It ranks 88th of the Interbrand / Business Week list of the top 100 global brands[17].

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[11] Starbucks.com
[12] Covey, Stephen, "The seven habits of highly effective people", Fireside, New York, 1989.
[13] Porter, Michael E., "Competitive Strategy", New York, Free Press, 1980.
[14] Pamela, Goett, "A Man with a competitive advantage", Journal of Business Strategy, September 1999.
[15] Starbucks, Annual report, 2000, pp. 20.
[16] Starbucks, Annual report, 2000, pp. 20.
[17] Business Week, August 6, 2001.

Starbucks' strategy for expanding its retail business is to increase its market share in existing markets, and to open stores in new markets where the opportunity exists to become the leading specialty coffee retailer. In the last several years, Starbucks has aggressively pursued this strategy. At year end 2000 (actually defined as October 1st), there were 3,501 total stores in the chain (2,619 of which were company operated, and 882 were licensed to other firms) up from 2,498 stores in 1999, and 1,886 stores in 1998. The firm plans to have 650 locations operating in Europe by October 2003, and believes the total market potential is 20,000 stores overall.

One of the challenges facing firms aggressively expanding is to control for cannibalization. Cannibalization is the marketing of a new product that knowingly and intentionally eats into the market of another product produced by the same company; essentially competing with itself. As retail concentration is increased in existing markets, cannibalization naturally occurs. Although there is some redistribution of existing customers, the practice can be justified if it deters other specialty retail coffee shops from entering the market.

Although company operated retails stores account for 84% of total revenue, Starbucks is also expanding its specialty operations to reach customers where they work, travel, shop or dine, by establishing strategic alliances with prominent third parties. Examples include Hyatt Hotels, United Airlines, Chapters book stores in Canada, and Safeway and A&P grocery stores in North America.

One of the important strategy components, as identified by Porter, is the concentration on core competencies. Starbucks learned this the hard way when it tried unsuccessfully to extend its brand as a wider consumer lifestyle product by making several minority investments in internet startups during 1999 and 2000. The investments, in living.com, kozmo.com, and Talk City Inc., like many other internet startups, never lived up to the hype. Apparently, Starbucks learned from this mistake and concluded: "…we remain focused on our core business… Going forward, we will pursue only those opportunities that we feel will complement our core operations"[18].

Although the Starbucks Experience can include coffee, music CD's, and brewing equipment, the brand could not be leveraged to compete against other lifestyle brands like Martha Stewart, Ralph Lauren and IKEA.

Structure

A company's structure refers to the way it is organized.

Structure and Starbucks

Starbucks has a functional structure (human resources, marketing, corporate social responsibility, public affairs).

[18] Starbucks annual report, 2000, pp. 18.

The corporate environment at Starbucks is very loosely structured, emphasizing the company's constant need for new ideas and employee input[19]. Starbucks refers to its employees as partners, and extends to all of them (even part time help working at least twenty hours a week), benefits such as health coverage and stock options.

Starbucks believes creating the value of brand equity occurs through investing in its employees who are the face of the brand rather than in traditional tools like advertising; before a company can expect trust from its customers, it must have the trust of its employees[20].

Systems

Although the term "systems" is often thought of as synonymous with information systems, in this framework, systems refer to the procedures and processes and competitive advantages present within the organization.

Systems and Starbucks
Starbucks has several factors to its systems:

- Training: Starbucks trains its staff extensively on the intricacies of coffee beans including where they are grown, how they are roasted, how they should be ground, and how they should be filtered to optimize taste.
- Roasting coffee: Starbucks roasts all of its own coffee. This allows the company to deliver a product consistently matches customer expectations.
- Purchasing coffee: As a large coffee retailer, Starbucks has the economies of scale needed to purchase coffee directly from growers and regional associations, rather than rely on import brokers.

Skills

In this framework, "skills" refers to the distinct capabilities or dominating attributes that distinguish a firm from its competitors.

Skills and Starbucks
Starbucks has several importance skill advantages:

Friendly, knowledgeable staff: Although many firms claim to have a competitive advantage with their staff, high quality knowledgeable employees are especially important for customer focused operations like retail.

[19] valut.com report on Starbucks.
[20] Holmes, Stanley, "Starbucks: Keeping the brew hot", Business Week, August 6, 2001.

Ability to reinforce the Starbucks Experience through non-retail operations: The ability of employees to consistently identify other non-retail methods of maintaining and extending the Starbucks experience is a major skill of the corporation. The development of strategic alliances with Kraft, Pepsi-Cola, and the positioning of Starbuck's products in the lines of alliance partners, such as Hyatt Hotels, Safeway, Chapters, and United Airlines, extends the brand while reinforcing Starbucks core competency, namely coffee.

Coffee experience: Clearly a skill of the firm is its knowledge of coffee. Through economies of scale, Starbucks has the opportunity to select, purchase, and roast quality green coffee beans, largely in house. Unlike other chains (namely Second Cup, Grabba Jabba, and Timothy's, all from Canada, or Diedrich and Seattle's Best, from the United States) that rely on agents and pre-roasted beans, Starbucks is able to handle these functions internally.

Staff

Within the framework of the 7S model, "staff" refers to the quality of people. Traditionally, staff is often treated in one of two ways. On one hand, there are appraisal systems, pay scales, or formal training. On the other hand, there is employee morale, attitude, motivation, and behaviour.

Staff and Starbucks
Starbucks has several advantages relating to staff:

Customer service: As discussed in the skills section above, it is important for a retail operation to have high quality employees, since the employee is the direct link to the customer, and subsequently embodies the brand.

Lower employee turnover: Starbucks, through generous benefits packages and unique, flexible working environments, is **probably** faced with lower employee turnover rates than its competitors. The retention of qualified, trained employees is important.

Flexible work environment: The **apparently** flexible work environment for Starbucks encourages its employees to be innovative, creative, and to take chances.

Strong vision: The vision for Starbucks is reinforced throughout the organization. Unlike some firms that have a mission statement framed on a wall at head office, the mission, goals and vision for Starbucks seem to be reinforced at all levels of the organization. This reinforcement leads to support and buy in from employees, who are more likely to hold these or similar values as being important.

Style

Within this framework, style refers to patterns of actions among organizational participants, especially managers, about how people choose to spend their time. This is more than simply the personality of a top-management team or the way that team is perceived within the organization. This phenomenon is best illustrated through mergers; in most mergers, no matter how closely related the businesses, the task of integrating two firms is a problem no less difficult than combining two cultures[21].

Style and Starbucks

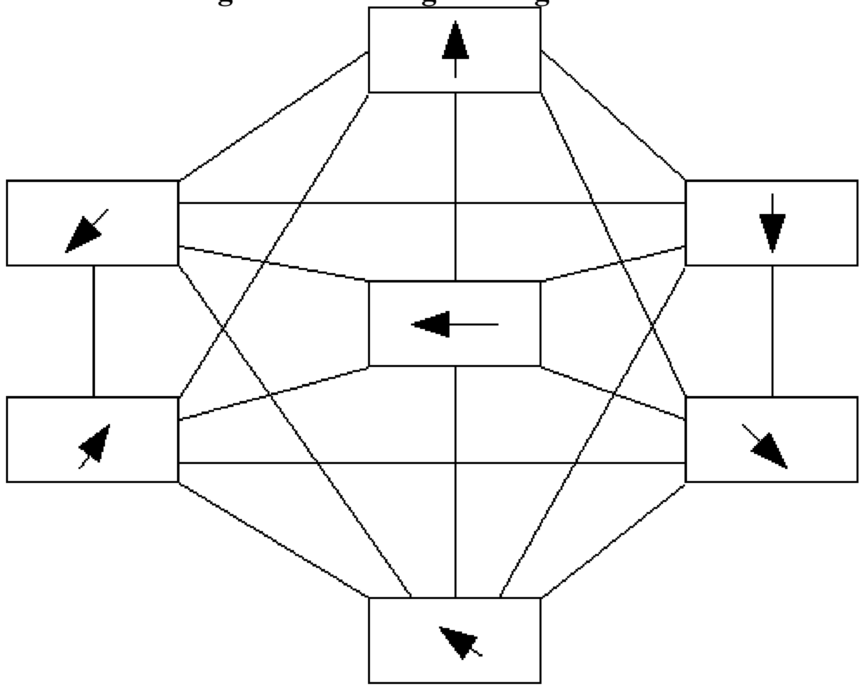
Based on personal **observation**, the style for the organization can be defined as innovative, flexible, collegial and team-orientated.

Aligning the Ss

For an organization to operate effectively, each of the seven factors within this framework must be aligned and connected. For example, figure 2 illustrates a misaligned organization. Each of the 7-Ss is working independently against each other.

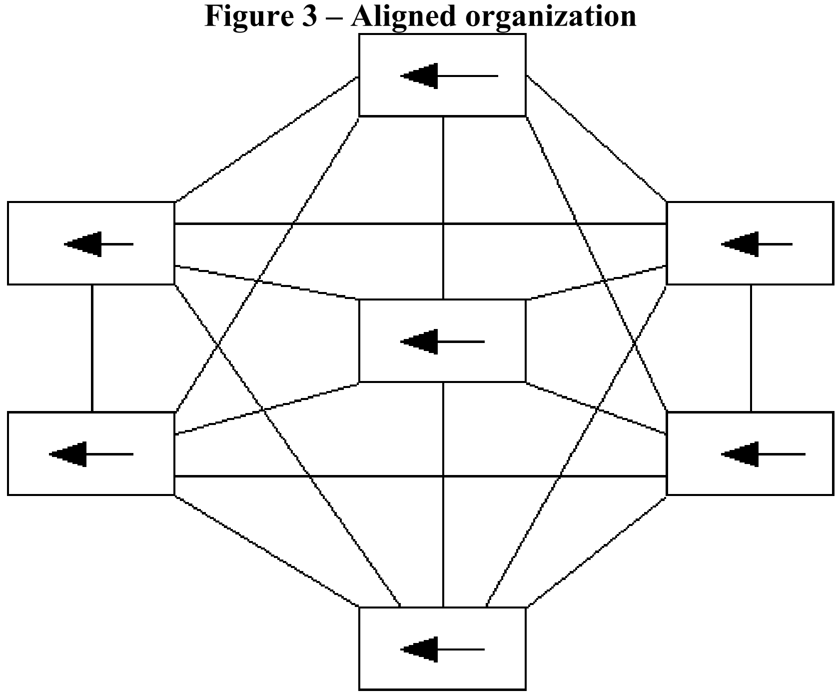
[21] Waterman, Robert H., Tom Peters, and Julien Phillips, "Structure is not organization", Business Horizons, June 1980.

Figure 2 – Misaligned Organization



Alternatively, figure 3 depicts a high performing organization where all the factors are aligned and supporting each other.

Figure 3 – Aligned organization



Overall Assessment

Based on this assessment of Starbucks, the organization is relatively effective. The firm has a clearly defined strategy, which is well communicated to both employees and customers. Starbucks is able to leverage and replicate the Starbucks experience in each of its stores. This requires not only buy in from staff, but also reinforcement by supplying front line employees with the training, skills, and incentive needed to action the experience daily. Through alliances with other partners, Starbucks is able to deliver coffee in non-retail operations.

Conclusion

The 7s method is a useful tool for analyzing the structure and effectiveness of an organization. This is a useful framework to analyze the strengths and weaknesses of a competitor, or to understand and design a comprehensive program of organizational change within a firm.

Prior to the creation of this model, managers typically analyzed firms using only two variables: structure and strategy. This was found inadequate for explaining why organizations are slow to adapt or change. The reason firms are slow to adapt or change often lies with the other variables: the absence of shared values or goals which bind the firm together, and failure to recognize the importance of staff, or invest in suitable training, or to have a style that encourages open feedback, suggestions, or opinions from all employees.

However, to analyze an organization effectively within this context requires insight that may not always be available outside the organization itself. While a powerful tool for understanding how an organization really operates, or to design a comprehensive change program, it is less effective in analyzing an organization from the outside with imperfect knowledge of the firm.

About the author

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