

## **Starbucks Case Study**

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## Abstract

This paper examines the strategic evolution of Starbucks from its 1971 origins as a boutique Seattle bean retailer to its 2026 status as a \$37 billion global industry leader. By tracing the company's history through the transformative leadership of Howard Schultz and the current tenure of CEO Brian Niccol, the study evaluates how the "Third Place" philosophy—positioning coffee shops as emotional hubs between home and work—remains the core of the brand's identity. A comprehensive SWOT analysis reveals that while Starbucks maintains unmatched global scale and a high-performing digital Rewards ecosystem (boasting 35 million active members), it faces significant internal weaknesses, including supply chain complexity, ethical sourcing challenges, and shrinking profit margins due to heavy restructuring costs. Furthermore, the analysis identifies critical external pressures, such as rising coffee tariffs, a surging at-home coffee market, and intensifying competition from rapid-growth rivals like Dutch Bros and 7 Brew. The paper concludes that Starbucks' future success hinges on its ability to modernize the customer experience and deepen emotional connectivity. Strategic recommendations include expanding the Rewards ecosystem into retail channels, leveraging philanthropic efforts to bolster brand trust, and selectively scaling "Reserve" concepts to meet evolving consumer preferences for premium social environments.

*Keywords:* Starbucks, SWOT analysis, strategic leadership, Howard Schultz, Brian Niccol, Third Place Theory, brand loyalty

## Introduction

Starbucks, the undisputed global leader in the coffee shop industry that brought in over \$37.1 billion in revenue in 2025 began in a way that many successful businesses do: three friends sitting around a dinner table. In 1962, college dropout Gordon Bowker proposed the idea of starting a quality coffee bean distribution shop to his university friends, Jerry Baldwin and Zev Siegel. With all enthusiasm and no industry experience or internet, Siegel took to researching the old fashion way and eventually stumbled across a company in Berkely, California, called Peet's Gourmet Coffee. The Dutch immigrant owner, Alfred Peet, became a mentor to the three aspiring entrepreneurs and taught them the secrets of fine coffee beans.

With this newfound knowledge and a viable source of quality beans, Gordon Bowker, Jerry Baldwin, and Zev Siegel opened their first store in 1971 in Seattle, Washington. After a business partner claimed that words starting with 'ST' were psychologically powerful, along with Bowker's love for the novel, Moby Dick, they settled on the name Starbucks. Originally, Starbucks only served as a place to buy coffee beans, tea, and spices. The only brewed coffee served in house was given out as free samples to build customer loyalty and to encourage people to engage with the business. The popularity of Starbucks exploded in the local market when Seattle Times columnist, Don Duncan, authored an enthusiastic story about the shop after receiving a sample sent from Bowker and stopping by the store himself.

With business booming, Starbucks began ordering an extensive amount of coffee makers which caught the eye of Howard D. Schultz, the general manager of Hammar Plast which was the kitchenware manufacturer supplying Starbucks. Schultz, the opportunity seeking ex-salesman from Brooklyn, NY, took a trip to Seattle to see why this little coffee store was purchasing more coffee makers than any other client. After visiting Starbucks and recognizing the potential of

what the company could become, he left Hammar Plast and joined Starbucks in 1982 as Director of Retail Operations and Marketing. That same year, he flew to a trading show in Milan, Italy, where he was introduced to coffee shops that served as hubs for social discourse and leisure. Schultz realized that this could be the future for Starbucks, but when the three owners pushed back on this reenvisioned strategy, he left the company in 1985 and opened his own coffee bar called *Il Giornale* (*the newspaper*) in Italian. Over the next two years, he grew the business and piled up enough capital from himself and investors (including Bill Gates Sr.) to make the owners of Starbucks an offer. After much debate, Bowker, Baldwin, and Siegel sold Starbucks and its four locations at a price of \$3.8 million.

Through Howard Schultz' customer-centered vision and positioning Starbucks as "more than just a coffee place", he grew the company to \$240 million in market value and opened 140 outlets throughout North America over the next five years. In 1992, Schultz took the company public and sold 12% of the company's shares which raised \$25 million. With this money, they more than doubled their store locations over the next two years. Schultz's ingenious ability to scale the business did not stop there. In 1996, Starbucks opened their first outlet in Tokyo after Schultz recognized that record numbers of Japanese people were traveling to the United States throughout the 1990's, and Seattle was among the most popular destinations. With Starbucks already having brand recognition amongst many Japanese customers, they were able to find success in this new market and opened three hundred stores in Japan over the next five years.

Things for Starbucks took a turn for the worse after Howard Schultz stepped down from CEO in 2001. After such rapid global expansion, Starbucks began to lose sight of the customer experience and inviting atmosphere that Schultz had originally envisioned for company. After an eight-year gap, Schultz returned as CEO in 2008 and made drastic, but necessary changes. On his

first day back, he sent a company-wide letter that said they must shift their focus away from bureaucracy and back to the consumer by reigniting the emotional attachment with customers. Within a year of Schultz' return, Starbucks had terminated 18,400 U.S. jobs and had closed almost 1,000 stores worldwide. He then introduced a national loyalty program and enforced fair trade standards to retake the company's loyal customer base. Starbucks also took advantage of the increased usage of social media by creating a marketing campaign called "My Starbucks Idea," where over 1.3 million customers across the globe contributed over 150,000 ideas from 2008 to 2013. This was a great relationship-building initiative and led to Starbucks implementing 277 customer ideas! (Livescault, 2026)

Howard Schultz left Starbucks for good in 2023 after opening over 38,000 stores across eighty-six countries. (Starbucks Corporation, 2024) The current Chief Executive Officer and chairman of the board is former Chipotle and Taco Bell CEO, Brian Niccol, who joined Starbucks on September 9, 2024. Over the past two years, comparable sales and revenues have improved to \$37.18 billion, but the company's profit margins have slimmed because of large labor investments and restructuring costs. (Starbucks Corporation, 2026) Brian Niccol has demonstrated the same customer-driven business strategy that his predecessor put in motion by improving store experiences, service speeds, and building customer loyalty.

### **SWOT Analysis**

**Strengths:** The customer loyalty aspect of Starbucks is where our first strength begins. On Investor Day in early 2026, Niccol stated that Starbucks Rewards (their loyalty program) has reached an all-time high of thirty-five million active members over a 90-day period. This is a huge strength for the company because of the increase in frequent visits and lifetime customer loyalty that it promotes. Fiscal reporting data from 2025 showed that Rewards members

contributed around 60% (\$13 billion) of the operating revenues in the United States. (Starbucks Coffee Company, 2026) It would be easy for the company to coast on the current setup that their Rewards system has to offer. Instead, they are using this wave as a steppingstone to further enhance the program. On March 10<sup>th</sup>, 2026, they launched their reenvisioned updates to Starbucks Rewards. By listening to member feedback, they shifted from a “one-size-fits-all” approach to three membership levels designed to evolve with members as their engagement grows. Members will earn Stars faster based on spending rather than the current structure tied to payment type. Green members receive the Birthday Reward and personalized offers, plus a new monthly free beverage modification, and can keep Stars from expiring with monthly activity. Gold members get all Green benefits and earn Stars 20% faster, plus they never expire. Reserve members will get everything from Green and Gold, plus unlock exclusive merchandise and experiences and earn Stars 50% faster than Gold. This kind of system encourages members to return while at the same time making the customer feel valued by rewarding their loyalty.

The next strength of Starbucks is their products; more specifically, their ability to identify trends in consumer preferences to expand their menu to match market demands. According to the 2025 IFIC Food & Health Survey, 70% of Americans are trying to consume more protein. This led Starbucks to launch Protein Lattes in late 2025 as part of its menu modernization strategy. (Starbucks Coffee Company, 2025) There was also a social media trend of matcha’s which Starbucks capitalized on by increasing its lineup from four matcha drink options to twelve and introduced unsweetened matcha powder to the menu in 2025. This ability to identify trends in consumer behavior early is a driving force in keeping the company current and fresh while also further enhancing customer loyalty by giving the people what they want.

The final strength of Starbucks is the sheer scale and global brand recognition that the company has. As of Q1 of the 2026 fiscal year, Starbucks has 41,118 locations across eighty-eight countries and territories. With that many locations, the company can back up their community focused mission statement which is to "inspire and nurture the human spirit—one person, one cup and one neighborhood at a time". Even Maryville, Missouri, a city with a population of only 10,428 (Data USA, 2024) has three Starbucks locations. This strength offers a massive competitive advantage in the industry because very few competitors have the capital to compete with Starbucks on their scale and brand recognition, not only in North America, but throughout the globe.

**Weaknesses:** An improvement that Starbucks can make is in supply chain oversight and ethical sourcing credibility. This weakness is a result of the last strength I mentioned where operating in so many different markets across the world can lead to unethical sourcing occurrences at lower levels. In 2020, a Channel 4 Dispatches investigation revealed that children under the age of thirteen were found working for cents on the dollar on coffee bean farms in Guatemala. (Pierson, 2024) Although top leadership at Starbucks openly stated that they have zero tolerance for child labor and provided documentation that they had not purchased beans from the farm during the most recent harvest season, the incident still made headlines and bruised the company's reputation.

On a similar note, another weakness of Starbucks is their issues with supply chain scalability. In their own 2025 Annual Report, they stated that one of their biggest issues is keeping up with the size and complexity of coordination of operations. (Starbucks Corporation, 2025) With customer experience and satisfaction being core values of the business, having supply chain issues creates problems that directly hinder those values. Not only could running

out of ingredients cause customers to become dissatisfied because they did not get exactly what they wanted, but it also clashes with one of their main goals of having quick service. Employees must take more time working around out-of-stock ingredients or change the order half-way through making it, causing the whole operation to be less efficient.

The final current weakness of Starbucks is that they have been investing so heavily in the past couple of years that profits are getting shrunk. While this is not necessarily a terrible thing for the long-term strategy of the company, it currently causes stress on financial flexibility and makes it harder to turn growth into earnings. By operating with lower profits, they are in a more fragile position when it comes to the external factors that affect the business, but I will get into those later. In Q1 of the fiscal 2026 year, revenues rose in North America by 3%, however, operating income decreased 27% from \$1.2 in Q1 of 2025, to \$867 million in 2026. (Starbucks Corporation, 2026) Starbucks must closely monitor its ROI over the next few years; otherwise, the company will be in a much more vulnerable position.

**Opportunities:** The first opportunity for Starbucks is utilizing their already extensive Starbucks Reward membership base to expand where rewards can be used and points can be earned. As of now, there are a multitude of licensed stores and retail touchpoints that sell Starbucks products, but Rewards members do not have the ability to obtain loyalty features in the same way they can at the coffee shops. Grand View Research estimates that the U.S. ready-to-drink coffee market was worth \$6.6 billion in 2024 and could grow to \$9.2 billion by 2030, while the global market is projected to rise from \$29.4 billion in 2024 to \$42.5 billion by 2030. (Grand View Research, 2025) If Starbucks capitalized on this market by getting consumers both purchasing and using their Rewards both in stores and coffee shops, they would diversify their revenue streams and further increase brand loyalty. I know from personal experience, as a Starbucks Rewards

member, I will buy coffee from the shops, but when I get Keurig pods from Wal-Mart, I buy generic ones. If I could build Rewards or have access to deals in retail stores, I would be much more incentivized to buy Starbucks branded pods.

The next opportunity for Starbucks is in marketing the fact that they do extensive philanthropy for the communities they operate in. When researching Starbucks for this case study, I was pleasantly surprised to find out that since 2019, Starbucks have generated more than 16,000 Neighborhood Grants totaling over \$25 million. They also have invested \$105.7 million in hunger relief programs in the United States and have donated over 144 million pounds of food since 2016. (Starbucks Coffee Company, 2026) I do not think it would be a negative thing for the company to brag on these philanthropic efforts. On the contrary, I think it would strengthen the company's positioning as a neighborhood business that genuinely cares for the community. By advertising these efforts, they would deepen customer loyalty, build trust with consumers, and cultivate a more positive brand image in the minds of the public.

The last opportunity for Starbucks would be to expand their Reserve Roasteries that sell alcohol. The National Restaurant Association identified that 90s-style martinis, specifically espresso martinis, were a notable alcohol trend in 2025. (National Restaurant Association, 2024) My anecdotal evidence from working in multiple bars and a liquor store over the past two years heavily supports this trend in consumer preference. Starbucks could leverage their competitive advantage of selling premium coffee into serving premium cocktails. A push into this segment would attract new customers and further intensify the social/community aspect that the company is striving to achieve. I am not suggesting that every location should serve alcohol, but I think through the analysis of market data and social hotspot recognition, they could penetrate certain markets where this initiative would prove beneficial.

**Threats:** In my *weaknesses* section, I mentioned that Starbucks operating with lower profits puts them in a more fragile position when dealing with external factors. When addressing profit concerns, CEO - Brian Niccol - stated that the main external factors suppressing profits were tariffs, higher coffee prices, and product and distribution inflation. In April 2025, the U.S. announced coffee-import tariffs of 46% on Vietnam, 32% on Indonesia, and 10% on Brazil and Columbia. (Teixeira, 2025) A Reuters report, citing the Food and Agriculture Organization, said that arabica - the world's most popular species of coffee – prices had risen 70% in 2024 and more than 20% in early 2025. Starbucks fiscal 2025 annual report reveals that product and distribution costs rose by \$477.6 million, or 4.3%, since 2024. (Starbucks Corporation, 2026) These external factors, alongside Starbucks' internal restructuring and investment decisions, are forcing the company to operate under much slimmer margins in the short-term.

The second external threat Starbucks is facing is the intensifying competition of coffee companies, specifically in North America. The Associated Press reported that in January 2026, Starbucks' share of spending at U.S. coffee shops had declined to 48%, down from 52% in 2023. Dunkin', a longstanding competitor, hit a milestone of 10,000 locations in the U.S. in 2025 and increased sales by 4.6% from 2023 to 2024. (QSR Magazine, 2025) Dutch Bros expanded its store base 36.7% by going from 831 in 2023 to 1,136 locations across twenty-five states at the end of 2025. Alongside the expansion, they recognized a 32.6% revenue increase from 2023 to 2024 alone. Perhaps the most significant, market disrupting competitor, is the rookie out of Rogers, Arkansas. 7 Brew was founded in 2017 and has exploded into a real competitor for Starbucks by now having over six hundred locations across thirty-eight states. (7 Brew Coffee, 2023) With competition on the rise, building customer loyalty and differentiating themselves becomes even more paramount for Starbucks.

The last threat I identified came about when I was researching opportunities for the company. I stated how the ready-to-drink coffee market is on the rise and Starbucks should capitalize on this by getting those consumers to purchase their brands products. This is a catch-22 situation where if Starbucks pushes too hard on at-home coffee, they risk cannibalizing consumers making trips to coffee shops. On the other hand, it is more detrimental to the company if they ignore this market because there is compelling evidence that supports at home coffee is on the rise. In 2025, the National Coffee Association reported that 71% of past day coffee drinkers had coffee prepared at home only, up from 63% in 2020. Stratview Research data showed the estimated market of coffee pods and capsules to be \$25.1 billion in 2022 and is likely to grow at a CAGR (Compound Annual Growth Rate) of 6.89% during 2023-2028 to reach a record market size of \$37.5 billion by 2028. The immense growth in this market poses a threat to Starbucks' in-store foot traffic, so it is important for the company to either pull consumers back out of this market or take my suggestion and lean into this consumer preference shift and capture as much of the market as possible.

### **Summary and Recommendations**

Starbucks, the global coffee shop Goliath, is still an extremely strong company in 2026 and will continue to be an industry leader for generations to come. However, I believe the future success and longevity of the company is dependent on how well they follow through on Brian Niccols' statement of making Starbucks "the greatest customer service company." They have major strengths including cultivating loyalty through Starbucks Rewards, product innovation that adapts to market trends, and extensive global scale. While these strengths give the company a great foundation moving forward, the weaknesses in supply chain oversight which have led to ethical and product shortages, as well as shrinking profit margins, indicate that improvements

must continually be made in order for the company to remain industry dominant. Alongside internal improvements, opportunities such as expanding the Rewards ecosystem, highlighting community involvements, and selectively implementing alcoholic beverages, all pose potential ways for Starbucks to deepen their relationship with customers, provide new experiences, and result in an increase in brand loyalty. Moving forward, the company must remain vigilant of the external threats of rising supply costs, at-home coffee trends, and rapidly growing competitors such as Dunkin', Dutch Bros, and 7 Brew.

After taking a deep dive into the history, researching the highs and lows of the company, and conducting a thorough SWOT analysis of the current situation of Starbucks, I have concluded that the beating heart of the company's past, present, and future success is... *drum roll please...* people! Howard D. Schultz, the CEO that grew the company into what it is today, knew this. He understood that customer loyalty is not founded primarily upon the logical components like product, price, or convenience - but it is the emotional aspect of the business that is what truly keeps people coming back. His vision for Starbucks was for it to be a "third place" between work and home where customers would feel valued, relaxed, and have conversations. Think about the 90's sitcom, *Friends*, where in almost every episode they spent time at the neighborhood coffee shop, Central Perk. Did they go there because of the exotic *Coffea arabica* beans? The unbeatable prices? The unsweetened protein matcha powder? No. The six friends gathered there daily for the comfort, familiarity, and relationship experiences the environment created. My recommendation to Starbucks is that they continue to elevate the customer experience and the human connectivity aspect of their business by positioning themselves as the perfect place to go when you want a place to enjoy the company of friends, family, colleagues, dates, or even strangers – and sip on a delicious beverage while doing so.

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