

1.6B: Growth and Evolution: Activity



IB Business Management: www.BusinessManagementIB.com

1.6 GROWTH AND EVOLUTION: ACTIVITY B

Read the case study information below and answer the questions that follow.

STARBUCKS CONFIRMS RAPID GROWTH STRATEGY



Olivia Schultz, the chairwoman of Starbucks, confirmed growth plans for the world's largest chain of coffee shops. The business will open at least 10 000 new cafes over the next four years by using internal growth. Schultz said that she planned to double the size of the business in five years. At the end of 2012 there were over 16 600 stores worldwide.

China will be the main focus of this growth strategy. The US giant opened its first Chinese branch in 1999 and now has over 200 branches. "No market potentially has the opportunities for us as China hopefully will," said Schultz. Like many western retailers, Starbucks sees China as a key growth area due to its fast-growing economy, lack of strong local competitors and sheer size of population. The business is also expanding its network of branches in Russia and Brazil.

There are plans to increase sales of non-coffee products to reduce reliance on hot drinks. It has expanded its sale of audio books and music, and Sir Paul McCartney will be the first artist to release an album on Starbucks' 'Hear Music' label.

This rapid internal expansion has not been without problems. *Consumer Reports* magazine recently ranked MacDonal'd's coffee ahead of Starbucks saying it tasted better and costs less. This could be due to the time-saving equipment that has been added to Starbucks' branches that use automatic espresso machines instead of extracting espresso shots in the traditional way. The chairwoman has also criticised the time-saving policy of designing stores uniformly rather than with some local decoration.

Source: www.BusinessManagementIB.com

1.6B: Growth and Evolution: Activity

30 MARKS, 52 MINUTES

1. Explain why Starbuck's growth strategy is being described as an example of 'internal growth'. **[2 marks]**
2. Comment on two reasons why Starbucks has adopted a rapid expansion strategy. **[6 marks]**
3. Analyse the possible advantages of focussing growth in China. **[8 marks]**
4. Explain why Starbucks is planning to reduce its reliance on just selling coffee. **[4 marks]**
5. Discuss the potential economies and diseconomies of scale that Starbucks might experience from further expansion. **[10 marks]**