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[Case Study] Starbucks' Approach to Risk Management

Millions of Americans grab a cup of coffee from Starbucks on their way to work each morning. In this niche market, smart business decisions mean this coffee chain stays on top in terms of sales. Starbucks leads the market with an efficient supply chain and careful attention to product sourcing.

Starbucks' U.S. Logistics

Image via Flickr by marcopako

Starbucks currently has more than 21,000 locations, which require more than 70,000 deliveries per week. This makes for a very complicated supply chain with several distribution channels. On top of that, approximately 1,000 new franchise locations open every year. This is phenomenal growth, but it means that the company must constantly rethink its distribution routes.

Franchise coffee stores represent just one of the revenue streams that Starbucks must worry about. This coffee giant also has a line of brew-at-home products sold in grocery stores across the nation, and Starbucks must manage this distribution channel as well. It's no surprise that the secret to Starbucks' success is the company's supply chain management.

Starbucks Approach to Supply Chain Risk Management

Image via Flickr by kohrogi34

Starbucks sources coffee from all over the world and boasts suppliers in more than 30 countries. After purchase, the company sends all of its coffee beans to U.S. plant for roasting, manufacturing, and packing before distribution. Using multiple suppliers has been the key to keeping sourcing costs low and retail profits high. For instance, when coffee beans in one market have high price tags, Starbucks can turn to several other markets instead. The vast number of supplier options also comes into play when natural disasters wipe out coffee crops on one side of the world. Starbucks can simply turn to another supplier to meet demand.

Coffee beans represent Starbucks' biggest import, but the company also seeks the best prices on sugar and paper goods around the world. Starbucks analyzes every cost to make sure the company can stay profitable. Competitors like Dunkin' Donuts have a hard time matching the supply chain success that Starbucks has achieved.

Impact and Advantage of Starbucks' Global Supply Chain

Image via Flickr by rubenerd

Many challenges arise from operating a global supply chain. For instance, monitoring the working conditions on coffee bean farms and ensuring pesticides and other chemicals are kept to a minimum can prove difficult. Starbucks makes a stand on sustainability and ethical sourcing, refusing to work with coffee bean suppliers that do not conform to the company's standards. The coffee giant understands that some coffee bean suppliers may struggle to keep up with these demands, so Starbucks works with suppliers to improve infrastructure.

Starbucks also contributes millions of dollars to a supplier development fund in order to work towards ethically sourced coffee. The Global Farmers Fund was established in 2008 when Starbucks made an initial investment. In 2015 Starbucks plans to invest an additional $30 million. This fund gives coffee bean farmers access to financial support to improve operations, which ultimately improves Starbucks' supply chain.

Other businesses can learn a lot from the way Starbucks manages logistics and sources raw materials. This approach to risk management has helped the company grow significantly and maintain profits.

Implications of Supply Chain Disruptions in Greece

Image via Flickr by dullhunk

May, June, and July 2015 were rough months for businesses in Greece due to political unrest. The banking system has been facing collapse, causing myriad problems in manufacturing and distribution. Greek banks were closed between June 29 and July 20 to prevent money from flooding out of the country, but this also prevented businesses from conducting normal operations. Take a look at the implications of these supply chain disruptions.

Distribution Delays in Greece

Greece is a regional transportation hub. The country's several major airports and ports faced major delays because of the Greek banking crisis. Businesses were not able to buy fuel to keep operations going, which prevented businesses from getting the imports they needed to manufacture goods as well as delaying their own distribution channels. As a result, businesses across the country reported severe delays.

Distribution delays are a serious issue. Not only do businesses lose out on profits during delays, but some also face a loss in capital because they cannot operate as usual. For instance, food en route spoils before it reaches grocery stores. This creates even bigger problems because customers cannot get the food they need to feed their families. Food costs also tend to rise to cover the distribution losses.

Companies Use Risk Mitigation Plans to Avoid Delays

Image via [Flickr] by Atomic Taco

Most companies have risk mitigation plans to prevent serious business losses. However, it's very hard to plan for a problem as big as an entire country's banking system collapsing. Insurance coverage can only do so much, and many businesses will not be able to recover from the banking crisis in Greece. The companies best equipped to handle the bank closures are those that operate on an international level that do not rely solely on funds from one country.

Currently, DHL and UPS have not reported any major supply chain disruptions. However, DHL has been taking measures to prevent delays as best as it can. For instance, DHL has asked its drivers to fill up their gas tanks frequently in case of fuel shortages. This is only a short term fix, but it might help DHL keep operations going for a little while. As a DHL spokeswoman stated, the company operates in over 200 countries, so dealing with a variety of market developments is part of the company's risk mitigation plan.

Long Term Implications of the Greek Banking Crisis

Image via Flickr by stanjourdan

Banks have only recently started to open up again in Greece, and that may not last. Greece is still working on bailout plans and other solutions to the country's financial problems. Businesses will be in a state of unrest until the banking system is stable again, and most will create plans for other major supply chain disruptions. As Chief Marketing Officer of GT nexus Greg Johnsen indicated, many companies are likely reassessing their relationships with Greek businesses.

Only time will tell what will happen to supply chains in Greece. However, many business owners hope that imports and exports will return to normal and that no more major supply chain disruptions will occur. Of course, it will still take most businesses time to recover from the crisis in Greece.

[Case Study] Kellogg's Sustainable Supply Chain Commitments

Many people have grown up eating cereal across the U.S., and Kellogg's has become a household brand. The company manufactures a long list of cereals including Froot Loops, Special K, Raisin Bran, Frosted Mini-Wheats, and Frosted Flakes. Kellogg's makes much more than cereal, though. Some of the company's other food products include Eggo Waffles, Pringles, Jif, Pop-Tarts, and Nutri-Grain Bars. Kellogg's aims to support healthy families around the world, and the company has taken a sustainable and responsible approach to meet this goal.

Kellogg's Supply Chain Transformation

Image via Flickr by theimpulsivebuy

Kellogg's is always looking for ways to improve the company's supply chain. Since 2011, Kellogg's has made significant changes to its operations, from sourcing to distribution. These changes have focused on improving supply chain efficiency and profitability while also increasing sustainability and ethical responsibility. The changes have led to a complete supply chain transformation. Kellogg's plans to take this to the next level by 2020.

Since 2005, Kellogg's has made a substantial investment in food safety across its supply chain. Manufacturing facilities now have more hygienic designs and refreshed allergen processes to prevent cross contamination of food. Additionally, the company carefully examines all of its suppliers for sustainability and processes that prevent foodborne illnesses. The company's biggest change, however, has been its approach to corporate responsibility.

Kellogg's Corporate Responsibility

Image via Flickr by Gene Hunt

Kellogg's has made a commitment to responsibly source some of the key ingredients in the company's cereals and other products by 2020. The list of key ingredients includes sugar, corn, wheat, fruit, cocoa, palm oil, potatoes, rice, vanilla, and more. To improve corporate responsibility, Kellogg's has proposed in its Corporate Responsibility Report to work directly with suppliers in order to improve agricultural processes that are more sustainable.

Kellogg's is still on track to meet all of its 2015 goals, and the company continues to look further into the future with its goals for 2020. Analysts believe these new goals are ambitions, but Kellogg's will do its best with a strong view toward corporate responsibility. Sustainable manufacturing and ethical sourcing will set Kellogg's apart from other brands and help the company gain additional support from consumers.

Impact and Advantage of Transforming Kellogg's Supply Chain

Image via Flickr by JeepersMedia

Some of Kellogg's 2020 goals include reducing the facilities' energy consumption, water use, and greenhouse gas emissions by 15 to 20 percent. The company also wants to reduce the amount of manufacturing waste sent to landfills by 20 percent. Kellogg's has already taken steps to reduce its waste, and the company's numbers have improved drastically since 2005. Kellogg's water use is currently down by 12 percent from 2005, and energy use is down by 2.4 percent, despite the company's growth.

Working towards corporate responsibility goals has not been cheap. However, Kellogg's believes this investment will help the brand in the long run. Consumers are increasingly interested in knowing where their products come from, and they care about sustainability and ethical sourcing. Kellogg's is on its way to being a leader in these areas.

What Supply Chains Are Doing About the Truck Driver Shortage

The truck driver population in the U.S. is aging. That's bad news for the supply chain industry, because not enough new truck drivers are entering the labor force to replace the truck drivers who retire. Take a look at what supply chains are doing to address this problem.

Alternative Transportation Methods

Image via Flickr by socalscouse

Semi-trucks are the go-to transportation method for most retailers and manufacturers because they can reach any city in the U.S under a predictable timetable. However, the truck driver shortage is forcing all supply chain players to look for alternative transportation methods. When it's cost effective, companies can use air cargo, but there is still a need for truck drivers to transport goods from airports to retail locations.

Many trucking companies are looking into technology like driverless trucks. According to trucking expert Jan Gildemeister, progress may be slow and steady, but driverless trucks will be available in the future. In the meantime, truck companies are trying to appeal to younger drivers with sleeker truck designs that have more comfortable cabs and better technology.

Higher Truck Driver Pay

Image via Flickr by CTSI-Global

The most obvious way to incentivize new truck drivers is through higher pay. However, most retailers and manufacturers cannot afford to do this. The average truck driver salary in the U.S. is $40,000 per year. Offering higher wages cuts into profits, which isn't a viable option for many companies. Of course, some types of truck driver jobs do deserve higher wages because of the higher demands.

The most in-demand job in this field is for truck drivers who spend extended periods of time away from home. It's a grueling lifestyle that requires truck drivers to sleep in their trucks and endure challenging schedules and unloading delays. This lifestyle isn't very appealing to younger job seekers, which is one major reason that new truck drivers are not joining the labor force very quickly.

Not much can be done about truck drivers' terrible working schedules. They often need to drive at night when there's less traffic, which speeds up delivery times. Transporting goods from one location to another can require multiple days on the road. Since increasing truck driver pay does not increase productivity, companies are less inclined to offer higher rates.

Lowering the CDL Age Requirement

Image via Flickr by ThomasKohler

One of the most recent changes that has encouraged new truck drivers to join the field is a change to CDL license requirements. Some states want to lower the minimum age requirement to 18 instead of 21. Since drivers between 18 and 21 log similar numbers of accidents, there isn't an increased risk to the supply chain industry. Lowering the minimum age requirement also gives recent high school graduates an employment option different from retail or fast food. It's possible to make a good living as a truck driver.

As you can see, the truck driver shortage is a complicated issue. New technology and state rules will help the situation, but this may not be enough to fix the problem. Even higher pay may not help the industry get back on its feet. The supply chain industry needs to continue to look for new solutions.