Chapter 16

BUILDING A SUSTAINABLE SUPPLY CHAIN

Starbucks’ Coffee and Farm Equity Program

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Abstract: As companies increasingly move their supply bases to emerging economies, they may be exposed to increasing risk of supply disruptions. In particular, they can be subjected to the risk of their suppliers going out of business or changing their lines of business due to the rapid changes in the socio-economic development of these economies. This is especially the case when we are talking about emerging economies in underdeveloped countries such as Africa, parts of East Asia like Indonesia, Central America and parts of South America. In industries requiring raw materials that come from natural resources – mining and agriculture, for example – many companies do not have a choice but to source from the emerging economies endowed with such resources. In such situations, we need to pay attention to the dimension of sustainability of supply as a business objective in managing the supply chain. Efficiency in cost and time is simply not sufficient. What can we do to assure supply in the long term? The key is that we must invest in the suppliers, giving them assistance and incentives, so that they could be successful in their business, and hence, be sustainable suppliers. Otherwise, the cost of not having sufficient supply in the long run, or the cost of having to develop new supply sources, could be excessive. In this chapter, we describe how the world’s leading coffee company develops its supply chain to be sustainable. To build a sustainable supply chain, Starbucks helped to enable their suppliers to have equitable returns in their business, be sound global citizens of the environment, and have employees whose welfare is improving over time. The sustainable supply chain has also led to Starbucks having a socially responsible supply chain.

1 This chapter is based on the case “Starbucks: Building a Sustainable Supply Chain,” Graduate School of Business, 2006. The authors acknowledge the help of Dub Hay of Starbucks and Eric Poncon of Agroindustrias Unidas de Mexico SA de CV in this study.
16.1. Sustainable Supply Chain

As companies increasingly move their supply bases to emerging economies, they may be exposed to increasing risk of supply disruptions. Such disruptions could be the result of natural disasters, but could also be a result of suppliers going out of business or changing their lines of business. As emerging economies are going through rapid changes in their socio-economic development, the risks of such disruptions cannot be underestimated. This is especially the case when we are talking about emerging economies in underdeveloped countries. By now, emerging economies such as China, India, Brazil and Eastern Europe are relatively mature in terms of the economic structure and the social welfare of the people. But emerging economies such as Africa, parts of East Asia like Indonesia, Central America and parts of South America, are still going through significant political and social transformations. Sourcing from these countries could pose a significant risk in the form of stability and sustainability of supply.

In industries requiring raw materials that come from natural resources — mining and agriculture, for example — many companies do not have a choice but to source from the emerging economies endowed with such resources. In such situations, we need to pay attention to the dimension of sustainability of supply as a business objective in managing the supply chain. Efficiency in cost and time is simply not sufficient. What can we do to assure supply in the long term? The key is that we must invest in the suppliers, giving them assistances and incentives, so that they could be successful in their business, and hence, be sustainable suppliers. Otherwise, the cost of not having sufficient supply in the long run, or the cost of having to develop new supply sources, could be excessive.

To build a sustainable supply chain, companies should help to enable their suppliers to have equitable returns in their business, be sound global citizens of the environment, and have employees whose welfare is improving over time. Hence, building sustainable supply chains would also enable a company to be socially responsible. In this chapter, we describe how the world’s leading coffee company develops its supply chain to be sustainable, and in the course of doing so, created a socially responsible supply chain.

16.2. The Starbucks Corporation

Starbucks Corporation is the world’s largest specialty coffee retailer, with $6.4 billion in annual revenue for the fiscal year ended Oct 2, 2005. The company has continued to expand the number of retail stores worldwide, and has