

CASE 35: Starbucks Coffee Company

Synopsis: Starbucks is the leading retailer of specialty coffee beverages and beans and related food and merchandise. Starbucks' mission is to provide people with the opportunity to savor a good cup of coffee while engaging good conversation in a relaxed atmosphere.

Use: Chapter 5 Illustrates the concept of retail strategy, the steps a retailer goes through to develop its strategy, and how a retailer may use its strategy to build a sustainable competitive advantage.

Chapter 16 Describes Starbucks' use of promotions and marketing communications.

Chapter 17 Describes Starbucks' day-to-day store management activities.

Discussion Questions

1. What is Starbucks' retail strategy? What is its target market and how does it try to develop an advantage over its competition?

Starbucks' retail strategy, which is designed primarily to maintain loyalty and repeat business among its target market (upscale coffee drinkers) encompasses hiring and training knowledgeable counter servers, called *baristas* (Italian for bartenders), to educate customers about Starbucks' specialty coffee drinks and associated products, and to provide customers with an opportunity to take a break from their busy lives in a relaxing atmosphere. The company has also entered some creative partnerships to put its cafes in Nordstrom and Barnes & Noble stores and serve its coffee on United Airlines. Licensing the brand name for other food products such as ice cream and soft drinks also increases its brand awareness.

2. Describe Starbucks' retail mix: location, merchandise assortment, pricing, advertising and promotion, store design and visual merchandising, customer service, and personal selling. How does its retail mix support its strategy?

Starbucks, like every retailer, supports its strategy with its retail mix.

With regard to location, individual sites are selected in the most highly visible places possible, and centralized cities serve as hubs or regional centers (clustering) for rollout expansion into nearby markets.

Its merchandise assortment based on sales distribution is composed of coffee beverages (58 percent), whole bean coffee by the pound (17 percent), food items (16 percent), and coffee-related equipment (9 percent). Coffee beverages are standardized across outlets, but food offerings vary from store to store.

Its product pricing is premium, which is due to the company's commitment to quality products and a high level of customer service. Its advertising and promotion budget is however, minimal.

Stores, which are spacious so that customers can wander around the store, drinking their coffee and considering the purchase of coffee paraphernalia ranging from coffee to preparation equipment, are typically designed around a planned mix of organic and manufactured components.

Customer service and personal selling are promoted by training new hires to deal with product related customer complaints on the spot without having to check with a manager. They are also trained to customize each espresso drink and to explain the origins of different coffees.

3. What factors in the environment provided the opportunity for Starbucks to develop a new, successful retail chain? What demand and supply conditions prevailed in the U.S. coffee market when Howard Shultz purchased Starbucks in 1987? What insight did Shultz have that other players in the coffee market did not?

The factors that existed in the environment that provided the opportunity for Starbucks to develop a new, successful retail chain begin with the insight that Howard Schultz had that the other players in the coffee market did not have.

He realized that Americans lacked the opportunity to savor a good cup of coffee while engaging good conversation in a relaxed atmosphere. In 1987 he purchased Starbucks, because he was convinced after a trip to Italy that Americans would be enticed by Italian coffee house culture. Prior to that time, coffee consumption in the U.S. was steadily falling as the three major coffee manufacturers – Proctor & Gamble, Nestle, and Kraft – fought for market share in a stagnant market. They did so by decreasing the quality of the beans in their blends so that they could offer coupons and in-store promotions without negatively impacting their profits.

4. What were the principal drivers behind Starbucks' success in the marketplace? What does the Starbucks brand mean to consumers? How have the growth opportunities pursued that Starbucks has pursued affected the value of its brand name?

The answers to Questions 1 and 2 basically outline the principal drivers behind Starbucks' success. Above and beyond anything that has been previously stated, Starbucks owes its success to its employees. Due to their training, empowerment, benefits, and growth opportunities, Starbucks' turnover is only 60 percent, considerably less than the 150 to 200 percent turnover at other firms in the food service business. Their employees are treated like partners, and their customers like stars. The payoff is what the Starbucks brand name means to consumers. The average Starbucks customer visits the store 18 times a month, and 10 percent visit twice a day.

Starbucks has pursued an extensive product line strategy, creating a variety of products, beyond simply the coffee beans. Through partnerships, it now provides coffee flavor and expertise and/or its brand name to jazz music CDs, frappuccino beverages, carbonated ready-to-drink (RTD) coffee, flavored ice creams, and branded coffee sold through supermarkets. Moreover, in terms of distribution, brewed Starbucks is now available at a variety of places including Barnes & Noble bookstores, United Airlines, Sheraton and Westin hotels, and Holland America Cruise Lines, as well as through licensing and joint venture agreements in 15 countries. One may argue that the Starbucks' core image of premium coffee marketer remains consistent across all these product and distribution strategies. However, while the firm could have greater control over the production and distribution of coffee beans, it may have less control when it comes to the brewed product and service available through numerous locations. Consistency of the premium brand image for coffee beans may remain intact, but it is possible that the brew and services available through various outlets may vary widely, potentially causing an adverse impact on the value of the brand name.

5. What are the major challenges facing Starbucks as it goes forward? Is the brand advantage sustainable going forward? Can Starbucks defend its position against other specialty coffee retailers?

The potential major challenges facing Starbucks are increased competition from other retailers with a similar, if not identical concept (New World Coffee, Timothy's, etc.) and their lack of experience in doing business in a price sensitive market. Starbucks should be able to defend its position against these other retailers because of the extensive initiatives it has undertaken to sustain its brand advantage. In addition to its direct retailing activities, Starbucks has formed distribution alliances with Dreyer's Grand Ice Cream, Barnes & Noble Booksellers, Capitol Records, Pepsi-Co, and Nordstrom to expand its product and distribution portfolios.

It remains to be seen whether or not its competitors will ever be able to catch up to Starbucks, given all of the lead time that Starbucks, as the market pioneer, has had to develop its retail mix and form all of these alliances. The only foreseeable problems that Starbucks may encounter would be due to overall economic conditions. Starbucks has never had to conduct its business during an extended economic recession. The upscale nature of its retail mix might prove to be too upscale for many of its loyal customers should the economy take a downturn.