

# Starbucks Coffee

BA 4700

MARKETING MANAGEMENT

L.P. CHEW

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# Starbucks: beginnings

- In 1971, Jerry Baldwin, Zev Siegel, and Gordon Bowker opened the first store in Seattle.
- Inspired and mentored by Alfred Peet.
- First store opened in Pike's Place, a touristy area in Seattle.
- Customers were encouraged to learn how to grind the beans and make their own freshly brewed coffee at home.
- The store did not offer fresh-brewed coffee sold by the cup like today, they sold beans and coffee makers.
- The store was an immediate success, with sales exceeding expectations.

# Howard Schultz



- business man from New York visited Starbucks in 1981.
- Pursued a job at Starbucks, and finally after much deliberations he was offered a job in September of 1982.
- Schultz had a vision for Starbucks:
  1. Wanted to expand the company
  2. Visited Italy and loved the concept of the Italian Bar
- Starbucks owner did not have the same vision for Starbucks
- Schultz left Starbucks to open Il Giornale, a coffee bar based on what he saw in Italy.



# Starbucks

- In 1987, Schultz bought Starbucks and turned the company operations around.
- By October 1987, Starbucks expanded outside the pacific northwest into Chicago.



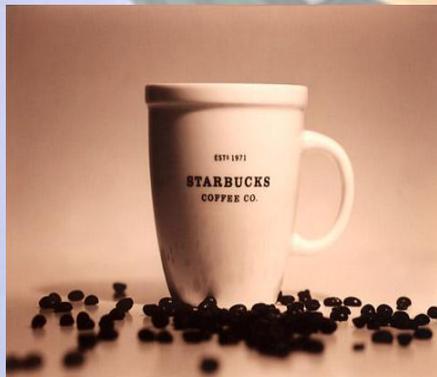


- In 1993, the company went public.
- Schultz wanted Starbucks to be a great place to work so he did everything in his power to do that.
  - Great pay
  - Great benefit plan
  - Stock Purchase Plan for employees

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# Starbucks Today: Mission Statement

**“Establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles while we grow.”**



# Executive Officers



- Howard Schultz
- Jim Donald
- Martin Coles
- Jim Alling
- Paula Boggs
- Michael Casey
- Dorothy Kim
- David Pace
- Troy Alstead
- Cliff Burrows
- Brian Crynes
- Christine Day
- Michelle Gass
- Tony George
- Margie Giuntini
- Julio Gutiérrez
- Willard (Dub) Hay
- Buck Hendrix
- Wanda Herndon
- Greg Johnson
- *chairman*
- *president and chief executive officer*
- *president, Starbucks Coffee International*
- *president, Starbucks Coffee U.S.*
- *evp, general counsel and secretary*
- *evp, chief financial officer, chief administrative officer*
- *evp, Supply Chain and Coffee Operations*
- *evp, Partner Resources*
- *svp, Finance*
- *svp and managing director, United Kingdom*
- *svp, chief information officer*
- *svp, and president, Asia Pacific*
- *svp, Category Management*
- *svp, Partner Resources, Starbucks Coffee International*
- *svp, North America Partner Resources*
- *svp, and president, Europe, Middle East, Africa*
- *svp, Coffee and Global Procurement*
- *svp, and president, Latin America*
- *svp, Global Communications*
- *svp, Emerging Businesses*

# What decisions must be made?

1. What could Starbucks do to make its stores even more elegant, that welcomed, rewarded, and surprised customers?
2. What new products and new experiences could Starbucks provide that would uniquely belong to or be associated with Starbucks?
3. How could Starbucks reach people who were not coffee drinkers?
4. What new or different strategic paths should Starbucks pursue to achieve its objective of becoming the most recognized and respected brand in the world?



# Why is the decision important?

- Decision is extremely important because if Starbucks doesn't constantly continue to innovate, create, and sustain a unique atmosphere where people enjoy buying coffee, other companies will enter the industry and provide an inferior service and people will go there.



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# What are potential consequences?

- Another company enters the market and overthrows Starbucks from its number one place.
- People become even more health-conscious and decrease the frequency of their caffeine-ated drinks.
- Regular coffee as oppose to gourmet coffee will attract more consumers.





# Corporate Level Situation Analysis

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# Corporate Mission and Objectives

- Provide a great work environment and treat each other with respect and dignity.
- Embrace diversity as an essential component in the way we do business.
- Apply the highest standards of excellence to the purchasing, roasting, and fresh delivery of our coffee.
- Develop enthusiastically satisfied customers all of the time.
- Contribute positively to our communities and our environment.
- Recognize that profitability is essential to our future success.



The background of the slide features a large, semi-transparent Starbucks logo. The logo is a circular emblem with a green border, containing a white mermaid (Siren) in the center. The word "STARBUCKS" is written in a stylized, yellow, 3D font around the top inner edge of the circle. Below the mermaid, the word "MERMAID" is written in a smaller, white, sans-serif font. In the top-left and top-right corners, there are small, square inset images of a Starbucks coffee drink, likely a Frappuccino, topped with whipped cream and chocolate shavings.

# Resources and Competencies

- The cornerstone value of Starbucks is “to build a company with soul”
- Never stop pursuing the perfect cup of coffee buying the best beans and roasting them to perfection.
- Consistently pleasing customer service, provided by knowledgeable and enthusiastic employees who know the companies products, pay attention to detail when preparing drinks, and communicate the company’s passion for coffee.



# Environmental Problems and Opportunities

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# Demographic



- Starbucks appeals to an educated, upscale consumer.
- In an average week 22 million patronized Starbucks stores in North America.
- Loyal customers patronized a Starbucks store 15 to 20 a month, spending perhaps \$50 - \$75 monthly.
- Industry experts expect the gourmet coffee market in the United States to be saturated by 2005. However, the international coffee market is wide open with the U.S., Germany and Japan consuming the most coffee.

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# Corporate Social Responsibility

- Broad-based initiatives to contribute positively to the communities in which it's stores are located and to the environment.
- Also contributing to CARE a world wide relief effort that sponsored health, education, and humanitarian aid programs in all third world countries where they purchased coffee supplies.

# Environmental Mission Statement

- Understanding of environmental issues and sharing information with our partners.
- Developing innovative and flexible solutions to bring about change.
- Striving to buy, sell, and use environmentally friendly products.
- Recognizing that fiscal responsibility is essential to our environmental future.
- Instilling environmental responsibility as a corporate value.
- Measuring and monitoring our progress for each project.



# Economic

- 70 tropical countries and was the second most traded commodity in the world after petroleum
- Coffee prices were subject to considerable volatility
- Used a fixed-price purchase commitment



# Competition



- 14,000 specialty coffee outlets in the U.S.
- Number of ambitious rivals to increase their expansion plans
- No other specialty coffee rival had more than 250 stores, but there were at least 20 small local and regional chains that aspired to compete against Starbucks

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# Competition



- ✓ Tully's Coffee, 98 stores in 4 states
- ✓ Gloria Jean's, 280 mall locations in 35 states and a few foreign countries
- ✓ New World Coffee, 30 locations
- ✓ Brew HaHa, 15 locations in Delaware and Pennsylvania
- ✓ Bad Ass Coffee, 30 locations in 10 states and Canada
- ✓ Caribou Coffee, 241 locations in 9 states
- ✓ Second Cup Coffee, the largest chain based in Canada

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# Product-Level Situation Analysis



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# Market Analysis: Product Market Structure



- Starbucks purchases and roasts high-quality, whole bean, specialty coffees and sells them along with fresh, rich-brewed, Italian style espresso beverages, a variety of pastries and confections, coffee-related accessories and equipment.
- Starbucks produces and sells bottled Frappuccino coffee drinks, Starbucks DoubleShot coffee drink
- An exclusive line of Starbucks Barista home espresso machines, coffee brewers and grinders
- Offers a line of innovative premium teas produced by Tazo Tea Company
- A line of super premium ice cream, premium chocolate, sandwiches, salads
- Coffee mugs, compact discs and assorted gift items
- The Starbucks Card a reloadable stored-value card
- The Company's objective is to establish Starbucks as the most recognized and respected brand in the world.

# Who Buys

- The Daily Commuter-someone traveling to or from work, out shopping, or delivering goods or services.
- The Captive Consumer-someone who is in a restricted environment that does not allow convenient departure and return while searching for refreshment, or where refreshment stands are an integral part of the environment (Campuses).



# Why Buyers Buy



- Patrons to Starbucks are looking for the experience of the coffee house. Coffee lovers come for the wide selection of coffees from high-quality beans. They want the ability to “design” their coffee, smell the fresh pastry, listen to the soothing Italian music, visit with friends, and have the culture and quality of products be consistent throughout all Starbucks stores.
- Howard Schultz says, “You get more than the finest coffee when you visit a Starbucks—you get great people, first-rate music and a comfortable and upbeat meeting place. We establish the value of buying a product at Starbucks by our uncompromising quality and by building a personal relationship with each of our customers. Starbucks is rekindling America’s love affair with coffee, bringing romance and fresh flavor back to the brew.”

# How Buyers Make Choices

- Customers make choices based on their aspects of a brand's identity. Starbucks creates brand equity by commanding a price premium in the market place. For example, consumers may pay \$1.89 for a cup of Starbucks coffee when they could purchase the same volume for 69 cents at another coffee shop. If consumers prefer the Starbucks coffee and will pay more for it simply because of the label, their choices appear to be determined by their positive associations with the Starbucks name.
- Brand effect- Consumer will pay extra for a cup of Starbucks coffee simply because it's Starbucks, and not because the product is better.
- Product effect- If the consumer believes that Starbucks uses a higher-quality bean or that the brewing methods produce a better-tasting coffee.



# How Buyers Make Choices Cont.

- Consumer rating a product
  - The ways in which consumers retrieve or compute personal brand ratings play an important role. When people think of Starbucks, that conjures up certain associations that may not only be about the product, but also about the environment, the merchandise, the setting and the social ambience.
- Halo Error
  - General brand impressions heavily favor the dominant brand in a category. People rate Starbucks on a number of attributes and it comes out the leader on all those attributes even though they're not superior on all of them.



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# Bases for Market Segmentation

- Starbucks focuses on two different market segments, The commuters and Captive Consumers. For the commuters, Starbucks has the Drive-thru coffee houses. For the captive consumer, Starbucks has the mobile café.
- Commuters are defined as any one in a motorized vehicle traveling from point “A” to point “B”. Starbucks greatest concentration is on commuters heading to or from work, or those out on their lunch breaks.
- Captive Consumers would include those who are stuck in a campus environment or in a restricted entry environment that does not allow free movement to and from. Examples are: high school, college campuses, corporate campuses and special events.

# Potential Target Markets

- China is the biggest potential market
- Since Starbucks opened its first store in Beijing, capital of China it has quickly gained attraction amongst the Chinese people.
- China has a large urban population, rising economy and increase in coffee consumption

Figure 3. China: Special Economic Zones



# Competitive Analysis: Direct Competitors



- Top 3 Competitors:
  - Diedrich Coffee Inc.
  - Caribou Coffee Inc.
  - Dunkin' Brands Inc.
- Other competitors:
  - Local Cafes
  - Fast food and convenience stores

DIRECT COMPETITION:	SBUX	<a href="#">CBOU</a>	<a href="#">DDRX</a>	Pvt1	<a href="#">Industry</a>
Market Cap:	23.70B	197.89M	27.38M	N/A	203.29M
Employ-ees:	N/A	N/A	509	12,001	547
Qtrly Rev Growth (yoy):	14.20%	26.00%	8.60%	N/A	29.90%
Revenue (ttm):	6.37B	191.32M	53.50M	105.90M	191.32M
Gross Margin (ttm):	25.09%	26.07%	14.79%	N/A	36.44%
EBITDA (ttm):	1.15B	19.27M	-3.56M	N/A	19.27M
Oper Margins (ttm):	11.05%	1.01%	-11.09%	N/A	5.80%
Net Income (ttm):	494.47M	-3.53M	-3.84M	N/A	13.54M
EPS (ttm):	0.606	-0.254	2.579	N/A	0.61
P/E (ttm):	50.89	N/A	2	N/A	42.63
PEG (5 yr expected):	2.05	N/A	N/A	N/A	2.05
P/S (ttm):	3.76	1.06	0.51	N/A	1.06

# Likelihood of New Competitors

- The likelihood of New Competitors is high. Starbucks has helped turn America into java junkies. During the 1990's the number of coffee drinkers rose by almost 40 million. Since 1996, more than 7,000 new coffee houses have opened.



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# Stage in Product Life Cycle

- **Mature Stage** (Competition appears with similar products in specialty coffee thus, Starbucks has to defend market share while maximizing profit)
  - Product: Starbucks differentiates their product from that of competitors through quality of its products and environment.
  - Price: should be lower because of new competition but maintains the same because of strong brand identity.
  - Distribution: becomes more intensive and incentives may be offered to encourage preference over competing products such as the Starbucks Card which is convenient and gives rewards.
  - Promotion: emphasizes product differentiation.



# Pioneer Advantages



- Starbucks was the first specialty coffee retailer in America. By being there first, Starbucks could set the standard for customer expectations. Later entrants, would have to simultaneously chase the market leader and work their way up. Starbucks being the pioneer could lock in customers who would then have a difficult time switching to another provider at a later time.
- Howard Schultz says, “Starbucks brand sends a message of consistency. If you want a quick coffee break you don’t want to take a chance on something else. With Starbucks, you know what you’re going to get. There’s no risk.”



# Intensity of Competition

- Intensity of competition is high.
- The toughest competition would be local cafes. These cafes have a customer base that is dedicated and take pride in their product.
- Fast food and convinces stores that hold the benefits of convince of drive thru, cheaper pricing and time efficiency.
- Copy cats, such as other specialty coffee retailers.

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# Competitor's Advantages and Disadvantages



- Advantages:
  - Starbucks success inspired copy cats: for example Starbucks has mastered real estate so rivals are picking similar spots like Starbucks populated with well-educated, well-paid and well-traveled consumers sophisticated enough to appreciate a pricey cup of coffee as well as mimicking their specialty drinks.
  - Starbucks crams stores close to one another cannibalizes its own sales
  - Starbucks business can suffer if the chain expands so rapidly that its service or quality of its products slips
  - Standardized high prices

# Competitor's advantages and Disadvantages



- Disadvantages:
  - Building stores across the street from one another to intercept consumers on their way to work or home or anywhere in between and to build brand awareness. Starbucks used their storefronts as billboards giving them more street exposure, allowing them to pool advertising dollars and drive traffic into their stores. It successfully worked.
  - Because Starbucks is an early mover they own almost half of the nation's 13,500 coffee bars and none of its competitors appear to catch up.
  - Starbucks has strong brand identity and word of mouth that its extremely difficult for rivals to compete.



# Competitor's advantages and Disadvantages Cont.

- Disadvantages:
  - Under lease terms , the strip-mall landlord usually bans the retailer from opening another store inside a certain radius. Thus, Starbucks are willing to pay higher rent in malls to avoid having radius restrictions. Starbucks are so excellent at their real estate process that it's difficult to compete with them head to head in that space.
  - Starbucks stays innovative by introducing new beverages, and technologies that will attract more customers of various ages during different times of the day.
  - Still growing and opening it doors internationally

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A 3D rendered Starbucks logo on a green oval background. The logo features the Siren mermaid in the center, surrounded by the words "STARBUCKS" at the top and "100% FREE" at the bottom. The letters are gold and blue, and there are gold stars interspersed with the text.

# Market Measurement

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# Market Potential



- The Specialty Coffee Association of America estimates that:
- 16% of the adult population consumes coffee daily
- 59% of the adult population consumes coffee occasionally
- Market Size=114 million people in the U.S.

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# Market Potential



## **DOLLAR SIZE OF MARKET** Retail Sales Estimates Year End 2003

Coffee Cafes: (beverage retailers with seating)

11,250 locations averaging \$550,000 in annual sales = \$ 6.12 billion

Coffee Kiosks: (beverage retailers without seating)

2,700 locations averaging \$300,000 in annual sales = \$ .81 billion

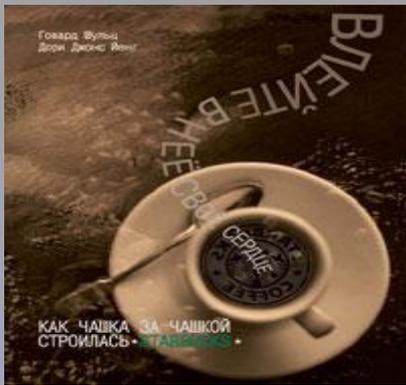
Coffee Carts: (mobile beverage retailers)

2,100 locations averaging \$140,000 in annual sales = \$ .29 billion

Coffee Bean Roaster/Retailers: (roasting on premise)

1,350 locations averaging \$925,000 in annual sales = \$ 1.25 billion

**Total Café Segment Sales = \$ 8.47 billion**



# Industry Sales Trends

- Increase comes from younger segments
  - 20 to 29 and
  - 30 to 39
- Specialty growth is being driven both by new converts as well as increasing levels of consumption by veteran specialty drinkers.
- Product differentiation continues with proliferation of consumption features and choices, including country of origin, flavors, darkness of roast, and type of packaging.



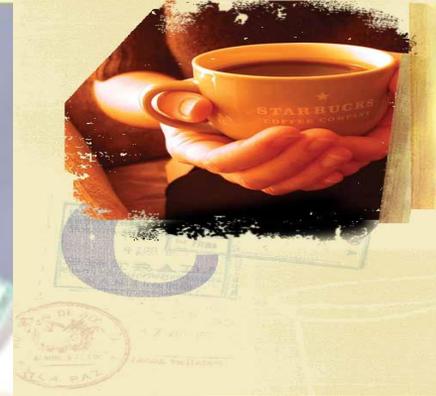
# Starbucks Trends in Sales

- In an average week in 2003, 22 million customers visited Starbucks stores in North America, up from 5 million in 1998.
- Local customers patronized a Starbucks store 15 to 20 times a month, spending \$50 to \$75 monthly.

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# Forecasts

- Top management believes
  - Revenues will grow by about 20% annually and
  - Net earnings by 20-25% annually for the next three to five years.



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# Profitability and Productivity Analysis

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# Cost-Volume-Profit Relatic

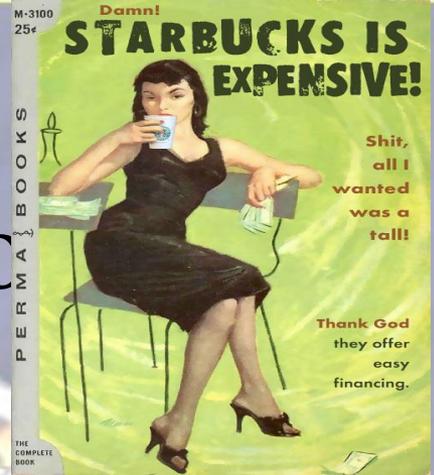
Sales (2003) \$4,075,522

(less) VC            -1,685,928

\$2,399,594 = Contribution Margin

PVCM

$\$2,399,594 / 4,075,522 = .586$  or 58.6%



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# Break-Even and Target Profit Analysis

- Required Level of Sales (dollars in 000s) for 2003

$$\frac{\text{Fixed Cost} + \text{Profit } (\$0)}{\text{PVC M}} = \text{RLS in } \$$$

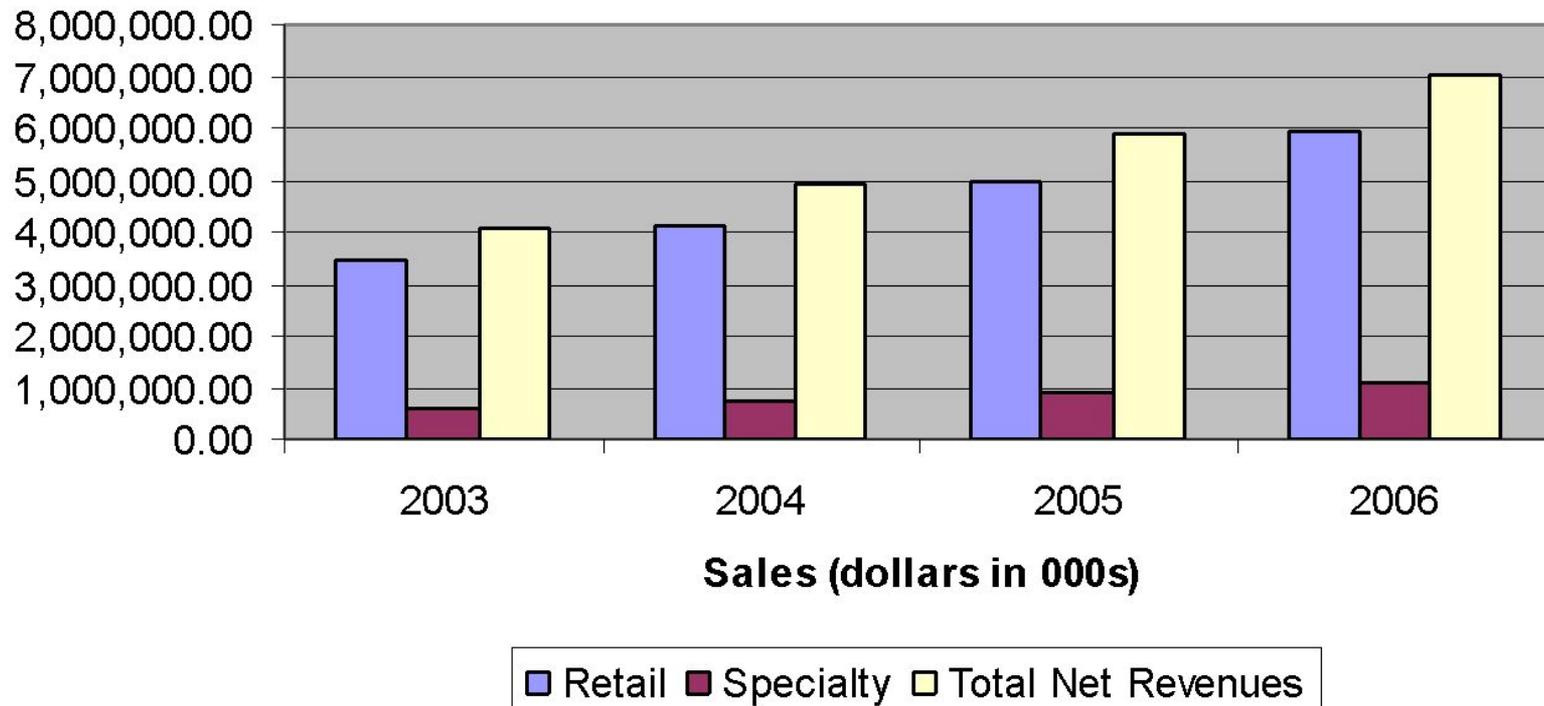
$$\frac{\$2,003,277 + 0}{.586} = \$3,418,561 \text{ (Break Even Point)}$$



# Projections of Sales of Marketing Expenditures



**Projected Sales (20% annual growth)**





# Problems and Opportunities

- Problems
  - Barrier to entry is low.
  - Specialty coffees are expensive.
  - Health conscious may lead to consumers to stray away from the caffeinated drinks.
  - Too many stores everywhere – people get sick of seeing Starbucks.

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The background of the slide features a large, stylized Starbucks logo in the center, surrounded by the words "STARBUCKS" and "COFFEE" in a circular arrangement. The logo is rendered in a light blue and green color scheme. In the top left and top right corners, there are small images of Starbucks coffee cups with whipped cream and a red ribbon, set on a red surface.

# Problems and Opportunities

- Opportunities

- Expand food selection to salads, soups and sandwiches.
- Expand to more countries around the globe.
- Tying website to the store by ordering online and picking it up at the store.
- Opening more Starbucks with drive-thrus.

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# Identify and Assess Alternatives

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# 9 alternatives for the Starbucks' future

1. Concentrating the development of the company on the coffee to keep the original image : good coffees to sample in a friendship place



- + become a reference in the global coffee market even in countries such as Italy where there is a long tradition of coffee making.
  - loose opportunities to develop by-products
- R the saturation of the coffee market and as a consequence a stagnant growth

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2. Creating a big diversity of food and beverages so that the Starbucks coffee shop become a real restaurant-snack place, not just a coffee shop

- + enlarge the number of customers and improve the profit
  - loose the original image of a coffee shop with special good coffees
- R be considered just as a fast food

3. Create some activities such as little music concert, shows, art exhibitions to attract a large public

+ became a real entertainment place and attract new customers (artists, showbusiness people)

- loose the private atmosphere of the Starbuck coffee shops



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4. Developing an extra market in the coffee shops selling a large range of Starbucks branded products ( books about coffees, kitchen tools and furniture, compact discs, clothes, mugs...)



- + become a fashion reference, attract collector customers
- loose the original image of good coffees in a friendly place

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## 5. Open the Starbucks places to the organization of reception ( birthday parties )

- + make more profit
- close the coffee shops temporarily
- R loose regular customers





## 6. Widening more and more the international expansion of Starbucks and adapting to the different cultures' tastes

- + make profit and become a global successful brand, become a reference for travelling people
- R invest a lot to settle new coffee shops without return on investment
- R not to be accepted in some areas because of a preference for national and regular places



7. Create particular flavors associated with big events or periods of the year or different cultures to attract curious people

- + boost the consumption of beverages and assess the tastes of consumers
- forget the original product of consumption which created the success of Starbucks coffee

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8. Thinking about partnerships with celebrities who promote the brand for free

- Eg. making listening new music in coffee shops against a good pictures of this famous person tasting a Starbucks beverage

+ free advertising for the brand

- transform the simple image of Starbucks into the image of business deals





## 9. Developing the brand in supermarket as the Frappuccino in bottle

- + make more profit and make people discover Starbucks' beverages at low prices
- create a popularization of the products because of cheap prices and diminish the number of customers in coffee shop places

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# Recommendation



To the following issues:

- How to improve Starbucks' image even better?
- How to be one of the most respected brand in the world?
- How to expand Starbucks' customer basis?

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# How to improve Starbucks' image even better?

- Capitalize on its core competencies:
  - The maximization of customer satisfaction
  - The high quality of each product
- How?
  - Further training periods for the « barristas ».
  - Increase the quality standard of the products (beans, milk)
  - More advertising on these competencies.



# How to improve Starbucks image even better?

- A more diversified strategy:
  - Propose an even wider range of beans: making people discover new tastes.
  - Change beans along the year. Providing information on these beans.
  - New kinds of products: new pastries, frappuccinos, espresso...



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# How to be one of the most respected brand in the world?

- The higher the customer satisfaction, the higher the customer recognition.
- Never compromise on the products' quality
- Advertise more in foreign countries.
- More partnerships with fair trade associations.



# How to expand Starbucks' customer basis

- Diversify Starbucks' offering:
  - New product lines for non-coffee drinkers.
  - Change the stores' atmosphere from time to time.
  - A more global presence.



# The action plan

- Increase advertising funds:



- More in local newspapers than in national editions
- Insist on the high quality of its products.
- Insist on the fair trade policy of the firm: create a sort of a mutual agreement between coffee makers and coffee sellers.

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# Action Plan

- Diversify its offerings:
  - Partnerships with local bakeries.
  - New kind of coffee beans coming from other regions of the world.
  - Giving more freedom to stores so they can create a unique atmosphere.



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# Action Plan

- Increase the number of stores in other parts of the world.
  - Use more licensing and franchizing.
  - Take into account the local habits.



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