

Marketing Strategy in Action

Starbucks—2008

In 2003, Starbucks accomplished something that few companies ever do: It became a Fortune 500 company—a phenomenal achievement for a company that went public only 12 years earlier. The company had over 6,000 stores worldwide in 2003 and expanded to over 16,000 by 2008.

Starbucks created not only a successful business but a thriving industry. When the company started its massive expansion in the early 1990s, the United States had about 200 coffeehouses. In 2003 there were over 14,000 coffeehouses, the majority of them not Starbucks but mom-and-pops that bloomed after the dawn of the \$3 cup of coffee. According to a Starbucks executive, “We changed the way people live their lives, what they do when they get up in the morning, how they reward themselves, and where they meet. That’s more important to me than just building a company.”

Starbucks’ iced beverages, which offer larger profit margins than regular drip coffee, are big sellers in the South and Southwest. After making some adjustments, such as adding outdoor seating and couches to stores to better serve the needs of its customers, Atlanta locations have shown double-digit sales growth. Atlanta boasts 33 successful Starbucks, and plans for expansion are in the works. Plans for further expansion in cities with even more Starbucks stores, such as New York City and San Francisco, are also on the drawing board. Although 70 stores operate in New York City alone, it is estimated that growth there will continue until 200 stores are operating in the city! As for fears of market saturation, Starbucks has none. In fact, the java giant has two highly profitable outlets that face each other on Robson Street in Vancouver, British Columbia. Each store has more than \$1 million in annual sales. International expansion is also taking place. In fact, the number one Starbucks in the world is located in Tokyo, and a total of 500 stores are slated to be operational in Asia in the next three years.

What is the secret of Starbucks’ phenomenal success? According to Howard Schultz, chairman and CEO of Starbucks Corporation, the company’s success is due to the experience created within the stores as well as the unsurpassed quality of the coffee. A steaming café au lait must be perfectly replicated, whether the store is in Seattle or New York City. In a world filled with people leading busy, stressful lives, Schultz believes he has created a “third place” between home and work where people can go to get their own personal time out or to relax with friends.

Schultz also attributes his company’s success to the thousands of employees working worldwide. Starbucks’ employee training program churns out “baristas” by educating 300 to 400 new hires per month in classes such as “Brewing the Perfect Cup at Home” and “Coffee Knowledge.” Here they are taught to remind customers to purchase new beans weekly and that tap water might not be sufficient when brewing the

perfect cup of coffee. They are also encouraged to share their feelings about coffee, selling, and working for Starbucks. Employees are also given guidelines to maintain and enhance self-esteem, to learn how to listen and acknowledge, and to know when to ask for help. E-mail, suggestion cards, and regular forms allow unsatisfied workers to communicate with headquarters. If the annual barista turnover of 60 percent, compared with 140 percent for hourly workers in the fast-food industry, is any indication of the quality of its training programs, Starbucks seems to have a handle on how to gain and maintain employee loyalty. What about the demographic makeup of the work force? About 24 percent of the employees are people of color and 63 percent are women.

The Starbucks success story is continuing into the 21st century as the company is quickly expanding into Europe and Asia. However, one question remains regarding the success of the company in countries already known for their coffee-making expertise: Will such Romans and Parisians care for Starbucks? Continued expansion and visibility have been created domestically as Starbucks has formed partnerships with companies such as United Airlines and Barnes & Noble Booksellers, both of which draw from the same type of knowledgeable customer.

Starbucks Corporation is a very successful company. However, its 2008 stock price fall can be attributed to a variety of factors. First, the success of Starbucks encouraged competitors to focus on coffee products and new restaurants. For example, McDonald’s Corporation has greatly improved its sales and profits by putting increased emphasis on the quality of its coffee. The growth in the number of café-style coffeehouses and restaurants, like Panera Bread, also hurt Starbucks’ same-store sales.

Second, while growing the number of stores rapidly has fueled growth in revenue and earnings, it also makes Starbucks so available that it may not be as special to consumers as it once was. Not too long ago, the arrival of a Starbucks store was a major event, a recognition that a town or neighborhood was worthy of the chic Seattle-based chain. However, in recent years, every street corner, airport concourse, and roadside rest stop in America seemed to attract a Starbucks. Recognition of the over-saturation problem is one reason why Starbucks decided to place its emphasis on store growth in international markets where its business remains robust. It also closed 600 underperforming locations in the United States.

Finally, in its attempts to be more efficient, Starbucks may have reduced the quality of the purchase and use experience. For example, by using flavor-locked packaging for its coffees, the fresh-ground-coffee aroma was lost, not to mention the sound of beans being scooped and ground onsite. By adding hot sandwiches and bakery products to compete with McDonald’s, Starbucks became more of a fast-food restaurant than a coffeehouse in the minds of

some consumers. By trading comfy, stuffed chairs for plastic and selling a variety of games and other products, the quality of the coffee-drinking experience was reduced for many consumers. By adding drive-through windows and speeding up service, many consumers may have started to view Starbucks coffee as a commodity rather than something special and its employees as order-takers rather than knowledgeable coffee experts.

You can learn more about Starbucks at www.starbucks.com.

Discussion Questions

1. Based on the case information and your personal experiences, list at least five things you know about Starbucks. This list offers you some idea about your cognitions concerning the coffee shop chain.
2. List at least five things you like or dislike about Starbucks. This list gives you some idea of your affect for the coffee shops.
3. List at least five behaviors involved in buying a gourmet coffee drink from Starbucks. This list gives you an idea of the behaviors involved in a coffee purchase.
4. List at least five things Starbucks does in the environment to influence consumers' coffee purchases. This list gives you some idea of how the environment influences affect and cognition and behavior.
5. Review the Starbucks Web site at www.starbucks.com. Do you think the descriptions of specialty drinks increase sales? Why or why not?

Sources: www.starbucks.com, October 13, 2008; Anthony Mirhaydari, "Dark Days for Starbucks: Job Cuts and Store Closures," blogs.moneycentral.msn.com, September 3, 2008; Adrienne Carter and David Kiley, "Wooing the Starbucks Crowd," *BusinessWeek*, October 10, 2005, pp. 60–62; Cora Daniels, "Mr. Coffee," *Fortune*, April 14, 2003, pp. 139–140; Benjamin Fulford, "Smell the Beans," *Forbes*, September 4, 2000, p. 56; Anonymous, "Interview with Howard Schultz: Sharing Success," *Executive Excellence*, November 1999, pp. 16–17; Nelson D. Schwartz, "Still Perking after All These Years," *Fortune*, May 24, 1999, pp. 203–210; Janice Matsumoto, "More Than Mocha—Café Starbucks," *Restaurants & Institutions*, October 1, 1998, p. 21; Naomi Weiss, "How Starbucks Impassions Workers to Drive Growth," *Workforce*, August 1998, pp. 60–64; Jennifer Reese, "Starbucks: Inside the Coffee Cult," *Fortune*, December 9, 1996, pp. 190–200.