

## **HAND-IN CASE #2**

### **Starbucks**

*By Sharvan Salooja*

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#### **1. Who are the target markets for Starbucks? How do they differ from those of other coffee shops?**

Starbucks has a very diverse target market. The segments will vary based on the different products that Starbucks offers, but generally speaking, their targets can be described as follows:

- Coffee drinkers, ranging from people who drink simple, but premium quality coffee to people who like the various specialty beverages developed by Starbucks
- Age ranging from 18 to 60
- People living in urban areas, especially large cities
- University students and faculty members
- People working in professional, managerial, and executive positions
- Socially responsible folks, who care about issues like protection of the environment and fair-trade coffee. These people will associate with and respect Starbucks' treatment of its employees, the community and the environment.
- People with relatively higher incomes, because Starbucks products are more expensive than other coffee shops such as Coffee Time or Tim Horton's
- People for whom customer service is an important part of the value they want from a brand.

Starbucks offers its customers a total brand experience that extends beyond their products. This experience includes a broad range of premium quality products, excellent customer service, elegant looking stores, unique drink names, the company's ideals and its dedication to social responsibility and exceptional treatment of its employees.

Other coffee shops such as Tim Horton's, Second Cup, Coffee Time and Timothy's do not have this kind of an image. Some of them focus on providing low-price products, some focus on their sense of community (for example Tim Horton's is considered truly Canadian), and some focus on having extensive distribution. Some of these brands do not offer an extended brand experience like Starbucks. Accordingly, their target market consists of people who want cheaper coffee, or people who don't care about the social responsibility aspect of the brand, or people for whom the ambience of the store isn't as important, or people who like the sense of local community (something Tim Horton's represents).

#### **2. What is Starbucks' competitive advantage? Is it sustainable?**

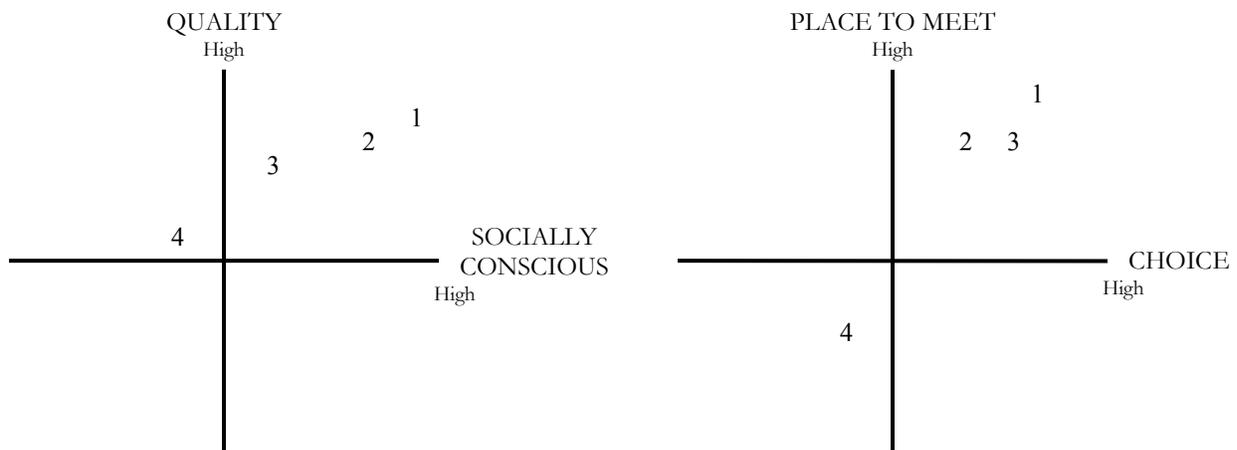
The following are Starbucks' competitive strengths:

- Premium quality coffee and related products
- Providing a brand experience that extends beyond the products and includes excellent customer service, unique drink names and elegant looking stores that make for good rendezvous points.
- Company ideals of social responsibility towards the community and the environment
- Progressive personnel policies

I think the brand image built by Starbucks is sustainable. The company ideals and sense of responsibility is a big part of the consumer value it delivers. They have to continue doing what they're doing and find new ways to add to this intangible, emotional value associated with their brand. I think other coffee producers/retailers \*might\* be able to match the premium quality of products that Starbucks offers, but it will be very hard for them to match the brand image created by Starbucks. The intangible value is what creates brand loyalty, which is very important for the competitive advantage.

**3. How is the company positioned? Illustrate this with a positioning map that reflects the major players in the coffee market.**

Positioning Maps – four dimensions of comparison split into two:



- 1. Starbucks
- 2. Tim Horton's
- 3. Second Cup
- 4. Coffee Time

**4. Does the proliferation of Starbucks' brand extension dilute the core concept and negatively affect the company's positioning and competitive advantage?**

Starbucks offers more than a product. Intangible value is a big part of the total value offered to customers. It is very important for its competitive advantage and the consumers' perceived positioning of the company. I feel that if Starbucks can be selective about its brand proliferation and maintain the premium quality associated with the brand, then it will not affect the company negatively.

The key is being selective and introducing products which have intangible value that is in sync with the Starbucks brand. I will explain this through examples. Recently, Starbucks introduced a new instant coffee mix. And they plan to introduce ice-cream in Canada in the future (I think it is already available at some United States locations). These two products certainly dilute the core concept of Starbucks. However, they might not have the same kind of impact.

First of all, Starbucks would have to ensure that the quality of these products is top-notch. They have to ensure that these products are among the best in their respective product categories in the market, because that's what Starbucks stands for – premium quality.

However, I think the issue goes deeper than merely the quality of the product. The product category of instant coffee does not have intangible value that is in sync with the intangible value offered by Starbucks. When you think of instant coffee, you think of convenience, lower price and not necessarily high quality. It is not associated with intangibles of excellence, elegance, sophistication, responsibility – the kinds of intangibles Starbucks offers. This makes me think that introduction of instant coffee might have a slightly negative impact in the minds of its target market. It may not be perceived as something you would associate with Starbucks. Ice cream, on the other hand, is associated with intangibles such as fun, exciting and (sometimes) chic/stylish – it is essentially a 'feel-good' product. These intangibles are, in my opinion, more in sync with the Starbucks image. And although ice-cream and coffee are completely different product categories, compared to instant-coffee and regular coffee, which are much more closely related, I feel that ice-cream might not have as much of a negative impact as instant coffee might.

In summary, I feel that Starbucks has to maintain a level of premium quality with all its new products and ensure that they introduce products that have intangibles that are in-tune with those associated with the Starbucks brand.

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