**Starbucks Coffee Marketing Strategy and Case Write-Up**



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**Problem Identification and Decision to Be Made**

Ever since its beginning in Seattle in 1971, Starbucks Coffee has been devoted to servicing Americans and catering to their needs. From the start, company founder and chairman Howard Schultz has expressed a desire to be “America’s third place” outside of home and work. To achieve this Schultz has had to focus on three experiential branding strategy components – coffee itself, service or “customer intimacy,” and store atmosphere and ambience. Of course, the first and most essential component is to have a good product that customers will desire and seek out, but right behind that is service. Schultz’ goal has been “to create an uplifting experience every time you walk through our door.” Catering to every customer’s need is a sizeable priority that Starbucks has taken seriously. A strong emphasis has been put on specialization, customization, and customer recognition (See S.W.O.T. Analysis in Appendix A). Starbucks wants to be a familiar neighborhood shop where regulars are recognized, greeted, and served in an inviting, intimate way regularly. Considering the approach to customer service Starbucks has been founded upon and consistently pledged its loyalty toward, it would seem that most Starbucks customers would be highly pleased with each visit. However, this may not be the case.

Starbucks’ key measurement tool for its locations’ customer service has been a mystery shopper program called the “Customer Snapshot.” Using this tool, the mystery shoppers evaluate Starbucks locations based on service, cleanliness, product quality, and speed of service. In 2002, Snapshot scores had increased across all stores, but Starbucks was not actually meeting some customer service satisfaction expectations. Customer satisfaction is extremely important to Starbucks’ goals because it largely centers on customer returns. Research shows that although customers who visit Starbucks eight or more times per month only account for 21 percent of the overall customer base, 62 percent of all Starbucks transactions are made by these frequent returners. Therefore, poor customer satisfaction can easily make a large impact on overall sales. Starbucks rated highly in overall service, being knowledgeable, and remembering customers’ names and orders. The main area Starbucks’ customer service lacked in is speed of service. Increasingly, customers are picking up coffee on the run to work or other destinations. Not only do customers expect service with a smile, but also they expect it done quickly. In today’s world time is a valuable asset and everything is done on the go. There are also plenty of locations to purchase coffee (See Situation Analysis in Appendix B). Starbucks needs to differentiate itself from the competition through touch points with the customer. Concern for customers’ satisfaction can be expressed through quickness.

Also, another area of concern for Starbucks is the company’s evolving customer base. In the past, customers tended to be affluent, well educated, females between 25 and 44 years old. Market research has revealed that this consumer profile is changing. Newer customers tend to be younger, less educated, and in a lower income bracket than the historical Starbucks customer. Maybe this should not come as a surprise as Starbucks expands and progresses further toward saturation.

In addition, Starbucks is struggling with its image in the public eye. Consumers have increasingly stated that, “Starbucks cares primarily about making money.” Consumer agreement to this statement rose 8 percent in the last year. Also, an increase in agreement with the statement, “Starbucks cares primarily about building more stores” was up 7 percent. Starbucks does not possess much of an organized strategic marketing group or chief marketing officer. Although Day stated that, “Marketing is everywhere at Starbucks” it can still help to focus more on the issue.

**Primary Alternatives to Consider**

The first major alternative plan of action as proposed by Christine Day, Senior VP of Administration in North America, is to invest an additional $40 million annually in stores. This would provide each store with 20 additional labor hours per week. This would allow for more staff members, or partners, to be present at a time. According to Day, the idea behind this plan is to “improve speed-of-service and thereby increase customer satisfaction.” Clearly, the cost of this plan would be $40 million additional dollars a year. Starbucks’ net income in 2002 was $215.1 million, so a $40 million investment would equal roughly 18.6 percent of Starbucks’ income. Increasing labor hours will have a positive impact on service simply because more people will be available to serve customers and prepare beverages, but will this idea help the company’s brand image?

Starbucks’ most successful innovation of recent years was the introduction of coffee and non-coffee-based Frappuccino beverages. These products assist sales in nonpeak hours and were sold at Starbucks locations and other outlets such as convenience stores and grocery stores. Another alternative plan of action would be to incorporate more branding and promotion of Starbucks’ overall image. By using the $40 million to promote Starbucks’ image as a whole, customers may be driven to purchase more products or make use of locations more often. This approach would attack the struggling corporate image issues the company is facing. If people feel like Starbucks only cares about profit and building more stores they will tend to feel more like a number and less like an important, valued customer. However, this plan may not provide much of an improvement on speed-of-service.

**Strategy Decision and Implementation**

When faced with this dilemma, it is tempting to focus attention solely on speed-of-service and not Starbucks’ company image. The situation points to customer dissatisfaction as a result of slow service and having to wait longer periods of time. Also, customers seem to be pleased with most other areas of partner service. So improving speed-of-service time is a definite priority, but what does that do for Starbucks’ image in the mind of consumers? If anything, only getting customers in and out the door faster may cause the consumer opinion on Starbucks’ bottom-line-first mentality to worsen. There needs to be a solution that can cohesively impact both areas of struggle because each of these areas is interrelated and will have some sort of impact on the other. Research also showed that a friendlier, more attentive staff would be a major improvement. Improving on this would not require much extra funding, if any.

I would propose to make three adjustments to Starbucks’ current operations. First, I would invest half of the original proposed amount of $40 million in extra labor hours at each Starbucks location. This would cost only $20 million and 9.3 percent of net income verses 18.6 percent. This would allot for 10 more labor hours in each store per week. It may not seem like much, but it is only one third of the solution.

Next, I would choose to invest the other half of the original proposed $40 million in a more unified branding campaign. This campaign would not have to be a groundbreaking solution that would deviate from Starbucks’ actual image. It would simply allow for Starbucks to go back to its roots in customer relationship and help convey the original mission Howard Schultz believed in. This campaign would be aimed toward changing consumer perceptions of Starbucks and solidifying a friendlier, less corporate place in consumers’ minds.

Finally, I would cap the initiative off by relaying down to regional manager, store managers, and baristas the importance of genuine service. A plan can be implemented to highlight areas of service that are important to customers. These areas involve actions like smiling more often, being polite and thanking customers for stopping by, showing a genuine interest in customer satisfaction and well-being. Also, when problems arise be quick to offer assistance in a way that will promote a healthy relationship with the customer as the top priority.

Every plan may have weaknesses, but the goal for this plan of action is that the three solutions will complement each other and help cover the various weaknesses each may possess. As mentioned before, shuttling customers in and out more quickly may cause customers to feel that the only importance to Starbucks is a healthy bottom line. However, the branding image campaign can counter this by showcasing Starbucks’ original mission and displaying how the company has simply grown and is still striving for the same goals on a grander level.

**Appendix A**

S.W.O.T. Analysis

Strengths

* 11th consecutive year of 5% growth or higher
* Experience around consumption of coffee and store ambience
* Distribution worldwide and supply chain control and direct work with growers
* Beverage sales of 77%
* Customer touch points (where they work, travel, shop, dine)
* Employee/Partner satisfaction rate
* Beverage customization and vast beverage options

Weaknesses

* Customer satisfaction
* High pricing
* Marketing structure
* Brand image has “rough edges”
* Speed-of-service
* Stopped talking/focusing on the customer

Opportunities

* Improve customer satisfaction
* Improve marketing approach, brand image
* Continued accelerated growth

Threats

* Specialty shops with wide range of food and beverages
* Dunkin Donuts beverage sales in stores and supermarkets
* Losing customer approval through image and service

**Appendix B**

Situation Analysis

Company

* 11th consecutive year of 5% or more sales growth
* America’s “third place”
* Compound annual growth rate of 40%
* Done little advertising to achieve success
* Many touch points (where people work, travel, shop, dine)
* Strong supply chain working directly with growers
* Beverages account for 77% of store sales
* Employee satisfaction in the 80-90% range
* Lack a strategic marketing group

Competition/Industry

* Specialty coffee chains, regionally concentrated
* Minneapolis-based Caribou Coffee with environment of a lodge in 9 states with 200 stores
* California-based Peet’s Coffee & Tea with 70 stores in 5 states focusing on whole bean sales
* Thousands of independent specialty shops including beer, wine, TV, and internet
* Donut and bagel chains like Dunkin Donuts with 3,700 stores in 38 states devoting 50% of sales to coffee

Customers

* Evolving customer base that had historically been affluent, educated, white-collar females between 24 and 44.
* New customers are younger, less educated, have lower incomes and visit stores less frequently.
* Customers still use the actual stores the same way as before

Context/Environment

* Not meeting customer satisfaction expectations
* Need better speed-of-service
* Owned nearly one third of America’s coffee bars
* Coffee consumption on the rise in America. Over 109 million drinkers every day and 52 million drinking on occasion.
* Specialty coffee drinkers are biggest growth
* Still eight states without a company-operated Starbucks
* Company believes it is far from reaching market saturation