Situation Analysis

Trouble Brews at Starbucks

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The Starbucks Company has experienced various challenges since 2007 which has caused the price of its stock to drop by over 50% within a period of one year. Some of the challenges the company has undergone involved changing of the perception of customers on the familiarity of Starbucks and the value of the impact of a shift in the customer's profile of the standard Starbucks client. The fast growth of Starbucks in many places, the ease in which the company was available and the utilization of permits in the promotion of the goods of the company shifted the focus of the customers from the initial standard high end customers who purchased coffee. This customer base decreased thus changing the profile client to groups with low income. Despite Starbucks expanding and setting up many stores as a tool for advertisement in the location, the price of growth was more than anticipated on the bottom line (Ferrell & Hartline, 2013).

An increase in drive by windows and products in the store took the company close to a fast food product store shifting from the initial idea of designing a third place. This reduced the value that existed on the products. The company also had a challenge of commoditizing its brand. This led to introduction of many products selling under the name of Starbuck brand from coffee, books, CDs and the other merchandise to the food items such as the sandwiches. This reduced the value of Starbuck brand from being seen as the high end quality ground coffee.

In the process, to increase efficiency in the company operations and lower the waiting times Starbucks introduced machines that were automated which made coffee much faster. By increasing the efficiency, it presented a problem for customers who enjoyed watching the making of the products. Starbucks bought bags that were sealed with pre-ground coffee which removed the unique brand and the aroma of freshly ground coffee they had initially (Bussing-Burks, 2009).

The company brewed coffee in leagues that were different with their rivals for a long time but by the mid of 2000 the high end coffee of the company clashed with their rivals for example Dunkin Donuts and McDonalds. This was worsened by the move to drive through window stores for coffee that made the company to appear more like McDonalds. The value of the coffee from Starbucks was eroded and made it simple for the rivals to get in the market of high-end coffee through developing the high end drinks which were flavored and then sell them at costs that were reduced thus undercutting the prices of Starbucks. A number of the high end customers of Starbucks shifted to the coffee from the competitors which was cheaper and of high quality.

In order to address this, the company could have tried the development and introduction of different brand names for the new products that had the capacity for reducing the value of initial brand name of Starbucks. The idea may have included the introduction of brand names for the books and CDs, as it maintains the value of Starbucks brand. This would enable the company to get customers quickly from groups with low income and also maintain the high end customers who are the initial customer base. This customer base did not mind paying the higher cost for coffee as long as Starbucks stuck with its original concept.

Starbucks should have also focused on what it does best such as making good coffee. This can be done by the rebranding of the company, developing and keeping focused on the products it provides and what clients are purchasing. Product segmentation and the development of different perceptions of the brand for each product that is marketed to target specific customers will be beneficial to the company. This will assist the company in adopting strategies that are focused on enabling the recapturing of the market base that has been lost. The company will also be capable of competing effectively with its rivals in various markets and product segments (Buchanan & Simmons, 2009).

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MARKETING STRATEGY

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Primary and Secondary Target Markets

Market targeting is a very crucial strategy used by many companies so as to improve their sales. It involves looking for the possible customers of the firm's products. Starbucks Company, the premier roaster, marketer and retailer of specialty coffee in the world, primarily targets consumers aged between 25 and 40 years (Bussing-Burks, 2009). These customers account for approximately 50 percent of the company's sales. In a bid to reach out to many customers within the target age group, Starbucks is heavily involved in product advertising so as to keep the customers updated on the newly introduced products. Research shows that primary target customers grow at an average rate of 3 percent per annum (Starbucks Coffee Company, 2016).

The secondary target market for Starbucks Company can be divided into two categories of customers. The first category comprises young adult customers aged between 18 and 24 years (Bussing-Burks, 2009). These customers mainly include college students and other young adults and they account for approximately 40 percent of the company's sales. Starbucks Company makes use of the social networking sites such as Facebook in order to reach out to many customers within the secondary target market. Research shows that young adult customers grow at an average rate of 4.6 percent per annum (Starbucks Coffee Company, 2016). The secondary category comprises kids and teens aged between 13 and 17 years (Bussing-Burks, 2009). These customers only account for approximately 2 percent of the company's sales. However, it is imperative to note that for kids and teens, consumption decisions are determined by their parents or guardians. Hence most products for kids and teens are purchased by their parents or guardians.

Product Strategy

Starbucks Company is well aware of the fact that product innovation is the key to market penetration. For this reason, the company has strategically positioned itself in the market by selling the finest whole bean coffees and coffee beverages. And to ensure that its coffee products are of high quality, the company controls coffee purchasing, roasting and packaging as well global distribution of coffee used in its operations (Buchanan & Simmons, 2009). Starbucks mainly purchases green coffee beans from various coffee-producing regions around the world and then it custom roast them to derive high quality standards of the coffee blends that exceed customer expectations. The company specializes in coffee drinks that accounts for approximately 75 percent of its sales (Starbucks Coffee Company, 2016). However, Starbucks is also involved in the sale of whole bean coffees and merchandise.

Pricing Strategy

In order to maintain its position as the world's leading coffee marketer and retailer of coffee, Starbucks has adopted the following pricing strategies:

a) Quality- Customers mainly focus on the quality and affordability of a product. For this reason, the Starbucks offers high quality coffee products at moderate prices (Starbucks Coffee Company, 2016).

b) Relative value pricing- Starbucks mainly uses relative pricing when determining the price of its products. In this case, the company offers its main items such as espresso drinks alongside other lower cost items such as drip coffee (Starbucks Coffee Company, 2016). By doing so, customers will have the option of choosing items that they can afford to buy.

c) The value of authority- The Company also charges premium prices for coffee products based on its authority as the leading coffee marketer. Therefore, when Starbucks charges higher prices for the newly introduced products, customers would still be willing to purchase its products because of their high quality (Simon, 2009).

d) Differentiation- Starbucks products are highly differentiated. This fact has enabled the company to win the hearts of many customers who are willing to purchase its products at any set price.

Distribution/Supply Chain Strategy

Starbucks is involved in the purchasing, roasting, packaging as well global distribution of coffee used in its operations. The company purchases green coffee beans from coffee-producing regions around the world and thereafter it does roasting and packaging. Once the beans have been packaged, they are distributed to different markets around the world. Starbucks also distributes merchandise to different regions around the world. Currently the company operates over 20,000 retail stores in more than 65 countries around the world (Starbucks Coffee Company, 2016).

Integrated Marketing Communication (Promotion) Strategy

Promotional strategy involves actively communicating the value of your product to customers (Ferrell & Hartline, 2013). Starbucks Company has heavily invested in product advertising in order to reach out to its primary target market. The advertising platforms include the print and electronic media as well as road shows. Starbucks also uses the latest media technology including social networking sites such as Facebook to reach out to younger customers (Starbucks Coffee Company, 2016). Effective promotional strategies have enabled the company to improve its sales.

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