

Chapter Case Study



A STARBUCKS JUGGERNAUT

Recall the quote from Howard Schultz, CEO of Starbucks, that we cited in the opening vignette to this chapter: "We have a lot going on." As this chapter has sought to demonstrate, good marketing requires that its practitioners always have a lot happening. Marketing demands concentration and creativity, close attention and open-mindedness, as well as careful analysis and the courage to take risks. Schultz recently offered another quote that summarizes these demands quite effectively: "We cannot be content with the status quo," he said. "Any business today that embraces the status quo as an operating principle is going to be on a death march."³⁵

Starbucks' march seems to be in the opposite direction. In particular, its net revenues and stock prices have risen continuously since 2009.³⁶ Thus, for 2012 its global revenues reached a record-setting \$13.3 billion. Its stock price recently reached more than \$74 per share.³⁷

International Expansions

Part of the reason for these increased sales has been Starbucks' continued pursuit of growth and expansion. Along with finding new locations in its home market of the United States, recent international expansions have spread the brand to Turkey, India, and Norway. In 2014 it plans to enter Colombia. Accordingly, the number of stores worldwide has grown to more than 20,000, demonstrating its consistent commitment to keep getting better, rather than resting on its laurels (or tea leaves).

Such expansions require a little flexibility, though, to make sure the marketing plan matches the market. In the United States, Starbucks actively avoids any franchise agreements. It wants to own all its stores to ensure consistency and quality. But that strict preference has not worked well in Europe, where it discovered it needed some help to access smaller markets. Although still a small segment of its total stores, nine franchisees in the United Kingdom now own 45 Starbucks stores.³⁸ Furthermore, in nations with strict laws regarding foreign ownership of business, such as India and China, Starbucks has agreed to enter into joint venture partnerships, to make sure it can access these massive and growing markets.

Yet Starbucks is also all too aware of the damage done in the mid-2000s, when it expanded so rapidly and indiscriminately that customers started rejecting the chain as too ubiquitous—too much, everywhere they turned. The company slumped during that period, suffering from a weakened reputation, negative press, and consumer complaints about quality.

Starbucks has quickly spread across the globe, including to this location in China.



Product Innovation

Growth for the corporation also comes about through expanding into new product lines. The purchase of Teavana for \$620 million represents its efforts to do for tea what it already has done for coffee—turn it into a pleasurable, happy experience that people can treat themselves to on a daily basis. Its Teavana stores have more than 100 flavors on hand, including nontraditional names such as Slimful Chocolate Decadence Oolong, Cococaramel Sea Salt, Yunnan Golden Pu-Erh, and Spice of Life.³⁹

Of course, this is not to suggest that Starbucks has never erred in its marketing decisions. Even the best marketers are prone to stumble sometimes. When Starbucks

sought to expand its line of breakfast foods, consumers responded with a widespread “eh.” The offerings, such as egg sandwiches, were bland and unappealing and they often took too long to prepare, especially for busy baristas during the morning rush.

But part of the success of the chain is its ability to learn from its mistakes. When Starbucks purchased La Boulange Café and Bakery for \$100 million, it tasked the chain’s founder, Pascal Rigo, with laying out a specific plan for adding to the pastries in its display cases. Rigo had multiple tasks to complete before his croissants and muffins would make it into Starbucks. He had to find a way to fit freezers into every single Starbucks store (not an easy task in tiny shops, where space is at a premium). He had to define a training plan to help baristas learn how and when to suggest and sell the pastries. And he needed to identify or create local bakeries that could be trusted to make the products consistently and on time and supply them to each store.⁴⁰

These tasks were part of the marketing plan; without establishing a good supply, Starbucks would not allow the foods into its well-designed, appealing stores. But by paying attention to the detail and thinking creatively, Rigo and Starbucks found a way to make La Boulange pastries an appealing addition to Starbucks stores.

Promotion Innovations

Starbucks is leveraging the promotion P as well by developing thoughtful campaigns that reflect currency and the image and corporate personality that it wishes to portray. In the fall of 2013, responding to growing concern over a potential shutdown of the federal government due to political gridlock, Starbucks launched a promotional campaign that helped assuage customers’ fears (if only slightly) by giving them a free cup of coffee. Starbucks’ “Come Together” campaign offered a reward for showing kindness to a stranger by giving a free coffee to any customer who bought a cup for someone else in line.⁴¹

Pricing

From its inception, Starbucks has charged premium (say “high”) prices. With relatively few specialty coffeehouses in the United States at the time, it stood out as being unique in many markets. Most Americans had never tasted freshly ground espresso, let alone cappuccinos or lattes. They certainly hadn’t experienced the warm, inviting, and relaxing atmosphere in which they could sit and visit with friends or do some reading or work. The personalized exchange customers had with a barista was also unusual.

Even after it experienced intense competition from McDonald’s, Dunkin’Donuts, and independent coffeehouses; rapid expansion both in the United States and internationally; and a back to its roots change of strategy that reflects quality products and superior service, it still commands a premium price. Moving into the future, Starbucks is counting on the increased use of payment via smartphone apps, prepaid cards, and credit cards to take away some of the sting of its relatively high prices. Where price increases used to be very obvious when you had to count out the dollars, using a prepaid card makes customers less sensitive to the premium prices.⁴²

Improvements to the Supply Chain

As the La Boulange example shows, Starbucks has learned the importance of a consistent supply of products. The supply chain is critical to any good marketing effort, another lesson that Starbucks seemingly has learned the hard way. When it first chose to distribute ground coffee and beans through grocery stores, it turned to an existing consumer packaged-goods company, Kraft, for help. The partnership was not successful and ultimately fell apart.

In particular, Starbucks alleged that Kraft was not doing enough to market and promote its branded goods. In demonstrating its ability to pay attention to changes in its situation, Starbucks also contended that the partnership was limiting its marketing capacities. For example, the agreement required that it produce only single-serve coffee pods that fit Kraft's Tassimo system. Thus, Starbucks could not compete with other providers for the segment of consumers who had purchased other systems, such as Keurig.⁴³

By securing greater control over its distribution, Starbucks also can more rapidly and effectively implement new strategies for its consumer packaged-goods business. This sector is a strong focus for Starbucks, which hopes to sell more packaged goods through additional channels, such as hotels and restaurants, as well as grocery stores. However, terminating the agreement opened up Starbucks to a lawsuit, brought by Kraft, that accused it of failing to meet the terms of their partnership contract.

These features of Starbucks' strategy highlight how marketing can lead to success. But they also demonstrate that the coffee chain's success was not predestined or guaranteed. In its marketing, Starbucks has made plenty of missteps before, and it's likely it will do so again. The goal, for Starbucks and for any great marketer, is to make sure that the value for customers is sufficient to overcome any stumbles, and then to work harder to avoid them.

Questions

1. Visit the Starbucks website and list some other ways, beyond those listed in the case, that it tries to create and provide value with and for customers.
2. What sorts of expansions seem most likely to benefit Starbucks in the future? Which seem riskiest?
3. How can Starbucks ensure that it continues to meet customers' expectations and needs? List some specific ways.
4. Visit the Starbucks website and identify its latest promotion. How does this promotion help create value for the customer and, ultimately, Starbucks?
5. Why can Starbucks charge so much for a latte when they are less expensive at chains like Dunkin' Donuts?

Endnotes

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