The Culture of STARBUCKS

one person, one cup and one neighbourhood at a time

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Executive Summary

Starbucks offers customers an elegant taste of coffee, espresso, teas and baked goods in a single stop. Starbucks is the largest international coffeehouse, operating in more than 50 countries and sweeping the American market share by a staggering 20%. In order to maintain growth and show potential to dominate the coffeehouse industry, Starbucks has formed objectives and strategies to successfully launch major market share worldwide.

Objectives

- Foster positive customer relationships to present encouraging customer experience
- Continue to support and promote proactive involvement in community, Fair Trade, and AIDS in Africa programs
- Expand worldwide to present the STARBUCKS brand and culture as a dominating force and Veblen good

As demographics begin to change, Starbucks has leveraged existing products to fit the current customer needs. As coffee is an elastic commodity, Starbucks has financially positioned themselves in a place where pricing sensitivity is minimized while still offering quality-roasted coffee has been a priority.

Because their competition is extremely threatening, Starbucks has successfully gained a competitive advantage on quality and service. Starbucks focuses on ensuring the ‘you’, experience. Each customer has a personal preference, a quality taste palate along with the desire to consume coffee. This has allowed Starbucks to tailor to the needs to their specific segmented market. Starbucks’ target market includes students and working individuals with disposable income who also consider themselves to be savvy coffee drinkers. This market shows a concern both for quality taste and a comfortable customer experience. Starbucks entices customers by offering superior service and a positive experience, - they are, after all, still in business.

Starbucks has developed a marketing strategy that promotes their brand and culture. They continue to be a strong company, showing robust financial gain year after year. Starbucks focuses on marketing their brand through ongoing social media outlets rather than the traditional print or ad campaigns. This has worked in their favour, evident by the loyalty and continuing satisfaction of their vast clientele.
OVERVIEW

1.1 The Business of STARBUCKS

As the genesis of coffee drip roasted whole bean coffee, Starbucks provides coffee lovers with a nurturing experience. Founded in 1971, the first Starbucks opened and operations began in Seattle’s Pike Place Market. Starbucks offers customers an elegant taste of coffee, espresso, teas and baked goods in a single stop. Starbucks goes to great lengths to strive for high quality coffee while practicing ethical measures. Initiating exclusive trademark products like the Frappuccino and Tazo’s tea has compelled Starbucks customers to return for more. With over 17,000 locations in 50 countries, Starbucks has established itself as a “luxury” coffeehouse that serves millions of customers daily. Starbucks has grown to be the largest operating coffeehouse worldwide and continues to expand and express their passion, experience and expertise on the art of coffee.

1.2 STARBUCKS Mission

Back in 1971, Starbucks sought out to reach one objective: to inspire and nurture the human spirit — one person, one cup and one neighbourhood at a time. Throughout the years, STARBUCKS has continually made each experience a personal one by constantly reinforcing the “you” in each cup. STARBUCKS strives to make each experience comfortable, by allowing customers to personalize their drink along with responding to the needs of their customers offering new drinks, treats, and coffee goods by demand. By allowing customers to personalize their milk content, condiments, and syrup, Starbucks has created a truly unique experience.

1.3 STARBUCKS Success Factors

Starbucks’ main advantage is the diverse clientele they have fostered. The ideal Starbucks customer has a great appreciation for quality-roasted coffee beans along with a powerful taste palate. Although there is a misconception that most Starbucks customers are affluent, middle-class customers have tried the coffeehouse brand, as the quality of every drip is quality tested. Co-branding with bookstores such as Chapters in Canada has increased exposure and awareness for their brand. Their first mover advantage (first coffeehouse to align themselves with a recognize store in Canada) in frozen coffee flavored drinks was the Frappuccino, which has gained Starbucks an aggressive edge on their competitors. Starbucks’ leading and innovative appreciation for philanthropy established them as a front-runner in the market. By consistently promoting causes such as AIDS in Africa, pure water with the sale of ETHOS water bottles, and smaller community organizations, Starbucks is confident that they have developed a helping hand to the greater community. The success of Starbucks would be non-existent without their appreciation for the art of coffee and expressing their love one person, one cup and one neighbourhood at a time.

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1 History, Starbucks
2 Stores, Starbucks
3 Our Mission, Starbucks
4 Starbucks in Canada, Starbucks
5 Shared Planet/Social Responsibility, Starbucks
MARKETING ENVIRONMENT

2.1 Demographic

Coffeehouse companies mainly target 18 year olds, as these are the beginning ages of avid caffeine drinkers. As the growing population in students and working professionals increases, Starbucks sales should continue to rise since the growing population generally consumes coffee on a daily basis. Research indicates that on average 54% of the American population are avid coffee drinkers daily.\(^6\) Combined with Starbucks’ market share of 20% of American sales in 2009 opportunities to capture the growing population are promising.\(^7\) With the Millennial group being born between 1977-2000, Starbucks is just shy of considering itself to be a Millennia. However, they have proven themselves to be market leaders when it comes to coffee sales.

With the ever-changing demographics in today’s society, it is imperative that Starbucks continue to provide their coffee consumers with convenience and tasteful quality. The brands ability to realize the millennial population was growing ensured success to the coffeehouse brand. The millennial age group was now looking for added convenience to their lifestyle while still allowing themselves to enjoy Starbucks coffee whenever they desired. Proactively, Starbucks decided to change the way coffee was bought and made by introducing the *VIA Ready Brew* coffee exclusive to Starbucks coffee locations.\(^8\) Beginning to introduce their brand into households, *VIA Ready Brew* is made with 100% natural roasted coffee beans without the added taste of preservatives – something many instant coffee brands neglect to consider. Furthermore, STARBUCKS needs to consider how the increasing amount of coffee drinkers continually rises annually.

2.2 Economic

After the recession in 2007, consumers tightly monitored their personal spending. As the unemployment rate increased, companies specializing in goods and services noticed significant decreases in sales. As Starbucks is catered towards more affluent individuals, decreases in customers were inevitable as The Great Recession affected everyone including individuals from wealthier households. During this stage, Starbucks was sensitive to advertising their more costly specialty drinks. Instead, they went back to their roots and advertised their affordable dripped coffee. In an ever-changing economy, it is imperative that Starbucks acknowledges the economic trends from both a company perspective (purchasing) and consumer (consumption) standpoint.

2.3 Technological

Because Starbucks specializes in beverage goods and pastries, technology has minimal effect on this coffeehouse company. For added clarity, each beverage is handcrafted individually to fit the need of each coffee drinker. However, Starbucks should be aware that the technological industry has and is growing vastly. The opportunities that the world of technology creates is ever changing and it is important that Starbucks, be actively involved in coffee innovation. Technological advances, such as house made espresso machines, may soon overtake the *coffee drip* technique.

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\(^6\) PBT Consulting, *Coffee Consumption*

\(^7\) Espresso & Coffee Guide

\(^8\) Via Ready Brew, Starbucks
2.4 Culture

Starbucks exemplifies uniqueness in its brand by making each Starbucks trip a cultured experience. Drinking coffee is a culture within itself. It is a growing trend among budding students and working professionals. Coffee is a worldwide phenomenon and the fact that Starbucks has allowed itself to stretch worldwide is another success factor for a growing company. Starbucks has successfully made each experience inviting, often playing music from all genres and hire a diverse range of employees. When looking through a Starbucks window, consumers will often find an inviting experience awaiting their arrival. Starbucks will continually need to foster each experience into a “you” focused visit.

2.5 Natural

With growing trends for a healthier lifestyle, Starbucks has utilized this opportunity by offering sugar free syrups and fat free options. More recently, the trend towards organically grown products has risen. Starbucks has played an active role by importing coffee free of pesticides and preservatives. In addition, the company continues to support Fair Trade operations.

2.6 Political/Social

Having mentioned that Starbucks are strong supporters of fair trade, they continue to develop this initiative. However, as the prices increase while importing coffee from various countries such as Kenya, Tanzania, Nicaragua and countries in Latin America, the Starbucks’ mantra has lived by offering high-quality tasting coffee.

2.7 Competition

Tim Hortons

Tim Hortons is a well-known coffee and doughnut chain operating mainly in Canada and The United States of America. Tim Horton’s origin is Canadian and they hold approximately 62% of the coffee market share in Canada. Some advantages that Tim Hortons has over Starbucks would be their established franchise, strong financial growth as well quick service. Their main competitive advantage would be their pricing since their drinks are averaged at a $1.60 --- Starbucks is nearly three-folds per average specialty drink. Tim Hortons offers customers the option of drive through at nearly all their locations as well operate 24 hours a day. They have merged with fast food chains such as Wendy’s and Cold Stone Creamery to entice new potential customer relationships. Tim Horton’s future looks bright as expansion into the states has been strategized and consumption of market share continues to grow.

Supermarket Instant Coffee

Brands such as Folgers, Maxwell and Nescafe to name a few are household names carried at big box supermarkets and play an indirect threat to Starbucks. With the average tin priced at $4.00, each package makes approximately 20 cups of coffee. The major advantage that these supermarket brands carry would be the convenience and ability to explore specialty drinks/coffee at an instant. With simple instructions of adding hot water and personal sweetness, supermarket brands continue to dominate the market in instant coffee. However, one major

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9 About Us, Tim Hortons
10 Pricing in Canadian dollars, Annual Report – Tim Hortons
11 Distribution Channels, Folgers, Maxell, Nescafe
disadvantage these brands endure would be the freshness of every cup. STARBUCKS has captivated this advantage by offering customers fresh coffee daily.

**COMPANY ANALYSIS**

### 3.1 STARBUCKS Onward

Moving forward, Starbucks’ proactive measures toward the marketing environment have always been to create the inviting Starbucks experience. As they continue to expand, Starbucks has outlined their strategy for the future years to come.\(^{12}\) Starbucks will but is not limited to:

- Expand globally to increase market share worldwide and capture existing markets
- Foster relationships with “prominent third parties” to help leverage customer relationships everywhere (e.g. internationally)
- Continue to foster a strong Global Responsible image and create awareness through Starbucks

### 3.2 S.W.O.T Analysis

**Strengths**
- Profitable company consistently generating revenue in the billions, with most recently recording 8 billion in fiscal 2010
- Continually expressing Global Responsibility in initiatives such as community, environmental, ethical sourcing and wellness
- Largest coffeehouse worldwide while capturing 20% of the coffee drinkers in America

**Weaknesses**
- On average, price for their beverages is two fold compared to competitors (averaged $4.00/drink)
- In 2008-2009, Starbucks closed nearly 600 coffee shops and let go several thousand employees
- In 2009 Starbucks called back their breakfast sandwich to rethink their efficiency in producing them

**Opportunities**
- Co-brand with existing companies such as Barnes & Nobles in America to help enhance the Starbucks brand and culture
- Offer Starbucks coffee roasted beans in supermarkets to allow further growth

**Threats**
- Though Starbucks dominates the coffee industry worldwide, their efforts to be number one in international markets is difficult as other home brands exist.
- Existing brands are beginning to offer coffee like beverages such as McDonalds
- Coffee/Espresso beans continually on the rise especially overseas

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\(^{12}\) Strategy, Starbucks
MARKETING STRATEGY

The Starbucks marketing strategy has always been to help integrate Starbucks as coffee leaders in the beverage industry. With proper segmentation, Starbucks has been able to target their market. As they differentiate themselves from other leaders in the market, they continue to position themselves as the number one coffee brand in everyone’s hand. Their main strategy is to offer a strong brand while offering exceptional customer service.

4.1 Segmentation

Starbucks has segmented their audience into two different categories: students/adults and avid coffee drinkers. Capturing the student/adult market seems promising, as there is a large and lucrative market where caffeine consumption is approximately 90%. There is a high desire to uphold current trends and is considered to be an inelastic commodity. Capturing avid coffee drinkers should be fairly seamless considering how Starbucks has extracted a sense of loyalty from their clientele. These individuals are more likely to visit daily and have a strong relationship with the company.

4.2 Targeting

Starbucks targeting strategy has been apparent in the affluent market. Starbucks offers a comfortable experience with every visit. As the coffeehouse offers quality coffee their success is dependent on their customers. Starbucks is successful in targeting the appropriate market by understanding their needs and wants. They continue to build a rapport with each and every customer beginning with their drink order and preference.

4.3 Positioning

The main success factor for Starbucks would be their ability in listening and educating themselves in their customers needs and wants. As the average coffee-drinker is constantly on the go, Starbucks responded by offering a “drive-thru” in popular suburban areas. This is a proactive response from Starbucks, as they understand the nature and lifestyle of their typical customer. In addition, they offer Wi-Fi since their main clientele consists of students, and working individuals. This has allowed Starbucks develop a greater relationship with their customers as they now have the option to enjoy their time at a Starbucks café as oppose to their own home. Starbucks has positioned themselves in the market by diversifying their store features and offering convenience. This is an important feature for Starbucks because it is important for them to uphold their brand and make each experience a cultural visit.

MARKETING MIX

5.1 Product

Beginning in 2011, Starbucks went through a redesign of their logo. As the coffeehouse celebrated their 40th birthday, this launched a milestone within the company. Starbucks offers the same variety of products worldwide while offering locally specialized pastries in foreign countries. Starbucks emphasizes the importance of quality in both their food/beverages along with their household goods. Most recently, Starbucks introduced breakfast sandwiches that played a direct threat to companies like McDonalds and Tim Hortons. Having launched in 2007 Starbucks continues to align with company goals in providing customers the opportunity to add or remove toppings from their gourmet breakfast sandwiches.
The attraction towards specialty drinks is contagious, and with new customers consuming caffeinated drinks daily, they are prepping their taste palate for more of Starbucks’ offerings. By Starbucks offering various drinks, it allows experienced coffee drinkers to be satisfied in terms of quality and selection. For newcomers, stepping into Starbucks may be overwhelming; terms like “lattes” “mistos” and “foam” may be new to the coffee world, however offer an enhancement to the quality drink each customer is about to indulge in.

5.2 Price

The average coffee at Starbucks, ranges from $1.80-$2.00 depending on size. Specialty drinks (these include flavoured syrup or espresso shots) range from $3.50-$5.03, again varying by size. As Starbucks started out, they used a penetration price strategy. Starbucks has acknowledged that the competition was a threat, so they’ve decided to keep competitive products low. For example, coffee, the average customer can spend $1.60 at Tim Hortons for a large coffee while an individual can spend $2.10 on a Grande (considered a medium) coffee at Starbucks. The strategy means customers spend a bit more at Starbucks but gain an appreciation for quality coffee. Specialty drinks however, are charged at a premium price, as most competitors do not capitalize on flavoured drinks. However, the industry is continuing to populate in flavoured caffeine. Starbucks continues to dominate with their specialty drinks, as they were first movers into the market to offer flavoured caffeine drinks. Moreover, Starbucks has gained momentum and loyalty from their customers to charge premium prices, as some are now indifferent to the nature of Starbucks brewed specialty coffees. By employing a penetration technique, Starbucks has the opportunity to capitalize on market share moving forward. As they expand stores, populate in urban areas, offer lower priced coffees and higher priced specialty drinks, Starbucks will be able to capture an audience that is intrigued in both quality and tastefulness.

5.3 Promotion

For most of Starbucks longevity marketing via billboards, television and mass media were neglected. The company’s philosophy was and still remains to be enhancing the brand through loyalty and by word-of-mouth via employees. Starbucks uses a push marketing technique by allowing their customers to do the marketing. They produce drinks that their customers are satisfied with which creates awareness amongst coffee-drinkers. The simple design of the Starbucks cup has become iconic, and is a way in which the company markets itself effectively. The company’s focus is not to mass market their brand, as their culture is a personal choice, not a media one. The company’s extensive customer service and quality is what has helped Starbucks become successful.

5.4 Place

With over 17,000 locations worldwide, Starbucks aims to locate in two ways -- high traffic cities and urban areas. They continue to market to high traffic areas as majority of their demand comes from clientele in these areas. Being located in population-dense areas allows greater exposure without mass marketing while implementing a customer penetration strategy. For example, Starbucks aims to target the well-educated working individual. A majority of them work in the city, as corporate individuals common to find in such areas. With rapid expansion in the near future, Starbucks has strategized to gain the number one market share in most operating

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13 Canadian dollars, Starbucks
14 Locations Worldwide, Starbucks
countries. Starbucks will continue to partner with third party retailers to enhance the culture and brand, and to capture customers daily.

**CONCLUSION**

As a closing note, Starbucks’ marketing strategy has always been aligning company objectives with customer experience. They continue to dominate the market by excelling in customer service and top quality products. As Starbucks prepares to expand and enter into new fiscal years, they must remain confident. They will need to acknowledge environmental factors in company decision making while allowing for future growth and innovation. Starbucks is a market leader in their industry and continue to pave the way in leadership and community programs. Starbucks is a force to be reckoned with as their strong customer base, brand and exclusive culture truly make Starbucks a leader in the coffeehouse industry.
Sources
http://www.cbn.com/health/NaturalHealth/coffee.aspx


