Starbucks 1996 case study

Starbucks 1996 Case Background: By 1996, Howard Schultz, Chairman and CEO of Starbucks Corporation had firmly established a leadership position in the specialty coffee industry. By the end of fiscal 1996 Starbucks employed more than 20, 000 people and encompassed over 1, 000 retail locations in 32 markets throughout North America as well as two new stores in Tokyo, Japan. With such rapid growth and an ongoing evaluation of new opportunities within domestic and international retail markets, new specialty sales partners, penetration into the grocery channel, and the future potential of their mail order business- Starbucks was in a position to attempt developing its brand beyond being the preferred outlet for purchasing coffee to becoming a preferred consumer brand.

Key Questions: 1) Is Starbucks growing in the best way possible? 2) Is Starbucks overextending in its quest for growth? Analysis: The coffee industry was highly fragmented with few dominant players. Competitively, Starbucks had a clear stronghold on all facets: • Sourcing (diversified portfolio of high quality exporters/close relationships with those exporters) • Packaging (unique vacuum sealed package, ensuring a higher degree of freshness than competition) • Supply Chain Operations (best transportation rates in the industry/ SCO serving four business units in order to eliminate redundancy and maximize efficiency) Retail Sales (primary growth vehicle/adoption of brand essence/experience by customer) • Employees / Baristas (overall, most highly trained and knowledgeable in the industry) • Merchandising (only carrying the highest quality coffee-making equipment and accessories) • Disciplined Real-Estate approach (tremendous flexibility and innovative “ store clustering” concept maximizing market share in given areas and building regional reputation) • Specialty Sales (partnerships existed with many different companies providing Starbucks with revenue growth potential and increased name recognition) New Ventures (Dreyer's Ice Cream, bottled Frappuccino product w/ Pepsi, and penetration into the grocery channel) • Mail Order (Encore DM program boosted sales by increasing transaction size, and introducing customers to a wide range of company products) • Financial (Starbuck's stock price and EPS had been rapidly increasing over the past five years) • Marketing (brand equity primarily generated by retail business- Starbucks is not just coffee, it's a place, an experience) Starbucks must decide how it should leverage its core competencies against various growth opportunities: Key consumer drivers of Starbucks success:) Health consciousness 2) Social experience/socializing (" The Starbucks Experience") 3) Affordable luxuries 4) Awareness • Introduction of Starbucks Coffee at McDonalds- Starbucks should beware of diluting the brand. McDonalds does not portray a health conscious, luxurious atmosphere. Associating a clearly positioned " white color product" in an environment that clashes with the luxury essence of the Starbucks product, may cause confusion and inevitably tarnish the brand. In addition, McDonalds certainly does not provide a cohesive social " experience" with the Starbucks brand.

Further expansion of retail operations- If Starbucks continues to saturate areas with retail stores, they may not only lose some of the quality control over these locations, but begin to deteriorate the brand image. A unique " third place" between work and home providing luxury and a rich social experience will not be very appealing if, over time, there's one on every corner. However, Starbucks could grow organically- current stores could become more elegant, a place welcoming, rewarding, and surprising customers at a higher level than what they're accustomed to. By further developing current retail locations, Starbucks may be able to gain greater market share in areas without adding new stores.

• Leveraging the Starbucks brand into the grocery channel- Can Starbucks maintain its appeal and identity through the packaged foods channel? Again, If Starbucks is not just coffee, but rather a place and more importantly an experience, entering grocery stores may be very risky. This could once again prove to contradict everything Starbucks seemingly stands for. However, if done properly, this may be more realistic than entering McDonalds. Starbucks has a better chance of translating many of its key success drivers into the grocery channel.

• Leveraging the Starbucks brand into other product categories- Starbucks must identify new products that uniquely belong to, or can be associated with their brand. It may be too far of a stretch to believe Starbucks could successfully market a pair of designer jeans, however there may be ways to reach non-coffee drinkers. Starbucks must ask: What could coffee be – besides hot or liquid? • Leveraging the Starbucks brand into the international market- The competitive strength of Starbucks is clearly dominant on a domestic level. However, this does not guarantee the brand identity/quality can be successfully translated into the international retail market. What Starbucks represents to the American consumer: " a third place", " affordable luxury", " health oriented", may not even be relevant to international consumers. Furthermore, the question remains: Can Starbucks maintain the same level of control and discipline over their operations and brand if distributed internationally: • Sourcing • SCO • Employees • Real Estate Conclusion: Starbucks must walk a fine line between leveraging its brand to achieve growth and not allowing it to deteriorate in the process.

Recommendations: 1. Starbucks must identify its core capabilities that are transferable into International Markets as well as packaged foods. Starbucks needs to assess whether or not it can transfer control and discipline over their operations and brand if distributed internationally. Also, Steps should be taken to evaluate international response to Starbucks, as well as gauging the current “ brand loyal” consumer opinion on branching into the grocery channel. 2. Starbucks should not partner with McDonalds.

The company should stay away from retail partners who do not have a cohesive image. Partnering with McDonalds will certainly deflate the Starbucks “ experience” which in turn, may cause long-term brand equity to decline. 3. Starbucks must stay true to itself if leveraging the brand into other product categories.

Becoming a consumer brand instead of just a specialty coffee outlet may be difficult. As long as Starbucks can translate the high level of quality and brand essence that made them famous, it has a chance to succeed outside of the retail coffee industry. However, they must stay relevant. What could coffee be – besides hot or liquid? – Candy – Desert products- cakes, toppings, etc. Starbucks branded coffee merchandise: – Packaging- unique vacuum sealed bags – Hardware- highest quality coffee-making equipment and accessories 4. Starbucks should attempt to grow organically.

Starbucks can achieve sustained growth without over-saturating the market with new retail locations. Current stores could become more elegant, a place welcoming, rewarding, and surprising customers at a higher level than what they're accustomed to. By further developing current retail locations, Starbucks may be able to gain greater market share in applicable areas without adding new retail stores. 5. Starbucks may be able to create a new segment/category within the coffee industry. Based on the consistent growth of the specialty coffee industry and the brand loyalty generated by the Starbucks name, there may be an opportunity to create an even higher-priced, more distinguished (luxurious) coffee category appealing to an additional segment of coffee drinkers.

If Starbucks can infuse a more expensive line of coffee within their current line-up, they may be able to sustain growth by playing off of the " perceived value" of " affordable luxury". Basic Coffee / Specialty Coffee / " Exclusive Luxury Coffee"