

Starbucks uk: tax avoidance



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The purpose of this assignment is to understand the PR situation about Starbucks; the issues the company faced during the crisis in the UK; when it went public that Starbucks were not paying any corporation tax. What they faced and how they can come even stronger out with their advertisements and public relations.

Background- Starbucks UK

Starbucks was first opened in 1971 in Seattle's market as a roaster and retailer for coffee beans, tea and spices. Since then they were able to open more than 17. 009 shops in over 50 countries. Starbucks first offered their investors to buy shares in 1992. (Starbucks, 2011) In September of 1998 Starbucks opened their first UK shop in Manchester. (Starbucks, 2009)

According to the company's profile the name " partners" is given to the companies employees who are meant to be the heart of a Starbucks experience offered to their customers, they also state that they believe in treating their " partners" with respect and dignity. In 2008 Starbucks Announces; Starbucks Shared Planet and with it they set in their responsibilities as a company that they are committed on doing business responsibly and conducting themselves in ways that earn the trust and respect of their customers, partners and neighbours. (Starbucks, 2011)

Introducing the crisis

On October there were allegations that Starbucks were not paying tax in the UK. In early December it was announced that Starbucks paid just £8. 6m in its 14 years in the UK. Consumers were taking things to social media causing

an even bigger chaos for the company; with its reputation falling much higher than expected in less than a month. Before things were taken to the media there was a very small amount of consumers that knew of the situation. The company tried explaining to the public of the situation and actually agreeing to pay an amount of money over 2013-2014.

Question 1

When trying to understand what PR is Tench , Yeomans (2009: 5) suggest that PR is about managing communication in order to build good relationships and mutual understanding between an organisation and its most important audiences. PR has to do with the reputation of a company or an organisation; it has to do with what the company does, what they say and what others say about the company.

The use of communication to influence the public is not relatively new it goes back to the ancient civilisations. Since those ages PR in Britain was a presentation of actual and genuine facts that were trying to convince the public of different issues and policies. A key characteristic since then when trying to practice PR in general but more specific in Britain is the importance of the truth that is an ideal tool, the potential for PR to be used as a means for promoting freedom, democracy and in particular, the British way of life (Tench , Yeomans, 2009) . The key characteristics of PR in Britain are the use of truth, the ethics and morality if the profession, the justification for using PR in terms of mutual benefits rather than one sided advantage and ongoing blurring of boundaries between marketing, propaganda and PR (Tench, Yeomans: 14).

What is written in the press is not always the truth there is and was an ongoing battle between journalism and PR; but journalists want to know everything so there is in a way a dependence between the two.

After what was announced in the press people were very annoyed and frustrated with what Starbucks had been doing for a while not paying taxes in the UK. Starbucks lost some of their loyal customers due to the tax issue. On their website, Starbucks make clear to the public that they have been paying what is required by law; but they also mention that they have not paid a meaningful amount of corporation tax due to the profits that the company makes saying that in the UK it is very difficult for them to make profit and they were not in a position to pay much corporation tax (Starbucks, 2013). They made sure and pointed out that they listen to their customer and that they will be acting more responsibly by changing their approach to that issue. Kris Engskov, managing director of Starbucks UK, said the company had begun “ a process of enhancing trust with customers and the communities that we have been honoured to serve for the past 14 years”(sky news, 2012). There were many people and businesses that didn't understand how Starbucks could not make a profit and not being paying corporation taxes but they are supposed to. Starbucks gave an explanation about it saying that some of the stores require high running costs so they make them unprofitable, but that the company is going to pay a significant amount of money over the next couple of years. These are said by some that is a desperate attempt to gain back their customers to reflect public pressure from them (BBC, 2012). A Starbucks MD tells Sky News the coffee chain has not lied about its UK profits following a U-turn over paying

corporation tax (sky news, 2012). The Prime Minister's used the phrase “wake up and smell the coffee” in a speech to the World Economic Forum; the company's UK managing director Kris Engskov demanded talks with the Prime Minister which might have made people's spirits even more frustrated (sky news, 2012).

According to marketing week (2012) the impact on the brand's name is not expected to be a long term one; adding that there is a reason why such brands do so much and work so hard to have fans is so that when something like this happens are more likely to ignore or forgive it.

Question 2

According to the quote in the question Tench & Yeomans (2009) say that ‘there are key ingredients in handling any crisis and they are: knowledge, preparation, calmness, control and communication. These will help an organisation secure the best possible outcome from a crisis’.

According to the reporters from BBC (2012) Starbucks admitted that there were taken by surprise by the level of hostility and emotions surrounding the tax issue. Starbucks knew well in advance that one day this issue might come out in press and they had to be more prepared when responding to the public. Mr Engskov came out during the first stages of the crisis announcing to the public that the company had issues being profitable in this country; and that they are now taking more actions in paying taxes although the company had been paying what was required by law. Through him the company was able to communicate efficiently with the public announcing the

steps that they will be taking after the incident, weeks after the issue was raised.

Although the issue has gone from the headlines Starbucks should have still been communicating with the public trying to restore their reputation and gain their credibility back. They are a huge brand name in the coffee industry and should have been more prepared for such situations. Starbucks were not prepared at all for this situation according to a post in metro newspaper (2012) mentioning again that Starbucks PR was a fail. Reuter's (2012) comments that the company accounts in Britain are confusing. They have been telling their own investors that they are profitable, even though they continue to report losses. this was either a miscommunication amongst them or they were clearly hiding the facts in fear of even more issues. In the same article there seems to be a second spokesperson acting on their behalf who said that they seek to be good taxpayers and to pay their fair share of taxes; the company doesn't write this tax code; they are obligated to comply with it. And that's exactly what they do. Showing that the company didn't choose a certain person to act responsibly on their behalf; making it more difficult for them.

Question 3

Friedman and Miles (2006: 154) before identifying the stakeholders for Starbucks mention that the firm has a reputation as being a stakeholder-focused firm. According to them Starbucks list their stakeholders as:

Employees

Customers

Coffee farmers

Suppliers

Community members

Environmental groups

Activists

Shareholders

Employees

According to the ethics of Starbucks even if the employees have some kind of knowledge of any situation regarding the company; and they are asked to comment on any issues they need to appoint it to their managers (Starbucks, 2013)

customers

Many news broadcasters say that the company has gone under fire after customers reached their boiling point in terms of anger after Starbucks attempted to write a blog justifying its tax expenditure in the UK. Yet, this move as mention from Huffpost Business (2012) has fallen on deaf ears, as numerous people starting posting under his open letter accusing him of dishonesty and of lying to their customers.

coffee farmers

Starbucks states that after 2002 they have been paying premium prices to help farmers be more profitable and have a better living. They even build a

farmer support centre in Costa Rica to provide training and technical support to ensure that there is high quality coffee production while remaining sustainable (Friedman & Miles, 2006). During the crisis this stakeholder group were not involved in the scandal.

suppliers

For their suppliers, Starbucks determined that they must meet minimum standards and demonstrate best practice. Those who high-scoring is said to receive preferential buying status, higher prices and better contract terms. Even the bakery and dairy suppliers were encouraged in producing more sustainable products (Friedman & Miles, 2006). This is one of the stakeholder group's not involved in the crisis.

community members – environmental groups – activists

UK uncut protestors who protested in more than 40 UK branches told metro (2012) its "too little too latte". Amongst other campaigners were the aid agencies that said that although the damage in the UK economy is big in other poorer countries is even bigger. The head researcher at Save The Children agreed by saying that in this country there have been cuts in benefits for some poorer people while knowing of the unpaid corporate tax is just not doing it (metro, 2012).

T. Bleszynski, managing director of The Alternative, says to marketing week (2012) that consumers are less disturbed due to being interested in the service offered by the brand. If Starbucks continues providing the same expectation, taxation is not a big issue for consumers. However if they start

to go against core brand values or promises and break a bond of trust with their consumers then; it will have an effect.

To conclude the above Starbucks needs to keep their promises about their services being offer to consumers. The company is being trusted for their coffee and that will not change, that's what people trust.

Question 4

There are many ways to explain the what advertising is all about Taflinger (1996) defines advertising as a non-personal communication of information usually paid for and usually persuasive in nature about products, services or ideas by identified sponsors through various media. After a variety of research trying to find out what advertising is all about Richards and Curran (2002) came to identify advertising as a paid non-personal communication from an identified sponsor, using mass media to persuade or influence an audience.

Advertising in reality is meant to turn a potential customer toward a product or service by providing information or creating a positive feeling something that most of the times goes well beyond simply their attention to it.

Advertising is an indirect way of turning a potential customer towards the advertised product or service by providing information that is designed to effect favourable impression, what we will call a positive brand attitude. This favourable positive brand attitude then helps place the consumer on the path toward seeking out the product or service advertised. (Percy, Rossiter, Elliott 2001: 3)

For advertising to work effectively a person- our potential and future customer must have the opportunity to see or hear the message, they must pay attention to it, understand what is being presented, and then act upon the message in the desired manner (Percy, Rossiter, Elliott 2001: 5).

Starbucks is well aware that there is a loss in some of their customers in the UK. The British citizens believes in the use of truth, the ethics and the morality these are some of the basic values that they have and they strongly believe in them and want to leave with such moralities. If there is something that they do not like they will certainly make the business aware of that; and that's exactly what they did in December and the months that followed.

Coffee is now more than ever a drink that most British drink but they still continue drinking their favourite tea and that has gone a long way to change now. For Starbucks is a coffee business in general that provides other drinks as well they need to stand out of the crowd to win the lost customers back and to do that they can use very good advertising. Their adverts now need to be catchier than they ever are and need to be adapted to the English standards.

The following is an advert that can be used from Starbucks to try and restore their reputation. There is a saying that some see the glass half empty and others half full; some of the customers will choose after the incident to take their business else were, they might like their new surroundings or not so they might return after very carefully thinking. Starbucks makes it their aim that they will try and inspire one customer, one cup of drink and one neighbourhood at a time. They say that their stores are a welcoming third place where one can meet up with friends or family, enjoy a quiet moment

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with their self's reading books or just simply finding themselves in a familiar environment in a new city(Starbucks, 2013). Starbucks can return back to their basic values the customers making them feel that they are always their first priority while doing business collectively. A cup of freshly poured coffee will automatically make some readers to want coffee; – which in this case they can just walk in a Starbucks shop and taste the uniqueness of the drinks available to them.