

Investigation of the harvard business school case

[Business](#)



Provide a great work environment and treat each other with respect and dignity 2. Embrace diversity as an essential component in the way we do business 3. Apply the highest standards of excellence to the purchasing, roasting, and fresh delivery of our coffee 4.

Develop enthusiastically satisfied customers all of the time 5. Contribute positively to our countless and our environment 6. Recognize that profitability is essential to our future success Essential Company Background Stardust's started as a small cafe© in 1971 at a downtown Seattle market by three coffee drinkers.

The hiring of Howard Schultz in 1982, and his subsequent trip to the coffee shops of Italy began the transformation of Stardust's from corner coffee shop and wholesaler to corporate success story. In traveling to Italy, Schultz discovered the sociological impact of coffee shops on the Italian way of life. Believing Americans needed a third place besides work and home, Schultz transformed a downtown Seattle shop into an espresso bar under the Stardust's name to more closely resemble the Italian coffee shops he had vaulted.

A few years later Schultz bought the founders out and in 1992. Struck had grown to 150 stores across the Northwest a Malaise. Consult took ten company puddle Ralston over Sales History/Future Following the initial public investment in 1992, sales grew by an annual compound percentage rate of 40% and net earnings had risen over 50%. From 1998 to 2002, gross profit has increased in millions from 730. 2 to 1938. 9 and the number of Stardust's retail stores have increased from 1, 886 to 5, 886.

As sales continue to grow, Stardust's itself seems recession proof.

Even following the 9/11 attacks as other segments of the economy took a dive, Stardust's continued to open new stores and increase sales. In considering Stardust's long-term outlook for investor, detonations. Com said: " We recommend purchase for aggressive growth-oriented investors with a longer- term time horizon. Despite a weaker economy and what some thought would be soft demand for an optional premium-priced food product, consumers show that they would not forgo their Struck in the morning.

Bottom line-the core business remains healthy despite the challenging economy, and we expect that investor confidence in the story will remain strong".

Financial Health of the Company/Stocks For the fiscal year 2002, Struck reported that profits rose 19 percent to \$215. 1 million, compared with \$181. 2 million the previous fiscal year. Revenues for fiscal year 2002 were \$3. 3 billion, up 24 percent from last year's revenues of \$2.

65 billion. Struck had 5, 886 stores at the end of the quarter; with 1, 177 of those opening in 2002.

The income statement shows strong sales growth for the years 1999 - 2002. Revenues grew at an annual rate of 22%. Percentage of revenues being applied to cost of goods sold has declined every year from a high of 48% in 1998 to 41% in 2002. This company is growing fast and generating profits and cash.

The Four Up's of Marketing Product The brand components at Struck are products, service, and atmosphere. The tangible products are coffee beverages, food items, whole beans, and equipment/ accessories. Other products such as service and atmosphere are intangible.

Service is geared toward customer satisfaction, giving the customer what he/she wants, including customized beverages. This process can take a little longer, which causes time delays in line. Employees are to make friendly conversation with customers while they wait.

The friendly environment adds to the homey atmosphere inviting customers to nag out Ana come Dacca. Coffee beverages come in various forms. Classic favorites include traditional espressos, cappuccinos, and lattes. Brewed coffee takes form in a variety of gourmet flavors including seasonal and the “ coffee of the day. Cold beverages are typically chilled versions of the traditional flavors. Hot chocolate, ciders, and teas are also available as coffee alternatives, as well as production's in regular, cry©me, and tea.

There are food items available for snacking while enjoying a nice beverage at Struck. Cookies, brownies, Danishes, mint-cakes, and bisque are some of the common favorites. There are also seasonal food items, which Struck uses to test new products by giving out free samples during the holidays and special occasions. Whole bean coffees are quoted as being “...

Most intriguing and exotic... They are also considered “...

Smooth, richer, and more flavor... ” As well as “...

Mild, the perfect introduction to Struck... ” These whole beans can be purchased at Struck stores and in grocery stores. While standing in line at Struck one may notice a variety of coffee accessories available for purchase. This equipment includes espresso machines, cappuccino makers, coffee cups, coffee makers (regular and portable), CDC, cameras, and other novelty items.

The service at Struck is developed to be second to none. All employees are considered Partners and the hourly paid workers are specified as Baristas.

The barista are trained to portray a knowledgeable, friendly, and personable personality, while treating all customers as VISP. They are trained to work efficiently to provide fast service, while exercising the ability to customize handcrafted beverages. It is the “Just Say Yes” attitude that empowers the Baristas to override company policies to satisfy the customer.

In addition to the great products and service, the Struck atmosphere adds to the overall experience. The founder’s of Struck wanted to develop a “third place” for people to go between work and home.

To achieve this, an ambiance of spirit, community, and social gathering has been created to attract people. Customers come to Struck not only for a beverage, but also to hang out and socialize. The real product for Struck is not coffee but the overall “Struck Experience”.

Price Whole beans range in price from \$5. 20 to \$6. 50 for a h lb, and \$9. 95 to \$15. 95 for bob.

Prices for beverages vary depending on the size and type of beverage purchased. For example, a Toffee Nut Latte costs \$2.95 for a Tall (smallest size), \$3.40 for a Grande (medium), and \$3.00 for a Venti (large).

Prices vary between beverages as well where a Cafe Americana costs \$2.40 for a Venti, a White Chocolate Mocha costs \$4.00. The price territories also apply to ten Transparency, cola Diverges, Ana coffee alternatives. Struck follows a standard retail payment process where customers pay at the counter when they order. However, this standard procedure varies in the way that Baristas are empowered to change the price to accommodate custom drinks, or add a little extra of a requested item at no charge in order to accommodate customer satisfaction.

Struck also has a few promotional programs like a frequent customer card that allows for a free drink after the purchase of x number of beverages. Another card that customers can get is a prepaid swappable smart card, where a certain dollar amount can be put on the card then used at any Struck. The swappable card is a great gift card and acts as a promotional item. Struck used price to position their product. They charged a higher price for their coffee to imply superior quality.

The “ Struck experience” was an affordable luxury.

Promotion The main line of promotion occurs at the service counter with the Baristas. Baristas promote new beverages and food items and create a service and atmosphere that encourage customers to pass on the experience by word-of-mouth. In a service industry word-of-mouth is the most effective form of advertisement so it is very important for Baristas to
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follow through with excellent customer satisfaction. They also promote new food items and specialty drinks at holidays, giving free samples to test these new products.

A new sales approach is being used for whole beans and bottled profusions by marketing in stores.

Outside sales reps push these items in heavily traveled areas in grocery stores, college stores, and airport snack shops. Struck views this as an opportunity for new customers to try Struck products without going to a Struck store. Place As of 2002, the channels of distribution were predominantly in Struck store retail. There were 3500 company owned stores in North America, and 300 internationally. Non-company owned organizations, known as retail licensed stores had a presence in North America of 1000, and 900 in Asia, Europe, Middle East, Africa, and Latin America.

Struck goal was to reach people where they work, travel, shop, and dine. They sought to achieve this goal by placing Struck stores and products in high traffic areas with high visibility such as retail centers, office buildings, university campuses, and airports. Competition r sucks Is a implant Torte In I TTS Ministry. According to Hoovers online, stardust's top competitors are New World Restaurants, Caribou Coffee, and Dietrich Coffee. These firms have combined annual sales of about \$550 million; a far cry from Struck estimated \$4 billion in annual sales.

Struck also competes with thousands of independent coffee shops. Most of these shops differentiate themselves by either offering a wide range of food,
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alcohol, Internet connections, or highly specialized service. However, Struck brand recognition and numerous locations make these firms little threat. A new competitor is emerging from pod style gourmet coffee machines such as Philips' Senses. These makers promise coffee house quality at home, one cup at a time.

These machines are likely to have a larger impact on the traditional at home coffee segment than Struck' growing specialty coffee segment.

Market The US coffee market is generally broke down into traditional and specialty segments. Struck has grown with the expansion of the specialty coffee segment. Annual growth of the segment is estimated at 9% to 10% over the next few years. In 2005, it is projected that the specialty segment will expand to 41% of the estimated \$22 billion US coffee market. Struck is expected to capture 50% of the segment, roughly \$9 billion.

Growth is estimated at a compounded annual rate of 20% for the firm.

Customer Service The crux of this case is Struck focus on customer service.

Struck goes to extreme measures to ensure its customers are satisfied.

Struck commitment to customer service is most evident in their employee-training program. The training program installs what are called " hard skills" such as operating the cash register and mixing drinks. However, it's the " soft skills" that make the program stand out.

Employees are taught how to connect with customers with enthusiasm and eye contact. They are encouraged to probe the customer about his/her

coffee references, make suggestions, and, in all, guide the customer in selecting a handcrafted coffee beverage.

The result is a product specifically tailored to the customer's desire. It is this service that brings customers back for more and has led to Struck unrivaled success. The following figure depicts Struck' ability and need to satisfy its customers.

Approximately 21% of Struck customer base accounts for 62% of its transactions. This customer loyalty indicates Struck commitment to customer satisfaction. Struck depends on repeat customers to provide the bulk of its business. Are Struck' customers satisfied?

That is the central question in the case as top management considers adding more labor hours to each store. The above figure would suggest that Struck has a high level of customer satisfaction. The following Stetson wall Turn satisfaction.

Newer Investigate stardust's market research regarding customer Market Research Struck has shown increasing concern with regard to changing demographics of its customer base. The following figure shows the disparity between its new customers and its old customers. % of Struck' customers who first started visiting Struck...

In the past year 27% 1-2 years ago 20% 2-5 years ago 30% 5 or more years ago 23% New Customers Established Customers (first visited in the past year) (first visited 5+ years ago) Percent Female 45% 49% Average Age 36 40 Percent with College Degree+ 37% 63% Average Income \$65, 000 \$81 ,

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OHO Average # cups of coffee/week (includes at home and away from home)
 15 19 Attitudes toward Struck: High-quality brand 34% 51% Brand I trust For
 someone like me 15% 40% worn playing more Tort Known for specialty
 coffee 44% 60% Known as the coffee expert 31% 45% Best-tasting coffee
 20% 31% Highest-quality coffee 26% 41%

Overall opinion of Struck 25% 44% It is necessary for Struck to interpret the results of its survey correctly.

Top management is worried that it may become out of touch with its evolving customer base. In particular, the firm is questioning whether its younger customers hold service speed with higher esteem than quality. However, the above figure is indicative of new customers becoming familiar with the brand.

It is to be expected that the new customers be younger than those that have frequented Struck for years. Struck is almost everywhere; if you have not tried it by now then it is likely hat you are young and Just being introduced to the brand.

Struck should expect some new customers to not identify with the brand and respond negatively. The following figure sheds more light on Struck misgivings regarding the speed of its service.

Factors Driving “ Valued Customer” Perceptions How could Struck make you feel more like a valued customer? % Responses Improvements to Service (total) 34% Friendlier, more attentive staff 19% Faster, more efficient service 10% Personal treatment (remember my name, remember my order) 4%

More knowledgeable staff 2% Offer Better Prices/lenitive Programs (total)
31%

Free cup after x number of visits 19% Reduce prices 11% Offer promotions,
specials s Other (total) 21% Better qualitatively of products 9% Improve
atmosphere 8% Community outreach/Charity 2% More stores/More
convenient locations 2% Don't Know/Already Satisfied 28% Only 10% of its
customers recommend increasing the speed of its service compared to 19%
that recommend increasing the friendliness of the staff. This suggests that
there is no need for investment in more labor to speed the service. The
money would be better invested in the training program to enhance the
employee/customer relationship.

Marketing Concepts in the Case Market Segment Schultz identified two
market segments, people who seek a place to go to get away from work and
home just to relax and people who like premium coffee.

His experience in Europe convinced him that these market segments existed
in the US. Struck re-invented the coffee drinking business by tapping into the
latent demand for the premium coffee drinking experience. Struck targeted
those customers that repeatedly visit its locations and desire top-notch
service and quality coffee.

Branding The Struck experience was a three component branding strategy.
The first component was to offer the highest quality coffee available
anywhere.

The second component was to develop customer intimacy through superior customer service. The third component was to offer an atmosphere that will encourage people to linger and return. The Struck brand is not just coffee, it is the entire experience and this experience is what has made Struck successful. Struck is extending its brand. The company sells and markets teas under the Struck name.

Struck coffee is partnering with other companies to use the Struck name to sell products in grocery stores.

Struck partnered with PepsiCo Inc. To produce a bottled version of Struck Production, a cold, sweetened coffee. Another partner, Walt Dryers, was Torment to produce r sucks Drank ice cream products. Struck is successfully extending its brand not only into new products but also new distribution channels. Service Triangle Struck uses the service triangle concept effectively with its internal and interactive marketing.

Struck effectively internally markets to its employees through training. It empowers its employees to take an active role in the sale of the coffee. In fact, its employees are respectfully referred to as “partners”. This training allows for the service to be almost as important to the customer as the coffee itself. Interactive marketing between the baristas and the customer is critical to Struck’s success. The baristas suggest drinks and ensure that every customer has a satisfying coffee experience.

Struck relied on word of mouth as its primary means of external marketing.

It relies on satisfied repeat customers to spread the word about the quality of the coffee and service. Word of mouth marketing has made Struck a brand is recognized all over the world. Channels Struck controls the vertical channel as much as possible to insure the supply of the highest quality supply of coffee beans. The company buys beans directly from the growers.

Struck oversees the roasted the beans and controls the distribution of the beans to it retail outlets. This is not discussed in any detail in the case.

Struck retail outlets were its primary distribution products and represented 77% of their sales. Another channel was the distribution of the beans to food service accounts like restaurants and hotels and this represented about 5% of sales. Domestic and foreign licensing, international stores, grocery stores, warehouse clubs and grocery channels represented together less than 10% of sales combine.

Problem Christine Day, Senior Vice President of Administration in North America, is concerned with a recent market survey that shows Struck is not meeting customers expectations.

She has a plan to change how stores operate in order to improve customer service. It is our belief that she is misreading the data and the underlying product is not that there is something wrong with Struck but that the demand for Struck' products is too great. This does not mean the company can do nothing if it wants to continue to be successful. Struck should not change the core product, the Stardust's experience.

We recommend Struck keep the core Struck experience intact so long as customers are line up out the door.

Significant changes to the Struck experience or coffee could have disastrous results. Recommendations Struck should diversify its complement products. Stores should offer new food products to go along with its coffee products. The food products should consist of high quality variety that changes often to keep the experience fresh. The atmosphere can be made more personal by giving the customer a personal selection of music they can listen to using their headphones.

Struck should protect their brand's image.

Struck should restrict its coffee to Struck retail locations, approved corporate partners, specialty coffee retailers and high quality hotels and restaurants. Partnerships for the purpose of extending the brand should be with reputable companies and for premium products only. Struck needs to take measures to safeguard their brand image and prevent the image from being cheapened. Struck should continue to expand. Struck should continue to expand into reign markets in Europe and Asia Pacific building a global brand.

Struck should increase sales to existing customers by expanding food offerings as discussed previously. Struck should expand into other coffee segments but not using the Struck brand. Struck should acquire or create a new brand for less premium coffee markets. Struck should open new stores in North America markets that are still untapped and off interstate locations on busy Interstate stretches. Struck should consider establishing stores in

major business colleges in order to get younger customers hooked on the
Struck experience.