

Crowded playing field and schultz

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Schultz and Co. also face a different market in 2008. Whereas Starbucks, nearly unchallenged, nurtured the nascent U. S. coffee-chain culture back in the 1980s, introducing the world to such cultural oddities as the nonfat, extra-whip caramel mocha latte, the coffee environment is cluttered now. Competitors such as McDonald's (MCD) and Dunkin' Donuts have cut into Starbucks' urbane customer base with their own lines of posh coffees. And the softening U. S. economy could well discourage consumers from buying \$4 lattes. Morningstar (MORN) stock analyst John Owens says the company should look to McDonald's as a template, not just a threat.

" McDonald's went through a similar process five years ago," he says. " They've learned to get better, not just bigger. " Just as McDonald's took its eyes off the fries, Starbucks has taken its eyes off the coffee, he adds. Owens believes Starbucks, just as McDonald's has done, should simplify its menu and redesign its locations. For his part, Crutchfield says simply, " It's the coffee, stupid. " And Rinat Aruh, a principal at Aruliden, a New York brand strategy and design firm, warns the biggest threat to Starbucks' brand is a decline in the quality of the company's coffee. " One-dollar coffee will not save them," she says.

" They need to reinforce the message that the product is getting better...to grow what's in the box, not the number of boxes. " Slick Doesn't Click Other companies that have endured growth-related crises, including Boeing (BA) and Xerox (XRX), based turnaround plans on connecting directly with their customers. Pridham notes Starbucks could refine a strategy for realigning stores according to customer expectations, not only regionally, but even throughout the day—by catering to early morning coffee drinkers and then

also to mid-morning consumers and, later, those enjoying an afternoon break.

Much has been made of how high-tech Starbucks' stores have become, with flat-screen TVs often adorning walls, pumping out slickly styled information on the music being played (much of which is represented by the company's own record label, which now represents top-tier performers such as Paul McCartney and Madonna). The company also recently announced a deal to provide AT&T (T) subscribers with free Wi-Fi Internet in all its locations, replacing an existing deal with T-Mobile.