

Progression of economic value for coffee



Chapter 3: The origin of the idea

Progression of Economic Value for Coffee

“ Goods and services are no longer enough. To be successful in today’s increasingly competitive environment, companies must learn to stage experiences for each one of their individual customers. We have entered the Experience Economy, a new economic era in which all businesses must orchestrate memorable events for their customers that engage each one of them in an inherently personal way.” – Pine & Gilmore, 1999

This is undoubtedly also true for the coffee industry. The economic value of coffee begins with extracting the commodity. Companies that harvest or trade coffee, receive about a 1 euro per pound. When a manufacturer grinds, packages, and sells those same beans to a grocery store, turning them into goods, the price to the consumer is €4 to €8 per pound, or about 7¢ to 18¢ a cup, depending on the brand and package size. When the coffee is brewed in a diner it will sell for about €1 per cup. Businesses offer the coffee in an experience such as a fine restaurant or Starbucks get €2 to €4 a cup. This means that at Starbucks, the customer is not only paying for the coffee, but also for the Starbucks experience.

Interestingly, when you move a product up the progression of economic value to an experience, as can be seen in figure 1, you rarely see discounting. This is because Starbucks does not need to offer price cuts in order to generate business. Consumers expect better quality when willing to pay a higher price. Retailing is therefore facing an increased challenge from the experience economy. The problem being that there is a great amount of

shops in the world, all basically selling the same things, causing only stores that sell values and experiences to stand out.

According to Pine and Gilmore (1999), Starbucks has succeeded precisely because it is not limited to only selling a good, being coffee beans, or a service, such as a cup of coffee to-go. Instead, as a “ Third Place”, being not the home or the office but the place between, Starbucks strives to sell a one-of-a-kind experience, which it hopes to keep its customers satisfied enough to want to keep coming back for more. Karababa & Ger (2011) argue that pleasure and leisure are two important characteristics of today’s consumer culture. Masses of consumers enjoy leisure away from home and work in these so-called “ third places”. Nowadays there are many different cafés, all with different styles. Some are global-branded like Starbucks, while some are more local. Most local coffee houses are defined as either being anti-corporate, or are a hybrid of multiple local and global traditions, such as our own business case example, the Dutch coffee house Doppio-Espresso.

The origin of Starbucks

Several factors contributed to the opportunity for Starbucks to develop a new, successful retail chain, with the most important one being the fact that founder Howard Schultz had an insight that the other players in the coffee market did not. He realized that Americans were lacking a relaxed, social atmosphere where they could savor a good cup of coffee. After a trip to Italy in 1987 he purchased Starbucks, because he was convinced that Americans were ready to embrace the Italian coffee house culture. Prior to that time, coffee consumption in the US was gradually declining, while the three major coffee manufacturers, Proctor & Gamble, Nestle, and Kraft, fought for market

share in a saturated market, all the while decreasing the quality of the beans in their blends in order to maintain profits (Berry et al., 2006).

The Starbucks brand has since then become ever-present, so much so that it may be hard to remember a time when coffee houses were not part of every major city in the world. Even though coffee houses existed in abundance before Starbucks came along, the quality of both the coffee and the customer experience has never been as consistent as today. Since the beginning, the company aimed at offering a better experience for coffee lovers. They did this by brewing coffee of uniform quality and developed the idea of charging premium prices for coffee drinks. But most importantly, they focused on creating a relaxing atmosphere for the customer. Tables were purposely spaced apart in order to ensure the customers their privacy. More specifically, round tables were used since research indicated that a person can sit alone at a round table without having to feel secluded or awkward. Furthermore, Starbucks aimed at opening as many stores as possible as a way to make each new store just a few steps more convenient for new customers. The stock value of Starbucks has since then increased by more than 3, 000% (Berry et al., 2006).

The origin of Doppio

Chapter 5: Experiential Services

Incremental improvements are added to services all the time, but few companies succeed in creating service innovation that create new markets or convert existing ones. To move in that direction, it is important for companies to embody the capacity to successfully implement the nine drivers of successful service innovations as can be seen in figure 2.

In the case Starbucks, one of the most important success factors, which aided in creating a new service market, is their comprehensive customer-experience management. According to Zomerdijk & Voss (2010), services differ from manufactured goods, because they generally offer many more distinct experiences to the customer. These experiences are called “touchpoints”, and they depend on three “experience clues”. The first one are functional clues, which point to the technical quality of the offering; the second being mechanical clues, which relate to nonhuman elements such as the design of the store; and the third being human clues, which come from the behavior and appearance of employees. When these three clues are combined, a total experience is created that has direct influence on how the customer will assess quality and value. The reason that Customer Experience Management is so crucial to the success of inseparable services, is due to the fact that with these kinds of services the customer is directly exposed to the production as well as the delivery of the service, and can thus experience everything that occurs there (Berry et al., 2006). Therefore, the success of Starbucks has to depend the quality of the product (functional clues), a relaxing atmosphere in the store (mechanical clues), and service-oriented employees (human clues). To implement its core strategy, Starbucks must therefore excel in managing all of these customer experience clues.

In addition to serving sit-down coffee drinkers, Starbucks also serves another big market segment, namely, takeout customers who want fast service. In order to cater to both consumer groups Starbucks is constantly trying to find new ways to reduce the average waiting time without reducing quality. Some

of the company's timesaving innovations are providing customers with special paying cards for fast transactions, more efficient coffee machines, and creating a way for employees to be able to shift through the store to wherever he or she is needed at that time (Berry et al., 2006). Some Starbucks shops are also strategically located in areas where there are a lot of potential takeout customers. When Starbucks first started out in The Netherlands they focused solely on placing small shops located near public transportation areas, such as train stations, to cater almost exclusively to these takeout customers.

Customers visiting a Starbucks store, however, do not only buy coffee, but they also buy the company brand. The way they experience the service has direct influence on how they perceive the brand. Starbucks founder Howard Schultz quickly realized that in order to achieve brand power in a service business, the employees must take center stage. When a product is sold in a supermarket, there is no personal interaction, but in a Starbucks store, you are presented with real people who produce and deliver the product as a service in a friendly and exclusive manner. As was explained in Chapter 4 with the Zomerdijk & Voss (2010) model, employees are thus utilized at the frontstage of the experience. Starbucks' success proves that a multimillion-dollar advertising program isn't a prerequisite for building a national brand; it can be done one customer at a time, one store at a time, one market at a time (Berry, 2000).

Values-based Service Quality

The four dimensions of the Values-based Service Quality model proposed by Enquist et al. (2007) are the technical, functional, experiential, and the human resources (HR) & corporate climate dimension.

According to the model Starbucks is a values-based company because it encompasses a strong commitment to all its stakeholders; customers, shareholders, employees, its suppliers, strategic partners, local communities and global society in general. The four dimensions can also be seen through the strong Starbucks concept, which relies on the premium coffee, and the “Starbucks experience”.

More specifically, the first two dimensions technical and functional quality relate to the quality of processing and producing the coffee bean. High-quality coffee beans are purchased, roasted, and sold as fresh, richly-brewed, Italian-style espresso beverages. Starbucks also offer a variety of foods, and coffee-related accessories in its stores. They also ensure that all parties in their value chain are operating at optimal quality, and sometimes even take over some of the manufacturing duties, such as roasting plants (Enquist et al., 2007). With Starbucks expanding throughout Europe and Asia, the company has strategically chosen Amsterdam for building a roasting plant, since the industrial area is relatively small and self-contained, providing specialized service. The facility houses equipment and operations to receive, roast, package and ship Starbucks coffee to retail stores in current and emerging markets. As with all Starbucks roasting plants, the Port of Amsterdam Roasting Plant also has a tasting room, which serves as the main center where Starbucks coffee experts taste and test the Starbucks

coffee (Burnson, 2002). This further stresses the importance and commitment Starbucks places on innovating and improving its products and services throughout the value chain.

The experiential quality dimension can be symbolized by the concept of the Starbucks experience, which amounts to more than just the store. It provides the customer with a “Third Place”, where he or she can relax away from home and work, and enjoy the services offered.

The fourth and final values-based quality dimension HR & corporate climate is related to workplace and society. One of the main goals of Starbucks management is to maintain a safe, productive and diverse work environment for its employees, and to provide them with opportunities for training and career growth. Starbucks also provides incentives for its employees to become shareholders of the company, and thus introduced the title of ‘partner’ instead of employee.

Starbucks has also ventured into the sustainable service business by introducing a code of conduct in 2001, labeled C. A. F. E. Practices (Coffee and Farmer Equity Practices), which promises to “deliver a premium coffee farmed, distributed and cultivated in an ethical, social and environmental way” (Enquist et al., 2007).

The Future of Starbucks

Starbucks led by the visions of Howard Schultz, has revolutionized the coffee industry and the perception of coffee when they first introduced their coffee experience concept, and has since then been setting industry standards.

However, this radical way of offering coffee has in general become so widely

accessible and common to consumers, that it no longer seems special.

Furthermore, some strategic decisions made by Starbucks have caused the brand to become less flexible, and more standardized, compared to smaller, local and independent competitors. Aggressive expansions, and attempts to deal with intensified competition from the fast-food sector, have created negative associations with the Starbucks brand. This has caused Starbucks to be perceived by some as a mainstream and standardized brand, which no longer possesses the distinct character of a local authentic coffeehouse.