

How to improve the current marketing strategy of starbucks



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Starbucks opened in Seattle's Pike Place Market in 1971 with hopes of creating a "third place" between home and work. Starbucks was created to produce premium coffee, while adhering to various core principles during economic growth. "The company has realized that people don't only come for coffee; they come for the atmosphere," (Kembell). Customers are able to socialize, read, study or enjoy music while drinking coffee. Starbucks strategically positions each store with hopes of matching the specific location, helping to create a unique atmosphere. Throughout this paper, I will analyze Starbucks' current domestic and international marketing strategy through SWOT (strengths, weaknesses, opportunities and threats) analysis, to provide new ideas, leading to market segmentation.

Starbucks is a global corporation that sells authentic coffee in 30 countries, reporting revenues of nearly \$5.1 billion in 2006 (Starbucks Marketing Plan). The main goal of Starbucks is to embrace diversity by applying the highest standards of excellence. On average, Americans drink 3 cups of coffee per day, though it is hard to make an accurate guess because every customer has their own personal rate. Starbucks strives to perfect the relationship with the working class by making the service as fast as possible. Providing consumers with the option of purchasing brewing equipment such as espresso machines, coffee filters and cleaners, Starbucks can now advertise in residential areas outside of the store.

While McDonald's, Coca-Cola and Nike fill up TV commercial time to a national audience, Starbucks has chosen to take an unconventional approach to marketing. According to Brad Stevens, Starbucks' lead marketing executive, "So much of the relationship with the company exists between <https://assignbuster.com/how-to-improve-the-current-marketing-strategy-of-starbucks/>

you and that barista behind the bar. We haven't been able to conceive of a way for TV advertising to repeat that, to capture the heart and soul of the company," (Allison). Starbucks does however buy holiday-season advertising as well as weekly full page ads in The New York Times, focusing on environmental awareness. In 2005, Starbucks spent \$87.7 million on advertising, or 1.4% of revenues. In the same year, Coca-Cola spent \$2.5 billion and Nike \$1.7 billion on advertising, each about 11% of revenues.

The macroeconomic opportunities and threats that the Starbucks Corporation handles on a daily basis include: sociological forces and demographic factors. The porters five forces model will help identify where improvements can be made through the current competitive force, threat of potential entrants, bargaining power of buyers, bargaining power of suppliers and the threat of substitute products.

Starbucks makes it clear in the mission statement that sociological forces are important through the improvement of environmental issues present in today's society. " Starbucks doesn't just rest on its laurels, it demonstrates it through participating and organizing activities such as neighborhood clean-ups and walk-a-thons. Once again, the company's image is strengthened by its actions and shows that it is able to actively contribute with the right focus behind its activities," (Kembell). Starbucks also plans to reduce energy usage, by doing store audits to become as efficient as possible. These sociological efforts are being taught to employees globally to help make a positive contribution to the environment.

Demographic factors are important to Starbucks so executives can make vital decisions regarding population, ethnic groups and expansion. According to the CIA World Factbook, people between the ages of 15-64 make up the largest percentage of the population, and therefore have the greatest influence on Starbucks to maximize profit. Studying population spread and ethnicity around the United States is important because Starbucks believes this information provides current influences regarding tastes, trends, perceptions and values to the individual. When inflation is low and consumer spending is high, Starbucks sees the opportunity to expand business and count on buying of specialty coffee drinks.

The Porter's Five Forces Model is used to understand the opportunities and threats for a company through its' competitors. This model helps to access the potential opportunities Starbucks can enter if wanting to reach new markets. " It is clear that Starbucks has few major competitors, and the competition has nowhere near Starbucks' volume of operations. Starbucks is the leading retailer, roaster and brand of specialty coffee in the world," (Kembell). One of the threats facing the company is in cities that have small population bases. These cities prosper on smaller competitors that can take customers away from Starbucks if a store were to be put in a questionable area. Starbucks is known for its innovation and strong product differentiation within its industry. Shortly after Starbucks introduced the prepaid debit card, Seattle's Best launched its version. This shows how Starbucks is a industry leader, however must be aware of the threats to potential entrants.

Today, coffee is the second largest traded commodity in the world. Starbucks is directly affected upon by Central American to produce the coffee traded.
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As major suppliers worldwide have seen profits soar, the price of the coffee bean may be on the rise due to lower supply and heightened demand. “ An over-crowded market will give the coffee suppliers bargaining power. There are no substitute products for the coffee beans Starbucks must buy. This is a potential threat to the company,” (Hanft).

When using SWOT analysis for a certain corporation, it is important to be realistic about the strengths and weaknesses to help distinguish where the company is today, and where it could be in the future. The strengths and weaknesses are called internal factors, while opportunities and threats are called external factors. SWOT should be used in relation to your competition (better than or worse than). Two people rarely come up with the same conclusion when asked to use this analysis for a company; therefore it is not to be relied heavily upon.

Within Starbucks' marketing department, SWOT analysis is used to plan and focus on key issues relating to consumers. “ By establishing relationships with well-known third parties that share their values and commitment to quality, Starbucks is able to reach customers where they work, shop, and travel,” (Kembell). One of Starbucks' greatest strengths is their strategy of implementing products into grocery stores, convenience stores, department stores, movie theatres, businesses, airports, schools and homes. Starbucks signed a long-term licensing agreement with Kraft Foods, Inc. to distribute whole and ground coffee beans in all grocery store chains in the United States. It is up to Kraft to distribute, market, advertise and promote the Starbucks products, (Starbucks Marketing Plan). Consumers globally have seen coffee price fluctuations due to weather, politics and economic

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conditions; however, Starbucks enters into long-term fixed price contracts with suppliers in order to supply coffee for extended periods of time without market fluctuation.

One of the main reasons Starbucks is so successful in the flattening global economy is because they focus on quality and experience rather than the price. “ A comparison of specialty drinks with its competitors reveals very minor differences. Starbucks’ image is one of the key elements to their success,” (Hanft). By focusing on plenty of comfortable seating, customers feel welcome to stay longer than planned. Another key marketing strategy Starbucks chose was promoting its product through environmentally friendly campaigns.

In 2005, Starbucks purchased the Ethos-Water company on the idea of helping to clean up the world’s water supply. Within five years, Starbucks plans to donate over \$10 million to under developed countries lacking clean water. According to David Hessekiel, president of Cause Marketing Forum, a non-profit organization that connects marketers with causes: “ More and more marketers are looking for ways to appeal to consumers on an emotional level by indicating that they support the sorts of causes that consumers support,” (Howard). Ethos was created by Peter Thum after a trip to South Africa, where he found that 20% of the world’s population drinks unsafe water, resulting in 4, 500 child fatalities daily. Thum states, “ Ethos is more like a mission with a product vs. the other way around,” (Howard).

Starbucks has been in the driver’s seat the last ten years, allowing small and large corporations to watch the marketing strategies pay off year after year.

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Each store delivers a unique experience, particular to each city's culture. "The choice of furniture and fixtures, the names of its drinks, the messages on the cups, the graphics, it's all been studiously crafted," (Hanft).

These tactics have helped shareholders make large returns solidifying the well-established and well-rounded company. Starbucks, the industry leader has built an image around taking considerable shares of the competition, by establishing reliability with suppliers. Executives have stressed to employees that high levels of productivity will result in a financially stable company, able to take on rapid growth.

In conclusion, Starbucks has appealed to such a wide target market, it seems every product introduced will be an instant success (sodas, teas, ice creams, pastries). Ranked in Fortune magazine as the #1 most innovative company, it's no surprise that the new technological addition, the Starbucks Card, boosted sales and helped growth during a time when the economy was struggling. "Starbucks went back to basics, and they've approached the basics with a science and intensity that no one has ever done before," (Allison).