

The growth and success of starbucks: analysis



Starbucks product line includes more than 30 blends and single-origin coffees, handcrafted espresso and blended beverages, Tazo teas, a line of bottled Frappucino coffee drinks and Starbucks DoubleShot. In addition it offers an exclusive line of Starbucks Barista home espresso machines, coffee brewers and grinders, freshly baked pastries, a line of super premium ice cream, a line of premium chocolate, sandwiches, salad, coffee mugs and coffee accessories, compact discs, and assorted gift items. It also offer a highly successful Starbucks Card, a reloadable stored-value card, which allows consumers to prepay the purchase of Starbucks products.

What advantages does McDonald's have in competing with Starbucks for coffee sales?

McDonalds, the world's largest restaurant chain, has few advantages over Starbucks in the fast-growing specialty coffee market. McDonalds has a very strong brand name and presence across the domestic and global markets. It can exploit the fact that McDonalds is conveniently available throughout the United States. Almost all stores offers drive-through windows which is an incentive for people who are in rush to get to their destination. Drive-through is also very attractive option for families with small children and people living in cold weather as it would allow customers to purchase products without leaving their vehicles.

McDonalds can exploit their full menu advantage. They offer complete variety of food starting from hamburgers, chicken burgers, fish burgers, wraps, nuggets, soft drinks, smoothies and premium cold/hot coffee. They also offer kids menu along with happy meal toys which could be a big

influence on family customers to make a one-stop purchase of food and coffee products. McDonalds also offers several low-priced menu items which could be an additional incentive for families who are on tight budget in these difficult economic times.

McDonalds can take advantage of its current store dominant presence and spend the money to implement the full beverage program and the remodeling that goes with it. McDonalds has also pledged to cover a portion of the implementation expense to make it easier transition for franchisees.

McDonalds is also improving in-store sensory experience as some of franchises are introducing fireplaces, flat-screen televisions and Wi-Fi to lure customer into the store but it has not been implemented nationwide. It is more on individual franchisee's decision rather than a corporate-wide decision but if such a strategy is implemented nationwide then it could be a potential threat for Starbucks.

Drinks of all sorts tend to have higher profit margins than food items at McDonalds. In a tough economy, McDonalds is offering less expensive premium drinks than Starbucks. Once addicted to McDonalds premium drinks, it could create millions of new customers for high-end coffee drinks who are dedicated McDonald's customers.

What changes in society have helped Starbucks be successful?

A recent study found that there are over 166 million coffee drinkers in the United States, and the number of them has increased steadily since the mid-1990s. A significant trend in U. S. coffee drinking has been the increase in

the amount of coffee drinking in the out-of-home segment. For example, coffee drinkers aged 15-29 increased their out-of-home coffee consumption to 24 percent (from 42 to 66 percent) in a recent year and 30-59-year-olds to 13 percent (from 33 to 46 percent). Coffee drinkers 60 and older increased their out-of-home consumption to 6 percent (from 14 to 20 percent) in the same year.

Of the out-of-home segment, the biggest increase was among those who drink coffee at work. However, while more consumers are drinking coffee in the workplace, they are increasingly getting their coffee from outside the office. This means the percentage of at-work coffee being sourced from outside the work has increased dramatically. With over 166 million coffee drinkers in United States and a significant increase in the amount of coffee drinking in the out-of-home segment, Starbucks grabbed this opportunity and successfully captured this ever-growing out-of-home coffee drinking market.

What strategic factors account for Starbucks' long-term success in developing brand equity?

Starbucks has been established as the premier purveyor of the finest coffee in the world and apply highest standards of excellence to the purchasing, roasting and fresh delivery of the coffee. The result of this process develops enthusiastically satisfied customers all the time. Starbucks has made coffee drinking a social phenomenon by offering consumers a comfortable atmosphere in which to drink a premium beverage while either chatting with friends, reading a newspaper and magazine, or working on their laptops. The

company has created a place between home and work where people can go for personal time out or to relax with friends. Many people would now go to Starbucks for a coffee rather than in a bar for beer.

Starbucks success is also attributed to its employees who treat customers with a lot respect and are provided high-quality training. Starbucks provide a great work environment and treat all individuals with respect and dignity. The company has highest employee loyalty and lowest turn over percentage in the industry. The employees acts more like a knowledgeable coffee experts (rather than a order-takers) who also educates customers how to brew the perfect coffee cup at home.

What opportunities and threats face Starbucks?

Starbucks should place its emphasis on store growth in international markets where its business remains robust.

With over 166 million coffee drinkers in U. S. and a significant increase in number of coffee drinker every year and the amount of coffee drinking in the out-of-home segment, Starbucks should take this opportunity and keep increasing the market share of this ever-growing out-of-home coffee drinking market segment.

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The growth in the number of cafe-style coffeehouses and restaurants, like Panera Bread, can hurt Starbucks' same-store sales.

Starbucks may have reduced the quality of the purchase and use experience which is a potential threat for the company's image for producing high quality products.

Starbucks became more of a fast-food restaurant than a coffeehouse in the minds of some consumers by adding hot sandwiches and bakery products served through drive-through windows.

The quality of the coffee-drinking experience is reduced for many consumers by selling a variety of games and other products, speedy checkouts and adding drive-through windows, and they have started to view Starbucks coffee as a commodity rather than something special.

Drinks of all sorts tend to have higher profit margins than food items at fast-food chain (like McDonalds). In a tough economy, McDonalds is offering less expensive premium drinks than Starbucks. Once addicted to McDonalds premium drinks, it could create millions of new customers for high-end coffee drinks which are dedicated McDonald's customers. This scenario could seriously hurt Starbucks sales as McDonalds is the world's largest restaurant chain with enormous resources available at its disposal.

What are the advantages of the Starbucks Card to the company and to customers?

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Starbucks offer a highly successful Starbucks Card, a reloadable stored-value card, which allows consumers to prepay the purchase of Starbucks products. The card can then be used and reloaded with funds when needed either at Starbucks store or at Starbucks. com. This card has been hugely successful with over 27 million cards in use and over \$400 million in sales in the first quarter of 2008 alone. The card is so successful it is being launched internationally with initial rollouts in Japan and Greece. The card provides convenience to consumers but does not offer any discount for prepayment.

What recommendations do you have to improve Starbucks' competitive position?

Starbucks has made coffee drinking a social phenomenon by offering consumers a comfortable atmosphere in which to drink a premium beverage while either chatting with friends, reading a newspaper and magazine, or working on their laptops. With over 166 million coffee drinkers in U. S. and a significant increase in the amount of coffee drinking in the out-of-home segment, Starbucks is already a dominant player in the marketplace and has successfully captured major market share of this ever-growing and now competitive out-of-home coffee drinking market segment. Starbucks should keep its competitive position by offering the same high quality coffee products served in comfortable and classy environment prepared by knowledgeable coffee experts. The degradation of any of the said factors would result in loss of the company exclusive image and hence competitive advantage. The introduction of drive-through windows should be done in small increments and then carefully analyzed by the company to find out consumer reaction as they don't want to create another fast-food restaurant

(like McDonalds). If drive-through stores are attracting potential new customers and sales then the program can be rolled forward otherwise it should be rolled back.

Starbucks should place its emphasis on store growth in international markets where its business remains robust. Starbucks should be primarily envisioned as a place where people would like to come and stay so that premium coffee drinking at Starbucks comfortable atmosphere stays a social phenomenon. If Starbucks exploits its superior branding and advertising program, Starbucks should be able to retain their core customers and might be able to attract millions of customers with their high quality products and sensory environment.