Starbucks' increase in labor hours - starbucks case study analysis

Business, Company

A market research conducted by Starbucks in 2002 shows that there is a gap in meeting its customers’ expectation in terms of customer satisfaction. After interpreting the market research data, Christine Day, Starbuck’s Senior Vice President concludes that the main reason behind the decline in customer satisfaction results from slow speed in service delivery (Moon & Quelch, 2006). This makes her to prose improvements to service delivery time such that each order reaches a customer within three minutes. However, this solution would make the company undergo an additional cost of twenty additional labor hours per week, translating to &40 million per year in additional labor cost. The question is whether the company should stay on plan with aggressive growth strategy, should they invest $40 million in order to improve the level of service? Thus, case analysis attempts to analyze this question, while seeking alternative approaches in order to achieve the desired results.

Assumptions

This proposal builds on the assumption that increase in labor hours as a store will translate to faster service, which will in turn enhance customer satisfaction. Previous studies have shown a relationship between customer behavior and customer satisfaction, which implies that an increase in customer satisfaction eventually results in higher sales and profitability. Exhibit 1 illustrates this relationship, showing that greater customer satisfaction translates to higher sales potential.

Day’s proposal also builds on the assumption that customers interviewed in the research know what constitutes quality customer service, which implies that the research findings are reliable enough to aid in strategic decision making (Moon & Quelch, 2006).

Another assumption is that employee satisfaction leads to customer satisfaction.

Analysis of strategic issues

Given the assumption that there exist a strong relationship between customer satisfaction and future potential sales, Starbucks' growth potential depends on its ability to achieve a high level of customer satisfaction (Bussing-Burks, 2009). Exhibit 2 shows that transforming dissatisfied customers to satisfied and highly satisfied results into a revenue increase by 361% and 1478% respectively (Moon & Quelch, 2006). Starbucks operates in an industry where customer satisfaction and loyalty constitute the greatest driver of profitability and growth (Mudie & Pirrie, 2006). According to the case, 21% of Starbucks' most frequent customers constitute 62% of the firm's transactions.

Starbucks' plan to make customers more valuable by providing faster services is a good idea. As mentioned in the case, customer dissatisfaction causes the loose 7 penny per share. However, this is a minor loss that does not deserve a $40 million plan. Fist, the amount is too big to be spent in small factor. Secondly, there exist another means of satisfying customer needs and expectations.

Starbucks made an income of $151. 4 million in 2001 and $215. 1 million in 2002, implying that investing $40 million could compromise the growth in net income for the next year. Moreover, the firm is not sure if the plan would be successful. The company has been trying to reduce customers' waiting time without success. In addition, Starbucks waiting time for 2002 stood at 3. 10 minute, so it is mot right to assume that customer satisfaction will be enhanced by reducing the waiting time by ten seconds.

Finally, the company should consider another plan. According to the market research findings from the case, 19% of the customers responded that getting free coffee after every x visits would make them feel ore valued. Furthermore, adopting more effective customer survey techniques could help the company get more useful data that can be used to address customer needs.

Alternatives and rationale

The first alternative involves investing in speed-of-service. Reducing the overall delivery time to less than three minutes may help drive customer satisfaction, thereby improving the overall customer satisfaction level. The problem with this alternative is that speed of service may not be Starbucks' serious concern. In addition, this initiative will require a substantial investment, which may likely affect Starbucks' financial health. The other alternative involves reducing prices on popular coffee offerings. Reducing prices on their most popular offerings would probably make Starbuck's offerings more attractive to the new customers. This alternative has the potential of increasing sales and has a positive impact in short-term profitability (Hoffman & Bateson, 2010). However, this initiative may not benefit customers who do not purchase popular offerings. Starbucks has established itself as a premium brand and offering flat price may have a negative impact on brand loyalty of its most frequent customers.

Recommendations

In the short term, I would recommend the company to consider implementing Customer Loyalty Program where customers receive a free cup of their favorite coffee after every 10 visits. Reward for loyal customers would offer less frequent customers the incentive to visit Starbucks more frequently. This would deliver financial benefits to customers without direct price reductions, which would have had a negative impact on their brand equity. The program also has the potential of increasing customer visits and sales increase. Starbucks can measure success of the loyalty program using financial and operational performance. The company should conduct surveys and feedbacks from its customers on how to improve the program. It should continuously engage in improving the program based on feedbacks received from customers and partners.

For the long-term, I would recommend Starbucks to replace its existing customer evaluation method (Customer snapshot & Legendary scores). They should consider segmenting their customers into three categories: passive, satisfied, and dissatisfied and strive understand each segment. Starbucks long-term strategy to improving sustainable growth should revolve around increasing customer satisfaction and decreasing customer dissatisfaction. Adopting a more comprehensive customer evaluation method will help Starbucks get clear glimpse of what is happening in the market. Starbucks can measure success of the new customer survey method based on the results received from different segments.

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