

# Critical analysis of management issue faced by starbucks



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## 2. Introduction

Essay two will carry out critical analysis of management issue faced by Starbucks. First of all it will discuss on the management issue faced by the company and further on will examining at the strategy that uses by Starbucks as part of their plans to recover from the management crisis. Marketing and advertising play an importance role in the part as the strategies on managing the issue. Critical analysis will be focus on the social media marketing strategy. Starbucks social media campaigns on Facebook will be examining from different viewpoints. Beginning with the success factor following by rewards that the company gained, additionally both risks and challenges of Starbuck might be facing in the future.

In year 2008 operating income of Starbucks took a sharp drop, the majority of which stems from restructuring charges, related to store closures in the US and value share growth drop 0. 5% from the year 2007 to 2008 (Euromonitor international, 2009). Chairman and CEO of Starbucks announced in year 2008 that “ unfortunately Starbucks would force to close down 600 stores this end of 2008 and lay off 12, 000 employees. It’s a blow, but far from fatal for a company with more than 6, 700 locations in the United States and nearly 16, 000 worldwide.” (TheNewYorkTime, 2010).

Figure 4 Revenue vs profit 2002-2008 of Starbucks. Source: Euromonitor international 2009

Figure 5 Comparable Store Sales, source: annual report of Starbuck 2008

In resolve part of the problem, Starbucks gone further that involved cutting costs and in the first three quarters of 2009 in few different areas, part of the cost cutting focus on marketing and advertising and this has resulted in savings of US\$370 million(Euromonitor international, 2009). However gaining more sales will be the main objective for a healthy growth. Marketing and advertising will be the key element on increasing sales volume. Based on this principle, Starbucks will need to find and alternative way as a substitute for the traditional marketing and advertising.

Figure 6 Starbucks Facebook social networking site page screen shoot.

Source: Facebook. com 2010

Analysis, planning, implementation, control (APIC) system by Philip Kotler has been effectively as the subtitle of his Marketing Management (Kotler, 1994). As the management issue for Starbucks, managing the communication mix need to take place for solutions. Firstly “ Analysis” of the present situation as the question of “ where are we now”, Starbucks has a high reputation for their company and products that have a great market value. However in the crisis with limited budgeting, “ Planning” will need to take place on reforming on the objectives and positioning. Starbucks has taken the opportunity by utilized the advantages of social media for their reorganization. With the objectives of create high engagement and create positive relationship with their customers through actively engaging in social media that provide the advantages on cost effective and efficiency. In addition Starbucks has formed a social media team to take control, monitor and evaluate the process and development of the used of social media.

Started on October 2008, Starbucks began to actively engaging in social media, official Starbuck Facebook fan page is one of the major social networking sites for the company. Starbucks started to connect in to the cyber world of social media, and that is speak for itself in the number of “Fans” the company is engaging with. Facebook as a social media platform that has incorporates with different types of videos, content, and has active interactive activities with the fans.

## **2. 1 Social media marketing strategy**

Starbucks has a small social media team with only six people; however they obtained a high level of engagement with their consumer in social media. (ENGAGEMENTdb , 2009) On the other hand Starbucks has building social media as a key part in their marketing mix, a stable platform for advertising and promotions. At the same time it creates a centre of attention to attract web traffic to the social networking site fan page with heavy advertising and promotion activities. Alexandra Wheeler, Director of Digital Strategy of Starbucks stated that, “ We live in the physical world with thousands of natural touch points, so when we laid out the vision for our social strategy, it felt like home for the brand. It’s about the relationships we form with our customers.” (ENGAGEMENTdb , 2009)

Figure 7 Social media marketing source: [www. awarenessnetworks. com](http://www.awarenessnetworks.com)

The social media marketing strategies that Starbucks are using include special offers, coupons, sapling and discounts distributed through Facebook, because Facebook is the main social networking site for Starbucks.

Promotion event on Facebook by Starbucks with the title of “ Free Pastry

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Day” promotion allowing executives for Facebook fans of Starbucks to print out the online version of coupons for complimentary item with a drink purchase. Through this particular event in July 2009 it further added 200,000 fans just in a week. In the same year, by promoting the launch of the branded ice cream, Starbucks offering coupons for free pints via the Facebook application. Besides, Starbucks also used Facebook to promote a “Taste Challenge” together with the launch of Starbucks VIA instant coffee, offering participants with a free cup of Starbucks’ coffee will be given on their next purchase and discount of USD 1 with the VIA instant coffee purchase. (Mark Walsh, mediapost. com, 2010)

Figure 8 Push-Pull continuum for digital marketing Source: anovagr. com

Figure 9 Push and Pull promotion strategy. Source: Philip Kotler and Gary Armstrong 2009

Throughout the examples from above it is clearly presented that marketing theory of push and pull strategy are being used. A push strategy involves “pushing” the product of information through marketing channels to final consumers (Kotler and Gary Armstrong, 2009). Two types of push strategies were being used, first the push promotion strategy with the online version of coupons and discount on product purchase, flowing by push marketing with the channel by using Facebook social networking site to transmit the message across their audiences. Objective of the promotion is to gain immediate sales at the same time promote the fan page through the social networking side.

Starbucks successful created high level of attention throughout the product promotion on Facebook with encouraging results. Based on a Razorfish study (2009) that generated a conclusion that traditional direct marketing practices for example offering discount and promotion are the keys on building engagement on social networking sites moderately focusing on to create deeper relationship and connection to a brand (Razorfish, 2009). CEO of social media management firm ViTrue, Mr. Reggie Bradford illustrious that Starbucks has the advantage on take in charge and managing all the Starbucks stores, provide an easier way to run standardized marketing programs that team up with Facebook.

More significantly, Starbucks well manage with various types of updates that content, and interesting that includes blog articles and videos sharing that cover all aspects of coffee that includes how to grow coffee beans, pieces of writing about Starbucks and Starbucks employees. The tone and pitch of the updates is informative and relaxed, in addition even on their own product updates are kept in a wide-range that enough to remain interesting, for example, by offering and introduction up reviews of new music and books to be displace and for sale in their cafes. Therefore, the well managed and quality status update content has achieved a very engaged fan base, with every update on the social networking site will receive thousands of feedbacks and comments.

## **2. 2 Success**

Following by reviewing the successful social media marketing strategies that used by Starbucks and the way the coffee giant fully utilized the

opportunities of social media to create an interactive and interesting  
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business approve. The level of engagement of a brand in social media will bring different level of success. As Howard Schultz, chairman and CEO of Starbucks said “ We’re not just selling a cup of coffee, we are providing an experience” (Business Week 18 November 1991). This implies that customers’ satisfaction is given top priority. In order to do so Starbucks serve coffee with great taste and quality. Not only quality the treatment of customer is excellent and the variety of beverages served is good (Kotha & Glassman 2003). Based on the principle of providing an experience to the customers social media is a latest and most advance technology in communicate that can be personalize between the company and their customers. Coffee house giant Starbucks continue to develop its social media operations in attempt to extend its relationship with its end users. The reason for advertisers using social media is to “ go where consumers are and to provide a valuable and meaningful brand experience,” according to Alexandra Wheeler. Although the challenges of the economic downturn, Starbucks posted profits of \$242m in Q4 2009, as revenues rose 4%, to £1. 7 billion, mostly as a result of improved Starbucks store sales (Financial Time. com, 2010).

From the research paper on the title of related to how Social Networks Improve e-Commerce, stated that creativity is an extremely important elements when come to approaching a social network (Gayatri, Christo Bryce, Kevin, and Ben Y. Zhao, 2009). Few of the successful principles are value need to be added to the interaction and use the naturally viral nature of community instead of forcing the marketing message through. On social network it have to communicate with people before selling, traditional ad

campaigns and promotions should not be forced on the potential customers immediately (Social Media Optimization, 2007). Social network is all about building a community around the brands and the products, promoting, sharing and discussion (Brown, 2009). Get involved in the social network regularly, completely understand the content and focused to the topic is being said amongst the social network community, and the targeted audience before engaging (SocialMediaOptimization, 2007).

Howard Schultz, CEO of Starbucks stated that “ the global economic recession has very much shaken consumer confidence and retailers which wish to stay relevant in the future will have no choice but to recognize and respond to this new reality and to continue and to accelerate. Starbucks current direction with continue to improve, innovate, and focus on strengthening the relationship with their customers.” (The Seattle Times, January 28, 2009).

Figure 10 Engagement Scores of Top 100 Global Brands. Source :  
ENGAGEMENTdb, 2009

Figure 11 Engagement Varies by industry, Source : ENGAGEMENTdb , 2009

In the year 2008 Starbucks promoted the world’s biggest Facebook ad campaign that including Facebook members in 16 that will be served ads for a Starbucks (RED) charity sing along of The Beatles ‘ All You Need Is Love’ when user log in. Starbucks undertook the biggest global Facebook ad campaign the purpose is to raise awareness of the project, which was a celebration of its partnership with (RED), the charity with the aim to fights Aids in Africa (Jennifer Whitehead, brandrepublic. com, 04 December 2009).  
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This particular campaign has invited people to take part in stores which Starbucks donated a percentage of the cost of each selected product sold. The social media campaign that carries out this initiative received as the “most viral impression ever”; result of millions of people aware of the Facebook digital invitation which given respond (Wheeler, 2009).

On Starbucks promotion “Free Pastry Day” where pastry will be give away for free with every drink purchased, resulting nearly 600, 000 people who expressed an interest in that particular promotion on the social networking site Facebook. On the other social networking site – Twitter also generated good respond with a similar promotion event. Besides on the public social networking sites Starbucks also has its own platform “My Starbucks Ideas” on online community that allows customers and staff to put together suggestion to the company, in August 2008 total of 75, 000 of suggestions have been recorded (AdWeek, WARC, 2009). Based on the number of people involved has created a strong awareness outcome at the same time it had increase the sales at the period of time. The result on social media has the similarity outcome with the advertising objective that can be achieve through the social networking site.

Starbucks persist as one of the brand that gains most popularity on Facebook, with sites now launched globally in 14 countries. In 2009 the consultancy company Altimeter Group, positioned Starbucks is of the brands make good use of the web properties, and Schultz stated that they would be integral to its operations going forward. “The importance of our social media expertise continues to grow, and we evolve the conversation with our core customers,” (Altimeter Group, 2010)

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Figure 12 Multi-step flow and personal influence model, (Philip Kotler and Gary Armstrong 2009)

Engaging with the millions of consumers through social media is a success. Multi-step flow is the extension of two step flow theory. A strong multi-step flow and personal influence model being involved in the process. Fill (2002) provides a clear description of the potency of word of mouth that can give a depth of credibility other form of communication cannot. Because of the nature of social media, the process of opinions and comments flow around in the social media, at the same time the social media management team will be able to monitor and provide instant reply.

**Starbucks brand, content and online vice president Chris Bruzzo, toldAdAge. com: “ It’s like we’ve taken the version 1. 0 of last year and now they are really doing it at scale and going to a lot more places where their customers already are and people are saying this is going to be a big year for social media and they are a microcosm of that. While last year it was a curiosity, this year it’s a core part of the program.” (WARC, 2010).**

## **2. 3 Rewards**

This section will present the rewards that Starbucks gained throughout the Facebook campaign, based on the success factor that had been discuss on the above paragraph Starbucks also picked up a lot of benefits throughout the process. Financial performance correlates with engagement will determine the rewards that the company gains from the involvement in social media. Survey of Syncapse Consultancy Company, in an effort to gain understanding of the long term business value that generate by social

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network. The target research company in this survey is based on twenty most popular corporate users actively engaging in social network that includes Coca-Cola, Starbucks, McDonald's, Dove, Gillette, Nokia, Nike, Victoria's Secret and Red Bull. The result found out that consumers who "like" a product in the Facebook feature were found to spend £93 a year on the item in question, \$71.84 more than the shoppers who have not performed the action (Syncapse, 2010). Starbucks is one of the brands that scores at least 80% in the category of building "empathy" among their fans. Besides, the products of Starbucks scored over 90% associated with the feeling consumers that result in "warm", "gratified" or "happy". "Fan value is cyclical and ever changing based on the ongoing marketing performance," (Syncapse, 2010). The result in the survey illustrate that long term brand value can be build by using the social network, independent social network campaign should be taken to increase the value of their company through their fan.

Figure 13 Average value of Fan source: Syncapse 2010

Director of worldwide interactive marketing of Coca-cola – Michael Donnelly acknowledged that end users perform activities of sharing information via using Facebook meaning that the fan-page of an organization is an additional way to promote and take immediate sharing information in the platform that the users are spending time with, based on the highly engagement platform it create a channel to listen and collect feedback s from consumer. The varies quick feedback that can be received from different methods for example photos, videos or status updates from the page and the message will rapidly share among their network (WARC, Brand Channel, 2009).  
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Relationships are a form of organizational capital that provides value for the organization, the view that relationships are an enabler for resource exchange is well supported by relationship literature (Baxter & Matear, 2004)

The involvement of social media has become a importance role in achieving this aim, one of the Starbucks campaigns join together with Project Red to help promote fight AIDS in Africa, which was promoted using social media Facebook, where Starbucks has more than 5. 5 million “ fans” in end of 2009 that became the most popular brand second by Coca-cola and does not take long for Starbucks to achieved 10 million Facebook fan in July 2010. Schultz mentions that the effort of creating the world largest campaign ever on the Facebook social media platform is further strengthens Starbucks unique connection with their customers (Starbucks, 2010). Alexandra Wheeler stated that the campaign has became the most viral event in the history of Facebook and meant that this not only were trigger customers excited about the Starbucks at the same time the customer also came together on one day to accomplish something excellent. Take as a whole; she asserted that Facebook helps them get a pulse on the important to their customers. The organization can have a direct communication dialog with their customers about the values and ideals that they gained and share the valuable experience with them. (Brand Channel, 2009)

Figure 14 Engagement correlates to Financial Performance, source:  
ENGAGEMENTdb 2009

According to a report by ENGAGEMENTdb 2009 with the title of top 100 world's most valuable brands, who is most engrage? In the report it divided

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brands in to four profiles with different levels of engagement, depending on the figure of channels and how intensely they are engaged in the brand. Starbucks fall in to the category of Mavens has been description as brands that are engaged in seven or more channels and have a greater than average engagement score. The brands are able to maintain a high level of engagement throughout multiple social media. The Mavens are not just a healthy strategy and enthusiastic teams focused on social media, but also make it a core part of their marketing strategy. Companies in this category will operate with a strong presence in social media. Company like Starbucks with deeply and widely engaged in social media outshine their competitors in term the performance in both revenue and profit by a large difference. Mavens group they have sustained strong revenue and margin growth in spite of the current economy. (Figure 14)

Further on with a strong engagement and multi-step flow and personal influence model it will develop on the principle of relational exchange theory. A brand relationship is being established, self-interest is best maximized by the returns available through cooperation in a relationship (Blau, 1964). In this approach, the analysis of interim relationships moves from the focal firm to the dyad or network level in an effort to understand interorganisational relationships (Cook & Emerson, 1978; Bradach & Eccles, 1989; Husted, 1994). There is interest in relationship quality that stems from trust and the high degree of certainty of predictable and obligatory behavior that leads to sales giving the seller integrity and the process a high degree of certainty (Crosby, Evans and Cowles, 1990).

Based on a study, brands with more supporters and fans on Facebook more likely to involve in discussions, and could gain higher returns (Vitruve, 2010). According to chief product officer at Vitruve Michael Strutton stated that it is important to know that to build up a Facebook fan base will need consistent and well management. The learning process from customer can perform through social media. According to Bruzzo one of specialist members of staff at Starbucks stated that “ If you approach it as a customer relationship and as a multi-faceted human connection between Starbucks and customers, then we can have more than a conversation about products – it can be a customer-insight channel and we can learn things from them.” (Seattle PI, 2009). General Manager of advertising and customer engagement of Microsoft, Gayle Troberman, said social media offers a highly engaged audience who keen to know information about the company. She also mention that part of the social media strategy, is to focus on honesty and authenticity, as well as attempting to respond to users as quickly as possible. (Seattle PI, Warc, 2009).

## **2. 4 Risk**

On the above paragraphs it discuss about the success and reward of using social media of Starbucks, at the same time the risks of using social media need to take in consideration as well. As different social media evolved there will be multi channel for communications, at the same time communications professionals have a various options to connect with audiences. Worldwide audience can easily be reached with web 2. 0, but the heady possibilities come with potential liabilities. Errors or mistakes in communication will be

amplified. This is the reason why a lot of companies find the concept of social media as a risky media.

The innovation of internet and World Wide Web have brought the world closer, and since social media are available on this technology there are different rules and regulations in different part of the world to protect the end user. From a international point of view for example regulations in the United States with the Unfair Commercial Practices Directive guards against false representation, Securities and Commission (SEC) and their Regulation Fair Disclosure (Reg FD) which set to protect the use of the social media.

Beside in the EU there are also protecting against the use of social media for example EU privacy rules that against collection of personal information and email addresses on website. Because social media is an open world for every user around the world, different rules and regulations in different part of the world might come into conflict when it operates in business related activities on social media.

Further on move on to the use of social media internally under a company.

The use of social media should be guardian by rules and regulations, managing social media a company is agreed to allow employees to wiring blog, tweet or post Facebook comments updates. In the past companies tried to control risk on social media by disallowing access to cyberspace, however that will not work with the current situation of the use of social media. Robert Stroud, international vice president of ISACA, said in a statement. “

Companies should embrace it, not block it. But they also need to empower their employees with knowledge to implement sound social media

governance.” (ISACA, 2010). This managing process is apparently with high  
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risk than not permitting whatever thing out of the usual channels. In particular if the social media management teams include top level executives or the CEO, where regulations exist which govern the disclosure of information by publicly traded companies. According to a study by Information Systems Audit and Control Association (ISACA, 2010) employees who dabble in social networking both on and off the job could expose their companies to a variety of risks. Malware, brand hijacking, lack of content control, noncompliance with rules over recordkeeping, and unrealistic expectations of Internet performance were the top five social-media risks to businesses (ISACA, 2010).

## **2. 5 Challenges**

All kind of social networking challenges will be face by organization.

Following this section will discuss the possible challenges for organization that are using social media as part of their marketing strategy. Social media providing a lot of benefit to an organization, a well managed of the use of social media will bring great future for the company, at the same time the hard work of minimize the challenges will be the best practice for prevention. 8% of companies had terminated employees because of the usage carelessness of social media (Proofpoint, 2009) for example a very frequent causes that might happen including sharing confidential or sensitive information or data on a network channel.

Figure 15 Challenges of social media, Source: 3. bp. blogspot. com

According to David Arman, there are five possible challenges that every organization should be thinking ahead (Harvard Business review, 2010). The

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connection and linkage of social media cover almost every aspects and function of a business. All organizations will eventually grapple with integrating social into their entire ecosystem adopting either centralized, distributed or hybrid approaches (David Arman, 2010). The first challenge is regarding “ integration”, because of the broad coverage of social media alongside the business, the decision of form up a specialize team to supervise the social media process is a judgment to be consider.

Following by the second challenge “ governance”, has been described as task to control and recognize both the contents produced for the public and also information that internal used around employees. Organization will need to keep attention on the internal contents among the company as well as set rules of engagement in the process how employees responding to the social media.

The next challenge is that every organization have their own culture on the spectrum either being more transparent of the way they operate and collaborative or keep knowledge internally. Through using social media, organization can strengthen their company policy by managing customers and employees by using this channel, however it have to manage it intelligently and with purpose.

The fourth challenge is related to the human resources of a company, emerge of social media business, rules and regulation of human resources will also need to keep up to date. Because of the fast moving and changeable technology set of rules and regulation will be an ongoing development process. At the same time organizations will need to train

employees on the use of social technologies for work. The fifth challenge is on the measurement and return on investment. There will be difficulty on measuring the results on using social media, however it is measurable but to work out the financial definite will be a challenging task.

## **2. 6 Conclusion**

After critical analysis on the achievements and threats, a conclusion can be made that the best practice to maximize on return and minimize risk of using social networking is to develop a well planed social media marketing strategy that cover a large part of the business. By minimizing the risk companies should develop social media policies and build up training meeting and classes to educate employees about the use of social media. The social media policies should includes personal use of social networks as part of the job description and also the personal use outside the work place. The use of visual in the social network is one of the way to stand out from the crowd, visual communication is part of the design elements should be consider on how to communication with the audience by using design principles.