

Creation of the starbucks experience marketing essay



**ASSIGN
BUSTER**

Started up in 1971, Starbucks is one of the world's largest chains of coffee houses. Starting out as a single shop that specializes in high quality coffee and brewing products, the company grew to be the largest roasters with multiple locations in America the early 80's. From there it expanded its operations and growth to North America, Europe, Middle East, Latin America and the Pacific Rim. Worldwide there are approximately 35 million customers that visit a SB Coffee house each week.

Starbucks is all about purchases and roasts high-quality whole bean coffees and sells them along with fresh, rich-brewed, Italian style espresso beverages, a variety of pastries and confections, and coffee-related accessories and equipment – primarily through its company-operated retail stores. In addition to sales through their company-operated retail stores, Starbucks sells whole bean coffees through a specialty sales group and supermarkets. The Company's objective is to establish Starbucks as the most recognized and respected brand in the world.

The company grew from 17 stores in 1987 to more than 16, 000 worldwide today (O'Neill, 2008); see Table 1. The stores are all company owned except for the licensing arrangements for kiosks in places such as airports and hospitals. Recently, Starbucks was in the news for shutting down 500 of its stores and laying off 7% of its work force (Adamy, 2008). The reason for the store closings were that earnings were down and the stock price has tumbled since late 2006. Other than the economic recession in the U. S. and around the world, the downslide in Starbucks earnings is also attributed to a slowdown in consumer spending and an increase in competition from other coffee and restaurant chains, especially McDonald's (Adamy, 2008). Today,

<https://assignbuster.com/creation-of-the-starbucks-experience-marketing-essay/>

Starbucks is working to regain market share, and improve productivity and profitability without sacrificing the quality and reliability of its products and service.

2. Starbucks Experience (Process Technology)

Starbucks's strategy in targeting its customers is to position itself as a "third" place in the lifestyles of its customers. That is to say, the prototypical Starbucks customer will spend their time at home, at work, and at Starbucks. To encourage this idea, Starbucks locations are furnished with comfortable seating, provide outlets for electronic equipment, and a blanket no-smoking policy ensures that all customers are comfortable in the environment, refer to Figure 2.

Coffee & Drinks Menu

Promotions

Pastries

Espresso Bar

Cashier

Magazines

Products

Condiments

Entrance

Figure 2. Basic Starbucks Coffee Store Layout in a Penang, Malaysia

Making customers more comfortable while spending time in the stores causes them to stay longer and, in doing so, indulge in more of what Starbucks has to offer. As customers linger, they are more likely to buy a second cup of coffee or a snack, to pay for wi-fi internet access, to burn a CD, etc. In addition to diversify its product offerings, Starbucks is also looking to broaden its customer base beyond just young urban professionals and college students. Many of the more recent adjustments to how Starbucks conducts its business are aimed at accommodating the varied lifestyles of the not-so-traditional Starbucks customer.

The Coffee (Capacity Management & Supplier chain strategy)

3. 1 Managing Operations Early On at Starbucks: Today, Starbucks is a publicly traded company, more than a retail store; it's an importer, a manufacturer, a wholesaler, and a direct mail business organization. However, in the beginning, before going public in 1992, the roasting plant and headquarters were located next to each other in the city of Seattle, Washington. This close proximity allowed Howard Schultz, to be involved in the operational planning and control of this enterprise on a day-to-day basis (Schultz and Jones, 1997)..

3. 2 Early Supply Chain: A supply chain (SC) is the network of activities that deliver a product or service to the customer. It is the sourcing of raw materials, assembly, warehousing, order entry, distribution, and delivery. In other words, a supply chain is the sequence of organizational facilities,

functions, and activities that are all involved in the production and delivery of a quality product or service at an affordable and competitive price (Gates Gill, 2007; Wisner et al, 2005). By facilities meaning warehouses, factories or plants, processing centers, distribution centers, retail outlets, and offices. By functions and activities we mean demand forecasting, purchasing, inventory management, information management, quality assurance, scheduling, production, delivery, and customer service (Russell and Taylor, 2011). It is no wonder that supply chains are also referred to as value chains, because the ultimate value of a product or service takes place along this chain from raw material purchasing to receiving to storage to operations and finally through the distribution system to the end user (Stevenson, 2009).

Supply chain management (SCM) is the business function that coordinates all of the network links, thereby, coordinates efficient movement of goods through the supply chain from suppliers to manufacturers to distributors, and promotes sharing of information such as the demand forecasts, sales data, and sales promotions along the chain (Stevenson, 2009). The main reasons for supply chain management are twofold: (1) a total systems approach to managing the entire flow of information, materials, and services from raw-material suppliers through factories and warehouses to the end customer; and (2) the strategic coordination of business functions within a business organization and throughout its supply chain for the purpose of integrating supply and demand management and creating a balance between supply and demand (Wisner et al, 2005). Effective supply chain management is a key component of competing successfully in today's cutthroat global marketplace. Without effectively managing the flow of goods, supplies, and

even services, no company can hope to maintain control of their quality, costs, or meet their customer's needs.

Starbucks learned early on that the quality of the coffee that ends up in the customers' hands can be easily ruined by mishandling activities in the supply chain. To control process quality, Starbucks had to manage its own supply chain. Simply put, if the farmer does not get a good price for the green coffee beans, they then would not invest in fertilizer and the maintenance involved in growing quality coffee beans (Schultz and Jones, 1997; Wikipedia II). The coffee can be under or over roasted. If the coffee beans sit on the shelf for too long they go stale, so the right amount of inventory is a crucial factor, which in turn relates to the effectiveness of supply chain management. Starbucks prefers to handle its own supply chain, open company-owned stores, and has resisted franchising in fear of giving up its control over selling a high-quality product.

3. 3 Why Dark Roast: The highest quality coffee beans have always been dark roasted which is what differentiates Starbucks from other coffee sellers. By roasting the coffee beans dark, Starbucks gave up a way to improve the productivity of the roasting process; the lighter the roast the more money is saved (Schultz and Jones, 1997). Starbucks has always struggled with maintaining its value of serving high-quality dark roast coffee even though there are many non-customers who think the dark roast tastes like burnt coffee.

3. 4 Instability in the Supply Chain: Purchasing green coffee beans from developing countries brings several risks such as bad weather, political risk,

and inconsistent quality. There were times when the weather affected the price of green coffee beans. Starbucks managed supply chain costs by locking in the price of green coffee through long-term contracts at a fixed price which ensured a constant flow of inventory. In June of 1994, the cost of green coffee had been locked in at 0.50 cents a pound. Then a severe frost in Brazil caused the price of green coffee beans to increase 330%. A decision was made to pass the incremental cost on to the customers rather than replacement cost as the gasoline stations are doing today each time the price of oil goes up. Immediately, profitability was affected by an adverse effect in the supply chain. An unstable supply chain can cause an immediate reaction from Wall Street when profits for a company are expected to be affected by adverse conditions (Carrier, 2007).

4. Customer Service (Lean Production)

Each Starbucks store has customer comment cards available at the condiment stations. The comment cards help Starbucks management keep in touch with what customers want from the coffee products and “The Starbucks Experience.” The cards give the customer a chance to judge the experience they just had and make suggestions on new products. Starbucks has a guarantee statement posted in the store as “Our Promise” that states the customers can get a coffee drink the way they want it. If the customer is not satisfied with a drink another one will be made to their satisfaction. If a customer wants to try the taste of the coffee before purchasing, the barista will offer a sample. The Starbucks guarantee statement is as follows.

Our Promise: Your drink should be perfect, every time. If not, let us know and we will make it right.

<https://assignbuster.com/creation-of-the-starbucks-experience-marketing-essay/>

4. 1 Customer Requirements: Starbucks continuously solicits feedback from customers via a wide variety of means. These include but are not limited to: direct feedback “ at the counter;” customer feedback through the Starbucks Customer Connections (SCC) website; and questionnaires on the Corporate Social Responsibility (CSR) report (Starbucks Company Timeline).

Customer requirements are considered when designing the quality and reliability of the coffee drinks and the experience at Starbucks. As the stores became popular as a “ third” place for the customers, Starbucks responded by finding ways to respond to the requirements of the customers and enhance the spirit of the stores.

See Table 2, Starbucks’s Quality Table, for an organized list of customer requirements, appearing in the rows of the table, gathered from research and talking to people who drink coffee. The corresponding solutions, appearing in the columns of the table, describe how Starbucks is responding to meeting the customer requirements. It is suffice to say that Starbucks has attempted to meet all the requirements of the customers. The Quality Table also demonstrates the relationship between the customer requirements and the Starbucks’s solutions. The strength of relationships is determined using the conventional symbolism of the quality function deployment (QFD) process. What follows next are some highlights on how some of the requirements were met.

sbucks. jpg

Strength of relationships: Strong , Medium , Weak

4. 2 Training Improves Customer Service Reliability: “ The coffee drinks are inert (Schultz and Jones, 1997).” It’s the people that work at Starbucks that pass on the passion and knowledge about coffee. Because baristas are expected to be more than transaction handlers, the skill involved is higher than is required from a server at McDonald’s, for example. Starbucks has traditionally invested more on training than on advertising. Employees, “ partners” as they are called, all go through 24 hours of training on making a quality cup of coffee and learn about the all coffee varieties that are served at Starbucks. At Starbucks, the customer is in control of the process, thus, the baristas are trained to prepare a drink the way the customer wants it. This can make the order process take longer time, but improves the sales opportunity. One thing a barista will not do, for sanitation reasons, is make a drink with milk that customers may bring in to the store with them (Schultz and Jones, 1997).

In addition to training, there are other ways that Starbucks guarantees a reliable coffee drink. A poka-yoke (error-proofing) technique is used to help relay an espresso drink order to the barista behind the espresso bar (i. e., “ callout order,” “ repeat order”), see Figure 2.

A typical service blueprint of the order process at Starbucks is shown in Figure 3. To start the order process, the barista behind the cash register gives friendly service by looking the customer in the eye and then greeting the customer. The customer gives the order. If the order is for an espresso drink, the barista repeats the order, out loud, and states the ingredients in a predefined order (size, type of milk, type of coffee, etc.) (Gates Gill, 2007).

The barista behind the espresso bar repeats the drink ingredients in the <https://assignbuster.com/creation-of-the-starbucks-experience-marketing-essay/>

same order. This simple poka-yoke technique helps to guarantee that the drink will be made correctly the first time (Gates Gill, 2007). This process was observed at the Michigan store with one addition, the barista asked for the customer's name and repeated it with the drink order. In the early days, the baristas were trained to ask the customer's name. Howard Schultz has brought this step back as another way to differentiate Starbucks from the other coffee shops; this act, in turn, has had a positive impact on improving market share.

4. 3 Benefits Reduce Partner Turnover: Starbucks employee turn-over rate is 120% less than the industry average for retail coffee shops (Michelli, 2007). There are three reasons for this low-turnover rate: (1) hourly wages are higher than the industry average, (2) partners are offered health care benefits, and (3) a company stock plan is given if they work more than 20 hours per week. Starbucks employees tend to be young and healthy which keeps the cost of health benefits low. The benefits package at Starbucks is a key competitive advantage.

The wage, health benefits, and company stock plan have all helped to reduce Starbucks's employee turnover; in turn, low partner turnover has reduced training costs. In 1997, research showed that the average customer returned 18 times per month (Schultz and Jones, 1997). Customers develop a relationship with the baristas serving coffee. One may reasonably assume that low-turnover contributes to a reliable " Starbucks Experience" and customer loyalty.

The Starbucks Experience (Performance improvement strategy)

5. 1 Stores Location Selection Decision: Location decisions are not easy and many factors affect them. Location decisions are closely tied to an organization's strategies, low-cost, convenience to attract market share, effect on capacity and flexibility, represent a long-term commitment of resources, effect investment requirements, operating costs, revenues, and operations, impact competitive advantage, and importance to supply chains. Definitely a multivariate constrained optimization problem. Location decisions arise for a variety of reasons such as addition of new facilities, as part of a marketing strategy to expand markets, growth in demand that cannot be satisfied by expanding existing facilities, depletion of basic inputs which requires relocation, shift in markets, and cost of doing business at a particular location which makes relocation attractive (Stevenson, 2009; Wisner et al, 2005). Starbucks uses its own real-estate strategy for locating company-owned stores. When entering a new market, analysis is made to determine if multiple stores will survive in order to take advantage of economies of scale. A major customer complaint is the long lines waiting for coffee drinks at Starbucks stores. Starbucks opens new locations close to busy locations in order to relieve the wait in lines and increase service rates. The downside to this strategy is the new location tends to cannibalize sales from the busy store. To establish a new store, Starbucks also experiences resistance from rural communities who feel a Starbucks store will put the local coffee shops out of business and change the character of the rural community. There have been times that Starbucks declined to move into a

new community because of this local resistance sentiment (Schultz and Jones, 1997).

Starbucks management is sometimes able to reverse this sentiment by becoming involved in the community with donations and charitable events or contributions. There are many jokes about Starbucks becoming ubiquitous. Traditionally, when a new store would open the customers would come by word-of mouth without spending large amounts of money on advertising.

5. 2 Store Layout Evaluation: Layout is about the configuration of departments, work centers, and equipment, with particular emphasis on movement of work, customers or materials, through the system (Jacobs and Chase, 2011; Russell and Taylor, 2011). Facilities layout decisions arise when designing new facilities and/or re-designing existing facilities. Basic layout types are product layouts, process layouts, fixed-position layout, and combination layouts which contain hybrid layouts and cellular layouts ((Jacobs and Chase, 2011; Stevenson, 2009). From the beginning the idea behind the Starbucks's stores layouts was to recreate the experience in the espresso bars in Italy where customers come in daily and stand to enjoy an espresso drink (Schultz and Jones, 1997). Over time, Starbucks has become a “ third” place for customers to go to get away from daily hectic, enjoy a cup of coffee, listen to music, do some work using the Internet service, socialize with friends, and even hold a business meeting. Young customers drink lots of coffee and enjoy having a place to go where alcohol is not served. Before moving into a new location, research is done to understand the culture, and art work is displayed in the stores that reflect the community's culture.

<https://assignbuster.com/creation-of-the-starbucks-experience-marketing-essay/>

The store layout shows that Starbucks mainly uses the product layout approach where customers stand in line, going from station to station so to speak, to be served while interacting with the baristas to place an order. No credit cards or checks are taken which helps keep the lines moving. During busy times, at this store, one or two baristas take the order and payment while one makes the basic coffee and tea drinks and another fills orders at the espresso bar. Everything happens in view and in control of the customer. The customer watches the barista grind fresh coffee beans before brewing which is a change that Starbucks has recently made to re-introduce the spirit of the Italian espresso shops. This spirit or “ Starbucks Experience” is more important than the mere productivity improvement of, for example, the quick opening of a package of pre-ground coffee. The customer watches a drink order being made while, concurrently, having a conversation with the barista. This high-degree of customer contact is enhanced in two ways: when a barista walks around the store offering samples of products or when a master barista is holding a coffee seminar or demonstration. The espresso bar is separated from the area where the drink order is taken, so the customer must walk to the bar to pick up the specialty drink. One of the changes that Starbucks plans to make is to replace the espresso machines with the old style machines that sit lower. The downside to this decision is that the old style machines are not as efficient; however, the customers will be able to see the barista as the drink is being made which adds to the ambiance of the Starbucks stores and provides the spirit of the Italian espresso shops.

Future Trend and Changes

<https://assignbuster.com/creation-of-the-starbucks-experience-marketing-essay/>

Going Green and creating awareness

Starbucks, appearing to be an agent of environmental protection, has been busy promoting responsible environmentalism by minimizing their carbon footprint. Starbucks's evaluation their infrastructure too has led the company to implement their own initiatives by dialoguing, building a foundation called Business for Innovative Climate and Energy Policy (BICEP), collaborating with representatives supporting environmentalism, designing and constructing green storefronts and utilizing the conservation of natural resources within their operations.

Back In 1992, Starbucks became a publicly traded company. Shortly thereafter, a cross functional

team of Starbucks partners adopted an environmental mission statement. What evolved was an Environmental Affairs team that seeks to develop environmentally responsible policies and procedures. As new environmental issues arise, this group examines our current measures and identifies opportunities for improvement.

Environmental Footprint Analysis

To determine our environmental impact, or “ footprint,” as a company, in fiscal 2001 Starbucks worked with The Natural Step, a nonprofit consulting and education group helping organizations take steps toward sustainability. We analyzed Starbucks supply chain-from coffee bean to coffee cup-looking for opportunities to make our footprint smaller.

Throughout the process, we focused on achievable measures that could significantly reduce our footprint or environmental impact. Some solutions were obvious, such as addressing packaging, energy, waste, and recycling issues. Other measures are more challenging but necessary if we are serious about demonstrating environmental leadership.

Thus, our efforts are focused on four areas:

- Coffee, tea and paper sourcing
- Transportation impacts (people and goods)
- Electricity, gas and water use
- Store design and operations

Starbucks identified ways to measure our performance for each focus area and developed specific initiatives to improve our resource efficiency.

Our store recycling metric measures the percentage of stores with established recycling programs. Starbucks goal is to offer recycling in all of our company operated stores. Achieving this goal is determined by the availability of commercial recycling services in each community, and the support of our property managers. In fiscal 2002, we will collaborate with other like-minded retailers to encourage our mutual property managers' participation in recycling programs. For commuter mug usage, we measured the percentage of beverages served in reusable commuter mugs against fiscal 2000. Although Starbucks provides a \$0. 10 commuter mug incentive discount to customers, our data indicated a decline in usage. In fiscal 2002,

we will take measures to raise awareness of this waste reduction opportunity to our partners and customers.

Embracing Change

The key to fulfilling our environmental mission rests on our ability to make changes within our operations. With the commitment of Starbucks senior leadership team to make meaningful progress, and the adoption of an action plan that is communicated throughout our organization, Starbucks is moving in a direction that will minimize our environmental footprint.

1. 9%

Another important step Starbucks has taken is to cultivate an active “ Green Team,” which consists of retail store managers across North America. The Team was created in 1994 and has been instrumental in identifying environmental opportunities, creating solutions, and communicating those solutions to our retail partners. The Green Team’s efforts have been critical to our efforts to conserve energy, reduce waste and involve our partners some of our initiatives for fiscal 2001 included the following:

Energy Conservation

Starbucks established a Utility Task Force in fiscal 1999 to identify conservation measures, such as modified lighting and adjusted thermostats. In fiscal 2001, the Utility Task Force piloted several measures aimed at conserving energy while providing cost savings. We rolled out the Utility Task Force’s recommendations in our North American company-operated stores at the end of fiscal 2001.

Waste Reduction

Starbucks Green Team first promoted the idea of offering coffee grounds as compost in spring 1998, and now it is an annual event. This initiative has helped reduce waste in our stores and provided many customers with nitrogen-rich material for their gardens.

Earth Day

To celebrate Earth Day 2001, last April more than 600 Starbucks partners contributed nearly 3, 000 volunteer hours helping to improve the environment. For Earth Day 2002, Starbucks will support the Earth Day Network ([www. earthday. net](http://www.earthday.net)), an on-line resource for environmental information and

opportunities to get involved on a local level around the world. We will raise awareness about this valuable resource to our partners and customers who seek to get involved in their communities.

Future Decades in Operation Growth

Using E-Commerce and customer loyalty programs to generate constant demand and growth, Starbucks

Converting Browsers into Buyers: Visitors to a Web site often look over the site without purchasing anything. Recommender systems can help consumers find products they wish to purchase.

Increasing Cross-sell: Recommender systems improve cross-sell by suggesting additional products for the customer to purchase. If the

recommendations are good, the average order size should increase. For instance, a site might recommend additional products in the checkout process, based on those products already in the shopping cart.

Building Loyalty: In a world where a site's competitors are only a click or two away, gaining consumer loyalty is an essential business strategy (Reichheld and Sesser, 1990; Reichheld, 1993). Recommender systems improve loyalty by creating a value-added relationship between the site and the customer. Sites invest in learning about their customers, use recommender systems to operationalize that learning, and present custom interfaces that match consumer needs. Consumers repay these sites by returning to the ones that best match their needs. The more a customer uses the recommendation system-teaching it what he wants-the more loyal he is to the site. " Even if a competitor were to build the exact same capabilities, a customer . . . would have to spend an inordinate amount of time and energy teaching the competitor what the company already knows" (Pine et al., 1995).

Creating relationships between consumers can also increase loyalty, for consumers will return to the site that recommends people with whom they will like to interact.

The Starbucks success story

Starbucks jumped into the social media arena with My Starbucks Idea – Starbucks' own version of a social network where customers are asked to share their ideas on anything related to Starbucks. Starbucks also started a blog entitled " Ideas in Action". This allows them to reach many more

customers across a wide social media landscape, recognizing that not all consumers use the same social networking sites.

Starbucks increased its online brand presence with these additions:

Starbucks on Twitter

Starbucks on Facebook

Starbucks on YouTube

In a blog post, Starbucks' Formula to Social Media Success, marketing consultant Ayelet Noff analyzes Starbucks highly-visible social media footprint across the web, the secret for its success.

“ Overall Starbucks's social media strategy integrates many different elements into the mix and combined together, these elements create a social media plan that works beautifully to create millions of fans for the brand and keep them involved in the brand's doings. The brand has created a digital dialogue with its customers, enabling people to give their feedback and receive a response back from Starbucks addressing their concerns/comments. Starbucks is showing its customers and potential customers – “ hey, we care about what YOU have to say.”

“ I am certain that if each one of these elements was done alone then the strategy would not have been as successful and complete as it is when done like this in integration with the rest of the elements on board.”

“ Starbucks has over 705, 000 followers on twitter and over 5, 428, 000 fans on Facebook. I guess you could say that they’re doing something right on the Web.” – Ayelet Noff, aka Blonde 20, 1/11/10

A post by Clark Fredricksen offered this insight.

“ While the classic mantra on social media may be all about “ conversation” and no up sell, the reality is that a mix of promotion and interaction can yield results, as companies like Dell, JetBlue, and Starbucks show.”

“ More to the point: Consumers – even those on social networks – really aren’t that offended if you give them a good deal. As we wrote in a recent newsletter article, “ those polled for the ‘ 2009 Cone Consumer New Media Study’ were interested in brands that would keep them informed, provide product information and give incentives-and generally use new media to help solve consumers’ problems.” – Tracking Twitter Success at Dell posted by: Clark Fredricksen – December 11, 2009

Starbucks has selected Square to process mobile payments at its approximately 7, 000 stores nationwide in the United States, in a move that could shake up the nascent mobile payments market in the country.

The coffee company had introduced the first mobile payment via iPhone app in 2009. It took mobile payments nationwide in January 2011 after testing its app for iPhones, the iPod touch and BlackBerries.

At a press briefing in New York on Wednesday, Starbucks chairman, president and CEO Howard Schultz told reporters the company had been

approached by all the mobile payment processors in the market over the past six months. It selected Square after meeting with that firm.

“ The evolving social and digital media platforms and highly innovative and relevant payment capabilities are causing seismic changes in consumer behavior and creating equally seismic disruptive opportunities for business,” Lisa Passe, Starbucks’ director of global brand public relations, told the E-Commerce Times.

“ Both Starbucks and Square take a similar approach when building products and running our business, and together we can bring the best possible payment experience to Starbucks customers,” Passe continued. “ We also expect to reduce our payment processing costs as a result of this agreement.”