INTERNATIONAL MARKETING

Case Study Report

How Starbucks Corp. should improve its business

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1. Introduction

1.1 Company Profile

In 1971, English teacher Jerry Baldwin, History teacher Zev Seigel and writer Gordon Bowker who shared a love of fine coffee and exotic teas invested US$ 1,350 each and borrowed another US$ 5,000 from a bank to open up a store called Starbucks Coffee, Tea and Spice in the tourist's Pikes Place Market in Seattle. Later the name was changed to Starbucks Coffee Company (Thompson & Strickland, n.d.).

Starbucks is named after coffee-loving first mate in Herman Melville's *Moby Dick* and also because the thought of the name evoked the romance of high seas and the seas faring tradition of early traders. The Starbucks logo is a two-tailed mermaid encircled by the store's name (Thompson & Strickland, n.d.).

The store was an immediate success, with sales exceeding expectations. Stores opened in different parts of the US. Entrepreneur Howard Schultz joined Starbucks as a marketing executive in the early 1980s and acquired the company in 1987 (Cateora & Graham, 2007, p. 597). Starbucks went public in 1992 and has done extremely well, turning an everyday beverage into a premium product.

According to the company's mission statement Starbucks sees itself "as the premier purveyor of the finest coffee in the world while maintaining [its] uncompromising principles while it grows" (Starbucks, 2007).

1.2 Case Summary[1]

Starbucks has grown rapidly since the time of its inception: from 17 stores in Seattle to 5,689 outlets in 28 countries. But now the US market is getting saturated with only 8 states without any Starbucks stores (Cateora & Graham, 2007, p. 596).

[1] This part serves as a summary of the Starbucks case study in Cateora's and Graham's (2007, 496-99) text book.

Despite the self-cannibalising effects of a 30% loss in old stores' revenue, Starbucks in still opening new stores in order to achieve market dominance and increase total revenue. Furthermore, by paying above the prevailing market rent rates, Starbucks successfully tries to keep competitors out of location.

There was a time when Starbucks had the lowest employee turnover but now its employees face low morale and burnout. The employees are paid better as compared to other industry workers and are also given stock options and health insurance but all this, according to the workers, does not come close to the workload the job requires.

Starbucks relies on word-of-mouth advertising and therefore saves on marketing activities. It spends only 1% (US$ 30 million) of revenues on marketing annually as compared to other firms of the same size, which easily have a marketing budget of more than US$ 300 million a year.

Starbucks came up with Starbucks Express, a system where customers could order online or on the phone in advance so when they arrived at the store their beverage would be waiting for them. To reduce transaction times and speed up services Starbucks introduced a customer card and installed automatic espresso machines respectively. It also has wireless Internet access in 1,200 locations in both North America and Europe.

Starbucks faces the challenges of saturation of the US market and new competitors both in the US and overseas market. Furthermore, the company is confronted with a change in customer perception.

1.3 Current Situation

Sales have increased from US$ 3289 million (2002) to US$ 7787 million (2006). Till July 2007, Starbucks has already earned revenue of US$ 6,970 million. In

September 2006 the company had 145,800 employees on its payroll (CNN Money, 2007). Starbucks ranks 16^{th} in Fortune's 100 best Companies to work for (2007), (Nasdaq, 2007) and 310^{th} in the Fortune 500 ranking of the world's largest companies (2007) (CNN Money, 2007).

Starbucks operates in 39 countries outside the US. It has 6,281 company-operated stores and 3,533 licensed stores in the US and 1,533 company operated stores and 2,361 joint ventures and licensed stores in overseas markets (Starbucks, 2007) of which Japan and the UK are the largest ones.

Starbucks' product line includes more than 30 blends of coffee, hot and iced espresso beverages, baked pastries, sandwiches and salads. The stores also supplies coffee merchandise. Starbucks has entered into the entertainment industry by adding the best of music, books and films to its product line (Starbucks, 2007).

In 2005 Starbucks ventured into selling chilled coffee in convenience stores in Japan to boost its sales. Starbucks has introduced packaged branded products such as coffee beans, ice cream, frappucino and chocolate in supermarkets and convenience stores. Starbucks sold more than 25 million kg of packaged coffee at supermarkets and other retailers in 2006. Packaged coffees account for about two-thirds of the consumer products group's revenue. This segment accounts for nearly 20% of Starbucks' total operating profit (Yahoo, 2007).

The Seattle chain is presently facing stiff competition from domestic competetitors - McDonald's, Nestlé, Tim Hortons and Dunkin' Donuts.

Dunkin' Donuts, known more for its pastries, first introduced a line of espresso drinks in 2003 and obtained worldwide sales of US$ 4.7 billion in 2006, in which espresso drinks had a share of 5% - about US$ 235 million. But from its much smaller base, Dunkin' recently unseated its rival as No. 1 in a 2007 customer loyalty index published by market researchers Brand Keys (Gilbert, 2007).

McDonald's is branching out into coffee beverage drinks. The fast food chain has begun introducing McCafé concept restaurants in select locations in the US and other countries around the globe with comfy couches, pastries, vanilla lattes and cappuccinos priced cheaper than Starbucks at around US$ 2 to US$ 3. Besides, McDonald’s serves its coffee drinks from push buttons which is faster than Starbucks’ “brewed freshly as ordered concept”. In order to compete with McDonald’s’ breakfast product Egg Muffins, Starbucks has started serving several breakfast dishes.

Long-term goals of Starbucks are to have 40,000 coffee stores world wide – more than triple the current number (Starbucks, 2007). Half of these will be outside the US. Potential overseas markets include the two major tea drinking Asian giants – India and China; Brazil and Russia.

2. Deriving Key Issues from the Case Study

Considering Starbucks current situation, there are quite a few key issues which have major impact on Starbucks future success. Divided into external and internal key issues, the following part analyses four core issues Starbucks has to handle.

2.1 External Key Issues

2.1.1 Limited Growth Opportunities

Since the days Starbucks was a Seattle based 17 coffee shops company (Cateora & Graham, 2007, p. 596) it has grown to an international player, operating in 39 countries with 12,440 stores (Starbucks, 2007). But besides this astonishing development, Starbucks is facing a more and more saturated home market. Especially in cities, affluent suburbs and shopping malls, Starbucks in some areas is reaching “the upper limit of coffee-shop saturation” (Cateora & Graham, 2007, p.

596). Due to their strategy of opening its stores in a very narrow area, Starbucks offers one outlet for every 9,400 people in Seattle. In Manhattan, Starbucks runs 124 stores and plans to open up even more (Cateora, &, Graham, 2007, p. 596). The results of this are self-cannibalisation of Starbucks' outlets at a rate of about 30% and press releases like the following: "A new Starbucks Opens in Restroom of Existing Starbucks" (Cateora & Graham, 2007, p. 596). But due to the fact that the coffee market in the US is still growing (Top 100 chains' growth rate 2007) Starbucks is going to open up more outlets in huge amounts of numbers (Company Spotlight: Starbucks Corporation, 2006, p.38).

Although Starbucks has been able to raise its sales about 22% in 2006 (Top 100 chains' growth rate, 2007) "Starbucks will have to depend on overseas growth to maintain an annual 20% revenue growth" (Cateora & Graham, 2007, p. 597).

But Starbucks seems to be aware of that challenge and becomes increasingly focused on its overseas business. In the meantime there are nearly 3,000 international outlets, which represent approximately 25% of its overall stores (Starbucks, 2007). Hence, global expansion also limits Starbucks earning potential. The fact that Starbucks operates with local partners in overseas markets instead of opening company-owned stores significantly reduces the company's share of profits. That causes lower margins and therefore increases the risk. On the other hand this strategy makes it easier for Starbucks to establish its business in these markets (Catora & Graham, 2007, p. 596).

While generally operating successfully in foreign markets, Starbucks also faces some problems and increasing competition overseas. Japan, Starbucks number one foreign market, struggled with sloping sales because of a depressed economy and growing competition (Cateora & Graham, 2007, p. 598). Meanwhile the economy is getting better and Starbucks is able to mark up coffee prices the first time since it entered the market (Drinks: Industry Update 2007, p. 22).

Starbucks also faces increased competition in the UK, its second-biggest foreign market (Cateora & Graham, 2007, p. 598) and even in the US, Starbucks is suddenly exposed to tough competition. McDonald's on the one hand is strongly entering the coffee market with its McCafé line extension, while on the other hand Dunkin´ Donuts is also expanding. As a result Starbucks has to deal with declining revenue growth (Pressman, 2007).

Hence Starbucks is forced to take more risk by entering rapidly growing BRIC (Brazil, Russia, India and China) markets, even though cultural difficulties occur (Starbucks: aiming for big bugs, 2007, p. 12). After a huge anti Starbucks campaign for instance, the company decided to close down its outlet in Beijing's Forbidden City after seven years, due to cultural differences (Dexter, 2007).

In conclusion Starbucks has to expand its international business in order to maintain its growth targets. Besides an overall increasing competition, the US market has become mostly saturated and foreign markets are exposed to more risk.

2.1.2 Customers and Image

Similar to its economic situation, Starbucks is confronted with a different consumer perception in its home market and its foreign markets. Starbucks is one of the fastest-growing brands worldwide (Cateora & Graham, 2007, p. 596) and has become one of the Top 100 Brands in 2007. With a brand value of US$ 3.631 billion, Starbucks ranks 88th in the world (Interbrand, 2007). Another ranking, regarding the beverage industry sales, lists Starbucks on position ten (Korolishin, 2007).

In contrast to its way up to be one of the world's most powerful brands, Starbucks is facing "an ominously hostile reception from its future consumers, the twenty-somethings of Generation X" in its domestic market (Cateora & Graham, 2007, p. 596). Not only some radical anti-capitalism activists are turned off by the power and image of Starbucks, but also former customers and particularly young people feel uncomfortable and sometimes even not accepted in the company's outlets (Cateora & Graham, 2007, p. 597-8). Due to Starbucks rapid growth, the brand has been commoditised and therefore lost its original romance. Starbucks customers miss the Starbucks "experience" and instead perceive the stores as "sterile, cookie-cutter and no longer reflecting the passion" (Trouble brewing, 2007). Also responsible for Starbucks' image downfall is regularly upcoming negative publicity about Starbucks supplier treatment and anti-competitive practises (Starbucks-taking on the world, 2004). Regardless the fact that Starbucks purchases Fair Trade Coffee since 2000, these rumours seem to occur frequently (Harris, 2004). However, there are also surveys which proof that the Starbucks' customer satisfaction is quite average, compared to other big brands (Big brands' customer satisfaction, 2007).

Another picture is drawn when considering Starbucks relationship to their customers outside the US and the brand image. Overseas, Starbucks is perceived as "very cool and hip" (Graham & Cateora, 2007, p. 598). Even in Beijing, the place where Starbucks had to close down an outlet because of cultural differences, the brand is also perceived as desirable (Dexter, 2007).

Therefore Starbucks has once again to deal with an issue that determines its future. The company has to navigate its brand to a market position where it can satisfy both types of customers: the older customers missing the Starbucks "experience" and the younger ones perceiving Starbucks as hip but feeling unaccepted.

2.2 Internal Key Issues

The issues under control of Starbucks' management team are the internal ones, representing the company's weaknesses and strengths.

2.2.1 Product Range

Starbucks has a product range of more than 30 blends and single origin coffees, handcrafted beverages, bottles frappuccino coffee drinks (in Japan and Taiwan), coffee beans, coffee liqueurs, line of ice creams, music, books, films, home espresso machines, premium chocolate, coffee mugs, coffee accessories, Starbucks card, a stored value card, and gift items (Starbucks, 2007). Contrary to the apparently broad product range, beverages represent 77% of retail sales whereas food items and other products account for 15% and 8%, respectively, which means that the company strongly depends on beverages and also that the variety of products developed has not worked as it should have, which may be risky if market and competition conditions change (Datamonitor, 2004).

There are several cases of distinctive product range failures: For instance in 1999 the release of "Joe" magazine lasted just three issues. Another example in the same year is the introduction of an internet venture to sell kitchen products resulting in a stock fall of 28%, just one day after the announcement (Serwer, 2004, pp. 4-5).

The latest additions to the product range are "Dulce de Leche Latte" and "Dulce de Leche Frappuccino" which come from Latin American origins, meaning "Milk Candy". The company has been trying to develop new and innovative products most of the time, but this has not work properly in all cases. One systematic process used by Starbucks is called "Geography is a flavour" which is characterised by the development of new products based on demand in different countries and cultures around the world (Helm, 2007, p. 2).

The development of a new beverage takes about 1 to 1 ½ years for internal research, marketing research and development. Apart from costumer acceptance and market factors the success of a new beverage depends mostly on employee excitement and their acceptance of the new beverage (Zeithaml et al., 2006, p. 675).

Different varieties in the products need to be developed for different international markets, if Starbucks wants to properly enter each and every single one of them. For example in Italy coffee shops are characterised by having food additionally to just coffee, an area in which Starbucks is presently not doing so well (Cateora & Graham, 2007, p. 598). Another example is how Starbucks adapts to market opportunities in Japan by moving into convenience stores with a line of chilled coffee in plastic cups (Cateora & Graham, 2007, p. 599). Also in order to set the taste of certain beverages according to people's preferences, some drinks are sweeter in the US, compared to Asian countries for instance (Cateora & Graham, 2007, p. 599).

Starbucks will have to figure out an accurate way of not just relying on beverage products in order to maintain its position as a leader in the coffee shop market. Right now Starbucks keeps doing well but it could just be a matter of time for the company to start felling harmful outcomes.

2.2.2 Employees

Partners, as the company refers to its employees (including part-time employees) (Serwer, 2004, p. 14) enjoy several benefits that include Starbucks-wide stock option plans, health, medical, dental and optical benefits. Also every partner receives "Partner markout" coffee or store products on a weekly basis (Starbucks, 2007).

In 2004 Starbucks introduced the Coffee Master program for the staff to learn more about the particularities of coffee and hence earning a special insignia on the partner's business cards, in order to form the employees' commitment to the brand. So far the program has 25,000 graduate employees (Helm, 2007, p. 2). Another good example of how CEO Schultz acts responsibly towards his staff is how he handled the robbery at a Starbucks in Washington where sadly three employees died. Schultz arrived there immediately and took responsibility of every little detail and also declared all future profits from that store to be designated to charities involving burglary investigation (Serwer, 2004, p. 2).

There have been several labour disputes since 2004 taking place in different Starbucks all around the world, arguing odd, long hours and low pay. Employees feel overworked and unrespected, mainly because as the company grows, it is becoming less special for them to work there (Cateora & Graham, 2007, p. 598).

On 18 August 2007 Industrial Workers of the World (IWW) had a "National Day of Action against Starbucks". It took place in several cities around the UK protesting against unfair labour practices (Krauthamer, 2007). A great number of cases and disputes between employees and Starbucks have resulted in creating the "Starbucks Union" which is part of the retail worker's division of the IWW. The intention of this union is to unify Starbucks employees all around the world in order to improve wage and working conditions. (Starbucks Union, 2007). It can be inferred from the Starbucks Union website that employees do not at all agree with their working conditions, which is why they had to take action on their own so that problems could be properly solved.

Most of the cases are being solved by positive agreements for both sides. Hence Schultz's comment "If they had faith in me and my motives, they wouldn't need a union" (Allison, 2007). The above shows that despite Starbucks efforts to create a positive working attitude among its workforce the company struggles with overcoming increasing dissatisfaction among its "partners" which needs to be solved if Starbucks wants to continue as a successful company in the future.

3. SWOT Analysis

Based upon the detailed analysis of Starbucks' key issues a Strengths-Weaknesses-Opportunities and Threats (SWOT) analysis will be carried out and serve as a comprehensive summary of the above discussion as well as the starting point for the development of possible solutions and their evaluation.

A SWOT analysis represents a tool that companies use in order to understand what they do well and where they could improve. Furthermore, it enables them to get insights into the market. Strengths and weaknesses portray the internal perspective of a company and can be controlled and influenced. Opportunities and threats on the other hand are concerned with the market and represent factors that cannot be controlled. However, a company like Starbucks needs to be aware of these factors in order to be able to cope with possible market changes in the future (Adams, 2005, p. 26). Table 4.1 shows the Starbucks SWOT analysis.

STRENGTHS	**WEAKNESSES**
▪ Innovation ▪ Fast Store Openings ▪ Strong Financials	▪ Low Employee Satisfaction ▪ US-focused Organisation ▪ Small Product Mix
OPPORTUNITIES	**THREATS**
▪ Investment in New Markets ▪ New Store Openings ▪ Increasing Speciality Coffee Market	▪ Increasing Competition ▪ Change in Customer Perception ▪ Change in Economic Environment

Table 4.1 Starbucks SWOT-Analysis

3.1 Strengths

Starbucks has proven to be a rather innovative company. Through the introduction of automatic espresso machines and pre-paid cards for example Starbucks realises shorter transaction times resulting in higher revenues and greater customer convenience. While other innovations have set the standard for the whole industry - like providing wireless internet service - potential innovations such as an online pre-order service have failed to gain customer exception (“Starbucks ending online coffee service”, 2003) . However, they still show Starbucks’ ambition to provide customers with innovative products and services (Cateora & Graham, 2007, p. 597-8). An extremely flexible and efficient organisation allows Starbucks to set up new stores within only a few weeks resulting in lower amortisation times (Cateora & Graham, 2007, p. 597).

Apart from that a major strength must be seen in Starbucks’ strong financial performance with net earnings up 22% in 2006 (Starbucks Annual Report, 2006, p. 16) which has made the company almost debt free. This frees money for new product developments and especially investments in new markets as well as for fighting possible competition.

3.2 Weaknesses

At the beginning of the new millennium Starbucks’ unprecedented employee treatment that included benefits such as health insurance and stock options was seen as one reason for Starbucks’ incredible market penetration (Boulton et al., 2000, p. 32). However, employees become increasingly dissatisfied and feel underappreciated (Cateora & Graham, 2007, p. 597) which poses the danger of negative service impairment and increasing costs due to high employee turnover rates.

Starbucks still depends heavily on its home market the US. In 2006 only 17% of revenue was generated internationally and non-US stores accounted for less than a quarter of Starbucks' 12,440 worldwide stores (Starbucks Annual Report, 2006, p. 16). This can be seen as an indicator for the fact that Starbucks has not yet been able to transform itself into a true global organisation which would be necessary to meet the company's ambitious growth targets.

Apart from that Starbucks relies on a rather narrow product mix. More than three quarters of the company's retail sales come from beverages. Despite Starbucks' creativity with regard to beverage innovation the reliance on only one product group makes the company more vulnerable to changes in consumer preferences (Datamonitor, 2006, p. 6) and might not be suitable for international market needs.

3.3 Opportunities

Since Starbucks' international presence is still relatively limited the US, growth potential lies in new and emerging markets. This is especially true for the rapidly developing BRIC countries (Datamonitor, 2005, p. 23).

Increasing its international presence by opening new stores overseas must be regarded as a great opportunity for Starbucks. The company sees long-term potential for about 20,000 non-US stores (Starbucks Annual Report, 2006, p.5).

Furthermore, a still growing market for specialty coffee (Datamonitor, 2006, p. 6) provides the chance of capturing additional consumers' shares of wallet. For an already established company like Starbucks this should be easier than for new market entrants and smaller competitors.

3.4 Threats

While Starbucks used to face no nation-wide competition in the US and was able to fight competitors due to its financial strength rather easily (Cateora & Graham, 2007, p. 597) Starbucks' business model does not seem to be invulnerable to competition. Companies that did not pose a threat years ago now seem to be increasingly interested in the attractive upscale coffee market. McDonald's already operates more than 1,000 McCafés in 34 countries (McDonald's Annual Report, 2006, p. 17) and is probably the biggest threat to Starbucks (Pressman, 2007).

Although Starbucks has every intention of appearing as a caring company with an environmental conscience public opinion could change towards a different direction if medial portrayal continues to be negative which would most likely change customers' consumption willingness (Goos, 2007, p. 78). Apart from that especially in the US younger customers could turn away from Starbucks because the company's overall appearance does not match their general attitudes (Cateora & Graham, 2007, p. 598). Furthermore, it is yet to see whether international customers will accept the Starbucks way of drinking coffee ("Will Europe Warm to Starbucks?", 2005) which is a prerequisite for Starbucks' growth ambitions.

The success of upscale products like Starbucks' coffees tends to be closely correlated to the overall economic development which has been relatively positive over the last years. In an economic downturn, however, this correlation might still be valid resulting in lower consumer spending for upscale products (Cateora & Graham, 2007, p. 597).

4. Analytical Framework and Development of Alternative Solutions

4.1 Analytical Framework – Starbucks Solutions Cube

The discussion of the key issues that Starbucks currently faces as well as the SWOT analysis that was conducted based on those issues shows that in order to achieve its ambitious goals and continue to be the major player in the specialty coffee market Starbucks must undergo a number of changes.

This part of the paper will introduce an analytical and structured approach to identify possible solutions and alternatives and come up with a specific recommendation.

Experience has shown that the major problem of developing solutions and alternatives based on case study information is the danger of coming up with a number of ad-hoc solutions that do address those issues discussed in the case study but lack the embedment into a clear strategic framework. This framework, however, is crucial for the viability of the solutions and ensures that all actions contribute to a common goal instead of just being individually optimised.

Based on a brain-storming session whose outcomes are shown in the appendix a number of possible solutions for Starbucks' key issues were identified. Instead of simply developing an action plan based on those it was examined whether the different alternatives could be grouped in different categories. A result of this cluster-exercise was that possible solutions to Starbucks' key issues can be categorised into three major groups:

- Alternatives regarding the business model
- Alternatives regarding the product range
- Alternatives regarding marketing activities

As shown in Figure 4.1 the spectrum of possible solutions ranges from “no change” to “radical change” for each of the three dimensions. Since the optimum solution to each of the issues will be found anywhere between the two extremes this approach guarantees that all possible solutions are considered.

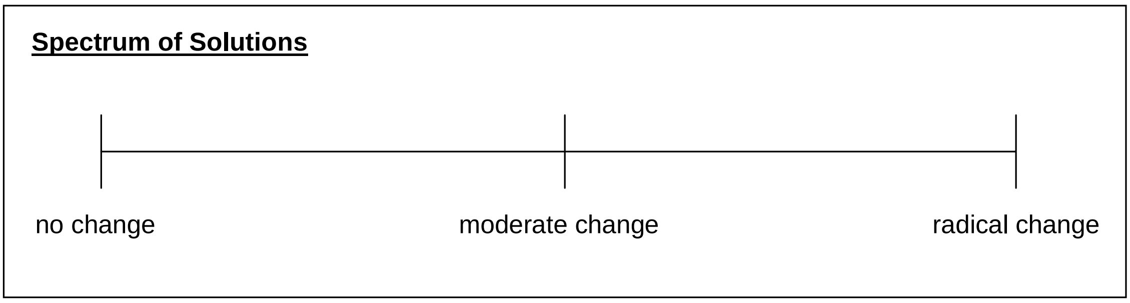

Figure 4.1 Spectrum of Solutions

The three dimensions form a three-dimensional sphere, the “Starbucks Solutions Cube” as portrayed in Figure 4.2.

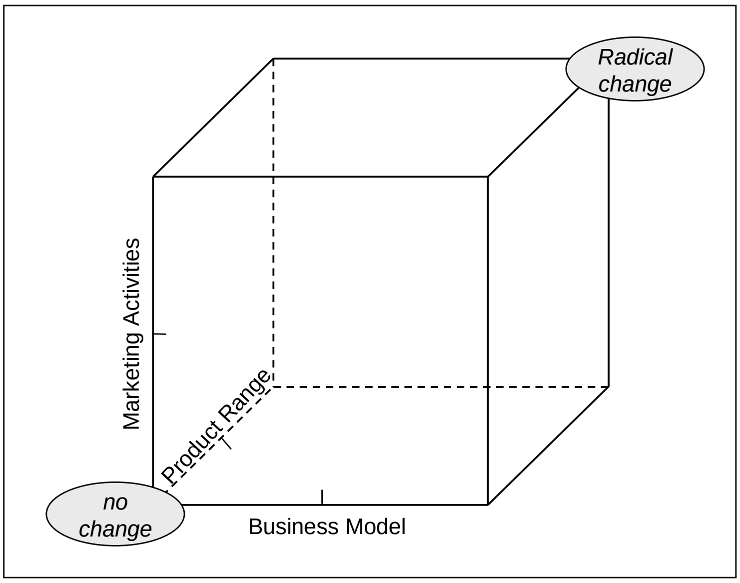

Figure 4.2 Starbucks Solutions Cube

The content of this cube represents all possible solutions for Starbucks' key issues as combinations of solutions to the three identified issue dimensions. The advantage of this framework is the fact that all alternatives are captured.

In a next step a closer look at each of the three dimensions proves necessary. For each the "no change", the "moderate change" and the "radical change" scenario will be outlined.

4.2 Business Model Dimension

The optimal choice in developing Starbucks business model in order to keep up with the changing business environment would be found between retaining the current situation and totally changing the way Starbucks is doing its business.

4.2.1 "No change" option

On the one side of the scale of possibilities on how to operate Starbucks' business model of the future, is the "no-change" option. This means that all basic strategic decisions will stay in place. That implies for example that US stores will remain being owned by the company, that new shops will be opened even if they are close to old ones and that a rapid expansion into international markets would take place (Cateora & Graham, 2007; Starbucks, 2007).

4.2.2 "Moderate change" option

While the current strategy might be part of the problems derived from the case study, it makes sense to look for alternatives in how to run Starbucks' business in the future. Suggestions for moderate change in its business model can be found in the case itself. Advantages of clustering stores result in an increase of market share and revenue by making it easier to deliver and manage stores that are close to each other. Evaluating this strategy described in the case two years down the track, the actual outcome of this strategy is positive (Datamonitor, 2004). Being even more innovative on how to sell its products will also have a positive impact on Starbucks business (Cateora & Graham, 2007).

Strategic decisions on how to expand Starbucks' business without totally changing the way the company works might involve partnering with other companies of related industries. Buying coffee shops that are located in bookshops, like Starbucks did with some of Borders Coffee Shops (Starbucks to take over Borders coffee shops, 2002) and also giving licenses to college campuses, hotels and military bases (Starbucks, 2007) was a first step Starbucks took into that direction. It also would be worth thinking about partnering with furniture shops like IKEA, airlines (since coffee on most flights is abysmal) cinemas or more exotically, car washers. Since working together with competitors gets increasingly important (Walters & Rainbird, 2007), Starbucks should also think about partnering with fast-food chains to enhance its coffee offer and help to fight growing direct competitor McDonald's.

Moreover, moderate change will have to concentrate on how to enhance the corporate culture of the business. As mentioned in the case, employees find it more and more difficult to relate to the traditional idea of Starbucks as the business grew too large, too fast (Cateora & Graham, 2007). Organising team activities, trips and festivities for the employees could be one option. Another could be to offer employees from one Starbucks store an exchange program with staff from another, either in the same city, the same country or abroad. Since many Starbucks employees are relatively young (Cateora & Graham 2007) this might also help to increase motivation and serve as a reward system. On top of that expertise and experience could also be shared, contributing to Starbucks' knowledge management.

4.2.3 "Radical change" option

In contrast to the described moderate changes more drastic changes could be found on the other end of the business model dimension scale. With several other businesses, like mobile communications service providers (Deutsche Telekom recently launched its low-end market brand "Congstar"; Financial Times, 2007) or airlines (Qantas introducing Jetstar), establishing a second brand in their markets that offers a lower quality product for a lower price in order to capture market share in the low-end of the market, this might be a viable marketing-strategy for Starbucks, too. This would give Starbucks the opportunity to sell products at a cheaper price and thus coping with low-price competition such as McDonald's, without damaging the high-quality image of its main brand.

Moving away from all stores being owned by the company, a franchising model, either for both, the high quality Starbucks brand and the to-be-established low price brand or just for one of them, has to be considered. That would give the company less control over each store on the one hand, but on the other, expansion into new markets and concentration on the development of the brand and company could bear advantages.

Growing larger by buying competitors could also be a strategy, not only for expansion in established markets by reducing competition and fighting problems associated with saturated markets. Moreover it could be a tool on how to tackle new markets like India, Russia or South America, by making use of the knowledge that was gained by the other companies.

4.3 Product Range

The best alternative to overcome the challenges that are related to Starbucks product range could again be found between the two extremes: not changing the product offer at all, or changing it radically.

4.3.1 “No change” option

By choosing this option, Starbucks’ offer to customers would remain the same: Ever since Starbucks was founded in 1971 its main source of revenue was selling a store based coffee experience. The product range consists of coffee-related products such as pastries, confections or non-food items like espresso machines and mugs (Starbucks, 2007). With discovering the opportunities in the arising US$ 40 billion breakfast market, Starbucks nowadays also serves upscale breakfast sandwiches with its coffee, adding an estimated revenue of US$ 35,000 per store (Gulli, 2007).

4.3.2 “Moderate change” option

In response to new market trends, Starbucks might decide on moderately changing its product offer. In recent years, consumers seemed to become more aware of health issues related with fast food (Menu Trends in Quickservice Restaurants, 2004). McDonald’s used this trend in order to redesign its product offer, heading towards a new image of offering “healthy fast food” (Walters & Rainbird, 2007, pp 187-191). Since Starbucks pastries offerings are not conceived healthy so far, new products that are appealing to those health aware customers could provide a source of growth.

Additionally to upgrading its existing product range to meet customers’ health needs, Starbucks might consider using its brand’s association with high quality and well-being in order to introduce more food products, like salads, sandwiches and lunch offers. Since many Starbucks stores are located in city centres, these new products could bring business people in stores not only to buy coffee, but also for lunch.

It is McDonald’s that offers localised products to its different stores in different countries (Madden, 2005). With planning on expanding into “traditional coffee countries” like Italy, Starbucks must consider this option as well and probably use different coffee blends. When it comes to pastry-loving France, partnering with local producers might be an option in order to offer products customers will adore. With Starbucks offering different variations in the products’ sweetness it took a first step into more localised products (Cateora & Graham, 2007, p.599).

4.3.3 “Radical change” option

A more drastic change of Starbucks’ product range might also be considered. The German coffee-company Tchibo decided not to sell its core product “coffee-beans” any more but to sell the “coffee-experience” related with its products. Selling emotion and feelings instead of products was a driving thought when Tchibo re-designed its product range. The company nowadays offers products that are associated with a “feeling of well-being”, like sweatpants, lingerie, kitchenware or books and CDs. Tchibo created its own TCM label in order to provide these products at a low price, thus generating up to 75% of total turnover at some stores, leaving coffee sales as a secondary business (Schubert, 2006). Offering more products that are not directly linked with coffee might be an option for Starbucks as well. With its big purchasing power and stores in all parts of the world Starbucks could gain by attracting customers with its non-food offers and also serving a coffee while they are shopping.

As mentioned in the case study and also found in a survey conducted among students at Macquarie University (see appendix) most Starbucks customers agree that the company offers high quality but also high priced products (Cateora & Graham, 2007, p.597). The majority (52%) of the surveyed international students agreed that Starbucks offers high quality products. About one third of the respondents claimed that they would buy Starbuck's products more often if prices were lower, whereas 76% disagreed with the statement that Starbucks is selling its products at a reasonable price. That implies that it would be an option for Starbucks to introduce new, low price products to its product range. Like McDonald's' or Burger King's "1 Euro for a Hamburger" offer in Germany or the Netherlands, Starbucks could introduce a cheaper range of pastries and coffees. In order to increase penetration of the marketplace and to keep competitors at a distance, Starbucks should also think about reducing prices of existing products.

Starbucks tries to expand into the chilled-coffee market in Japan and sells coffee beans in supermarkets (Cateora & Graham, 2007, p.599). Putting more emphasis on moving away from its traditional distribution channels (retail stores) into convenience stores and supermarkets, while using partners like Pepsi and Kraft Foods (Starbucks, 2007), could generate more profit and also more brand-awareness, thus a good opportunity for Starbucks' marketing.

When it comes to attracting younger customers, refurbishing stores might be an alternative. In combination with the "radical option" described for the business model, the low-end market brand of Starbucks could also be completely aligned to attract Generation Y. Catering for and sponsoring of events could be a great marketing opportunity to reach new customers. Setting up a delivery service would be appealing to business people as well as to convenience-seeking students.

4.4 Alternatives Regarding Marketing

Alternatives regarding a different marketing approach range from retaining the current situation to implementing some moderate changes to drastic changes in how Starbucks makes use of its marketing machinery.

4.4.1 “No change” option

At present Starbucks must be regarded as rather inexperienced when it comes to taking advantage of the whole spectrum of marketing tools. Starbucks pursuits a very cost effective marketing strategy by largely relying on mystique and word-of-mouth advertising (Cateora & Graham, 2007, p. 597) as well as image building through billboards, newspaper ads and giving out free samples to customers (Datamonitor, 2005, p. 5).

4.4.2 “Moderate change” option

Adding new marketing tools to Starbucks’ current strategy while still mostly relying on its strong brand and not dramatically increasing advertising expenses characterises this option.

Besides advertising in newspapers or magazines Starbucks could start running TV ads for new products or promote certain special offers as often done by competitors. Also increasing the company’s internet presence is part of the “moderate change” option.

Besides intensified advertising efforts the company might want to consider starting to run moderate image campaigns that prevent the public opinion towards Starbucks from shifting into undesired directions. This could for example be achieved by developing Starbucks’ role as a corporate citizen in its markets through sponsorships of certain community projects as well as by emphasising its environmental and social friendly trade practices.

4.4.3 "Radical change" option

Active and aggressive advertising as well as an intensive image campaign accomplished through a drastic increase in marketing expenses characterise this option.

With regard to advertising McDonald's can be viewed as the industry leading benchmark. McDonald's' advertising expenses represent roughly 3% of the company's revenues (McDonald's Annual Report, 2006, p. 44). This is more than threefold of Starbucks' 1% of sales that are invested in advertising (Cateora & Graham, 2007, p. 597).

A look at McDonald's'' current marketing activities gives an idea of what Starbucks could do to radically change is marketing strategy.

McDonald's constantly runs TV ads not only for new products or special offers but also for long-existing ones. In 2006 the company agreed to sponsor the world's two largest sports events, the FIFA World Cup and the Olympics. Furthermore, McDonald's is well known for accompanying new Blockbuster Movies like Shrek III with special product offers (McDonald's Annual Report, 2006, p. 22-3). Of course, due to a much smaller financial power Starbucks would not yet be able to match these efforts but looking at this wide range of marketing activities shows what is necessary to become an industry leader in this field.

Furthermore, McDonald's effectively fights its image as a "bad-food-company" by offering new healthier products *and* talking about it. By being involved in the community through the Ronald McDonald Foundation the company strengthens its role as a corporate citizen.

Taking this as an example Starbucks could introduce new healthier products or emphasise the quality of existing ones. Furthermore, Starbucks could start to aggressively fight attempts in the media and to portray the company as a asocial symbol for free-market capitalism (Cateora & Graham, 2007, p. 596) through an extensive image campaign.

5. Recommendations

5.1 Evaluation Criteria

To ensure that the recommendation given in this part really is a doable and effective solution to Starbucks' problems, four different evaluation criteria must be considered. These criteria can be derived from the key issues that Starbucks faces as identified in part two. The criteria against which the recommendation has to be measured are

- Enabling future sustainable growth in both, the US and overseas.
- Improving customers' perception in the US and retaining positive perceptions overseas.
- Enabling a broader product range suiting US and international demands.
- Increase employee satisfaction in the US and become a preferred employer overseas.

A viable recommendation must solve one of Starbucks' greatest issues which is an increasingly saturated US market. In order for the company to still be able to grow the recommendation must enable Starbucks to penetrate attractive foreign markets.

Furthermore, changes in customer perception must be prevented both in the US and overseas. Here, the great challenge is how to re-establish a positive attitude towards the company among a large group of US customers and retain the still positive image that most overseas customers have of Starbucks.

Currently, Starbucks' revenues are generated by a rather small group of key products. In order to make the company less vulnerable to shifts in consumer preferences the recommendation must enable the company to rely on a broader range of products while still respecting and exploiting different international tastes and habits.

Finally, a recommendation must ensure that Starbucks makes the way it treats its employees once again one of the company's competitive advantages. Both, employees in the US and overseas must identify with the company and be happy to work for their ideal employer - Starbucks.

5.2 Recommendation

Based on the core issues Starbucks is dealing with, one possible solution for Starbucks' challenges is developed. As described in the previous parts, this solution incorporates the three dimensions of our analytical framework - the Starbucks Solutions Cube.

To put it in a nutshell, Starbucks is currently in a very complex situation. Whilst growing rapidly, Starbucks has to deal with increasing competition and is therefore forced to explore new market opportunities and product offers. At the same time its workforce is feeling overworked and underappreciated. To make the situation for Starbucks even more difficult, it faces an ambiguous customer perception of the brand image due to their different backgrounds. The result is a total contrary perception of Starbucks brand image in the domestic US market and the markets overseas.

Hence Starbucks has been trapped by its own success and growth over the years. It is time for Starbucks to make a move in order to maintain its success in the long run.

5.2.1 Business Model: Establishing a second Brand

The best way to handle all the issues is introducing a second, low-price-based brand besides the existing Starbucks brand. It was hence decided on the “radical change option” as described above for the business model dimension in the Starbucks Solutions Cube.

At First, the second brand is introduced as a “fighter brand” against Starbucks lower-priced competitors like McCafé and Dunkin’ Donuts. With such a fighter brand Starbucks is now able to compete without putting the original Starbucks brand in a price based competition and further operates on high margins. Considering overseas markets it is an appealing option to franchise the new fighter brand. While keeping the full control over the Starbucks flagship brand, it is less risk and effort to franchise the fighter brand in foreign markets.

Secondly, in order to stay trustworthy in the customer’s eyes, the company has to separate both brands in a very strict and clear way. Each of both brands needs to have its own independent, well defined and communicated market position. Therefore, it is fundamental that the two brands are not related in any way to each other in terms of communication.

Thirdly, the original Starbucks brand can then concentrate on its current business model: to sell high priced quality coffee to urban people reaching for a sophisticated lifestyle experience. This brand is also appreciated by most of its overseas customers who are considering the Starbucks package as cool and part of a desirable lifestyle.

Fourthly, the fighter brand should satisfy the needs of those people who are missing the original, pure coffee store and are not willing to buy a four dollar designer coffee. The fighter brand thus fights not only the competition, but also the increasing dismissive attitude towards Starbucks in the important US market, as being a more “down to earth brand”, which also attracts younger Generation Y people and “no-fashion-victims”.

Fifth, due to this two brand strategy Starbucks has to redesign its distribution. In terms of its outlets it has to consider, re-branding some already existing Starbucks stores into new brand stores, depending on their location. This artificially produced “shortage” of Starbucks brand outlets emphasises the high-end image of the Starbucks brand and helps establishing new brand outlets in a cost efficient way.

Sixth, of course both brands are supposed to use the same suppliers to benefit further from economies of scale and the company’s clustering strategy.

Seventh, possible opportunities to enhance employee motivation and satisfaction are providing national or international workplace exchange programmes and special employee events and activities which support the corporate culture, as suggested in the moderate change option of the business model dimension.

5.2.2 Marketing

When in comes to the marketing strategy, a two-sided approach will be chosen. For the Starbucks premium brand, the “no change” to “moderate change” option is suggested, whereas for the low-end brand, the “radical change” option might be best.

Obviously the new fighter brand requires huge marketing efforts in order to penetrate the market, while the upscale Starbucks brand further relies on word-of-mouth advertising with an improved public relations marketing. Increased marketing activities will also have an impact on the overall employee satisfaction. Being more on people's agenda, employees perhaps receive more common acceptance, which helps them to evolve a sense of pride working for Starbucks.

5.2.3 Product Range

Changing competition and customer demand forces Starbucks not only to adapt its business model and marketing strategy, it also requires a change in the company's product range. For achieving this, the moderate change option of the product range alternatives for the high-end brand needs to be implemented.

McDonald's already successfully introduced healthy products to their product lines and also localised its menu. Especially when considering the food product line at Starbucks, there are a lot opportunities. Offering lunch made of organic ingredients would meet consumer trends and also fits to the Starbucks brand image. Localised product offers, like a range of pies in Australia would help in foreign markets to gain market share and customer loyalty. Such product line extensions obviously should be done for the fighter brand, but in ways that fit to its particular customer needs.

5.3 Evaluation of suggested solution

Establishing an independent fighter brand provides the advantage that Starbucks responds to all of the identified key issues. The recommendation is derived from an analytical framework and therefore provides an overall structured solution.

It enables future sustainable growth in both, the US and the overseas markets, it will improve customers' perception of the brand, it offers a broader product range that suits actual demand and it will increase employee satisfaction worldwide. It hence is compatible and sufficient for all the above derived evaluation criteria.

Aware of the fact that it is not the easiest way, many examples in other industries have given proof that a properly planed introduction of a second brand can help adapting a company's strategy to changed environmental factors and secures the company's long run prospects.

6. Conclusion

Nowadays almost every person in the world for one reason or another knows about Starbucks. But as every leading company it has to deal with and manage a big amount of external and internal issues in order to maintain itself as the top coffee shop in the world. After outlining the key issues Starbucks currently faces, a SWOT analysis was conducted. Furthermore, different possible alternatives of how the company could solve its burning issues were identified, based on a structured and analytical framework – the Starbucks Solutions Cube. Following this approach Starbucks needs to make changes to its overall business model, its product range as well as its marketing strategy. The final recommendation given was to introduce a second brand as a fighter brand. The position of this recommendation in the framework of the Starbucks Solutions Cube is portrayed below in Figure 6.1.

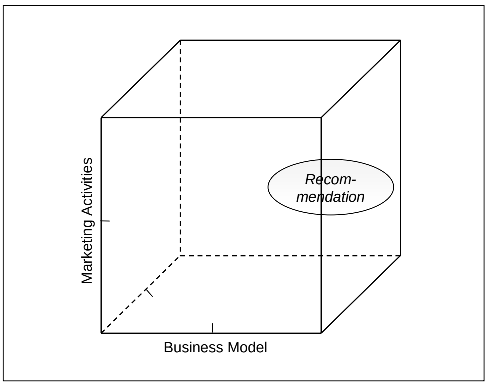

Figure 6.1 **Final Recommendation**

Accompanied by different other moderate changes, the radical change of introducing a second brand will help Starbucks to further grow in the US and overseas while effectively fighting competitors.

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8. Appendix

Results from Brainstorming Session

Business Model

Moderate Change

- Cluster stores
- Employee exchange with other stores (domestic/abroad), and share best practice
- Enhance corporate culture through common activities
- (More bonus options / rewards / financial and non-financial incentives)
- (Counseling of staff)
- Partner with other businesses (IKEA, Airlines, car washers, cinemas)
- (Organizational redesign to meet different market needs (Subsidiary HQs in each country))

Radical Change

- Move into emerging markets (India, S. America)
- Establish new, second brand for low market approach (also new products)
- Buy competitors,
- Franchising

Product Range

Moderate change

- Redesign Menu
    - localization of products
    - healthy products

    - offer lunch
- (Increase prices / increase service)
- (Sell coffee more innovatively)

Radical change

- Adopt Tchibo approach and sell more non-food products
- Slash prices / offer low-end product range
- Leave traditional distribution channel and concentrate on supermarket and convenience store sales
- Refurbish stores to attract different generations of customers
- Do catering / delivery service

Marketing Activities

Moderate change

- TV ads,
- Festivals / Parties / Special offers (like McDonald's Mexican or Asian Weeks)
- Redesign internet presence, increased online activities
- Image Campaigns (has also impact on employees)

Radical change

- Extensive and aggressive Marketing Communications (PR)
- Sponsor large and major events (FIFA Worldcup, etc.)
- Extensive fight against "bad" brand image.

Suggestions in brackets were not used for report.

STARBUCKS GROUP QUESTIONNAIRE

Dear MKTG801 class the following questionnaire is regarding your personal experiences and judgement of Starbucks. The results from this questionnaire will be used for the purpose of next week's case study presentation only. We would very much appreciate it if you could take five minutes of your time and answer the below questions. Thank you!

Age: ___
Sex: ___
Cultural Background (please tick):
☐ Asia-Pacific ☐ European ☐ North American ☐ South American ☐ African

1. Is there a Starbucks in your country? (please circle)
YES NO

2. Do you agree: My general perception of Starbucks is good (please circle)
1 (strongly agree) 2 3 4 5 6 7 (strongly disagree)

3. Do you agree: My general perception of McDonald's is good (please circle)
1 (strongly agree) 2 3 4 5 6 7 (strongly disagree)

4. Do you agree: Starbucks products are of a high quality (please circle)
1 (strongly agree) 2 3 4 5 6 7 (strongly disagree)

5. Do you agree: Starbucks sells its products at a reasonable price (please circle)
1 (strongly agree) 2 3 4 5 6 7 (strongly disagree)

6. Do you agree: If Starbucks was cheaper I would go there more often (please circle)
1 (strongly agree) 2 3 4 5 6 7 (strongly disagree)

7. Do you agree: If a "Starbucks-similar" shop opened that sold similar products at a cheaper price I would stop going to Starbucks and go to the new place (please circle)
1 (strongly agree) 2 3 4 5 6 7 (strongly disagree)

8. Do you agree: Starbucks is a company that has a distinct environmental conscience (please circle)
1 (strongly agree) 2 3 4 5 6 7 (strongly disagree)

9. What do you think: The typical Starbucks customer is aged (please tick)
☐ 15-25 ☐ 26-35 ☐ 36-45 ☐ 46-55 ☐ older than 55

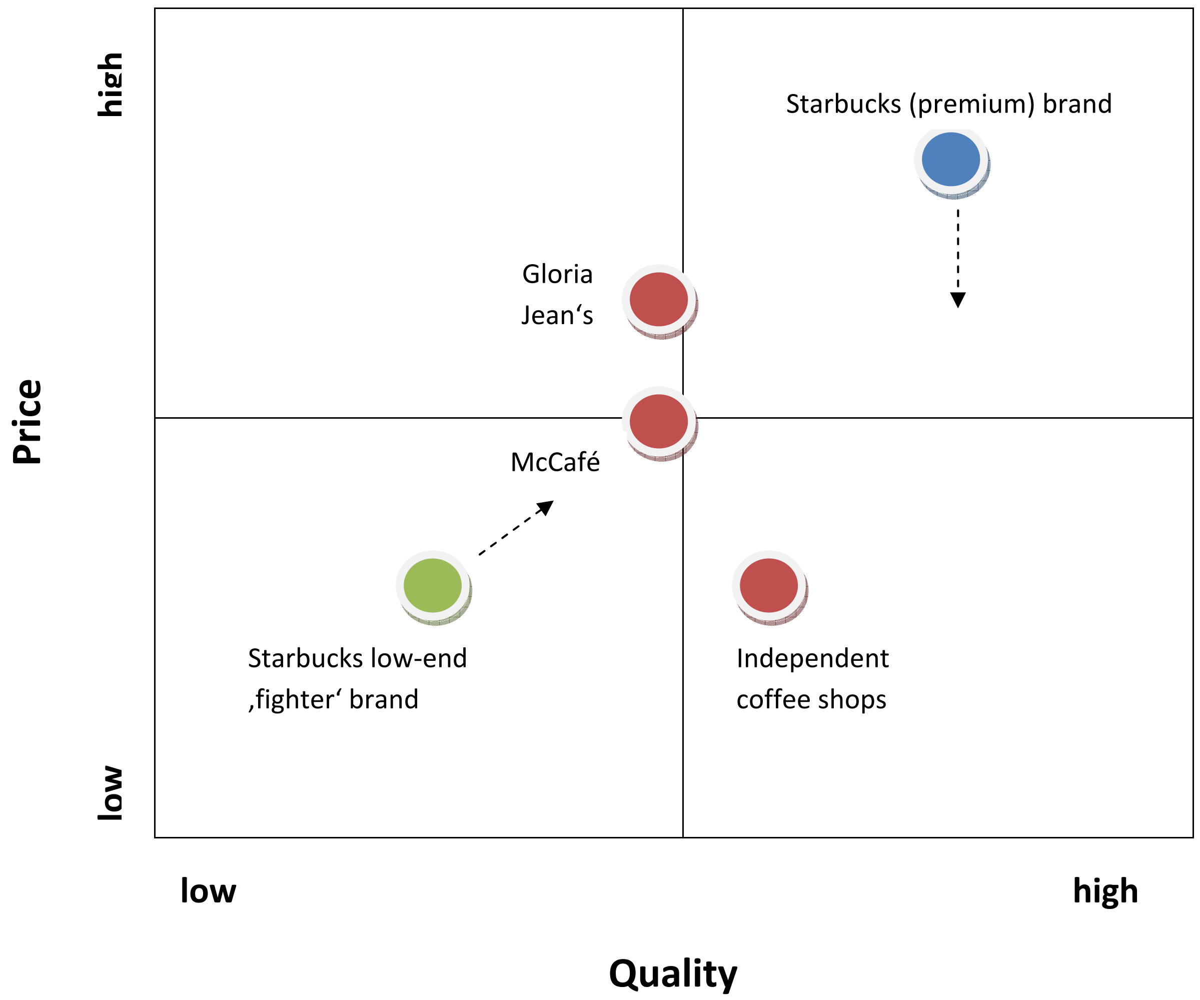
Survey Results

Values	Asia	Europe	North America	South America	Total
Average 2) General Perception	2,53	2,44	3,00	3,00	2,60
Average 3) McDonald's	3,13	4,33	2,00	4,20	3,63
Average 4) High Qulity	2,87	2,78	2,00	3,60	2,93
Average 5) Reasonable Price	3,60	4,33	6,00	5,00	4,13
Average 6) Should be cheaper	2,93	3,11	1,00	3,80	3,07
Average 7) New Competitor	3,73	3,00	2,00	3,20	3,37
Average 8) Environment	3,20	4,00	1,00	2,80	3,28
Average 9) Customer Age	2,13	2,00	3,00	2,20	2,13

Range from 1 (strongly agree) to 7 (strongly disagree).

Survey conducted 17 August in MKTG801 class with international business students at Macquarie University, Sydney.

Market Positioning of new brand



The two Starbucks' brands will gradually move into directions pointed out by arrows.