STARBUCKS

Case Study

Alex Cochran

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Executive Summary

Starbucks is currently the largest coffee shop chain in the world. The company has reached this point in a remarkably short period of time. During this time the company has developed an extremely strong company culture. This culture emanates from the very top of the organisation the company has a clear vision and this is communicated company wide. The company knows who its target markets are and how to treat them so to develop a high degree of brand loyalty.

In the process it has developed sustainable competitive advantages across a broad spectrum of its structure. These advantages extend from its selection and training of employees, to vendor relations, to the art of roasting beans to the way in which it delivers product to its stores. If the company is able to continue to deliver superior value to its customers as well as reap the premium profitability generated by the competitive advantage barriers and invest part of that profitability in further enhancements, it is questionable whether there will ever be a challenger to its number one position.

The company has utilized a number of specialty sales partnerships to help accelerate the growth to this point. It is important that these partnerships build on the equity of the brand. There is a potential in times of high growth and high growth expectations that unacceptable risks are taken with the brand image in the name of sustained growth. Starbucks must be cognisant of this danger and the senior management must be able to make the correct call in the risk/reward equation.

Successful brands attract suitors. MacDonalds has approached Starbucks a number of times to offer Starbucks product across its fast food outlets. This growth strategy has not sat well with the Starbucks management as there is a concern that such and association will be detrimental to the brands image and has the potential to destroy a degree of brand equity.

Starbucks has high growth expectations both internally and externally in the market. It needs to have significant growths strategies in place to achieve this growth. However this growth cannot come at the expense of the brand image.

There is a mix of growth strategies that are likely to achieve the degree of growth required, but at an acceptable risk to the brand equity.

Market Segmentation

Methods of Segmentation

Segmentation is employed by retailers to identify groups of customers that can be satisfied by the same retail mix. This leads to an efficient targeting for a retailers particular offer.
There are a number of ways to base retail segmentation. Levy & Weitz (2001) suggest that although there are a number of ways, no one in particular is right or wrong. The method of segmentation used will be dependant upon the task at hand.

Exhibit 1 - Market Segmentation.

Segmentation Base	Segmentation Criteria
Geographic	Size of city, state or country
	Population density
	Climate
Demographic	Age
	Gender
	Family Size
	Family life cycle
	Income
	Occupation
	Education
	Religion
	Race or nationality
Psychosocial	Social Class
	Lifestyle
	Personality
Feeling & Behaviour	Attitudes
	Benefits sought
	Readiness stage
	Perceived risk
	Innovativeness
	Involvement
	Loyalty status
	Usage rate
	User status
	User situation

Segmenting on a lifestyle/ psychosocial basis takes into account a customer's needs and values. This is referred to as "thinking beyond what's obviously out there to see."

To be effective, markets need to be deconstructed into segments that are:

- Actionable
- Identifiable
- Accessible
- Sizable

The psychosocial and feeling & behavioural segments will be combined into a segment called psychographic for more detailed discussion particularly relating to the Starbucks case study.

Within the Starbucks case study there are data that can be used to segment the specialty coffee market using the criteria outlined in table 1. This report will focus on and discuss the psychographic and lifestyle aspects of this segmentation. This is not to say that the other methods of segmentation are not relevant in these circumstances.

Lifestyle Segmentation in the Specialty Coffee Market

The Starbucks case study suggests that the recent growth in the specialty coffee market in the USA has been due to a number of consumer trends:

- Adoption of a healthier lifestyle and the substitution of alcohol with coffee.
- Coffee bars offering a place for people to meet.
- People like affordable luxuries.
- Consumers are becoming more knowledgeable about coffee.

Consumer socialization patterns have changed since the early nineties.

- Outside the home entertainment has begun to grow.
- A move away from restaurants and dance clubs.
- Coffee was seen not only as a breakfast drink but also as a beverage that could be consumed during the day; it also acted as a social catalyst.
- The coffee house was seen not just as an outlet for the purchase of coffee but also as place where people could gather and socialise.
- Coffee houses were seen as a more accessible alternative to bars. Coffee houses had become community-gathering places.

These consumer trends give important pointers as to possible ways in which the specialty market can be segmented.

In addition to the consumer trend analysis, further potential segments came to light in the analysis of coffee type sales. Flavoured coffees, which appealed to the non-coffee drinking segment of the market, opened up this otherwise closed segment of the market. In addition this product also appealed to the younger market as a desert replacement.

Segments

There are a number of ways Starbucks could segment its potential market based on the information contained within the case study along psychographic lines. Examples of these segments could be:

1. Consumers looking to substitute the consumption of alcohol with another beverage due to either health or social pressures. *(Lifestyle, perceived risk, benefits sought.)*
2. Consumers looking for a place to gather with friends or work colleagues to socialize. *(Lifestyle and personality.)*
3. Non-coffee drinkers that are looking for an alternative beverage. *(User status.)*
4. Experienced coffee drinkers looking for a place that serves and sells coffee of premium quality. *(User status, involvement, innovativeness.)*
5. Heavy coffee users. *(Usage rate.)*

This is only an example of some of the segments that could be addressed. In addition, these segments can be combined with each other, or with geographic, and/or demographic segments in almost endless permutations and combinations.
It must be stressed that to be viable segments must pass the tests of:

- Actionability
- Identifiable
- Accessibility
- Sizable

Identifiable

The act of segmentation involves the process of identification. While this might seem like a circular statement it is possible to segment either too broadly or conversely to a point where there are too many or no targets that exhibit the criteria that have been combined. A retailer must be able to identify a segment so that communication can take place. It is only with effective communication that a retailer can move a prospect to action.

Sizeable

It is technically possible to segment to a "market of one." While this would provide high degree of accurate targeting and yield very efficient communication costs, potential sales might be quite limited.
Once identified, it is important that some diligence is used to ascertain the size of the segment and what percentage share of the segment is required to make a viable market. This viability must take into account the cost of accessing and actioning the prospects.

Actionability

Actionability means that there must be a clear path for a retailer to follow, to satisfy the needs of this segment. Further, the customers within this segment must be differentiated from customers in other segments by these needs.
It is clear that lifestyle and psychographics are viable segmentation criteria for the sales of specialty coffee. This segmentation yields discrete segments

that can be addressed by a retail offer. Starbucks has identified amongst other segments a part of the market that is looking for a "third place" i.e. a place between work and home where a consumer can go to relax and enjoy a cup of coffee. To satisfy the needs of this segment Starbucks has provided a relaxed atmosphere by the provision of comfortable furniture and good music within its stores to attract this segment. In this case store image and atmosphere is used to appeal to the target segment. This type of strategy is supported by empirical research

> "... consumers who attach high importance to personal gratification would also attach high importance to store status, they also attach high importance to such store attributes as class of clientele, physical attractiveness of the store, reputation for fashion and the brands carried by the store." (Erdem, Oumil& Tuncalp 1999)

> "...the retailer must convey the message that they have the ability to resolve the customer's problems and that the solution it has developed is that which most closely relates to the customers needs. How this is communicated should relate to the overall offer and image which the retailer has conceived as being the most appropriate for its market." (Doyle and Broadbridge 1999)

In this example Starbucks is acknowledging that the needs of this segment differentiate it from say the take away casual coffee drinker.

Accessibility

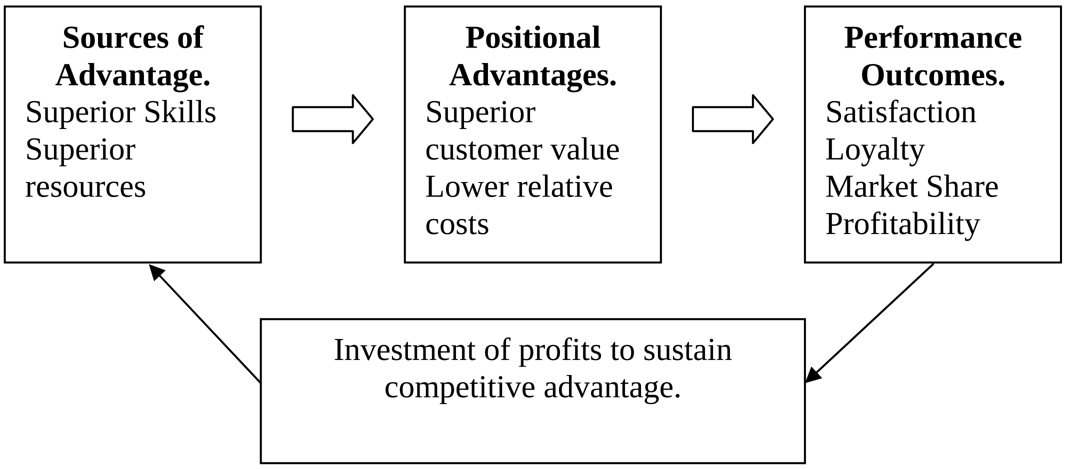
The final test for a viable segment is that it can be accessed in a cost efficient manner. Successfully delivering the appropriate retail mix to the segment is the ultimate goal of the segmentation process. Accessibility can be achieved through various means. It could be via advertising targeted at publications or media that the segment favours, or as in Starbucks case, the positioning of stores so that they are exposed to traffic flows of prospects that are likely contain a high percentage of the target segment.

Sustainable Competitive Advantage

"If you cannot sustain a competitive advantage, don't compete"[1]

An integral element of the retail strategy is the company's ability to build and sustain a competitive advantage. Superior and sustained competitive advantages are a combination of source advantages, positional advantages and performance outcomes, according to Day and Wensley.

Exhibit 2



Source: Day, G.S and Wensley, R. "Assessing advantage: A framework for diagnosing competitive superiority." Journal of Marketing Vol. 52 April 1988.

The Path to Protection.

Working to build a sustainable competitive advantage builds walls around a retailer and its target customers. The existence of these walls makes it difficult for competitors to reach customers within the walls. It is important that the competitive advantages can be sustained over a prolonged period of time. This means establishing advantages that are difficult for the competition to copy.

Raising the Bar – Starbucks Advantage.

Starbucks has done an admirable job of building an enormous wall of competitive advantages to protect itself and its customers from the competitors within the coffee industry. Establishing these processes within all levels of the business and the continual challenging and benchmarking of these standards will ensure that the company remains on the forefront of their industry.

[1] Jack Welsh President GE

Customer Loyalty

Starbucks has placed a lot of emphasis in its approach to marketing that positions the brand for its target segments. This approach is fully integrated throughout the company's marketing and retail strategy mix.

> "Few would argue that consumers form impressions of brands, and that these impressions later exert a major influence on store choice decisions and shopping behaviours. Favourable images of brands positively influence patronage decisions and purchase behaviours, while unfavourable images adversely influence such decisions and behaviours.... Consequently, brand image and retail image are inextricably linked to one another." *(Porter & Claycomb 1997)*

Brand loyalty is the product of the company's ability to position its product and retail offer successfully in the mind of the target segment. Starbucks has established itself by associating itself with the targets segment attitudes. Examples of this are it's efforts to ensure that the quality of the product is always first class, that the store provides not only good product but an experience for the customer by the provision of music, reading material, and other products and benefits that adds value to the overall Starbuck product.

To maintain this advantage a company needs to continually invest in the brand. Starbucks is continuing to do this. A recent initiative is to provide a WiFi link in its stores so that customers can connect to the Internet while in the store. This may not be related to coffee but is a good example of the company focusing on the total product that it provides to its customer.

> "That same focus on Starbucks's core business dominates Huston's thinking about what the company's wireless-connectivity initiative might achieve. Yes, Huston says, he will be watching to see how much revenue that initiative brings in. "But I'll be happiest," he says, "if people start telling us, 'I used to come in just for my morning coffee. Now that you've got Internet connectivity, I'm coming back for coffee and a snack in the afternoon as well."[2]

This sort of initiative also leads to a high degree of differentiation between competing brands that will also assist in positioning the brand in the consumers mind.

It is the establishment of this position and the consistent reinforcement of this position through the company's actions that will build on the customer's attitudes towards the brand. Brand loyalty leads to:

- Less switching between brands.
- Less propensity to be swayed by others claims.
- Favourable views of brand extensions.
- Positive word of mouth.

[2] George Anders Fast Company Issue 49 August 2001

The establishment of a high degree of brand loyalty can act as a competitive advantage. It is likely that the brand will hold a significantly better market share than its competitors. Brands with minor market shares find it more difficult to gain momentum in the market as not only do they have fewer buyers but these buyers are likely to purchase the product less frequently. This is often referred to as the problem of double jeopardy. Double jeopardy acts as a sustainable competitive advantage to the major market share incumbent.

Location

Starbucks identified that coffee shop location was a key factor in being able to capture the required share of their target segment. There are a number of key aspects to their real estate acquisition program that enabled them to achieve a competitive advantage. These are:

- Having the flexibility in store design so that they did not need a "perfect" box slot a store into. This would increase the number of potentially successful sites available.
- Remunerating the real estate agents, and "street spotters" in a way that they were encouraged to work with Starbucks. More "feet in the street" would ultimately yield a greater number of potential sites.
- Having a very clearly defined retail site discipline and understanding the relationships between sales potential and occupancy costs.
- Understanding that the retail site metrics would change over time dependant on the market share that the company commanded.
- Having the ability to scale the operation so that it could realistically consider international markets as well as domestic opportunities.
- Being able to consider non-store (coffee cart) locations and understanding the occupancy costs associated with such sites.

Combined these actions, policies and processes are likely to build a significant barrier for the competitors to scale. Being the first into a market in the premium site will put the competitor on the back foot from establishment. Their costs of doing business are likely to be higher and their ability to deliver superior customer value will be compromised.

Vendor & Supply Chain Relations

Starbucks has been able to build competitive advantage into the supply relations that it has established with its vendors. As the coffee industry is significantly fragmented the consistency and quality of supplied product can present challenges to participants within the industry. Coffee being an agricultural commodity that is traded on the world market, there is a significant potential to have periods of surplus and shortage of product. This has the potential to adversely effect the strategy of Starbucks which is to be able to present a premium beverage to its patrons at all times. This would affect all participants within the industry.

Starbucks has implemented a number of systems and procedures that are likely to insulate it from the majority of these adverse situations. These are:

- Encouraging a non-adversarial, partnering relationship with its suppliers.
- Geographically diversifying its portfolio of vendors.
- Diversifying the portfolio of product types secured from vendors.
- Engendering an attitude in vendors that encourages them to become a Starbucks supplier.
- A sampling program that ensures only the expected quality is received.

These actions are likely to lead to a sustainable competitive advantage, as they are difficult in terms of either time or cost to replicate by any potential competitor.

In addition to the procedures that Starbucks has instituted with its vendors, there have been a number of processes that the company has incorporated into its supply chain arrangements that will lead to a sustainable competitive advantage. These are:

- The development of technologically advanced packaging that ensured a longer shelf life for ground coffee at the point of sale.
- A distribution method that leads to having coffee in the right place at the right time.
- Development of propriety state of the art roasting equipment and software that ensures a consistent roast.
- Industry best freight rates.
- Integrated benchmarking process.

The process of benchmarking against competitors and the hiring or contracting of experts in a particular field will not only establish industry best practice but is likely to lead to sustained competitive advantage.

Duplicating the Starbucks supply chain processes in an organization with lower volumes is likely to yield a short term a higher cost of doing business. In addition there are a number of propriety processes that would be difficult if not impossible to duplicate effectively. Any competitor that was able to approach these processes would need to recover the additional costs from the consumer or to tolerate a lower level of profitability in the volume-building phase of business establishment. In either circumstance the company would be vulnerable to attack from Starbucks during this period.

Effective, Committed Employees

> "Today, when you look at the quick-serve restaurant industry, Starbucks is different from almost all the others -- and it's not just

> because a place like Burger King fills bellies, whereas a good coffee house fills the soul. It's also because companies like Taco Bell have 250% to 300% turnover among their hourly employees and 100% to 150% turnover among their managers. The turnover rates at Starbucks are a fraction of that."[3]

Starbucks is committed to employing or contracting experts for critical job functions such as roasting, coffee tasting, sourcing, real estate locating and supply chain management. Frontline staff are subject to a regime of preparatory and ongoing training in all aspects of coffee, customer service and the "Starbucks way." This attitude flows down from the very top of the company.

Remuneration is slightly higher than the industry average and additional benefits such as health care, insurance, stock options and free product are offered to staff. The company has an attitude that its people are the company.

Communication within the company appears to be encouraged and the coupling of this with a flat organization structure means that the flow of information both from staff to management and visa versa is efficient and effective. There is very clear leadership and guiding principles that are communicated to all levels of the company.
All of these actions lead to establishing a very strong company culture that enables employees at all levels to make the appropriate decisions involved with their positions.
In addition Starbucks places a lot of emphasis on getting the right staff in the first place. Recruitment of senior managers that have had experience with high growth multi site retail businesses means that the learning curve to adapt to the Starbucks system is somewhat shortened.

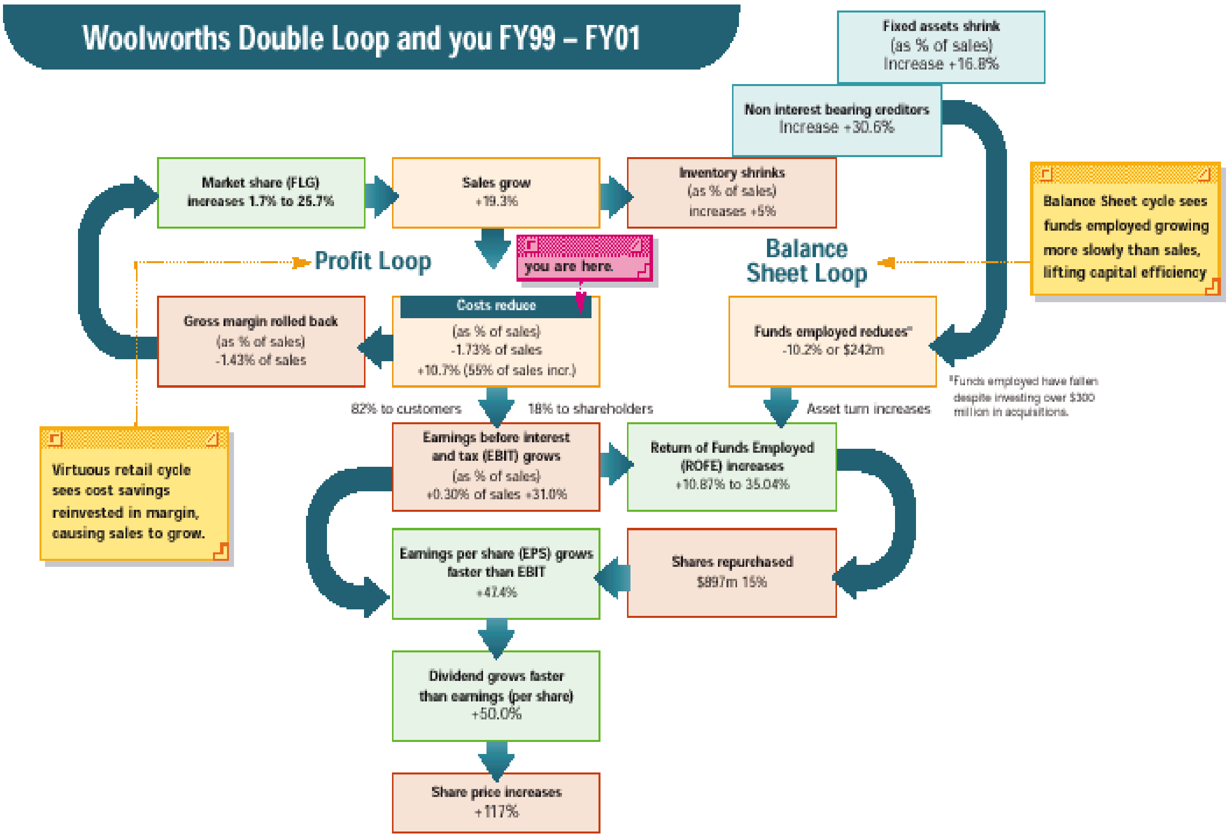
All of these independent actions resulted in Starbucks having a staff turnover rate half of the industry average. This in turn leads to a competitive advantage in the cost of doing business.

Low- Cost Operations

While many of the procedures and processes adopted by Starbucks are aimed at reducing the cost of doing business, many are targeted at providing superior customer value. If you can deliver superior customer value at a cost less than your competitor you have a significant and sustainable competitive advantage. This will result in your business being more profitable than the competitors. If part of this enhanced profit is invested into further improving processes or generating research and development that increases your ability to deliver superior customer value you have entered what is referred to as a "double virtuous loop" process.

[3] Scott Bedbury Fast Company Issue 22 Feb 1999

Exhibit 3



Source: Woolworths News December 2001

While the Woolworths double loop process reinvests the cost savings gained into lower prices for the consumer, the concept is sound when cost savings are reinvested in other competitive advantage enhancing activities.

To develop a solid and sustainable competitive advantage a company needs to pursue multiple sources of advantage. Starbucks has achieved this goal with competitive advantages being established in almost all aspects of it business.

Leveraging Partnerships

Developments.

Starbucks is pursuing growth on a number of fronts. Many of these growth initiatives involve Starbucks partnering other organizations in joint venture arrangements such as that established with PepsiCo in the development of Frappuccino or by utilizing unique infrastructure to extend the Starbucks brand reach, such as the agreements with United Airlines and Barnes & Noble.

Exhibit 4 – Specialty Sales Summary

Serving Starbucks	**Product Developments**	**Store Developments**
Moving into grocery stores	Mail and internet orders.	Establishment of coffee carts
United Airlines.	Product extensions to ancillary products.	International expansion
Specialty sales	Ready to drink products	Partner stores
Business, hospitality & host licensing services	House brand blends	Provision of value added services.[4]
	Signature roasts	
	Specialty products (concentrates)	

Relationships such as these entail certain advantages and disadvantages. Senior management needs to trade off these pros and cons to choose a path for growth that entails acceptable risk both in terms of short and long term financial and brand stability.

Serving Starbucks

Releasing your brand into the care of others is one of the most contentious issues in marketing today.

Pros	**Cons**
Enables rapid expansion.	Principle company loses a degree of control of the brand.
Enables expansion into sales channels that may not be available to the principle company.	Principle company is reliant on the ongoing financial performance of the partner.
Reduces the need for expansion capital.	Reduced profit margin.
Reduces the risk involved with	Often difficult to unwind.

[4] Starbucks has recently connected all of its stores to a WiFi network that has enabled customer to connect to the Internet while in the store.

expansion.

Starbucks has invested a huge amount of capital in establishing the name and building a brand image that has resulted in a significant amount of brand equity. Extreme care must be taken when allowing other companies to take a degree of control of the brand. However there are significant advantages to expansion in this manner. Franchising agreements are good examples of this type of expansion. There are a number of ways a company can mediate the degree of risk while still enjoying the advantages offered by this type of agreement. Strict adherence to policy and procedures is often involved when a company is willing to enter either a franchise or agency agreement. These are often coupled with explicit performance and standards targets.

The case study reveals some of the pitfalls that can await companies embarking on this course of action. The agreement with Aramark to extend the Starbucks name into the business, and education sectors gives Starbucks a reach of 100 outlets. Presumably this market is not readily available to Starbucks or it does not have the resources necessary to manage such outlets. It then becomes reliant on Aramark to control the standards that Starbucks sets that ensure the outlets are consistent with Starbucks brand image. Outlets that do not maintain the Starbucks standards dilute the retail strategy and ultimately begin to destroy brand equity of the principle.

Ultimately it is the senior managements call on such arrangements and they must try and gauge the risks and rewards from such a strategy.

Product Developments

The development of brand extensions offers a company a unique opportunity to leverage the investment in the brand to other products and therefore open up a wider market.

Pros	Cons
Enables rapid expansion.	Principle company loses a degree of control of the brand.
Enables expansion into product lines that may not be available to the principle company.	Principle company is reliant on the ongoing financial performance of the partner.
Reduces the need for 100% product expansion capital.	Reduced profit margin
Increases the exposure of the brand to a segment of customers that may not be principle brand users. (Brand awareness)	Product might not be a viable line extension of the principle product
Extends the brand franchise to a greater pool of products.	

As with franchise agreements brand extensions need to be treated with some degree of caution. After all you are playing with the family jewels. Care must be taken when selecting the products that the brand is to be leveraged into. They need to appeal to customer segments that are congruent to your current products brand appeal. The expansion of the Starbucks brand into the ice cream and ready to drink market seems congruent with the coffee brands image. However the extension into providing coffee concentrate for use in double black stout seem to be at odds with the image that Starbucks has nurtured.
Again this risk can be mitigated by producing product that is not marketed under the Starbucks brand but under the brand of the partner company. This is the course that Starbucks has taken with PriceCostco. Presumably Starbucks has made the decision that the image of a warehouse club does not sit well with the Starbucks name. It must also be presumed that Starbucks considered that it was unlikely to be able to access the PriceCostco customer in its own right, and that the market was significant enough to pursue. The advantage that Starbucks yields from such an arrangement is merely one of increased volume that may help in the amortization of fixed costs and ultimately lead to a lower cost of production across all products.

Store Developments

The development of store services or formats increases the company's reach and has the potential to attract a wider range of customers to stay in the stores for longer periods of time.

Pros	Cons
Enables rapid expansion.	Service may not be in line with current brand promise.
Enables expansion into store locations and types that may not be available to the principle company.	Principle company is reliant on the ongoing financial performance of the partner.
Reduces the need for 100% store expansion capital.	Reduced profit margin
Increases the exposure of the brand to a segment of customers that may not normally be exposed to the brand.	Reduced focus on the core business.
Potential to increase the time a customer spends in the store.	

> "The amount of time a customer spends in your store is directly related to the amount to the amount they spend." (Underhill 2000)

The provision of Internet access in the Starbucks stores is a good example of a strategy that is likely pay dividends. It is a joint venture between Starbucks, Hewlett Packard and T-Mobile. (See appendix 2)

If customers can be encouraged to spend additional time within the store and that they are made to feel comfortable then the likelihood of additional sales is increased.
However there is a danger that the company may loose focus on its core business. The company must remain true to its brand promise.

A Successful Mix.

Partnerships are a powerful way to expand a business. They have the advantages of being able to access services and products that might be outside the company's current competencies. They are often quicker to implement than starting from scratch. They offer access to markets that may otherwise not be accessible. They offer a means to accelerate growth in the short term to outpace a competitor.
However they do come at a cost of reduced control and increased cost. There is the potential to align with a partner that may hit hard times (United Airlines) and during such times your brand image may not be a priority. Your brands core market may see the alignment as not congruent with your brands image and therefore destroy a degree of brand equity.

Expansion using partnerships is an exercise in balancing risk and reward for senior management. The allocation of resources is a key component of the management task. Partnerships are a way that a company can leverage its expansion to create a sustainable competitive advantage.

Preserving the Brand Equity & Gaining Growth.

Brand Image

Not allowing MacDonalds to serve Starbucks coffee is an example of the risk and reward management decision in action. It must be assumed that Starbucks management is of the view that the image of MacDonalds in not congruent with that of Starbucks. It must also be assumed that they have concluded that potential damage to brand equity would out weigh the additional profitability in the long term.

To understand the dynamics of this decision process it is necessary to take a more detailed look at the concepts of brand image and equity.

Brand Equity

Enhanced perceived value can be defined as brand equity. Altering perceived value relies on some form of cognitive evaluation process being undertaken by the potential consumer, hence the importance of the marketer having an understanding of consumer behaviour and being able to effectively communicate with the target audience. If you have an understanding of what can change a consumers perceived value of your brand then there is a possibility that you can make it appeal to a wider audience.

Brand Essence.

Traditionally brands have been defined in terms of brand image and brand equity. These two terms try to encapsulate the brand personality and the brand value. There have been recent shifts in branding theory to brand identity as a measure of a brands potency. (Harris & de Chernatony)
One could roll all of these constructs into a general term called brand essence. Brand essence being a holistic approach to how a brand is perceived by the consumer. To understand brand essence it is therefore necessary to understand the components.

Brand Identity.

Brand Identity consists of six components.

1. Vision
2. Culture.
3. Positioning
4. Personality
5. Relationships
6. Presentation

Brand vision and culture

It is argued that brand vision and culture are the very essence of the brand. They are the "raison d'etre" of the brand and come about not merely from clever positioning but from deeper within the corporation's culture.

> "At the centre of brand identity is brand vision and culture. Vision encompasses the brand's core purpose - its reason for being - and its core values, which provide a system of guiding principles (Collins and Porras, 1996). ..... Each brand will have a unique set of values that are relevant to its target market, but we argue that it is the consistency of the perception of those values, as well as the nature of those values, that is an important characteristic of successful brands." (Harris & de Chenatony)

Maintaining consistency in perception of brand values has implications for the marketing communication process. The when, where, how and what to say to the target market, will all be influenced by the brands vision and culture. In the case of Starbucks and MacDonalds it is the how. Starbucks management has decide that associating with MacDonalds is how not to communicate with the market.

Positioning

Part of a brands purpose is to provide instant credibility. It must therefore be positioned to act as a conduit between the product and the target segment of the market. This positioning must be congruent both with the products physical and emotional attributes and the self-image of the target segment.

> "... A brand's positioning sets out what the brand is, whom it is for and what it offers (Rositer and Percy, 1996). Following means-end theory (Gutman, 1982), a set of functionally distinct capabilities that differentiate a brand should be derived from the brand's core values. The brand's positioning will be affected by artefacts, akin to Kapferer's (1997) "physique", which provide cues about the brand's performance characteristics." (Harris & de Chenatony)

> "Further, psychological proximity is also important in affecting store brand choice. This variable reflects the matching of the brand profile with consumer self-perception. The consumer prefers brands perceived to be suitable for "people like me."(Baltas 1997)

Implicit in brand vision and culture and positioning is the concept of "promise". Is the brand living up to its promise to the customer? Starbucks rejection of MacDonalds is an example of the brand living up to its promise. A trusted brand can be thought of as a promise of future satisfaction. Effectiveness, believability and integrity of the promise will be heavily influenced by the manner in which it is communicated to the target market.

Personality

As part of brand differentiation marketers try and imbue brands with a personality that is congruent with that of the target segment. A brand's personality is not fixed; it should be fluid and be able to change so that it keeps up with shifting consumer self images and expressions.

> "The brand's emotional characteristics are represented by the metaphor of personality, which, amongst other sources, evolves from the brand's core values. Personality traits are further developed through associations with the "typical user" imagery, endorsers and consumers' contacts with the company's employees (Aaker, 1997). Managers therefore need to ensure that both its employees and external communications convey a brand's personality consistently. Another influential source for a brand's personality is its positioning and an integrated approach to branding can help reinforce the synergy between these." (Harris & de Chenatony)

Effective marketing communication programs result in synergies between positioning and personality. This is evident in the pictures we build in our "minds eye" merely at the mention of successfully communicated brands such as Coca Cola, Rolls Royce, Rolex or even Dove soap. The values and personality that we imbue upon these products is a direct result of their marketing communication programs.

It could be that MacDonalds time has not yet come in the Starbucks world. Brands personalities change overtime as the target markets age and mature. Today the Rolling Stones appeal to a larger share of the 40-50 year demographic than they did 15 years ago.

Relationships

Relationships can be viewed as the culmination of the successful positioning of the brand in terms of its personality, vision and culture. Relationships will only result if all of the components of the brand essence make sense and are perceived by the target as an entity with which they would want to interact.

> "Having nurtured a brand's personality, a relationship between the brand and its consumers evolves, which is characterised by the values inherent in the brand's personality" (Harris & de Chenatony)

Starbucks management must be assumed to have concluded that an alliance with MacDonalds at this point in time would not result in enhanced relationships with its target market.

A Strategy for Growth.

There are a number of growth opportunities that retailers can pursue. These can be categorised into the following:

- Market Penetration
- Market Expansion
- Retail Format development
- Diversification

These opportunities can be graphically depicted using a standard four by four matrix.

Exhibit 6 – Growth Opportunities

Retail Format	Existing	New
New	Retail Format Development	Diversification Unrelated Related
Existing	Market Penetration	Market Expansion

Target Market Segment

Source: Levy & Weitz. Retailing Management

Starbucks is a high growth company. It has set itself some ambitious goals in terms of growth. The investment community will have built these growth expectations into its stock price. If this stock price is to be maintained it needs to continue to grow at the market expectation rate. If this growth rate were to slow, the market would reassess the Starbucks stock price in a downward manner. The case study indicates that staff and management are granted stock options in the company. A stock price fall could have a significantly detrimental effect on staff morale as their remuneration is directly tied to the stock price. This could result in a downward spiral that should be avoided.

It is unlikely that Starbucks with be able to get the required growth out of a single growth strategy. The company will need to embark on a number of strategies to achieve the required growth.

Market Expansion

1.International growth via joint ventures is a strategy that is likely to pay good dividends and not have a high degree of domestic risk attached. It is important for Starbucks to seek partners that have experience in the local market and have access to adequate capital and are financially sound. To date the International expansion has been limited to the Pacific Rim region. There are plans in place to continue to expand internationally. This strategy has the benefit not endangering the domestic business as long as the company does not over extend itself financially by adopting this course of action. The keys to successful international expansion are:

- Domestic market leadership.
- Strategic consistency.
- Adaptability.

- Global systems
- Long-term commitment.

It is considered that Starbucks posses these attributes.
A by-product is that International expansion will further enhance the brand image and lock competitors out of potential markets.

2. The continued development of coffee products that appeal to the non-coffee drinker. The case study indicates that there is a segment of the population that is using flavoured coffee as a substitute for deserts. The company has over the years since the case study was completed started to offer tea as an alternative beverage for the non-coffee drinker.

Market Penetration

1. Continued domestic expansion can be pursued to a point where the per capita coffee shop count is optimised. Statistics presented in the case study suggest that the current store grid could be expanded by a factor of 4.59[5] before the optimum per capita coffee house count is reached. This does not factor in continued efficiencies of process that may reduce the base population for a coffee shop to less than 56,000 people.

2. Development of services that will attract more customers into the store or get the customers that are already visiting to stay longer and spend more. The current WiFi initiative is an example of this strategy.

3. The enhancement of the product range to include product that appeals to the coffee mavens such as upmarket coffee preparation equipment, storage equipment and equipment that enables the consumption of coffee in situations that might not have been possible previously. The development of pack sizes both up and down the quantity scale so that the target market can consume the product more often perhaps even away from the store.

Diversification

Diversification is a high-risk strategy for a retailer. It entails leveraging core competencies into an unrelated format or product range. It has a great potential to de focus management attention. The pay-offs for diversification must be significant before this strategy is pursued with any vigour.

1. The joint venture with PepsiCo in the development of Frappuccino and that with Dreyers for ice-cream can be considered a diversification strategy. Starbucks is able to leverage its coffee product development skills into another related market segment.

2. Whole bean sales into the grocery sales channel can also be categorised as a diversification strategy. This strategy taps into a significantly sized market that is unlikely to be a consistent Starbucks customer at present.

[5] Current population per store/population required to support a coffee house = 257,128/56,000=4.59

These joint ventures should continue to be pursued, as the potential pay back on these activities is significant.[6]

Retail Format Development

1. The continued expansion of the coffee cart concept. This could be expanded to the development of mobile carts that could be positioned at events such as trade shows or even highway pull offs during cyclical heavy traffic times.

2. The licensing of the Starbucks system to establish "Starbucks like" outlets in other locations should be pursued with caution. There is a high risk that the licensees may not "care take" the brand with the same diligence as the principle company. This not only has the potential to harm the licensee but also to destroy a degree of brand equity. Starbucks has been tremendously successful at building the equity in the brand and it would be a shame to see any of that value destroyed for the sake of short-term growth.

Starbucks has significant potential for growth over the next few years without having to embark on high-risk strategies. It has an immense investment in its brand equity and should be looking to protect this at all costs.

Adopting a high growth low risk retail strategy would seem like a prudent course of action at this point of the company's development.

[6] Starbucks estimates that these activities will account fro 8.38% of earnings by 1999.

Conclusion

Starbucks have developed the number one chain of coffee stores in the world. It has achieved this in a remarkably short period of time. The investment community considers Starbucks to be a high growth company.
The company has a very clear vision of its target market and uses this vision to implement a very successful retail strategy

The company has been able to build a considerable competitive advantage in many of its systems, procedures and processes. These advantages have given the company a significant head start over its rivals. If the company remains on an “even keel” and re-invests profits into activities that drive down costs and drive up customer value it is difficult to envision serious competition. Competition is more likely to be on a regional basis where competitors can used the company’s size to its disadvantage. While this competition maybe annoying it is certainly not lethal.

The company has used strategic partnerships to accelerate growth across a number of fronts. Some of these partnerships have been successful and some are yet to yield the promised benefits. Some of the growth strategies have entailed different degrees of risk. It is possible that the level of growth can be maintained using strategies that are of a lower risk nature.

Management of Starbucks has some concerns over the direction of the growth and its impact on the brand equity. This is best exemplified in the relationship with MacDonalds. MacDonalds are keen to offer Starbucks coffee throughout its restaurant chain. Starbucks management is reluctant to embrace this move as they have concerns about the impact on the overall image of the company.

Epilogue

As the original case study was prepared in March 1999, it is interesting to compare the estimates of growth given in the study to those that were actually achieved. Following is a table that compare the key financial statistic that were estimates in the case study with those that were actually achieved.

	1997		1998		1999	
	Est	Act	Est	Act	Est	Act
Net Revenue	959,400	975,389	1,228,200	1,308,702	1,500,400	1,686,828
Net Earnings	57,700	55,211	84,900	68,372	113,000	101,693
Earnings ratio	6.0	5.6	6.9	5.2	7.5	6.0
Assets	828,000	857,152	945,700	992,755	1,111,400	1,252,514
ROI	6.9	6.4	8.9	6.9	10.1	8.1

It can be seen that Starbucks was able to fairly accurately predict the increasing nature of it net revenue but underestimated the cost of achieving this revenue or the amount of money that would need to be invested in the business as assets.

The majority of the sales growth in dollars is coming from the company-operated stores. The licensed stores are contributing sales at an increasing rate. The company expects this growth to continue.

The number of international stores has grown by a factor of three in the years 1997-2001 and now represents 19.7% of the total store grid.

The company has started to acquire some of the licensees in foreign markets and has also purchased an Oregon based tea processing company.

The company still maintains its joint venture relationship with PepsiCo and Dreyers but these have not been singled out for financial comment so the success of these ventures is not known.

In the period between the completion of the case study and now Starbucks expanded into unrelated areas of online furniture and cookware sales and made a strategic investment in Kozmo.com. These investments have now been significantly written down. This is an indication of their success.

Starbucks still does not offer its product through the MacDonalds chain of fast food outlets.

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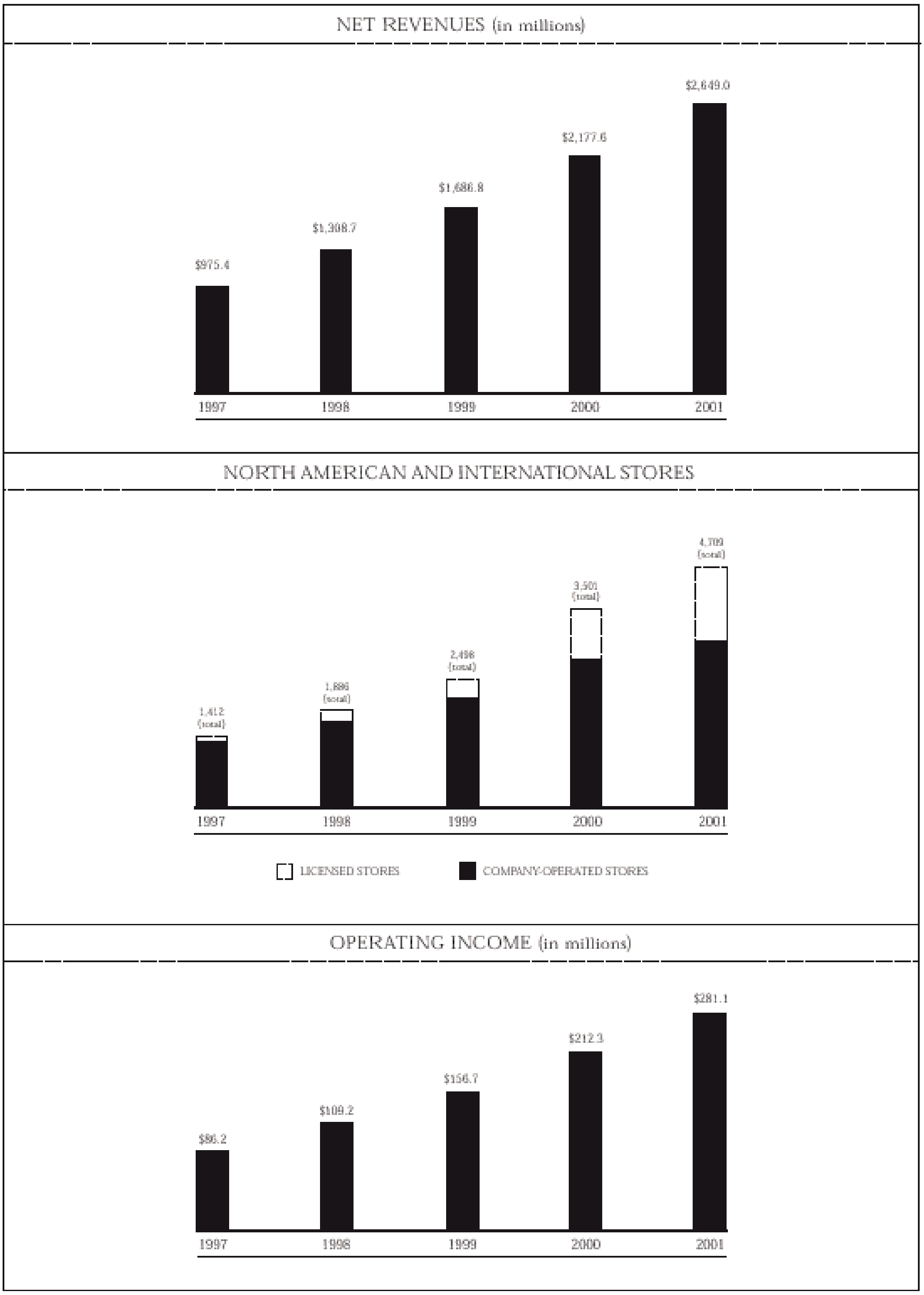
Appendices

Appendix 1 Starbucks Annual Report 2001

FINANCIAL HIGHLIGHTS



Dear Shareholders,
As you know, Starbucks is dedicated to sourcing the highest quality coffees available throughout the world. To that end, we are committed to encouraging and expanding the production of high quality, sustainably grown coffee, which we believe is the key to a healthier future for our industry. Starbucks defines sustainability as an economically viable model that addresses the social and environmental needs of all the participants in the coffee supply chain, from producer to consumer.
For some time, Starbucks has been in the process of defining a new purchasing philosophy. While we are committed to addressing social and environmental concerns, we also think that there are compelling business reasons to effect change in the worldwide coffee market. By enlisting the support of coffee suppliers who are like minded sustainability advocates, we hope to create a network of industry leaders who will join us in finding a way to create positive changes within our global coffee community. And while we do not underestimate the difficulty of such an endeavor, we have concluded that over the long term our collective choices are quite clear. The coffee industry must undergo internal change to ensure a solid future. In partnership with The Center for Environmental Leadership in Business, a division of Conservation International (CI), and other outside resources, we have developed a set of guidelines that we believe will not only protect our high quality standards, but also will promote the long-term viability of the high quality coffee market. We are focusing on quality, economics, environment and people. It is our intention to provide financial incentives along the supply chain that will promote a healthier industry, as well as enlist our current suppliers and others as partners in developing truly sustainable sources for the world's best coffees.
The guidelines, which will be introduced as a pilot program for the 2002 and 2003 crop years, are based on the following four criteria:

- Quality Baselines – maintaining Starbucks quality standards
- Social Conditions – conforming to local laws and applicable international conventions related to employee wages and benefits, occupational health and safety, and labor and human rights
- Environmental Concerns – growing and processing standards that contribute to conservation of soil and water and to biological diversity
- Economic Issues – benefiting rural communities by boosting producer incomes, expanding employment and educational opportunities and enhancing local infrastructure and public services

We will use feedback from suppliers and our own experience to make adjustments to the program during the pilot phase.
We are gratified by the supportive response this program is receiving from producers and other industry players, and we are extremely enthusiastic about the potential long-term benefits to those in coffee-origin countries.

Sincerely,
Mary Williams
Senior Vice president, Coffee

Appendix 2 – Fast Company

FASTCOMPANY

" One Double Cap, Decaf, Wi-Fi, Skim. To Stay."

From: Issue 69 April 2003, Page 34
By: Alison Overholt
Illustrations by: Bill Mayer
URL: http://www.fastcompany.com/magazine/69/dispatches2.html

What do you get when you cross the nation's fastest-growing coffee-shop franchise with one of the most aggressive wireless-network providers? The future of wireless computing -- and a good cup of coffee. Last August, Starbucks teamed up with T-Mobile and Hewlett-Packard to create a new blend: Wi-Fi access in over 2,000 Starbucks across the country. More than 300 of the "HotSpot" enabled stores are in northern California; the San Francisco Bay Area is home to the five stores with the highest Wi-Fi usage.

So if this is the future, what does it look like? A visit to the Starbucks on University Avenue in Palo Alto is like joining the Stanford University campus wireless network. By mid-morning, the place is packed with laptop-toting students who are logging on to course Web sites over their first cups of java. Resident tech entrepreneurs claim the last three or four seats. According to Susan, one of the store's barristas, "They're doing their deals here. You'd think this was their office." Turns out, the economy still runs on caffeine.
