

External Best
Practice Case

Market Development

COUNTRY: Global

**CATEGORY: Premium
Coffee**

Brand: Starbucks

**Company: Starbucks
Corporation**



A Warm Thanks to Alfons Van-Woerkom, Nitin Gupta and the Starbucks Team for sharing their time & inputs in building this Best Practice Case-Study on PREMIUM COFFEE MARKET DEVELOPMENT GLOBALLY

Business Background

- Since 1971, Starbucks Coffee Company has been committed to ethically sourcing and roasting the highest quality **Arabica coffee** in the world.
- Today, with ~ 18,000 stores and more than 170,000 partners (employees) in 53 countries, **Seattle-based** Starbucks is the premier roaster and retailer of specialty coffee in the world.
- Its brand portfolio includes super premium **Tazo** teas, Starbucks **Hear Music** compact discs, Seattle's Best Coffee, and **Torrefazione Italia** coffee.



The recent crisis at Starbucks

- In **2008**, due to the economic downturn, in the US, the company closed down 600 of its nearly 6,800 US stores, and laid off more than 12,000 employees out of a global workforce of 176,000.
- Q4 2008 earnings plunged 97 percent compared with PY, & the stock tanked, losing HALF of its value versus v/s 2007
- McDonalds v/s Starbucks Battle (& how Starbucks recovered), illustrating company's strength...



Category Value Drivers

- Globally, the key drivers for this category:
 - Coffee (Range/Origin etc)
 - Experience
 - Knowledge



Starbucks created the category from scratch

Triggers & Barriers



- **Barriers**

- Neighborhood Coffee Houses
- Affordability
- Familiarity & Comfort



- **Triggers**

- Demographics / Work Habits
- Place of refuge
- Consumer Education

**The
Third
Place**

Hence, Starbucks targeted affluent consumers who sought a great cup of coffee in a place apart from home & work

Market Development Model

1. Product is Hero

2. Right Size / Right Value

3. Educational Campaign

4. Product Experience

5. Product Availability

6. Product Visibility

7. Aligned Promo Strategy

8. Community Involvement

9. Scale

10. Consistency & Commitment

Product Is Hero



- **Belief in Starbucks Products**

- Weekly Coffee Tasting for all employees
- All mgmt meetings start with Coffee Tasting



- **Strong Innovation Culture**

- Origin based Coffees & Blends
- Cold Offerings (e.g. Frapuccino)
- The 3rd Place (In Store Experience)

- **BIG emphasis on Training**

- 1 week Immersion Programme
- Starbucks Star Skills
- Refresher Courses

- **Rigorous Quality Control**

- Shot Glass+ Timer+ Milk Steaming
- Centralized Roasting Plant



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Product Is Hero – 2 Specific Examples

- Consumers will always get a new product – no questions asked - if they have a complaint with any Starbucks product
- Espresso Passport
 - A great way to build personal expertise & product knowledge
 - Food Pairings / Tasting Notes / Observations etc



Market Development Model

Right Size / Right Value



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- Fixed Packs tailored to specific market conditions by availability and pricing



SHORT

TALL

GRANDE

VENTI

Single Shot Espresso

Double Shot

Triple Shot

THE STARBUCKS SECRET: Globally Fixed Sizes / Locally Tailored Prices

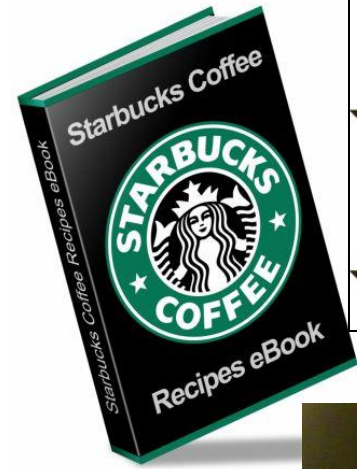
Market Development Model

Educational Campaign



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- Philosophy: A CUP AT A TIME
- Coffee Seminars / Coffee Education in their stores
- Coffee Recipes
- The brand has been built on word-of-mouth and consumer reviews (in the US, On Air advertising is a recent move)



Market Development Model

Product Experience



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- Coffee @ heart of Starbucks
 - Grind morning coffee @ counter for aroma
 - Starbucks Ice Creams
 - Coffee-based Accompaniments
 - **NEXT : Rationalization of Day Parts**
- In Store Experience
 - 4 Store Design Concepts
 - Heritage coffeehouses / Artisan stores / Regional Modern / Concept stores
 - **NEXT : Digital Projection of Menus**
- The Starbucks People
 - Every Starbucks Store Manager has a Sampling Budget
 - Sampling & Training in off-peak hours
 - Consumer / Customer Education



Market Development Model

Product Availability



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- Mix of 100% Company Owned stores & “Partner” (Franchisee) Stores
 - Current mix : 70 / 30
- Mobile Ordering
- US Launch of Via (Iced Coffee) for In-Home
- 4 kinds of stores (depending upon location/destination)
 - Flagship Stores / Mall Stores / Corner Stores / Kiosk-Mobile Stores



Product Visibility



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- Dominant Presence
 - Covering all catchment areas for their TG (High Streets / Malls / Office Complexes etc)



- Merchandising Walls
 - Location is unique to a store
- POS Counter as a visibility tool
- Merchandising as a visibility tool

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Aligned Promotional Strategy

- No “Free” Offers or Price Offs
- Financial Promotions
 - Starbucks Loyalty Cards
 - Pre-Paid Reward Cards
 - International Card
 - Tiered (pilot in the US)
 - Free Wi-Fi (linked to cards)
- Gift Hampers
- Back-end Tie-Ups with partners with similar TG profile
 - e.g. with Espirit / Apple for iTunes



Coming soon to a Starbucks near you.

iTunes arrives at participating Starbucks starting this October and will be available in most major metropolitan areas in the U.S. by the end of 2008.



How Starbucks uses Social Media

- www.starbucks.com
- Starbucks on Twitter / Flickr / Youtube
- www.mystarbucksideas.com
- www.starbacksgossip.typepad.com

**Consumer
Generated Ideas**

**Independent
Blog**

Run by an independent blogger, Jim Romenesko, with the stated mission of “Monitoring America’s Favourite Drug Dealer” ; this site is avidly followed both by the outside world (media / consumers / customers) as well as Starbucks itself, to gauge the kind of conversations people are having about Starbucks

Product Ideas

- 22,051 [Coffee & Espresso Drinks](#)
- 856 [Frappuccino® Beverages](#)
- 6,799 [Tea & Other Drinks](#)
- 9,906 [Food](#)
- 4,617 [Merchandise & Music](#)
- 6,402 [Starbucks Card](#)
- 6,789 [Other Product Ideas](#)

Experience Ideas

- 5,402 [Ordering, Payment, & Pick-Up](#)
- 9,296 [Atmosphere & Locations](#)
- 7,783 [Other Experience Ideas](#)

Involvement Ideas

- 2,981 [Building Community](#)
- 6,260 [Social Responsibility](#)
- 4,277 [Other Involvement Ideas](#)
- 365 [Outside USA](#)

How Starbucks uses Social Media

Starbucks Is the First Brand to Reach 10 Million Facebook Fans

July 14th, 2010



**Worth
USD 2 Bln
annually**

Starbucks became the first brand on Facebook to collect a fan base of 10 million on Wednesday. This growth comes on the heels of Lady Gaga becoming the first person to gather the same number of fans.

Starbucks has undoubtedly been one of the most successful brands on Facebook, partly due to the store's popularity and ubiquitousness, but also because the company maintains a very active presence on Facebook.

The company's audience of 10 million people around the world has been hard won with marketing, promotions and advertising. Over the years Starbucks has given away free ice cream on Facebook, done joint promotions with Facebook, and has actively driven eyeballs to the Facebook Page for Starbucks.

How Starbucks uses Social Media

- Stephen Gillet
- Global CIO
- Ex-Yahoo
- 32 Years old
- World Of Warcraft Champion
- Revolutionising the use of IT to drive business



What can you learn from Starbucks (The Social Media Champion) and apply to your social media strategy

- If you have a large customer base engaging them can have a positive benefit
 - Separate the customer/consumer areas from the company area
- You can reuse social media across multiple platforms, as long as you don't duplicate it 100% across different sites
 - Don't be afraid to allow customers to use your media on their sites
- If you don't set up an official presence on a large social media site consumers will fill the vacuum you leave open

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Community Involvement



- Health Insurance
 - Pioneer in the Industry
 - For part time workers also
- Fairtrade Partner
- Huge Supporter of
 - Charities
 - Community Events
 - Book Clubs etc
- Festival Celebrations



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Community Involvement



- Shared Planet initiative



STARBUCKS™ SHARED PLANET™
Responsibly grown. Ethically traded. Proudly served.

ETHICAL SOURCING
We're committed to buying and serving the highest-quality, responsibly grown, ethically traded coffee to help create a better future for farmers and a more stable climate for our planet.

- By 2015, 100% of the coffee we buy will be responsibly grown and ethically traded.
- Last year we bought 77% of our total coffee this way—almost 300 million pounds worth.
- We've also committed to doubling the amount of Fairtrade certified coffee we'll buy in 2009 to 40 million pounds—more than anyone else in the world.

All of our coffees meet the same high-quality standards and are bought with respect for the farmers who grow them.

Coffee we buy under Starbucks™ Shared Planet™ meets additional ethical sourcing requirements verified by Scientific Certification Systems to ensure that it is grown in a manner that protects the environment and goes back to farming communities. This helps create a better future for farmers and a more stable climate for our planet.

Our goal is that by 2015, 100% of our coffee will be responsibly grown and ethically traded.

The majority of our coffee suppliers already fit the Starbucks Shared Planet standards, but some countries and regions may face more challenges in meeting our ethical purchasing guidelines. We continue to purchase this coffee while the agronomists (experts in soil and agricultural science) in our Farmer Support centers work with farmers to help improve coffee quality and environmental best practices.

ENVIRONMENTAL STEWARDSHIP
We're committed to minimizing our environmental footprint, tackling climate change and inspiring others to do the same.

- By 2015, 100% of our cups will be reusable or recyclable.
- And we will significantly reduce our environmental footprint through energy and water conservation, recycling and green construction.
- Our customers increased use of commuter mugs to nearly 22 million times in fiscal 2008—saving more than 450,000 kg of paper.
- As a key component of our commitment, we aim to have all new company-owned stores worldwide be third-party certified green, using the LEED certified green building program, by December 2010.

COMMUNITY INVOLVEMENT
We're committed to being a good neighbor and a catalyst for change by bringing together our partners (employees), our customers and their communities.

- By 2015, we will contribute more than 1 million community service hours per year.
- We aim to engage and support 50,000 young people by 2015, who will in turn innovate, take action and inspire others to take part in community service.

YOU
You come to Starbucks—for your Double Tall Caffè Latte, your bag of whole bean coffee, your afternoon treat and more.

YOUR COMMUNITY
You make it possible for Starbucks to do more for your community—from volunteering to supporting local events and national programs.

YOUR WORLD
You also help us do big things on a global scale like helping create a better future for farmers by working with them to grow high-quality coffee in a responsible way. We are working toward a more stable climate by fighting deforestation and reducing our global environmental footprint.

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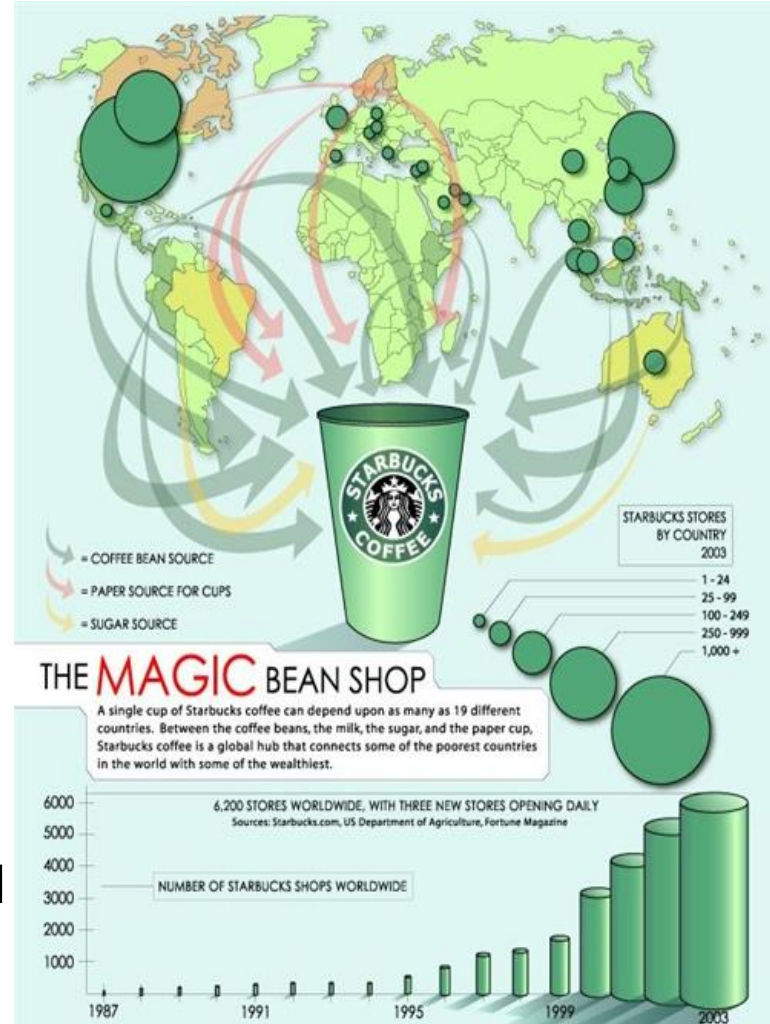
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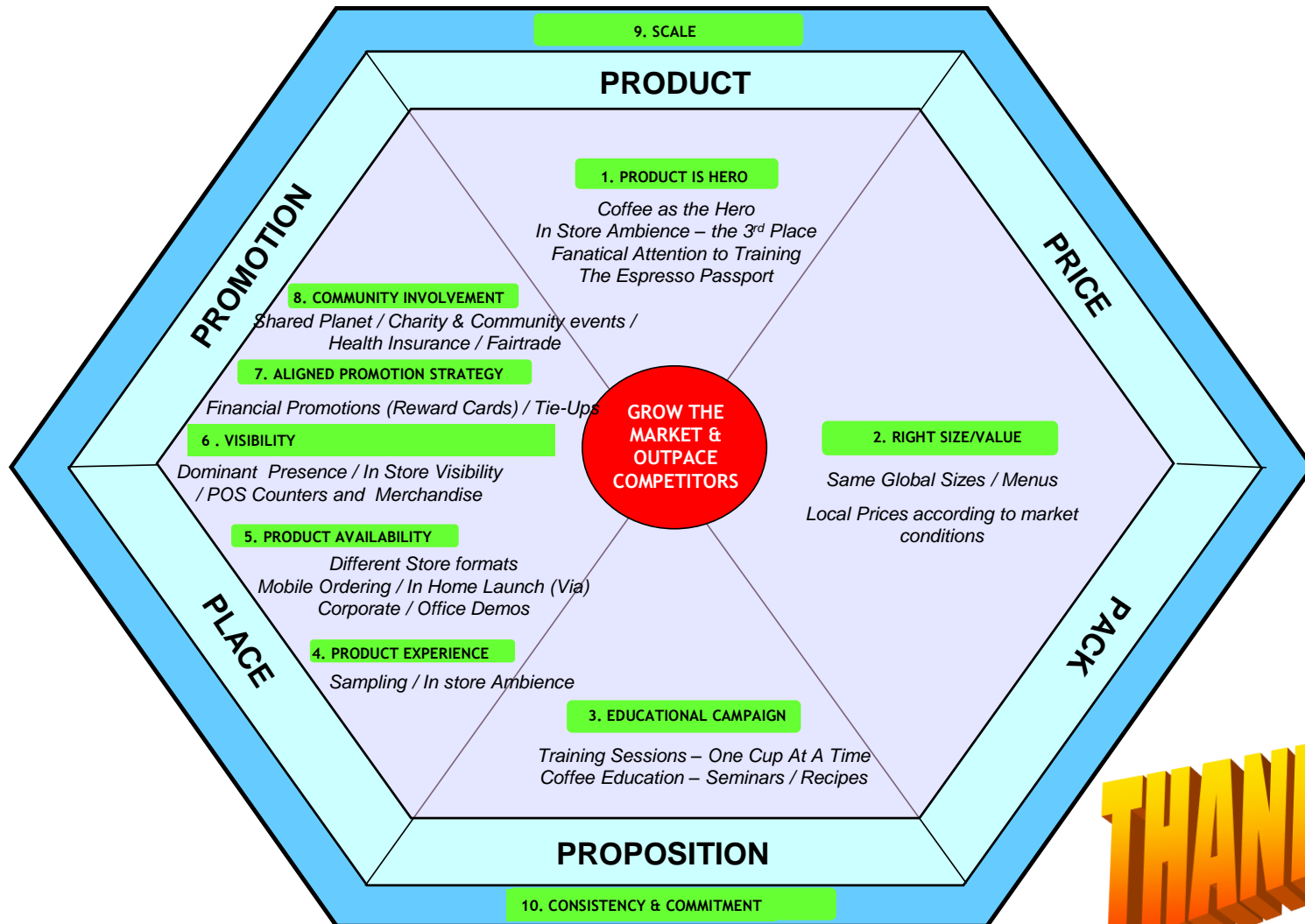
10. Consistency & Commitment

Scale and Consistency & Commitment

- Global Business
 - USD 10 Bln Turnover
 - In 50 + countries
 - Across 18000 Stores
 - 1 Store Opened / Day
- Same business principles over last 40 years
 - Founder-led
 - Floundered / recovered
 - Systems embedded



MD 10 Step Wheel : A Summary



THANK YOU