



## The Starbucks Brand

*We are transitioning from a very retail centric view about the brand to a view that will allow us to say that Starbucks' role is to provide uplifting moments to people every day. I didn't say coffee. If you go beyond coffee, you can get to music, you can get to literature, you can get to a number of different areas. It can also become a licence to dilute the brand. Therefore our goal is to remain true to our core, coffee. After all, we are the protectors of something that is 900 million years old. Just like when you drop a rock in a pond there will be ripples that come outside that core, Starbucks is not just a pound of coffee, but a total coffee experience.*

Scott Bedbury, Senior Vice President of Marketing

Since Starbucks opened its first store in Seattle in 1971, the whole idea of coffee has changed radically. In the 1980's Howard Schulz, Director of Retail Operations and Marketing, convinced the owners to open a second location in downtown Seattle, modeled on coffee bars he visited in Italy. Within a few years, Starbucks had opened locations in Vancouver and Chicago, followed by expansion within North America and internationally.

By 2003, Starbucks had over 7,500 locations worldwide and net revenues of over US\$4 billion. It was one of Adweeks' "most trusted brands" in 2003. In the future, the company planned to have 25,000 locations worldwide. In addition to its aggressive plans to increase its number of outlets, Starbucks coffee was available through partner hotels and airlines, and the company was continually broadening its product range to include new beverages, food, accessories and even digital music.

### Consumers

In the early 1990's, overall consumption in North America increased significantly, with specialty coffee leading the way. These trends reflected four underlying issues: (1) healthier lifestyles in which people replaced alcohol with coffee; (2) coffee bars offered a place where people could meet; (3) coffee was an affordable luxury; and (4) consumers were becoming more knowledgeable about coffee.

In the mid-1990's, 22% of US consumers purchased specialty coffee. Consumers tended to be upscale and educated, and consumption was highest among two-parent families with a stay-at-home mother, single people and females. Research

*Professor David Dunne prepared this case as a basis for class discussion. It is not intended to illustrate effective or ineffective handling of a managerial situation.*

showed that once a consumer discovered specialty coffee, he or she did not go back to average quality coffee.

There were also shifts in consumers' patterns of socializing. While bars, restaurants and dance clubs had been the focal points of social life in earlier decades, by the 1990's coffee houses had become informal gathering places.

### **The Starbucks Brand**

For Starbucks, the brand had three elements: coffee, people and stores. Stringent control over the quality and processing of the beans assured that the coffee would be of the highest possible quality. Outstanding store personnel were recruited and trained in coffee knowledge and customer service. Store design, atmosphere and aroma all contributed to the "Starbucks Experience".

In his bestselling book<sup>1</sup>, Howard Schulz expressed his ideas about how the brand was central to Starbucks' business:

*Authentic brands do not emerge from marketing cubicles or advertising agencies. They emanate from everything the company does, from store design and site selection to training, production, packaging and merchandise buying. In companies with strong brands, every senior manager has to evaluate each decision by asking, "Will it strengthen or dilute the brand?"*

### **Stores**

Almost all Starbucks stores were corporately owned and controlled. Starbucks prided itself on the "Starbucks Experience", going beyond coffee to provide a unique experience for its customers. As Howard Schulz put it:

*You get more than coffee when you visit Starbucks. You get great people, first-rate music, a comfortable and upbeat meeting place, and sound advice on brewing excellent coffee at home. At home you're part of a family. At work you're part of a company. And somewhere in between is a place where you can sit back and be yourself. That's what a Starbucks store is to many of its customers – a kind of "third place" where they can escape, reflect, read, chat or listen.*

Retail stores combined aroma, lighting, music and décor to deliver a unique ambience. Cleanliness was critical and Starbucks regularly used "mystery shoppers" to rate stores on a series of criteria.

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<sup>1</sup> Schulz, Howard and Dori Jones Yang (1997) *Pour Your Heart Into It: How Starbucks Built a Company One Cup at a Time*, New York: Hyperion.

## **Operations**

Because of Starbucks' high volume, coffee exporters competed to become suppliers. For its part, Starbucks cultivated long-term relationships with its suppliers, providing training working closely with them. For quality control, Starbucks extracted three different samples from every shipment: one before the export was arranged, one just before shipment and one on arrival at the roasting plant. At each stage Starbucks reserved the right to refuse the shipment.

The company conducted a great deal of research into roasting and blending under different time and temperature conditions. This research allowed Starbucks to build signature roasting curves, which were in turn built into proprietary computer software. After roasting and air cooling, the coffee was immediately vacuum-sealed in one-way valve bags which extended shelf life to 26 weeks. However, Starbucks did not keep any coffee on its shelves for longer than three months, and for seven days once the bag was opened in store.

Supply chain operations were designed to maximize efficiency and maintain top product quality. The system was driven by a sophisticated forecasting model that yielded accurate forecasts by store and drove a fully integrated manufacturing process.

## **People**

Store staff were central to the Starbucks experience and the company made special efforts to recruit and keep high-quality personnel. Starbucks was known for its progressive personnel policies and generous compensation packages.

Hourly wages were higher than the norm for the fast-food industry, and the company had a comprehensive stock option plan, termed Bean Stock, for every employee from top managers to store personnel (baristas). The plan was unique in the fast food industry. These efforts paid off in a barista turnover of 60 percent, compared with 140 percent for hourly workers in the fast-food business.

As the company grew, Starbucks spent more on training than on advertising its product. Every new barista took basic courses in Coffee Knowledge, Brewing the Perfect Cup and Customer Service.

## **Organizational Culture**

Starbucks' organizational culture promoted its core set of values. The following six guiding principles helped Starbucks measure the appropriateness of its decisions:

1. Provide a great work environment and treat each other with respect and dignity;

2. Embrace diversity as an essential component of the way we do business;
3. Apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee;
4. Develop enthusiastically satisfied customers all of the time;
5. Contribute positively to our community and our environment;
6. Recognize that profitability is essential to our future success.

### **Community Relations**

Social responsibility was an important facet of Starbucks approach, which emphasized “the way we do business” as much as financial results. These words were expressed in a variety of socially responsible actions at community level, including support for charitable organizations such as the YWCA and AIDS outreach. It also supported environmental awareness and “fair trade” programs in countries of origin to help promote a sustainable social, ecological, and economic model for the production and trade of coffee.

### **Challenges Ahead**

In spite of Starbucks’ success to date, the direction of its future growth was uncertain.

On the one hand, expanding the number of stores might eventually strain the unique systems and culture the company had built over the years, possibly compromising the quality of its offerings and its profitability. Other paths to growth included expanding its grocery operations, further international expansion and developing new products. As the most frequented retailer in the world, the company had countless opportunities to expand its offerings and needed to select the most appropriate.

More broadly, Starbucks needed to develop an expansion strategy that not only continued to deliver superior results to shareholders but also protected the integrity of its brand for the long term.