

# Starbucks: A Story of Growth



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### New Products



One product they introduced was a new line of instant coffee that could be purchased at supermarkets across the country.

This product was so successful, that after one year it was already the number five instant coffee brand in the US.

Another product Starbucks introduced was single serve pod coffee.


However, this product was limited to customers who owned a single serve brewer at home.

### Downside to Growth

However, as Starbucks expanded, so did the coffee business as a whole.

This created competition across the board. In fact, there are currently over 24,000 specialty coffee establishments nationwide, 60% of which are independent.

These specialty coffee shops typically have more qualified Baristas and as a result, customers are more willing to wait longer for their specialty coffee.



### Big Chain Competition




Another big competitor was fast food restaurants like Dunkin' Donuts and McDonald's.

By 2009, McDonald's had already started an aggressive advertising campaign to entice people to purchase their product.

In fact, one survey estimated that 60 percent of Starbucks customers would trade down to McDonald's if it was faster and cheaper.

### Revitalization

In 2008, Starbucks went through a financial crisis.



As a result, Starbucks closed nearly 1,000 stores, reduced operating costs, retained baristas, and improved supply chain and service.

Shortly after this time, Starbucks also introduced new products outside of its retail locations.

### Increase Quality of Products and Sustainability.



With the growing rise of obesity and heart disease, consumers are demanding more certified organic and natural foods.

In fact, the natural and organic market is the fastest growing segment in the food industry with annual sales ranging from 16.3 billion to 29.7 billion.

Consumers are also demanding environmentally friendly materials. This means utilizing "green" materials that can easily be recycled.



Starbucks

### Howard Schultz: The Idea

Howard Schultz is the current President and CEO of Starbucks.

He had a vision to help the concept of an espresso bar not only be viable, but also to help and inspire entrepreneurs who had a passion for serving high quality coffee in a comfortable setting where people can relax and socialize.



### Downside of Growth

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### The Experience

Schultz incorporated what he learned in Milan and applied it to Starbucks locations in the US.


These redesigned Starbucks locations were decorated in earth tones, wood floors, and a cozy fireplace that would encourage guests to hang out and socialize with friends.



### Expansion

As a result of their smart marketing campaign, Starbucks experienced a fast rate of expansion.

In fact, Starbucks only had 1,000 locations in 1986. The number grew to 15,000 in 2007.



### Status Quo: Current Business Model

Keep expanding retail locations and broadening line of products for new markets.



### Current Numbers

Today, Starbucks is the largest coffeehouse in the world, with 22,707 stores in 43 countries and territories including 11,000 in the United States, 1,456 in China, 240 in Canada, 1,000 in Europe and 113 in the United Kingdom.



### Brief History



Founded in 1971 as a small coffee bean roaster and retailer in Seattle, WA.

By 1982, Starbucks had five retail outlets that sold beans and supplies for brewing coffee and had established a wholesale business.

The company expanded rapidly and since 1987 has opened an average of two new stores every day.



### Target Market



Starbucks selected their locations very carefully and only targeted areas with large numbers of wealthy and highly educated professional workers.

Drinking a Starbucks coffee was therefore seen as cool, sophisticated, and only something rich people could afford. This added to their overall brand power and mystique.

### Options

1. Keep Current Business Model
2. Cater to Business Sector by offering different business oriented services.
3. Go back to basics, **Roast and sell the beans** coffee.

### Increase Quality of Products and Sustainability.

The demand for natural and organic foods is so high right now, that even legendary rock star Neil Young is urging his fans to boycott Starbucks because of their involvement against labeling genetically modified (GMO) ingredients in food.

This could potentially deter a large number of customers from purchasing coffee at Starbucks, thereby decreasing profit and overall brand power.




### Conclusion

#### Go Back to basics

Focus on quality of product

Help promote local entrepreneurs and local economy.




You and Starbucks, it's bigger than coffee.

### Risks

Big change could mean big resistance

May cause logistical issues between the company and coffee farmers.

Licensing certifying/individual locations could add to lack of consistency.




### New Direction

Starbucks can also reduce operating costs by "licensing" current locations.

This will give individual locations a local feel and an opportunity to cater their local demographic more effectively.

They will also be able to better train baristas and incorporate events and educational programs.




### New Direction

Starbucks needs to get away from the perception of being a heartless corporate predator like Walmart.

They need to improve the quality of their products by removing GMO's and artificial ingredients.

They also need to ethically source their coffee beans and invest back into local coffee farming communities.

This will not only attract more health conscious customers, but will also make current customers feel better about purchasing Starbucks coffee.





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## *Howard Shultz: The Idea*

Howard Shultz is the current President and CEO of Starbucks.

He first came up with the concept of an espresso bar when he was visiting Milan and realized that America was lacking places that served high quality coffee in a comfortable setting where people can meet and relax.



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