Starbucks SWOT Analysis

Strengths
• Well-established and growing brand recognition
• Product and brand consistency
• Eco-friendly practices, for Starbucks is concerned with conserving energy, water, controlling climate change and recycling
• Participates in community service (both employees and customers)
• Active participant of Create Jobs for USA, STARBUCKS (RED), Starbucks Foundation and Ethos Water Fund
• Wide variety of product offerings
• Offers free Wi-Fi in stores and a comfortable space for its customers
• Staff (employee benefits, staff represents the brand)
• Innovative/Progressive
• Strong brand image associated with quality coffee and excellent customer service ("The Starbucks Experience")
• Ethical values/Ethical mission statement
• Rewards and recognition
• Possesses a potential for new and innovative store operations
• Has retained a level of sound financial performance/profitable
• An international brand wit more than 5,500 stores in over 50 countries

Weaknesses
• Needs more of a wide spread customer base
• Prices continually rising, thus risking the loss of customers
• Increasing number of competitors
• Size of stores: stores can become crowded at times
• Political/religious support (may not reflect with those of its customers)
• Limited products at different locations
• Organization has strong presence in the U.S. with more than ¾ of their cafes located in the home market/lack of international presence
• Reputation with pressure groups; criticized for not using free trade products
• Prices high as opposed to rivals such as Dunkin’ Donuts and McDonald’s
• Product recalls, which occur rather frequently
• Rapid decline of satisfactory customer service, as observed from comments on MyStarbucksIdea.com
• Leaders are too cross functional in their management
• Not available to all target segments due to higher prices
• Not enough Drive-Thru services
• Starbucks’ locations are scarce in suburban areas

• Not enough bilingual employees
• Lack of coupons, deals and promotions

Opportunities
• More products can emerge while adapting to other markets
• Creating a coffee house experience in global target markets
• Can focus on emerging economies
• Opportunity of third house experience
• Opportunity for strategic growth initiatives
• Holds the ability to be influenced by the opinions, thought and concerns its customers have on MyStarbucksIdea.com
• Can increase its knowledge in new technological advances to use in stores (espresso makers/to-go cups)
• With continued domestic expansion, it can reach domination of its segment
• More promotions/coupons/discounts

Threats
• Relies on international trade for its coffee beans (Arabia, South America, etc.)
• Must comply with international governments for production and distribution
• Very competitive environment with leaders in the restaurant/food business
• Cultural values and routines may interfere/not adapt with the “coffee house” experience
• Has become a luxury brand; thus, it is a brand that can be consumed by every consumer on a daily basis
• Issues of negative publicity against the brand due to fair trade conflict with coffee bean farmers in Africa
• A younger domestic market is being alienated from the Starbucks brand due to cost
• Recession or downturn in the economy affects consumer spending
• Several activist groups maintain websites criticizing the company’s fair trade policies, labor relations and environmental impact

Starbucks Brand/Product Information

Describe the Brand/Product Line

Starbuck’s has grown to be known as the number one coffee store nationwide, and progressively doing so on an international level. Its first store was established in 1971 in Seattle, Washington. It became owned by Howard Schultz in 1987 with the help of local investors. Schultz was captivated by his first Starbucks visit in 1981. After his trip to Italy in 1983, where he was inspired by the coffee bars, he became motivated to become an influential part of the company. He wanted to bring back to Starbucks the romantic and comfortable feel he experienced at the Italian coffee bars and ultimately create a ‘third house’ experience.

Schultz is currently the Chairman, President and Chief Executive Officer of the brand. Starbucks currently has over 15,500 stores in more than 50 countries. Starbucks headquarters are located in Seattle, Washington. Its expertise is coffee, and also carries a variety of products to satisfy the various needs of each customer. Products include foods, non-caffeine beverages, pastries, individual coffee bean packages, coffee utensils (mugs, holders, cups) and even music albums.5

Starbucks owns around 17,500 of its stores worldwide, with most of them being in the U.S. Approximately 78% of its store volume is found in beverages (coffee, smoothies, teas, lattes), 12% food (sandwiches, salads, paninis, wraps) and 5% whole beans (pre-packed in different sizes). Its sales also mostly come from beverages, specifically coffee beverages, at 61%. The sale of coffee beans averages to about 15% and food 16%. Lastly, 8% of its sales are from coffee utensils and hardware (coffee grinders, filters, storage containers).6

Starbucks Products

- Coffee (Blonde Roast, Medium Roast, Dark Roast, Flavored, Seasonal)
- Bottled Drinks (Doubleshot Energy, Doubleshot Espresso, Frappuccino)
- Chocolate Beverages (Hot Chocolate, White Hot Chocolate, Peppermint Hot Chocolate)
- Iced Coffee (With or without milk)
- Espresso Beverages (Lattes, Macchiatos, Mochas, Cappuccino)
- Frappuccino (Vanilla, Strawberry, Mocha, Caramel, Peppermint, Java, Tazo)
- Kid’s Drinks (Caramel Apple Spice, Apple Juice, Flavored Steamed Milk)
- Tazo Drinks (Awake, Black Shaken, Chai Tea, Calm, Earl Grey, Full Leaf, Green Tea, Iced, Passion, Refresh, Vanilla, Zen)

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• Smoothies (Chocolate, Orange Mango, Strawberry)
• Baked Goods (Muffins, Doughnuts, Scones, Fritters, Loafs, Croissants, Cheese
• Danish, Cookies, Bars, Bagels, Brownies, Gingerbread, Pound Cake, Bread, Coffee Cake, Buns)
• Petites Dessert (Cake Pop, Whoopie Pie, Sweet Square, Mini Cupcake)
• Bistro Boxes (Cheese and Fruit, Chicken and Humus, Chicken Wraps, Protein-based Bites, Salumi and Cheese, Sesame Noodles, Tuna Salad)
• Breakfast (Sandwiches, Wraps, Oatmeal)
• Salads (Deluxe Fruit Blend)
• Sandwiches, Paninis and Wraps
• Ice Cream (Caramel Macchiato, Coffee, Java Chip Frapp, Mocha Frapp, Peppermint Mocha, Strawberries and Crème, Vanilla Bean)
• Yogurt Parfaits (Greek Yogurt Honey, Peach Raspberry, Strawberry and Blueberry)
• Equipment (Coffee Presses, Coffee Makers, Espresso Machines, Grinders, Teapots and Teakettles, Equipment Gift Sets)
• Drinkware (Cups and Mugs, Tumblers and Travel Mugs, Cold Beverage, Accessories, Winter Drinkware)
• Syrups and Sauces (Caramel, Peppermint, Hazelnut, etc.)
• Hot Cocoa Individual Pre-Packaged Mixes
• Music and Books (Tracks that are played in store)
• Apparel (Hoodies, T-shirts, Hats)
• Starbucks Card (Gift Card, Pre-pay, Manage, Reload, Rewards)

Starbucks’ products are enveloped in Starbucks’ ultimate goal of creating the coffee house experience or “The Starbucks Experience”. From the variety of coffee products to the ambience in each store, Starbucks takes all the right steps to deliver this experience to its customers, community, employees and shareholders.7

Manufacturer/Marketer

Peter D. Gibbons joined the Starbucks team as the Senior Vice President of Global Manufacturing Operations in 2007, and is now Executive Vice President of Global Supply Chain Operations. His duties are to operate and control the manufacturing, engineering, procurement, distribution, strategic planning, transportation, and inventory management of Starbucks stores worldwide. Gibbons works to maintain and enhance the ultimate experience that Starbucks believes in and makes sure that it continues to participate in environmentally safe procedures and local community volunteering.

Starbucks has five company-owned roasting plants in Nevada, Pennsylvania, South Carolina, Washington and Netherlands. Starbucks also has 24 co-manufacturers in the U.S., Canada, Europe, Asia and Latin America. It also owns one tea processing plant in Portland, Oregon and in the U.S. Its approximate product deliveries are 2.7 million units per year.  

Supply Chain Management

The supply chain management for Starbucks begins with the importation of its coffee beans from Latin America, Africa and Asia to the U.S. and Europe. The unroasted, or “green”, coffee beans are transported in ocean containers to the U.S. or Europe, and are then taken to six storage sites where they are roasted. Starbucks has five regional distribution centers in the U.S. Two are company-owned, and third-party logistic companies manage the remaining three. These distribution centers distribute not only coffee, but other Starbucks products as well. The roasted coffee beans are then taken here for distribution. Starbucks distribution centers are also located in Europe and Asia, all which are owned by third-party logistic companies. Apart from distribution centers, Starbucks also holds 48 central distribution centers worldwide: 33 in the U.S, seven in Asia/Pacific, five in Canada and three in Europe. Third-party logistics companies own forty-seven of these centers. Products are then distributed by truck from these central distribution centers, or from the larger distribution centers, to their local Starbucks stores.

Stage of the Product Life Cycle for the Brand/Product Line

Starbucks’ product life cycle follows a similar structure as the general product life cycle process. The product life cycle for Starbucks proves to be different, for certain Starbucks products may go through each stage at differently, and these stages may occur over various lengths of time. For example, the Starbucks product life cycle of a summer drink like the Frappuccino starts its introduction stage in early to mid-spring.

Then, the Frappuccino hits its growth stage from the beginning to late summer, as consumers opt for cold beverages in the hot weather. As the summer begins to end, the product reaches the maturity stage within the product life cycle. The decline stage of the Frappuccino beverage will hit during late fall and early to mid spring. The demand

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for the product falls, and the consumption of hot beverages during the cold winter times rises.\textsuperscript{10}

## Total Annual Sales Volume

The total annual sales volume for the Starbucks Corporation is standardized in millions of USD. The corporation’s fiscal year ends in October.\textsuperscript{11}

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Revenue</th>
<th>Gross Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$11700.4 MM</td>
<td>$3086.0 MM</td>
</tr>
<tr>
<td>2010</td>
<td>$10707.4 MM</td>
<td>$2697.4 MM</td>
</tr>
<tr>
<td>2009</td>
<td>$9774.6 MM</td>
<td>$2024.6 MM</td>
</tr>
<tr>
<td>2008</td>
<td>$10383.0 MM</td>
<td>$1992.6 MM</td>
</tr>
<tr>
<td>2007</td>
<td>$9411.5 MM</td>
<td>$2196.5 MM</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Gross Profit Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>26%</td>
</tr>
<tr>
<td>2010</td>
<td>25%</td>
</tr>
<tr>
<td>2009</td>
<td>21%</td>
</tr>
<tr>
<td>2008</td>
<td>19%</td>
</tr>
<tr>
<td>2007</td>
<td>23%</td>
</tr>
</tbody>
</table>

The sharp decline in revenue during the 2009 fiscal year has been attributed to the United States’ recession, as well as the overall weak global economy, during the specific time period. Starbucks was one of the initial corporations to recognize the recession and its potential negative, long-term effects to total revenue and gross profit. Thus, the company halted plans for further global expansion in July 2008, and in January 2009, closed 507 of its retail stores in the United States and 64 retail stores abroad. Starbucks saw it best to concentrate their efforts upon a fewer number of stores, thus allowing them to improve within the areas of brewing coffee and customer service, and rediscovering the coffee-house art of pouring espresso.

In the second quarter of the 2009 fiscal year, Starbucks announced a 77 percent net income drop, attributed partially to an 8 percent decline in revenue from stores that


had been operational for at least a year. Further research found that 5 percent of that drop could be attributed to customers cutting back on transactions and the amount they spent per visit. Starbucks has long been characterized as a corporation to appeals to affluent professionals, while the lower end of the market is catered to by competitors such as McDonald’s, which had begun selling specialty coffee beverages during the time period as well. In the search for a more economical way to find their morning coffee fix, many former Starbucks consumers had begun visiting foodservice industry giants Dunkin ‘Donuts and McDonald’s, or purchased in-home coffee brewers and espresso machines.

Through the recession and decline in gross profit margin, Starbucks saw an opportunity to improve revenue: the introduction of a breakfast value meal. Customers were given the option to purchase a cup of coffee and one of Starbucks’ ‘Artisan Sandwiches’, a cup of ‘Perfect Oatmeal’, or a piece of coffee cake for $3.95. The company also simultaneously planned a multi-million dollar advertising campaign, focused on Starbucks’ ability to offer value without compromising quality, and lowered the cost of more basic specialty coffee beverages.

Within the fiscal third quarter of 2009, the Starbucks Corporation (NASDAQ: SBUX) reported stronger results. The 8 percent decline of store sales in the second quarter had risen to 5 percent, and the reported net revenue of $2.4 billion was only 2 M lower than the reported results in the third quarter of 2008. In the press release surrounding the announcement of the results, Executive Vice President and CFO, Troy Alstead, explained the reasons for Starbucks’ financial improvement: “Excellent execution throughout our organization contributed significantly to our performance this quarter. Our store partners have embraced the cost disciplines and efficiency initiatives that are enabling us to expand our operating margin. In doing this, they have also delivered increased service speed, measurably improved customer service, customer satisfaction, and an overall enhanced Starbucks Experience.”

Sales Volume by Key Distribution

Starbucks’ retail sales mix is approximately 61% coffee beverages, 16% food items, 15% whole-bean coffees, and 8% coffee-related products and equipment. The product sales volume differs from store to store, commonly depending on the size and location of each individual outlet. Larger locations carry a greater variety of whole coffee beans,

gourmet food items, teas, coffee mugs, coffee grinders, coffee-making equipment, filters, storage containers, and other accessories. Smaller stores retail location sales are typically limited to coffee beverages, and a small variety of whole-bean coffees.\(^{14}\)

$ Sales Volume and Share of Total $ Sales for Key Items within the Product Line (2011)\(^{15}\)

(in millions of U.S. dollars)

<table>
<thead>
<tr>
<th>Product Line</th>
<th>$ Sales</th>
<th>Share of $ Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coffee Beverages</td>
<td>$ 7137.2 MM</td>
<td>61%</td>
</tr>
<tr>
<td>Food Items</td>
<td>$ 1872.1 MM</td>
<td>16%</td>
</tr>
<tr>
<td>Whole-Bean Coffees</td>
<td>$ 1755.1 MM</td>
<td>15%</td>
</tr>
<tr>
<td>Products/Equipment</td>
<td>$ 936.0 MM</td>
<td>8%</td>
</tr>
</tbody>
</table>

Market Share and Rank

Top Beverage/Snack Restaurant Firms, 2008

Market shares are shown in percent.

\[
\begin{array}{|c|c|}
\hline
\text{Firm} & \% \\
\hline
\text{Starbucks Coffee} & 54.10 \\
\text{Dunkin' Donuts} & 34.50 \\
\text{Krispy Kreme Doughnuts} & 4.10 \\
\text{Baskin-Robbins} & 3.90 \\
\text{Jamba Juice} & 3.20 \\
\hline
\end{array}
\]


Largest Coffee Shops Worldwide, 2009

Companies are ranked by units. Seattle's Best is a subsidiary of Starbucks and is present in 400 Borders Books and soon in more than 7,000 Burger King stores.

<table>
<thead>
<tr>
<th>Company</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starbucks</td>
<td>11,000.00</td>
</tr>
<tr>
<td>Coffee Bean and Tea Leaf</td>
<td>750.00</td>
</tr>
<tr>
<td>Caribou Coffee</td>
<td>511.00</td>
</tr>
<tr>
<td>Peet's Coffee</td>
<td>192.00</td>
</tr>
<tr>
<td>Seattle's Best</td>
<td>160.00</td>
</tr>
<tr>
<td>Tim Horton's</td>
<td>160.00</td>
</tr>
<tr>
<td>Coffee Beanery</td>
<td>131.00</td>
</tr>
<tr>
<td>Tully's</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Top Quick-Service Restaurant Chains, 2009

Firms are ranked by sales in billions of dollars.

<table>
<thead>
<tr>
<th>Company</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>McDonald's</td>
<td>31.00</td>
</tr>
<tr>
<td>Subway</td>
<td>10.00</td>
</tr>
<tr>
<td>Burger King</td>
<td>9.00</td>
</tr>
<tr>
<td>Wendy's</td>
<td>8.38</td>
</tr>
<tr>
<td>Starbucks</td>
<td>8.34</td>
</tr>
<tr>
<td>Taco Bell</td>
<td>6.80</td>
</tr>
<tr>
<td>Dunkin' Donuts</td>
<td>5.70</td>
</tr>
<tr>
<td>Pizza Hut</td>
<td>5.00</td>
</tr>
<tr>
<td>KFC</td>
<td>4.90</td>
</tr>
<tr>
<td>Sonic</td>
<td>3.83</td>
</tr>
<tr>
<td>Arby's</td>
<td>3.22</td>
</tr>
<tr>
<td>Chick-fil-A</td>
<td>3.21</td>
</tr>
<tr>
<td>Jack in the Box</td>
<td>3.07</td>
</tr>
</tbody>
</table>
Top Coffee Makers, 2010

Companies are ranked based on sales at supermarkets, drug stores and mass merchandisers (excluding Wal-Mart) for the 52 weeks ended August 8, 2010.

<table>
<thead>
<tr>
<th>Company</th>
<th>($ mil.)</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>J.M. Smucker Co.</td>
<td>898.50</td>
<td>17.69</td>
</tr>
<tr>
<td>Kraft Foods Inc.</td>
<td>497.30</td>
<td>9.79</td>
</tr>
<tr>
<td>Starbucks Coffee Co.</td>
<td>224.70</td>
<td>4.42</td>
</tr>
<tr>
<td>Massimo Zanetti Beverage USA</td>
<td>87.20</td>
<td>1.72</td>
</tr>
<tr>
<td>Eight O’Clock Coffee Co.</td>
<td>66.70</td>
<td>1.31</td>
</tr>
<tr>
<td>Peet's Coffee and Tea Inc.</td>
<td>60.20</td>
<td>1.19</td>
</tr>
<tr>
<td>Rowland Coffee Roasters</td>
<td>45.50</td>
<td>0.90</td>
</tr>
<tr>
<td>New England Tea and Coffee Co. Inc.</td>
<td>35.20</td>
<td>0.69</td>
</tr>
<tr>
<td>Community Coffee Co. Inc.</td>
<td>33.40</td>
<td>0.66</td>
</tr>
<tr>
<td>Private label</td>
<td>237.70</td>
<td>4.68</td>
</tr>
<tr>
<td>Other</td>
<td>2,892.10</td>
<td>56.95</td>
</tr>
</tbody>
</table>

Current Brand Positioning

Starbucks has developed a concept in branding and positioning that no other coffee brand has done: the concept of "Third Place", or the business that individuals visit most commonly between the home and the workplace. The "Third Place" has become very effective and became one of the strongest concepts developed by the company. This idea has been developed by creating a unique and relaxing atmosphere, as well as the offering of high quality products.

Global positioning is strong in the Starbucks brand, and is not only become a nationally recognized brand, but an internationally recognized brand as well. The Starbucks brand has positioned itself in the national market as the head of the U.S coffee, with more than 12,500 coffee houses in the U.S. Internationally, the Starbucks brand has expanded exponentially. Starbucks is now the largest coffee house in the world with locations in 55 countries,

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including over 1,200 in Canada, 700 in the United Kingdom, and 54 in Russia.

**Current Brand Marketing Strategies**

In order for any marketing efforts to succeed, it is important to have a logo that encompasses the brand’s business identity. The newest Starbucks logo has dropped its name; it is simple, clean, and evokes confidence. Last year, Starbucks celebrated its 40th anniversary. Over the past 40 years, the brand has become “the worlds leading purveyor of the highest quality coffee”, as put by Starbucks chairman and CEO, Howard Shultz. In 2011, Starbucks evolved the design of the logo: “It embraces and respects the Starbucks heritage and at the same time, it evolves and feels more suitable for the future,” Shultz explained. “At its core, it is the exact same essence of the Starbucks experience and allows to customers to think beyond coffee.” The Starbucks logo has changed three different times over its forty years in business, each marking a historical achievement for the brand.17

Starbucks marketing efforts have focused on local rather than nationwide marketing. Starbucks positions each store individually according to the specific location they are in. Starbucks is as aware of the local community, thus making each retail location specific and unique to each neighborhood they are located in.

**Starbucks Marketing Strategic Ideas**

- **“Perfect cup of coffee”** - placing emphasis on product quality
- **“Third Place”** - focusing on creating the “third place” for everyone to go between home and work
- **“Customer satisfaction”** - it is important for customers experience the uniqueness of the coffee experience
- **“Creating a Starbucks community”** - creating a community around the brand, locally and globally
- **“Smart partnerships”** - a way to grow business is to partner smart
- **“Innovations”** - creative and innovative ideas to add to their product line and services (for example, Starbucks was first to offer free Wi-Fi within its stores)


- “Brand Marketing” - word of mouth focus, letting the high quality of their products speak for themselves.  

Current Brand Advertising Budget/Budget Allocation

An article written by Emily Bryson on AdAge explained how much McDonald’s has helped to launch the awareness of coffee consumptions through their advertisements. "McDonald's launched its McCafé ad push, estimated at $100 million, in May. By comparison, TNS Media Intelligence figures put Starbucks spending at just $26 million in measured media throughout 2008. Competitors such as Dunkin' Donuts have also stayed in the mix with aggressive value-menu advertising." A more recent AdAge article, written by Maureen Morrison in 2011, talks about Starbucks becoming the 3rd largest fast food chain. McDonald's, perennially the top restaurant chain in U.S. sales, spent about $887.8 million on U.S. measured media spending in 2010, up from $872.8 million in 2010. Burger King, pulling back its outlay over the years, shelled out about $301 million on domestic measured media in 2010, down from $308 million in 2009 and $327 million in 2008. Wendy’s in 2010 spent $283.4 million, down from $293.4 million in 2009.

Starbucks is very strategic in their use of social media. This strategy is relayed within a social media Advertising Age article: McDonald's US has just over 1,882,000 fans on their Facebook Fan Page, while Dunkin' Donuts has approximately 829,000 fans. Starbucks, on the other hand, has over 3,665,000, and the Starbucks Frappuccino page more than 1,307,000. Starbucks has utilized social media and has thus determined the best way to reach their customer base is through these plug-ins: Facebook, Twitter and Foursquare.

Current and Historical Creative Executions


Social media has proven to be a major advertising avenue for Starbucks. Local advertising has also proven to be a major advertising avenue and has been much more successful for Starbucks than mass national campaigns. In the present day, viral marketing allows advertising dollars to more specifically target individuals rather than the masses. There are two recent viral campaigns that Starbucks launched for the holiday season and Valentine’s Day: they both combine a unique Starbucks experience with modern day technology. In both campaigns, the customer scans the picture on the cup and in turn can receive personalized messages and information about the brand. For example, the Starbucks Cup Magic app for Valentine’s Day incorporates the latest in augmented reality technology to offer an animated visual experience. Customers can download the app by scanning a picture on their Starbucks cup to create their own personalized augmented reality valentine to send to others. There is an option to also send a personalized valentine with a Starbucks Card eGift.  

**Target Audience**

Starbucks has 25 million visitors in its stores each week, with this number steadily increasing every year. The average consumers are middle to upper class business associates and college students. Consumers are either single or married, and have a tendency for a greater amount of disposable income. Starbucks determined that most of its targeted customers consider themselves relatively technology savvy via the computer, thus the company’s marketing focus on social media. Most Starbucks retail stores are located in big cities and shopping malls, or areas where populations of middle to upper class individuals are dense.

**Category Brand/Consumption Patterns**

It has been found that 60% of Americans have scaled back on specialty coffee purchases in the past six months due to the overwhelming state of the economy. Those who have scaled back the most since the beginning of the year, according to the online survey of 500 Americans conducted between Jan. 14 and 15, are consumers 45 to 54. This statistic was followed by consumers who are 35 to 44 (37.5%) years of age, and finally by those aged 25 to 34 (33.3%). As might be expected, those who had trimmed the expense the most were in the lower of the survey’s income brackets (48.6% earned

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between $20,000 and $39,000, and 33.6% earned below $20,000; the latter presumably included college students.\textsuperscript{22}

### Media Consumption

Starbucks has historically avoided television advertisements, and instead utilizes newspapers and websites for increasing brand awareness. As Starbucks grew into one of the world's best-known brands, it has rarely been advertised on television. Starbucks was successful in this lack of mass television advertisements due to various strategic marketing tactics, such as social media.

On Apr. 30 the company unveiled a new slogan, "It's Not Just Coffee. It's Starbucks," and kicked off a coffee-focused newspaper ad campaign in papers including The New York Times (NYT), warning against down-market imitators like McDonald's. "Beware of Cheaper Coffee. It Comes with a Price", reads one ad that ran on the back page of the Times' Sunday Business section. The campaign also includes a YouTube video, with Schultz asking Starbucks baristas what they think of the other print ads in the new ad campaign, like one that reads "This Is What Coffee Tastes Like When You Pour Your Heart into It." The Seattle-based chain also maintains a Facebook page and various other social media outlets.\textsuperscript{23}

### Psychographic Information

Consumers want to be able to taste many types of high quality coffee variations. It is vitally important that more popular coffee products are available to consumers, while other variations are introduced on an occasional basis. Starbucks also meets the needs of not only in-store consumers, but in-home coffee consumers as well by offering brewing equipment and coffee accessories. In addition to meeting those beverage needs of consumers, sometimes there is the need to have an assortment of small foods that are quick to consume and easy to carry. Changes in the social and economic structure of the country are resulting in higher levels of disposable income and a greater interest in Starbucks products and merchandise. At the same time, other coffee shops are trying to tap into on the fad created by Starbucks.\textsuperscript{24}


Category/Competition

Size of the Category and Segments including a 5-Year Growth History

The coffee shop industry in the United States includes 20,000 stores with combined annual revenue of about $11 billion. Major companies include Starbucks, Dunkin’ Donuts, Coffee Bean, Caribou, Tea Leaf, and Diedrich (Gloria Jean’s). The coffee shop industry is highly concentrated at the top and fragmented towards the bottom, meaning that the top 50 companies have over 70 percent of the industry’s sales.

Coffee consumption is highest in the Northeastern portion of the United States, where over 60 percent of the population consumed coffee daily in 2005, according to the National Coffee Association (NCA). Per capita consumption is highest in the Midwestern United States, where coffee drinkers average 3.7 cups a day. The typical and most committed coffee drinkers are 25-45 years old, affluent, educated adults. Specialty coffee appeals to a diverse adult demographic, including college students and young adults. Larger companies may also sell coffee beans wholesale to commercial customers, such as grocery stores and restaurants. Sales are generally seasonal, with a peak during the fourth quarter, largely driven by the winter holiday season. In addition, poor weather can affect sales by decreasing store traffic.

In terms of market growth rate, the coffee shop industry grew over 40% between 2000 and 2005, with an overall 70% increase in the number of coffee shops between 2000 and 2005. However, the coffee shop industry expansion is slowed, compared to its explosive growth in the 1990’s. Since the market has slowed from record highs in the 1990’s, companies are looking to expand overseas through licensing agreements. Starbucks is the single largest contributor to this increase, as its number of outlets continues to increase on a yearly basis worldwide.25

Category Life Cycle Stage and Information on Key Competitors

The life cycle stage of specialty coffee beverages is within the growth stage of the category life cycle.

Starbucks

Starbucks, the world's number one coffee retailer, has over 13,000 coffee shops in more than 35 countries. Starbucks retail locations offer specialty coffee beverages, gourmet food items, coffee beans, teas, and a variety of coffee accessories. Starbucks owns about 17,500 of its shops, which are located in about 10 countries (mostly in the U.S.), while licensees and franchisees operate the remaining outlets. A majority of Starbucks retail sales account for specialty coffee beverages (61%), along with food items (16%), whole-bean coffees (15%), and coffee-related products and equipment (8%). The company does not compete on price, but rather on the complete experience customers receive while visiting the coffee shop. Starbucks works to create a connection with every single one of their customers. Starbucks' overall goal is to establish its brand as one of the most recognized and respected ones in the world. Therefore the enterprise plans to continue the rapid expansion of its retail locations, grow its specialty operations, and to selectively pursue other opportunities to leverage the brand through the introduction of new products and the development of new channels of distribution.

In continuance with its history of partnerships, Starbucks and Concord Music Group announced on March 12th of this year the formation of a new record label “Hear Music” which will distribute recordings at Starbucks locations. This partnership is another step in Starbucks’ entertainment strategy that links to the company’s focus on atmosphere and image. Last fall, addressing McDonald's attempts to lure customers away, Starbucks announced its plans to offer hot breakfast sandwiches in an appeal to fans of the Egg McMuffin and establish them also in the breakfast and afternoon snack segment.

McDonald’s

McDonald's is the leading global foodservice retailer with more than 30,000 local restaurants, serving nearly 50 million people in over than 119 countries each day. In 2006, the company reached a record high of $21.6 billion in revenues. McDonald's has become a major player in the coffee market, and holds the belief that the major reason for the billion cups they sell annually is due to their brewing temperature of 195-205°F. The average cost of a cup of coffee at a McDonald's retail location is $1.35. Recent strategic changes within McDonald's include the improvement of the quality of its coffee through the launch of a premium roast in March of 2006. The launch has allowed McDonald's to compete with major coffee house retailers such as Starbucks and Caribou Coffee. Furthermore, McDonald's is looking into “day-parts” penetration as a growth strategy. The company is currently the market leader in the breakfast segment, but is looking to take over the afternoon segment as well through the launch of specialty coffee beverages in March of 2007. The move towards a premium roast is consistent with McDonald's overall strategic shift to begin offering more 'upscale food',
though the pricing strategy for espresso-based drinks still falls below Starbucks' prices. Though McDonald's has a pricing advantage, specialty drinks are served from push-button machines, unlike retailers such as Starbucks or Caribou Coffee, who explore the art of handcrafted beverages and upscale customer service. However, coffee competitors are increasingly threatened by McDonald's recent ability to increase its level of service and improve its stores through the slowing down of expansion and reallocation of funds.

**Dunkin’ Donuts**

Dunkin’ Donuts is the world’s largest coffee and baked goods chain, serving over 3 million customers a day. In 2006, the company boasted revenues of approximately $4.7 billion, with more than 7,000 shops worldwide (5,300 in the U.S.). The company continues to open 700-1000 additional retail locations annually. Dunkin’ Donuts has forged a strong identity as a coffee destination, and continues to grow its food/beverage offerings incrementally. The company sells about 500 million cups of coffee a year, for approximately $1.65 per cup. Approximately 57% of the chain's sales are found in the sale of beverages. Dunkin’ Donuts is currently pursuing the following key strategies: multi-branding concept development, Dunkin’ brand vitalization, product innovations, accelerated brand development, improved operational effectiveness and talent acquisition, and operates its retail locations in a franchise format, either through operating agreement, license agreement, or joint venture. In order to grow its presence within the coffee market, Dunkin' Donuts plans to widen its specialty coffee beverage options. A portion of this effort included signing an agreement with Procter & Gamble in March of 2007, thus launching Dunkin' Donuts packaged coffee beans at U.S. retailers, including grocery stores, mass merchandisers, and club stores. Dunkin' Donuts' current advertising strategy works to emphasize the company’s ability to be a faster, cheaper, and more user-friendly alternative to coffee houses like Starbucks. In an effort to market itself as time effective, Dunkin' Donuts has recently installed espresso machines which are capable of brewing coffee in approximately 44 seconds. CEO Jon Luther sees an opportunity for the company within the specialty beverage market, especially among a consumer of a younger demographic, who enjoys specialty coffee beverages, yet is unable to afford brands such as Starbucks. The current goals of the brand to target this particular market are to focus on improving customer service and cross shop consistency in service, a goal that might prove to be rather challenging due to the company's franchise structure.

**Caribou Coffee**

Caribou Coffee was founded in 1993, with its headquarters currently located in Minneapolis, Minnesota. Today, it is the second largest specialty coffee company in the U.S. with 416 outlets (2005) in 18 states and the District of Columbia. In 2005, company
revenue was found to be approximately $198 million. Caribou's retail locations have a distinct design scheme, featuring mountain-lodge-style decor with exposed beam ceilings, leather chairs, and fireplaces. With a motto relaying "Life is short. Stay awake for it." Caribou Coffee has successfully competed against Starbucks in a number of U.S. states. Caribou's point of brand strength is found in the quality and freshness of their products. Caribou coffee products are packaged immediately after roasting, and are sold no more than 21 days after roasting or no more than seven days after opening the package. An additional point of brand strength might be found in Caribou's unique roast of coffee in a warmer store atmosphere, as opposed to the sleek, urban design of Starbucks retail locations. Caribou Coffee is currently looking to expand internationally, specifically with its sights set on initial expansion in the Middle East, for the company believes that this area has a small, but developing market for American-branded coffee houses. Additional strategic approaches include the development of strategic partnerships with retailers such as Eatzi's, or building stores specifically next to Bruegger's Bagels, Blockbuster Video, and Border's Books. The company continues to sell its coffee as well in higher-end grocery stores, and is served exclusively on Frontier and Maxjet airlines.

Though it has been recognized that no specialty coffee retailer has approached Starbucks in terms of its success on a global scale, the coffee shop industry has become increasingly competitive. While many affluent American consumers remain to favor Starbucks coffee, industry experts have questioned whether or not the company's focus on the art of the in-store experience rather than its product portfolio will allow for long-term success. With the selection of coffee beans improving elsewhere, it is unclear how many customers will continue to purchase specialty coffee beverages at premium prices if Starbucks' terms of in-store experience become no longer unique. It has been predicted that the specialty coffee beverage consumer's view on the price-value equation will change in the future.

**Brand/Product Names**

Today, McDonald's is the world's leading global food service retailer with more than 33,000 locations serving nearly 68 million customers in 119 countries each day. McDonald's has become very popular by the variety of food selection they offer, as well as the fast service they provide. McDonald's food menu consists of burgers, sandwiches, chicken, salads, breakfast, snacks, desserts and beverages. McDonald's meat and chicken comes from USDA-inspected suppliers in the U.S., with a small

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percentage of their beef imported from USDA-inspected suppliers in Australia and New Zealand.\textsuperscript{27}

McDonald's recent espresso line makes up about 15 percent of McDonald's revenue. McCafe has been successful due to their low cost on espresso beverages compared to other espresso shops. At McDonald's, one can choose between several gourmet coffee choices: cappuccinos, lattes, and iced and hot mochas. Their McCafe specialty coffee beans are imported from Brazil and from the mountains of Sumatra, Guatemala, and Costa Rica. Their Premium Roast coffee beans are grown in Brazil and the mountains of Colombia, Guatemala, and Costa Rica.\textsuperscript{28}

\textbf{Manufacturer/Marketer}

McDonald's manufacturers include Gavina Gourmet Coffee, Lopez Foods (beef patties), Keystone Foods (chicken), and 100 Circle Farms (potatoes).\textsuperscript{29} McDonald's utilizes Omnicom Group (DDB Worldwide), Publicis Groupe's Leo Burnett Worldwide for their marketing tactics.\textsuperscript{30}

\textbf{Annual Sales Volume for McDonald's}

\begin{center}
\begin{tabular}{|c|c|c|}
\hline
Fiscal Year & Sales by Volume (in billions) & Growth Rate in Percent \\
\hline
2011 & $27.01$ B & 12.18\% \\
2010 & $24.07$ B & 5.85\% \\
2009 & $22.74$ B & -3.31\% \\
2008 & $23.52$ B & 3.23\% \\
2007 & $22.79$ B & N/A \\
\hline
\end{tabular}
\end{center}


The chart above shows McDonald's sale by volume in billions of dollars. The chart shows years 2007-2011. The chart shows the growth rate in percent.\(^3\)

**Share of Market and Rank**

**McDonald's earning/share with percent change**

<table>
<thead>
<tr>
<th>Year</th>
<th>Earning/share</th>
<th>Percent change from previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>0.71</td>
<td>16.4</td>
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<tr>
<td>2007</td>
<td>0.87</td>
<td>22.5</td>
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<tr>
<td>2008</td>
<td>0.43</td>
<td>-50.6</td>
</tr>
<tr>
<td>2009</td>
<td>0.52</td>
<td>20.9</td>
</tr>
<tr>
<td>2010</td>
<td>1.24</td>
<td>26.0</td>
</tr>
</tbody>
</table>

The chart shown above is McDonald's earning/share in dollars for years 2006-2010. The Chart above also show the percent change from previous year in percentages.

* The 2000-2010 annual growth rate percent was 26.0.

**Food service Industry Category Rank (2010)**

<table>
<thead>
<tr>
<th>Company</th>
<th>Revenue ($Millions)</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>McDonald's</td>
<td>$24,074.6</td>
<td>1</td>
</tr>
<tr>
<td>Yum Brands</td>
<td>$11,343.0</td>
<td>2</td>
</tr>
<tr>
<td>Starbucks</td>
<td>$10,707.4</td>
<td>3</td>
</tr>
</tbody>
</table>

The chart show above is the Food service Industry Category Rank (2010). The Chart shows the companies, revenue ($ millions) and Rank.

**Ranking within Fortune 500 Companies (2010)**

<table>
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<td>$11,343.0</td>
<td>214</td>
</tr>
<tr>
<td>Starbucks</td>
<td>$10,707.4</td>
<td>229</td>
</tr>
</tbody>
</table>

The chart above is the Ranking within Fortune 500 companies (2010). The chart shows company, revenue($millions) and ranking within Fortune 500 companies (2010).\(^3\)


Demographics

McDonald’s age group demographics include 6-12 year olds, who are considered heavy users; 16-24 are considered to be single and heavy users; 24 and older are considered to be single or married, and are light to medium users. Social groups demographics include students, businessmen and women, housewives, entrepreneurs, teenagers, and small children. McDonald’s demographic information regarding location includes both national and international locations. Race demographics includes all races and ethnicities, as well as gender demographics, which include both male and female.

McDonald’s Marketing Strategy

The McDonald’s McCafé is a specialty coffee product with a different target market, as compared to Starbucks specialty coffee beverages. The particular target market for McDonald’s specialty coffee beverages includes working individuals of a low to middle socioeconomic class. McDonald’s promotes their McCafe beverages as a lower priced coffee beverage, yet one that still retains product quality.

Current Creative Strategy

The McDonald’s McCafe was launched upon the promotional tool of “Free Coffee Mondays”, which was a prime promotion for a working class target market. Both, Dunkin’ Donuts and McCafé are looking for the same demographic when it comes to customers. The Starbucks consumer is considered one of affluence, is typically brand loyal, and is seeking experience rather than a ‘better deal’. There are two strategies created for the launch of McCafé: one targeted to leisurely consumption of gourmet coffee drinks such as mocha, cappuccino and latte. These are very similar to Starbucks ads because they are looking to join that category. The other campaign is targeted for the middle class working American that is seeking a quality cup of coffee at a reduced price. McDonald’s is not only trying to get the attention of Starbucks followers, but also Dunkin Donut followers. These two competitors encompass the majority of the market segment for specialty coffee beverages.33

Allocation of Advertising Dollars

In 2003, McDonald’s was the 16th largest national advertiser in the United States, with advertising spending amounting to $1.37 billion (an increase of 2.4% since 2002). According to Advertising Age, U.S. sales were up $6 billion (up 11.4% since 2002), and worldwide sales were $17.1 billion (up 11.3% since 2002).34

In 2004, McDonald’s began pulling away from the idea of ‘mass marketing’, believing that no single ad tells the entire story of a business, and instead moved to create an advertising strategy that uses multidimensional and multilayered media. After the implementation of this idea, McDonald’s spent $577 million in measured media in 2003, according to TNS Media Intelligence/CMR.35

Consumer Purchasing/Consumption Patterns

McCafe drinks are sold at a very low and affordable price, and thus allowing them a large amount of reoccurring customers. As well, many individuals buy their coffee with their breakfast that they get at McDonald’s, leading to increase revenue. Adding an extra $2-$3 for a cup of coffee makes them less hesitant. McDonald's offers breakfast from early sunrise to approximately 10:30 a.m. Many people drink coffee with a breakfast meal, and it is thus an effective consumption pattern at McDonald's. On the other hand, Starbucks have less of a consumer consumption pattern due to their low variety of breakfast meals and high prices. They have less frequent repeat customers because it is viewed as a small luxury to get a beverage than a necessity.36

Target Audience/Psychographic Profiles

McDonald’s targets lower to middle class working individuals. With faster service and lower prices, McDonald’s has an advantage over the slower service and higher prices of Starbucks. They know that many people drink coffee daily and having low prices on their espresso products allows people who are price conscience people to afford them.37

36 Coleman, Daryl, Connie Gao, and Heejae Kim. "McDonald's: Breaching the Luxury Coffee Market."
37 Coleman, Daryl, Connie Gao, and Heejae Kim. "McDonald's: Breaching the Luxury Coffee Market."
Bibliography


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