

The Starbucks Corporation has the unique position of being one of the fastest growing and most successful businesses in the world today. Consumers and critics alike were skeptical of the idea of “the coffee shop,” especially with its fast growth and aggressive marketing techniques. Seeing real growth, real fast combined with the company’s smart decisions to branch out in other areas such as entertainment has strengthened the company’s track record. Yet, with recent sales slumps and poor decisions chipping away at the foundation of Starbucks, one must look into the past in order to determine Starbucks’ future.

Coffee Shop Category Information

U.S. retail sales

\$12.27b (2006)

Sales trends

The coffee shop industry has seen steady substantial growth since 2002 when the sales for specialty coffee retailers in the form of cafes, kiosks, carts, and roaster/retailers totaled \$8.40b. By 2006, the market had experienced a 46.1% growth, and its size was \$12.27b.¹ (see Fig. 1) The largest one-year growth of the category was 14.86%, between 2004 and 2005.

Category leaders

1. Starbucks - 44.7% (\$5.5b)
2. Caribou Coffee 1.84% (\$226m)
3. Peet’s Coffee – 1.72% (\$211m)² (see Fig. 2)

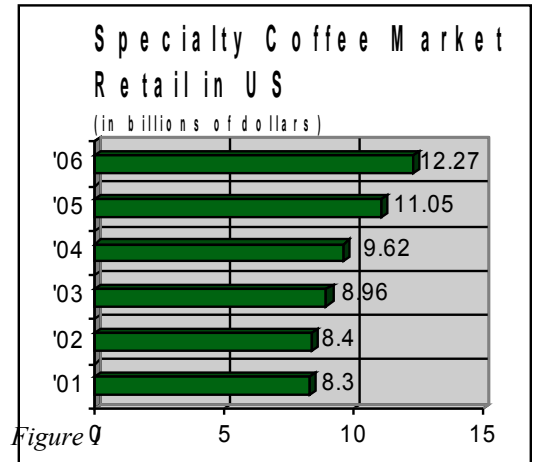


Figure 1

Company Review – Starbucks

Company History

Starbucks was opened in 1971 in Seattle, Washington. By 1982 it expanded into five retail shops and began to distribute coffee to restaurants and espresso bars. In 1983, Howard Shultz, then retail sales and marketing manager, became inspired by the popularity of coffee bars in Italy and soon persuaded Starbucks’ owners to launch a downtown cafe. In 1984 the coffeehouse became a success and Shultz soon after left Starbucks to create his own retail coffee outlet, Il Giornale. The original investors around this time had bought Peet’s Coffee and in 1987 sold the Starbucks chain, strangely enough, to Il Giornale. Shultz renamed Il Giornale to Starbucks Corporation and went national with shops in Chicago and Vancouver.

From there, Starbucks underwent almost relentless expansion. It became the first nationally owned company to offer employee stock options in 1991 and went public in 1992. Through the 1990’s Starbucks distributed coffee through department stores, bookstores, hotels supermarkets and online; joined with companies, PepsiCo, AOL and Dyer’s in new product ventures; and opened stores in Japan, Singapore, and UK. In 2001, Starbucks focused on international expansion under new CEO Orin Smith.

An additional 150 shops opened in the \$72 million acquisition of Seattle Coffee Company from AFC Enterprises for \$72 million.

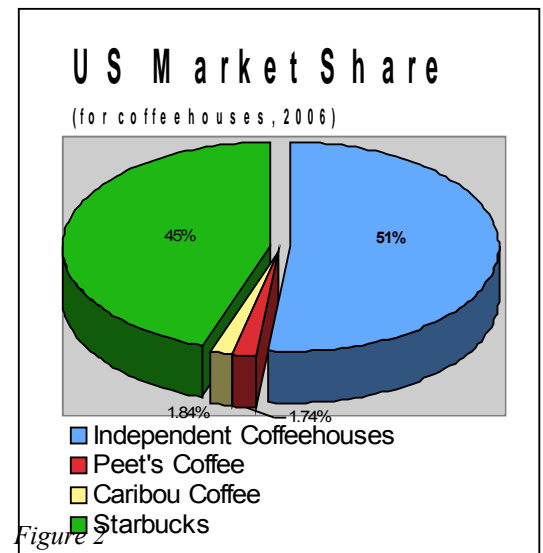


Figure 2

¹ Specialty Coffee Association of America. “Specialty Coffee Retail in the USA 2006.” 19 June 2008 <<http://www.scaa.org/pdfs/news/specialtycoffeeretail.pdf>>.

² Coffeehouses and Donut Shops. Mintel Oxygen. Sept. 2007. 17 June 2008 <http://academic.mintel.com.ezproxy.lib.utexas.edu/sinatra/oxygen_academic/search_results/show&/display/id=226476>.

After teaming with HP and T-Mobile, Starbucks became one of the first national retailers to offer Wi-Fi. In 2005, the company began providing hot chocolate in US and Canada, in addition to liqueurs and ready to drink coffees. Jim Donald, president of North America Starbucks, soon became the new CEO and obtained full ownership of Coffee Partners Hawaii and Café del Caribe. Despite the expansion, in 2007, traffic declined in stores and Schultz was brought back as CEO the following year.³

Sales

Starbucks earned \$208.1 million for the 13-week ending period of 2007, and first quarter sales increased to from \$2.36 billion in 2007 to \$2.78 billion in 2008. Recent figures show that Starbucks same-store sales growth in the US began to slump in the first quarter, falling below Starbucks's target. The slower growth occurred because of a 1% decline in store sales due to a decrease in average transactions. Internationally, however, sales increased 5%. The 2008-year sales are expected to grow in the low double digits by about \$1.01 a share.⁴

Price

A tall cup of coffee can cost from \$1.40-1.65 and a tall latte from \$2.40-3.10. This price point is above almost all other competitors. Starbucks increased the price of its drinks by an average of 11 cents in October 2004, by 5 cents in October 2006, and again by 9 cents in July 2007.⁵

Starbucks's pricing strategy has received much criticism for its high price point. Unlike most of its competitors, Starbucks rarely offers price promotions. Exceptions are the Starbucks Card and the Duetto card. Customers paying with the Starbucks Card, which works like a debit card that can only be spent at Starbucks, can now receive perquisites such as free coffee upgrades and free in-store wireless internet. Also, every dollar spent with the Duetto Card, a credit card offered through a partnership with Visa, gives customers one cent toward Starbucks purchases.⁶ Schultz declared that the "marketing will emphasize quality and service, not price." Furthermore, the company predicts that a low-price ideology would end up "commoditizing and marginalizing" coffee.⁷

Advertising Expenditures

From 1987 to 1997 Starbucks spent less than \$10 million on advertising. For a globally owned company, this amount is miniscule. In 2004, the Starbucks spent \$70 million on "recruiting and training" of store partners, which is more money than the company spent on advertising for the year. Most of their marketing expenditures go towards wi-fi, kiosks, couches, partnerships, and promoting innovative beverages.⁸ What is spent on media goes to direct mail, magazine, newspaper, and radio ads.⁹

Advertising Campaign

Starbucks advertising campaigns originally began with its logo, an image of a "twin-tailed siren" of Greek mythology. This first version



³ "Starbucks Corporation." [Hoovers.com](http://premium.hoovers.com/subscribe/co/factsheet.xhtml?ID=rhkchrhhyjrfk). Summer 2008. 18 June 2008 <<http://premium.hoovers.com/subscribe/co/factsheet.xhtml?ID=rhkchrhhyjrfk>>.

⁴ Sarkar, Pia. "Starbucks' Sales Chilled." [The Street](http://www.thestreet.com/newsanalysis/food-beverage/10401280.html). 30 Jan. 2008. 18 June 2008 <<http://www.thestreet.com/newsanalysis/food-beverage/10401280.html>>.

⁵ Allison, Melissa. "Starbucks Raises Prices Again." [Seattle Times](http://seattletimes.nwsour.com/html/business/2003803039_starbucks24.html). 24 July 2007. 18 June 2008 <http://seattletimes.nwsour.com/html/business/2003803039_starbucks24.html>

⁶ "Starbucks Card." Starbucks. 18 June 2008 <<http://www.starbucks.com/card>>.

⁷ "Starbucks \$1 Cup of Joe." [RiffingSpace.com](http://riffingspace.com). 8 Feb. 2008. 18 June 2008 <<http://riffingspace.com/2008/02/08/starbucks-1-cup-of-joe/>>.

⁸ Kelly, Piaras. "There's a Lot to Learn From Starbucks." [Pkellypr](http://www.pkellypr.com/blog/2006/09/12/theres-a-lot-to-learn-from-starbucks/). 12 Sep. 2005. 18 June 2008 <<http://www.pkellypr.com/blog/2006/09/12/theres-a-lot-to-learn-from-starbucks/>>.

⁹ "Full Company Profile – Starbucks Corporation." [Redbooks.com](http://www.redbooks.com). LexisNexis. 18 June 2008 <<http://www.redbooks.com/Subscriber/fullCitation.asp?cid=52635000>>.

was pictured a topless, double fishtailed siren (see Fig. 3). The second version included the siren with hair flowing across her breasts, a visible navel, and a somewhat cropped fish tails. The present version of the logo portrays the siren with breasts and navel not visible and slight remnants of the fish tails (see Fig. 4). In 2008, Starbucks reintroduced its original logo on hot drink cups for the brand's 35th year anniversary.

The two primary media used for Starbucks advertising have been outdoor (billboards and public transportation), and online advertising. One of their online campaigns integrated iTunes to give users "the ability to preview, buy and download a wide variety of Starbucks popular Hear Music Now titles."¹⁰ This lets Starbucks customers buy music they hear in the Starbucks outlets. Although the Starbucks company does not have an official slogan, some of their recent brand slogans include Starbucks' DoubleShot, saying "Starbucks DoubleShot. Bring on the day." As well as the Starbucks Frappuccino brand saying, "Starbucks Frappuccino. Work can wait. Smooth out your day, everyday."¹¹ Word-of-mouth and location are promotional devices used by the company in lieu of mass media.

Competitive Analysis

Who are the key competitors?

Starbucks' largest direct competitors are likely not its key competitors. The next leading specialty coffee chain in the US, Caribou Coffee, had sales of \$256m in 2006. Peet's Coffee, third in market share, made \$211m. Starbucks has a comfortable lead in the category of coffeehouses. It faces the most major future competition from the limited service breakfast industry.

Starbucks' key future competitors will likely be Dunkin' Donuts and McDonalds. Both entities offer specialty coffee at a lower price point. Dunkin', which specializes in fresh baked goods but began offering specialty coffee in 2005, had a more competitive level of sales at \$4.3b.² In 2007, fast food giant McDonald's also entered the industry, not only offering specialty coffee at its flagship stores but opening its espresso-centric McCafe concept in some markets.¹²

Dunkin' Donuts

Sales - comparable to Starbucks with \$4.3b total sales in 2006, up 26.9% from \$3.4b in 2004. Most DD food customers order coffee, and its coffee sales exceed food sales, but drip coffee is still its primary offering. Currently only 5-10% of total sales are from espresso-based drinks. Contrasting the closing of Starbucks stores in the US, however, DD is expanding to have a more national presence with a planned 15,000 stores by 2020.

Market share - when coffeehouse and donut shop categories are combined, DD enjoys a 22.9% market share. Starbucks in the aggregate category controls a 24.7% market share. This is a 1.1% increase in market share from 2004.¹³

Price - DD's specialty coffee beverages are priced 50 cents to \$1 lower than Starbucks. Iced coffee ranges from \$1.39-2.29.3 Specialty coffees, like lattes and cappuccinos, range from \$1.79 for small to 2.69 for large.¹⁴

Previous campaigns - DD spent \$139m on media in 2006, when it began running Hill, Holliday's "America Runs on Dunkin" campaign.¹ Most expenditures are for cable TV spots, such as one that specifically targets Starbucks called "Fritalian." Other ads in the campaign emphasize the specialty coffee selection, which matches Starbucks down to the pumpkin spice latte and a Frappuccino-style drink called the Coolatta. "America Runs on Dunkin" emphasizes the mass appeal of the brand, positioning itself as an unpretentious

Figure 3

¹⁰ "Starbucks Hear Music Now on the iTunes Store." Apple. 5 Oct. 2006. 18 June 2008 <<http://www.apple.com/pr/library/2006/oct/05starbucks.html>>.

¹¹ "Advertising Slogans for Coffee." [textart.ru](http://www.textart.ru). Summer 2008. 18 June 2008 <<http://www.textart.ru/database/slogan/2-coffee-advertising-slogans.html>>.

chain for the everyman.¹⁵

McDonald's

Sales - because the company is still in the process of rolling out its specialty coffee program to all 14,000 outlets, only about 1400 McD's restaurants offer espresso-based drinks and sales data is only available from test markets. Test outlets averaged 293 specialty coffee sales per week, which amounts to a little under 3% of total sales per restaurant.¹⁶ If the 3% benchmark holds for the national rollout, set for completion in 2009, McD's specialty coffee sales will generate \$813m in additional annual income.

Market share - a research report by Deutsche Bank stated that McD's current revenue from specialty coffee is around \$490m, about 6-6.5% of Starbucks's coffee sales. The company's overall coffee business - brewed coffee and specialty coffee - is about 11% the size of Starbucks. Deutsche estimated that sales could reach \$1.4b in 2009, nearer to 25% of Starbucks's sales.⁷

Price - the price of a medium McD's specialty coffee (latte or cappuccino) is \$2.79.⁶ According to Deutsche's report, the price point is an 18% discount on Starbucks's.¹⁷

Previous campaigns - McD's has not yet begun fully nationally advertising its specialty coffee, although recent TV spots feature its already available iced coffee drinks.² The planned opening of 1,000 McCafe specialty bistros mirrors Starbucks's tried and true marketing plan, emphasizing location and environment rather than mass media advertising.

SWOT Analysis

The Starbucks Corporation is a specialty coffee retailer specializing in a variety of beverages and baked goods across 44 countries with their 15,011 locations currently established. Starbucks purchases a number of high quality whole bean coffees and is a global brand with a strong image. However, upcoming competition from equally popular businesses who want a piece of the coffee pie could put a serious dent in Starbucks' profits and loosen their hold on the industry.

Starbucks SWOT

Strengths Strong Brand Image Joint Ventures	Weaknesses Recent Sales Slump Expensive Compared to Competition
Opportunities Product Innovation International Expansion	Threats Legal Issues Upcoming Competition

¹² "McDonald's Q1 2008 Earnings Call." *Seeking Alpha*. 22 Apr. 2008. 19 June 2008 <<http://seekingalpha.com/article/73378-mcdonald-s-q1-2008-earnings-call-transcript>>.

¹³ *Limited Service Breakfast*. *Mintel Oxygen*. Apr. 2008. 17 June 2008 <http://academic.mintel.com.ezproxy.lib.utexas.edu/sinatra/oxygen_academic/search_results/show&id=301424>.

¹⁴ "About Us - Company Information." Dunkin' Donuts. 19 June 2008 <<https://www.dunkindonuts.com/aboutus/company/products/Default.aspx?Section=company>>.

¹⁵ David, Gianatasio. "Hill Unveils Fresh Flight for Dunkin'." *Adweek* 11 Sept. 2006. 18 June 2008 <http://www.adweek.com/aw/eresearch/article_display.jsp?vnu_content_id=1003119832>.

¹⁶ Hughlett, Mike. "McDonald's Coffee's Strength Stirs Questions." *Chicago Tribune* 23 May 2008. 17 June 2008 <<http://www.chicagotribune.com/business/chi-fri-mcdonalds-coffee-may23,0,2599927.story>>.

¹⁷ Lukovitz, Karlene. "Analysts: McDonald's Coffee Onslaught Making Starbucks Jittery." *MediaPost's Marketing Daily* 2 June 2008. 18 June 2008 <http://publications.mediapost.com/index.cfm?fuseaction=Articles.showArticle&art_aid=83727>.

Strengths

Strong Brand Image - Starbucks has witnessed a string of successes since it was founded in Seattle, Washington in 1971. Driven by an aggressive expansion strategy, the success of the drive-through concept and ready-to-drink beverage category, Starbucks was ranked 91st in the 100 top brands 2006 of BusinessWeek. With innovative marketing and advertising campaigns in place and a new logo harkening back to the early days of Starbucks,¹⁸ the company continues to strengthen their image.

Joint Ventures - One of the strengths that continues to establish their brand image is in the partnerships they make with the likes of the Target Corporation, Barnes and Noble Booksellers, and others that allot space for use as "Starbuck Outlets." Much smaller in scale than the usual Starbucks café, these help in the number of stores established – currently at 15,011 and growing.¹⁹ Apple Inc. and the Starbucks Corporation have also teamed up as part of their "Pick of the Week" program where customers are given the chance to find out about free music and music videos each week via the iTunes website.²⁰

Weaknesses

Recent Sales Slump - The Starbucks Corporation has fallen on hard times recently with net income falling \$108.7 million (£54.7 million) in the first three months of 2008, down 28% from the same period of 2007. The U.S. economy is partially to blame for the decrease as it has been the weakest recorded in history causing customers to visit Starbucks less.²¹

Expensive Compared to Competition - With the US economy recorded as the weakest in the county's history and high gas prices, customers are frequenting stores less and have looked toward cheaper alternatives.²² McDonald's and Dunkin' Donuts both offer their own specialty coffees in greater amounts at less expensive prices than Starbucks, causing the corporation to test out temporary \$1 coffees in certain areas, which was discontinued in March 2008.²³

Opportunities

Product Innovation - Along with Starbucks' ventures into music and other areas, the coffee retailer will also begin offering new drinks in order to acquire new customers and diversify their current lineup of beverages. Starbucks will introduce two smoothies, both featuring banana under the names "Mango Orange" and "Chocolate Banana."²⁴

International Expansion - With the corporation hitting a sales slump partially due to overexpansion in the US, the company has the opportunity to hit the international circuit for successes. Starbucks recently announced plans to open more stores in Ireland, with

¹⁸ BusinessWeek. The Top 100 Brands 2006. 2007. 18 June 2008
<<http://bwnt.businessweek.com/brand/2006/>>.

¹⁹ Starbucks Corporation. "Company Fact Sheet." Starbucks. Feb. 2008. 15 June 2008
<http://www.starbucks.com/aboutus/Company_Factsheet.pdf>.

²⁰ QSR Magazine Staff. "Starbucks, iTunes Offer Free Music Downloads." QSR Magazine
15 Apr. 2008. 20 June 2008 <http://academic.mintel.com/sinatra/oxygen/whatshot/wh_id=3&list=wh_items/display/id=301424&anchor=atom/display/id=54692/display/id=332398>.

²¹ BBC News. Starbucks Posts Disappointing Results. 1 May 2008. 17 June 2008
<http://academic.mintel.com/sinatra/oxygen/whatshot/wh_id=3&list=wh_items/display/id=301424&anchor=atom/display/id=54692/display/id=334823>.

²² FindingDulcinea Staff. Finding Dulcinea. 12 Jan. 2008. 17 June 2008
<<http://www.findingdulcinea.com/news/business/Starbucks--Out-with-the-New--In-with-the-Old-.html>>.

²³ Reuters. "Starbucks Testing \$1 Coffee, Free Refills-WSJ." Reuters. 23 Jan. 2008.
19 June 2008 <<http://www.reuters.com/article/rbssConsumerGoodsAndRetailNews/idUSN2355697420080123>>.

²⁴ Nation's Restaurant News. "Starbucks to Launch New Drinks." Nation's Restaurant News. 18 June 2008. 17 June 2008 <http://academic.mintel.com/sinatra/oxygen/whatshot/wh_id=3&list=wh_items/display/id=301424&anchor=atom/display/id=54692/display/id=358642>.

many more to follow in other countries.²⁵

Threats

Legal Issues - The coffee retailer has come under fire in the past few months fell under allegations of tip sharing and withheld tips from baristas. A judge issued the company to pay \$100 million to baristas in the state of Massachusetts, with other lawsuits following the initial decision.²⁶

Upcoming Competition - McDonald's recent entry into the coffee market with its line of specialty coffees has taken attention away from the Starbucks Corporation. Along with McDonald's cheaper, yet upscale coffee, Dunkin' Donuts has also proved to be a major player in the coffee industry, using its 50 years of experience in the field to their advantage. Both McDonald's and Dunkin' Donuts offer considerably a similar cup of coffee to Starbucks's for a relatively cheaper price compared to Starbucks, and have begun renovations in order to rework their image from fast food chains to dine-in, café settings.

McDonald's SWOT

Strengths Global Recognition Cheap Prices	Weaknesses Brand Perception
Opportunities Worldwide Chain Renovations	Threats Negative Publicity

Strengths

Global Recognition - McDonald's currently operates over 33,000 restaurants in more than 119 countries in six continents. The fast food chain employs over 1.5 million people and serves more than 47 million customers a day, a feat not matched by any other food service.

Cheap Prices - McDonald's is known for their "Dollar Menu" and has recently introduced their own line of specialty coffees under the "McCafé" branding. Cheaper than Starbucks and served in a 12 oz. cup as opposed to the 8 oz one served by the coffee retailer, McDonald's has the advantage in this particular area especially during the United State's weak economy.

Weaknesses

Brand Perception - McDonald's began its business in the fast food industry and while renovations and new advertising campaigns seek to wash away that image in favor of a younger, "hang out spot," the company still has a ways to go before customers begin seeing it for more than a fast food service.

Opportunities

Worldwide Chain Renovations - McDonald's made a risky but necessary move to renovate all 33,000 locations to modernize and create softer, warmer atmospheres for dining. Toning down the usual bright red and yellow colors the company is known for, it has begun to also implement Wi-Fi and comfortable seating in the chain.²⁷

²⁵ Irish Independent. "Starbucks Expands Presence in Ireland." Irish Independent. 15 May 2008. 15 June 2008 <http://academic.mintel.com/sinatra/oxygen/whatshot/wh_id=3&list=wh_items/display/id=301424&anchor=atom/display/id=54692/display/id=336646>.

²⁶ The Associated Press. "Starbucks Sued Again Over Tips." MSNBC. 26 Mar. 2008. 18 June 2008 <<http://www.msnbc.msn.com/id/23814776/>>.

²⁷ BusinessWeek Staff. "Mickey D's McMakeover." BusinessWeek (May 2006). 16 June

Threats

Negative Publicity - McDonald's, with its huge global presence and popularity has also met its fair share of negative feedback and attacks. There are many people that see the company in a negative light, from reports of poor job opportunities, rumors of under grade beef, the negative effects of globalization, unhealthy eating, and other, McDonald's has had to go on the offensive in recent years to dispel the negative, taking away from the time needed to introduce their "McCafe" line of coffee.²⁸

Dunkin' Donuts SWOT

Strengths Cheap Prices Advertising	Weaknesses Franchise Locations
Opportunities Expansion	Threats Negative Publicity Competitor Awareness

Strengths

Cheap Prices - While not the cheapest cup of coffee when compared to McDonald's, the Dunkin' Donuts coffee cup is larger and less expensive than the 8 oz. offering from Starbucks. Dunkin' Brand coffees are in the low dollar areas of pricing and are offered at many of its own store locations nationwide.

Advertising - Dunkin' Donuts has a variety of successful advertising and marketing efforts that have helped the company, as a recent survey found that 97 percent of U.S. residents recognize the Dunkin' Donuts brand.²⁹ Efforts include grand opening activities, product placement at local venues, radio and television advertising, and more.

Weaknesses

Franchise Locations - Although Dunkin' Donuts is easily recognizable, the amount of locations are not evenly distributed in the United States. Dunkin' Donuts can be found mostly in the Eastern side of the United States leading up into the New England states, but head westward and that's where the store locations begin to phase out. With few in the South, Midwest and Westernmost regions, the Dunkin' brand needs to expand to remain competitive with McDonald's and Starbucks.³⁰

Opportunities

Expansion - With 7,988 Dunkin' Donut stores worldwide, including 5,769 franchised restaurants in the U.S. and 2,219 internationally, the company has considerably less established stores compared to McDonald's and Starbucks. The company is looking to further expand and grow in the future, providing an opportunity for greater brand awareness and profit.³¹

Threats

Negative Publicity - Dunkin' Donuts was the subject of controversy after an online advertisement that displayed popular daytime talk show host and chef Rachael Ray wearing a black-and-white scarf led to complaints that it offers symbolic support for

2008 <http://www.businessweek.com/magazine/content/06_20/b3984065.htm>.

²⁸ The Daily Telegraph. "McDonald's Dispels Negative Image." [TMCnet](http://www.tmcnet.com). 8 June 2006. 18 June 2008 <<http://www.tmcnet.com/usubmit/2006/06/08/1674741.htm>>.

²⁹ Dunkin' Donuts. [Top Franchises - Dunkin Brands Recognition](https://www.dunkinfranchising.com/aboutus/franchise/franchise-recognition.html). 2007. 19 June 2008 <<https://www.dunkinfranchising.com/aboutus/franchise/franchise-recognition.html>>.

³⁰ Dunkin' Brands. [Dunkin Brands - Franchise Growth](https://www.dunkinfranchising.com/aboutus/franchise/franchise-growth.html). 2007. 19 June 2008 <<https://www.dunkinfranchising.com/aboutus/franchise/franchise-growth.html>>.

³¹ Dunkin' Brands. [Company Information](https://www.dunkindonuts.com/aboutus/company/). 2007. 19 June 2008 <<https://www.dunkindonuts.com/aboutus/company/>>.

Muslim extremism. The advertisements were immediately pulled to avoid any misunderstanding, but the decision has distracted the company's original intentions of brand awareness.³²

Competitor Awareness - Dunkin' Brands main competitors, McDonald's and Starbucks, offer far more locations and opportunities to visit the chains than the donut company currently does. 33,000 McDonald's locations worldwide and 15,011 Starbucks locations internationally have tightened the grip on brand awareness, especially compared to the 7,988 Dunkin' Donut locations currently established.

Conclusion

The Starbucks Corporation is no stranger to success, risky business endeavors, and unique partnerships in order to branch out and solidify their position in the world. While not all decisions have been met with the desired results, the company's proven track record can not be ignored either. By looking into the past and following each move that has been made, Starbucks' future is more visible and will allow the company to plot its next set of moves as the premier coffee shop with a unique experience catered to the consumer.

³² CNN Money. "'Paisley' or 'Jihad?' Dunkin' Donuts Yanks Rachael Ray Ad." CNN. 29 May 2008. 18 June 2008 <http://money.cnn.com/2008/05/29/news/companies/dunkin_donuts.ap/index.htm?cnn=yes>.