

Practical Community in Business Model

STARBUCKS CASE

Prof. Fabian Salum | 2017

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Dalini Ferraz prepared this case under supervision of Professor Fabian Salum, both from Fundação Dom Cabral. It is intended to be used as basis for discussion in classroom, rather than to illustrate the effective or ineffective handling of any particular administrative situation.

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“To say Starbucks purchases and roasts high-quality whole bean coffees is very true. That’s the essence of what we do – but it hardly tells the whole story.”

Excerpt from the Starbucks official website.

Starbucks was born in 1971 in the Seattle port area, United States, with a small store at Pike Place Market. From just a narrow storefront, Starbucks sold a single product for household consumption: high-quality freshly roasted coffee beans from several places in the world. The small business’ secret was a darker roast that entailed a stronger, full-bodied coffee. The founders, professors Jerry Baldwin and Zev Siegel and writer Gordon Bowker were inspired by Peet’s Coffee & Tea, a small establishment that sold coffees and teas in the city of Berkeley, California, and believed that coffee was something that should be home-brewed.



Original Starbucks store in Seattle, USA.

Source: 1912pike.com, accessed in Sept/2017.

The company’s name was inspired by the character Starbuck from the book Moby Dick, and by a mining field in Mount Rainier called Starbo or Storbo. The company was nearly baptized “Cargo House”; however, Terry Heckler, Gordon Bowker’s partner and friend, informally commented that words beginning with the letters “st” carried some power. Bowker then began a list of words starting with these letters. Another person came up with a map of Mount Rainier mines that showed a mining city called Starbo, which prompted Bowker to remember the character Starbuck, from Herman Melville’s book Moby Dick.



According to the book “Pour Your Heart Into It: How Starbucks Built a Company One Cup at a Time”, by Howard Schultz, the company’s name was inspired by Moby Dick; however, not directly as one may assume. Gordon Bowker liked the name “Pequod” (the whaler ship of the novel), but his colleague Terry Heckler was against it: "No one's going to drink a cup of Pee-quod!" Heckler then suggested “Starbo”. After some discussion involving the two ideas, they agreed in the name Starbuck.

The company’s logo is a mermaid with two tails. The mermaid’s name and mystic symbology seemed appropriate for a store that imported the finest coffees in the world for the Seattle population, always eager for new adventures. In addition, it evoked seafaring romance and the tradition of the sailors who first traded in coffee.

In 1982, Howard Schultz joined the company as Chief Operations and Marketing Officer and, after a trip to Milan, suggested they sell coffee and espressos, in addition to coffee beans. The owners rejected the idea, believing that this would drastically change the company’s focus. Certain that there would be much money to be made selling beverages to Americans, Schultz founded the Il Giornale, in 1985. The name was inspired by a major Italian newspaper, which also carried the basic connotation of a daily publication. The store was located in a new set of commercial offices that became Seattle’s largest skyscraper, the Columbia Center.

Schultz wagered that if he served an excellent coffee with Italian elegance and style, he could expect people to return daily. And that was what happened. After trying the *lattes* (steamed milk and espresso coffee, delicately covered by milk foam) and *mochas* (espresso coffee, steamed milk, chocolate syrup and whipped cream), the Seattle clientele quickly became a coffee enthusiast.

In 1984, the original Starbucks owners, led by Baldwin, had the opportunity of buying Peet's Coffee & Tea. In 1987, they sold the Starbucks chain to Schult’s Il Giornale.



Howard Schultz, the Starbucks entrepreneur.
Source: www.businessinsider.com, accessed in Sept/2017.

Schultz acquired the 6 network stores, the roasting plant and the Starbucks name for \$4 million. In the sequence, he changed the Il Giornale brand for Starbucks and quickly began to grow. By late 1987, there were 17 stores up and running.

Since then, innovation never stopped. In 1988, with 33 stores, the brand introduced a catalog sales system for their products over the entire country. The 1990s began with the inauguration of the first licensed store inside the Seattle airport. The inauguration at the stock market was in 1992. In 1993, the company entered an innovative partnership with the bookselling network Barnes & Noble, by opening small coffee shops inside the stores. After all, reading a book or newspaper goes together with drinking a good espresso. Today, Starbucks stores can be found inside bookstores, supermarkets, shopping malls and airports.

The first drive-thru store was opened in 1994; in 1996 Starbucks more than doubled the number of people it reached. This happened because the air carrier United Airlines began to serve Starbucks coffee in its flights. It was a gigantic opportunity. Approximately 80 million people flew United each year, and between 25% and 40% of them requested coffee. This represented a potential market of at least 20 million people per year, many of whom would taste Starbucks coffee for the first time.

Also from 1996 the company became more aggressive in its expansion plan, inaugurating stores in Hawaii, Singapore and Japan – the first foreign country to host a Starbucks store and the one that would become one of the largest and most important foreign markets for the brand. At that time, there were more than 1,000 stores in operation.

Following Asia, the company entered the United Kingdom (1998), the Middle East and China (1999) and Latin America in 2002, opening coffee shops in Porto Rico, Mexico and finally Brazil, in 2006. By that time, the Starbucks network had in excess of 10,000 stores in over 35 countries around the world.



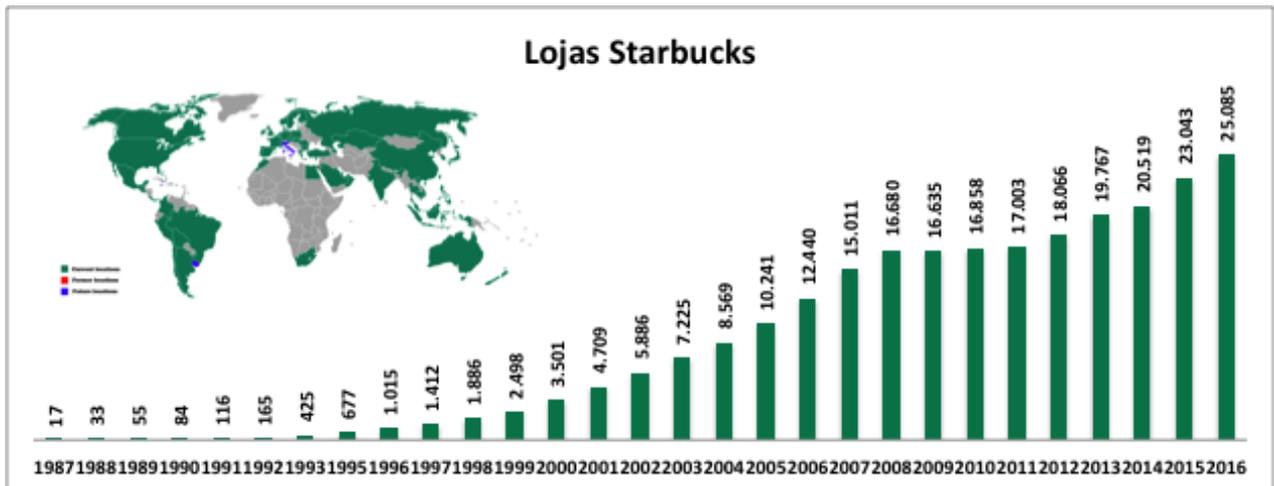
Source: news.starbucks.com, accessed in Sept/2017.

[Frappuccino Blended Coffee, one of the icons of the Starbucks network]

Besides the excellent coffees and espresso-based beverages, customers could now enjoy Tazo teas and delicious iced beverages such as the famous Frappuccino Blended Coffee.



Starbucks Stores



Growth of Starbucks stores, from 1987 to 2016.

Source: Prepared by the author basing on the timeline available at the site <http://starbucks.com.br>, accessed in September 2017.

In 2001, Starbucks introduced another novelty: the Starbucks Card, designed to offer customers a convenient solution, an alternative payment method, a gift option and a strategy to increase store visits by means of the Starbucks Rewards customer loyalty program.

The cards are issued to the customer when they first load their cards. Customers can register in the program at licensed stores in America, Japan, China, Brazil and a few other European countries, the Middle East and Africa. Customers can also register online, at the company's official site or by a mobile application.

Using the mobile application feature, customers can also place orders ahead of time for retrieval at specific participating places in the US and Canada. In the third four-month period of 2017, the card had 13.3 million users around the world.

In the following years, the brand advanced into new markets, such as Russia (2007), Argentina (2008), Sweden (2009), Hungary (2010) and El Salvador (2010), continuing its international expansion plan.

Another company strategy is focused on its portfolio enhancement. For such, Starbucks announced in 2012 the acquisition of the bakery Bay Bread for \$100 million. Bay Bread and its bakery brand La Boulange (a small network with a little over 20 stores) sell items such as sandwiches, snacks and breads, including organic products. After all, the food catering industry is considered to be an important component for Starbucks, representing today approximately 20% of network sales. By the end of 2012, the company also acquired the Teavana tea network for \$620 million, operating more than 350 stores in the United States, Canada and Mexico, in an attempt to increase its share of the growing tea market.

Starbucks currently offers myriad foodstuffs in its stores (such as cookies, muffins, sandwiches, bagels, donuts, snacks, and cakes among others) besides cappuccinos, coffees and similar products, in addition to wireless Internet connection, and music rooms in some of their stores.

Starbucks coffee beans are roasted at one among five roasting units, all located in the US. The roasted beans are packaged in a Flavorlock™ exclusive technology package, which consists in a single-flow valve that allows carbon dioxide liberated from the just-roasted coffee beans to be vented off the sealed package without allowing for the entry of oxygen, which would change the flavor. All Starbucks coffee sold in 225g and 450g airtight FlavorLock™ is sealed not later than 2 hours after roasting, and remains fresh until used.

Starbucks is known by its menu jargon, replacing traditional cup sizes by names of Italian inspiration.



Source: www.eater.com, accessed in Sept/2017.

In addition, as in other coffee shops, most beverages can be customized somehow, using, for example, skimmed milk or soy milk instead of whole milk, syrups in differed flavors and whipped cream. Cappuccinos can be made with more (“dry”) or less (“wet”) foam. Other options are available according to each location. In the United States, the average cup of coffee costs \$4.

The company’s success is evident in more than 20,000 points of sale scattered throughout the world. The formula is the same, be it in China, in Cyprus or in Saudi Arabia. Starbucks seeks to create the concept of a “third place” (after home and workplace) in its stores, to spend time or pleasurable leisure hours, with cozy and comfortable areas equipped with soft sofas and armchairs, electric outlets to plug laptops in, besides wireless Internet access. Everything to create an environment with services that go beyond enjoying a good cup of coffee.

The idea of writing the customer’s name on the cup not only facilitates service, but also customizes it and makes the customer feel unique and at home; therefore, it helps making up the welcoming concept.

Each store has at least two bartenders (or “partners”, as the company calls its employees) one of whom is the shift supervisor, assistant manager or store manager according to business volume. Bartenders wearing black aprons are employees who completed the company’s course and reached a high score during certification. These employees are trained not only in the preparation and tasting but also in coffee growing, roasting and trading.

Starbuck’s history is also marked by pioneer efforts as concerns people management. In 1988, the company began to offer full health benefits both to full time and part time employees. In



1991, it became the first private American company to offer a stock option program to their employees, including part time employees.

The company's 2016 annual report indicates its presence in 75 countries, with 25,085 stores altogether including wholly-owned stores (12,711) and franchises (12,374); 79% of sales come from wholly-owned stores.

The company's bet for the forthcoming years is to continue the growth of the store network and grow market share in a disciplined manner, by means of a store opening plan in new markets and in markets where the company already operates, also growing sales of operating stores. All this aimed to reaching its major long-term objective: being among the most valuable and respected brands in the world.

Besides such "disciplined growth", Schultz – who intends to become a director and step down from the CEO suite from 2018 – also intends to introduce a new premium brand called Reserve, with emblematic stores of more than 10,000 ft² floor area.

According to the Brand Finance world ranking, Starbucks was evaluated in 2017 as the 39th most valuable brand in the world, at an estimated \$29.6 billion value, ahead of brands such as Nestlé and Pepsi. Not bad at all!

REFERENCE

Information for preparation of this text was extracted and compiled from secondary sources, the company's official site (in English and in Portuguese), a site specialized in Marketing and Branding (Brand Finance), the Wikipedia (information was duly checked), Bloomberg, and the site mundodasmarcas.blogspot, all accessed in September, 2017.

Material prepared by FDC researcher Dalini Ferraz, under the orientation of Prof. Fabian Salum – FDC, in September, 2017. To learn more about our studies and productions access website: www.practicalbusinessmodel.com