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STRATEGIC MARKETING CASE ANALYSIS: STARBUCKS

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Abstract:

The first Starbucks opened its doors on March 31, 1971, by three friends, Jerry Baldwin, Gordon Bowker, and Zev Sieger. The trio met at the University of San Francisco and was inspired by Alfred Peet, a coffee roasting entrepreneur. Peet opened up Peet's Coffee and Tea in Berkeley, California, and specialized in importing first-rate coffees and teas. Peet's business model inspired Starbucks' founders to sell high-quality coffee beans and equipment. The friends opened a coffee shop across the street from Pike Place Market. They named the store after the chief mate Starbuck from the book *Moby-Dick*. By the 1980s, Starbucks opened four different store locations in Seattle and they earned a strong reputation for their fresh-roasted coffees. Eventually, Siegel left the company to pursue other interests and Baldwin assumed the role of president. Over the past year, Starbucks has been able to effectively adapt to the pandemic by utilizing its digital touchpoints and contactless pick-up and drive-thru services. In this paper, we performed a complete case analysis and addressed Starbucks' problems found in the situation analysis from its inception to now. We also used Michael Porter's Five Forces to conduct industry analysis and we provided strategic alternatives marketing strategies and recommendations. We believe that Starbucks should seek to expand its international presence and revenue, so it's not overdependent on its U.S. consumers.

Key words: Starbucks, Marketing Mix Strategies, Michael Porter's Five Forces, Case Analysis

Introduction:

The first Starbucks opened its doors on March 31, 1971, by three friends, Jerry Baldwin, Gordon Bowker, and Zev Sieger. The trio met at the University of San Francisco and was inspired by Alfred Peet, a coffee roasting entrepreneur. Peet opened up Peet's Coffee and Tea in Berkeley, California, and specialized in importing first-rate coffees and teas. Peet's business model inspired Starbucks' founders to sell high-quality coffee beans and equipment. The friends opened a coffee shop across the street from Pike Place Market. They named the store after the chief mate Starbuck from the book *Moby-Dick*. By the 1980s, Starbucks opened four different store locations in Seattle and they earned a strong reputation for their fresh-roasted coffees. Eventually, Siegel left the company to pursue other interests and Baldwin assumed the role of president. In 1981, Howard Schultz was hired as the company's head of marketing in 1982. While on a business trip in Milan, Schultz was deeply inspired by Italy's coffeehouses that offered a full-sensory experience to customers. Schultz wanted to create a similar experience at Starbucks where people could congregate, talk, and enjoy quality coffee. However, Baldwin and Bowker were hesitant about his idea. In March 1987, Baldwin and Bowker decided to sell the company and Schultz took over. Under Schultz's leadership and vision, the company expanded rapidly and went public in 1992. Starbucks quickly became the largest coffee-house chain in the world and operated over 20,000 stores. Schultz pioneered the "Third Place" environment, which means Starbucks prides itself as a "warm and welcoming place where customers can gather and connect." Although, the company has experienced astronomical success, it has maintained its strong ties to customer satisfaction. For example, Starbucks ranked fifth in *Fortune Magazine's* world's most admired companies, and in 2007 Starbucks ranked as the 16th best place to work by the *Financial Times*. However, due to the Coronavirus pandemic, Starbucks has lost nearly \$3.2 billion in revenue and in-store traffic has declined by 23.7 percent. These unprecedented times have impacted the company's financial welfare. This report will analyze the details that make Starbucks a leading company in its industry, and we will also provide recommendations to Starbucks in on how to capitalize on growth and improve its product diversification.

About Starbucks Products:

Over the past decade, Starbucks has nearly doubled its year-over-year growth. As of today, Starbucks has 32,660 stores across the globe. Nearly 15,328 stores located in the United States and account for nearly 70 percent of the chain's revenue. Starbucks has successfully expanded its presence in China to 4,704 stores. Nearly 74 percent of the company's store volume are beverages, including coffee, smoothies, teas, and lattes. Nearly 12 percent of the company's menu is food, including sandwiches, salads, paninis, and wraps. Five percent of the company's item revenue is whole beans. Starbucks also offers a diverse menu selection with a variety of drinks. For instance, the company offers more than 50 drinks and has more than 230 drinks in its product range. This stands in stark contrast to Starbucks' competitors like McDonald's Café, Dunkin', and Costa Coffee that offer only around 20 different drinks. Additionally, each of these products is designed with excellence and to recreate the quintessential Starbucks experience.

Competitors:

- Caffè Nero
- Costa Coffee
- McDonald's McCafé
- Dunkin' Donuts
- Tim Hortons
- Peet's Coffee
- Café Coffee Day
- Tazo

Strengths of Starbucks:

- **Strong Brand Image:** Starbucks has a respected brand recognition that is continually growing. The brand's stores are known for their modern aesthetic. Also, customers recognize the brand for its excellent customer service and high-quality coffee that all tie into "The Starbucks Experience."
- **Strong Loyalty Program:** The company's reward program has consistently kept customers coming back. Nearly two-thirds of consumers use the company's app. The app itself promotes purchasing behavior since users are twice as likely to visit multiple times a day.
- **Extensive International Supply:** Starbucks has an extensive network of suppliers and sources its coffee from Latin America, Africa, and Asia-Pacific.
- **Eco-conscious:** Starbucks is known for being eco-friendly and concerned with conserving energy, water, and controlling climate.

Weaknesses of Starbucks:

- **Lacks large international support:** Starbucks has a strong U.S. presence with 70 percent of the revenue coming from America. Expanding internationally could be beneficial because Starbucks can operate at a higher profit margin. It's also important for the coffeehouse to expand its international presence since some of these markets, such as China, are recovering faster from the pandemic than the domestic market.
- **Prices are rising:** The company has continually raised the price of its drinks. On July 12, 2021, the company announced that it would be increasing its prices on select beverages leaving some customers disgruntled and upset. Starbucks' rivals, such as Dunkin' and McDonald's, could make some headway because they are cheaper alternatives.
- **The increasing number of competitors:** competition only continues to strengthen and grow within the coffee industry, especially since Starbucks doesn't own the most unique products.
- **Reputation and pressure groups:** Many social and environmental activists criticize procuring coffee beans from impoverished third world countries. They believe Starbucks is violating fair trade principles.

Current Financial Performance:

Over the past decade, Starbucks' revenue has tripled. Starbucks was poised to continue its success thanks to global expansion and a multi-billion-dollar deal with Nestle. However, Starbucks like many of its competitors has been impacted by the pandemic. It's estimated to have lost \$3.2 billion in revenue and posted only \$23.518 billion in revenue this year. This is down approximately \$2.58 billion in 2019. Earlier this year, Starbucks announced that it'll be closing over 600 low-performing stores to better adjust to changing consumer habits. However, Starbucks remains optimistic that it can recover. Once COVID-19 vaccines become more available, it estimates that demand for coffee will grow by over 20 percent in 2022.

Strategy and Rationale:

The following are proposed strategic alternatives:

1. Starbucks should continue to expand to international markets. The company should utilize successful marketing research tactics to learn how to expand its presence. This tactic would increase sales and revenue and make it less dependent on the U.S. economy.
2. Starbucks should consider reducing the prices of some of its products to attract more customers and make it more attainable.
3. Starbucks should continue to diversify and expand its menu to attract customers during slower business hours, such as evening hours.

Starbucks should continue to expand its international presence to recover from COVID-19 revenue loss. Starbucks' competitors, like McDonald's, are much cheaper and have a stronger international presence. For instance, in 2019, McDonald's U.S. revenue accounted for only 36.5 percent of its total sales while Starbucks' U.S. sales accounted for nearly 70 percent. Starbucks' overdependence on the U.S. economy weakens it to changes in economic and legal conditions that could negatively impact its revenue and profit margins. Starbucks recently opened over 4,700 stores in China that has driven new increases in sales. Many people think that Starbucks' success in China is attributable to the fact that Starbucks introduced coffee culture to a country that didn't have it. Starbucks should also expand to other developing Asian markets that lack a coffee culture.

Environment Analysis:

Economic Conditions and Trends

Largely because of Covid-19, Starbucks said that its U.S. same-store sales fell 5 percent. However, same-store sales in China turned positive for the first time since the pandemic. Also, the number of Starbucks Rewards members who have been active the last 90 days rose to 15 percent. It's estimated that shares fell around 1 percent. As customers exit urban areas that the coffee chain has catered to for years, it will require 200 more restaurants in the U.S. and Canada to close to cut costs. However, in China, new store openings drove sale increases. From July to September 2020, Starbucks opened 260 stores and now has 4,700 stores within the country. It is estimated that Starbucks lost \$3.2 billion in revenue and posted only \$23.518 billion in revenue in 2020. This is down approximately \$2.58 billion in 2019. Starbucks remains optimistic that it can recover from the pandemic setback. Once COVID-19 vaccines become more readily available, it estimates that demand for coffee will grow by over 20 percent in 2022.

Cultural and Social Values and Trends

Historically, coffeehouses have been an important social gathering location. Now, consumers want coffee and complimentary items, including breakfast foods, pastries, and desserts. According to a 2018 Nielsen Scarborough survey, it found that 37.8 million Americans visited Starbucks. The survey also found that a majority of these customers were either Millennials and Generation Y (33.78 percent and 30.04 percent respectively). Starbucks appeals to Millennials through utilizing social platforms like Instagram where they advertise new flavors and exciting new drink concoctions. Also, the millennial demographic is more likely to exhibit brand loyalty which benefits Starbucks too. Many of Starbucks' customers are on-the-go and live a fast-paced lifestyle, so Starbucks' convenient mobile order service and drive-thru locations suit them.

Political and Legal Issues

Starbucks has found itself involved in a few legal suits including Carr v. Starbucks Corporation and Shields v. Starbucks Corp. The coffeehouse chain was blamed for violating wage laws. Starbucks has two pending class-action lawsuits filed for being improperly denied overtime pay. Additionally, Starbucks needs to improve its product safety regulations, GMO regulations, and increase employment regulations. In the past few years, Starbucks found itself in the middle of political controversy now and then. This past summer, the organization prohibited employees from wearing paraphernalia supporting the "Black Lives Matter" movement, and the company faced significant outside criticism. Also, in 2018, Starbucks faced significant criticism when a white employee called the police on two black customers. To remedy this situation, Starbucks temporarily closed down 8,000 company-owned cafes and ordered 175,000 employees to learn and train about racism.

Summary of Environmental Opportunities and Threats

Starbucks holds the core value of being a good neighbor. One way the company hopes to accomplish this feat is by recycling and reducing waste. Starbucks has made the ambitious goal to double the recycled content of its packaging by 2022. The company is also searching for ways to make its cups more environmentally friendly and compostable. For example, customers that bring in their cups or tumblers are rewarded with a discount. Starbucks hopes this will incentivize people to be more environmentally conscious. The company proudly claims that 99 percent of its coffee is ethically sourced, and Starbucks has been known to invest in training and financing for coffee farmers. For example, they are dedicated to provide 100 million coffee trees by 2025. Overall, these environmental conservation measures aim to make the company more sustainable.

Implications for Strategy Development

As stores begin to reopen, the Coronavirus pandemic has caused the coffee chain to suffer a \$3.2 billion loss. Before the pandemic, Starbucks was planning on adding more drive-thru stores in the next three to five years. Now, those plans have accelerated for the next 18 months because these drive-thru locations have fared better than non drive-thru locations. The company also plans to shift away from the “Third Place” experience where customers can gather and connect and is expanding its curbside pickup and drive-thru locations.

Industry:

Classification and Definition of Industry

Starbucks was founded in 1971, but it wasn't until Howard Schultz, who went on a trip to Milan where he quickly expanded Starbucks's mission and drove to make the company public. Starbucks quickly became the largest coffee-house chain that provides a more typical coffeehouse dining experience. Starbucks is classified as a “fast-food chain,” but it's known for its third-place experience where it provides an atmosphere that fosters human connection. The store claims to serve upwards of 200 drink combinations. Starbucks has expanded its menu to include a variety of different food items. It has also shifted focus to include products that are aimed at afternoon and evening customers. Since coffee is a commodity that is continually desired by consumers, we can expect this industry to grow.

Michael Porter's Five Forces:

Analysis of Existing Competitors

Starbucks has arguably secured the title of coffee king. However, there are a few competitors that have given Starbucks some staunch competition, including Dunkin' and McDonald's. Dunkin' and Starbucks have coexisted in the market for quite some time. Dunkin' transitioned much of its emphasis on coffee to donuts in the late 1990s. By the 2000s, the company introduced its first specialty coffee line and emerged as a coffee shop competitor. However, Dunkin's revenues fall significantly shorter than Starbucks'. Also, the Seattle-based coffee chain has a larger market share with over 30,000 locations worldwide while Dunkin' has around 11,300 worldwide locations. Starbucks has a much larger global footprint than Starbucks, too. Nearly 25 percent of Starbucks' revenues are generated from outside the United States. Also, Starbucks positions itself as an upscale coffee experience while Dunkin is viewed as an All-American brand. Another fast-food restaurant that has joined the battle is McDonald's. McDonald's has a diverse menu and is very affordable and convenient for its target audience.

Analysis of New Entrants

The coffee and baked goods industry has certainly expanded within the past couple of years. The number of smaller coffee shops has increased exponentially especially as the new coffee consumers are becoming choosier, more health-conscious, and want faster Wi-Fi. Customers like a more personalized and premium coffee experience. Unfortunately, for many small coffee shops, this industry is somewhat oversaturated.

Analysis of Substitute Products

Several substitute products pose a significant threat to Starbucks including tea, juices, soft drinks, water, and energy drinks. The low switching cost only threatens Starbucks products because they are more affordable and cost less.

Another potential threat to Starbucks is many consumers can attempt to make Starbucks drinks at home. During lock-downs, consumers have bought their espresso machines or learned how to craft their coffees to satiate their caffeine kick.

Analysis of Suppliers

Suppliers help determine the price of the product and the quality of your final product. Starbucks works alongside a wide variety of suppliers worldwide to meet the massive supply demands. The switching cost for Starbucks is quite low due to the abundant supply of coffee farmers. The suppliers can't bargain to attempt to influence its prices. However, this summer, Starbucks announced a price jump in its prices this past year due to a drought in Brazil, a major arabica producer, that has consequently caused supply to plummet thus creating a price increase.

Analysis of the Buyer

Starbucks is known for targeting affluent or high-income individuals who make around \$90,000. Their target market is between 22-60 years old. Starbucks is known for building cafes that are located within middle-income neighborhoods. This is because the middle-class has more disposable income and is willing to spend more money on premium coffee drinks. Another description of Starbucks' target audience is urban or "on-the-go" consumers. A common trait among consumers is that they're busy people who are constantly moving. Starbucks' customers value a nice studying or working ambiance. Starbucks' customers are also eager to adopt new technologies that make their lives easier. In 2015, the store launched an app for its mobile orders app payments that were a huge success. Starbucks consumers are also socially conscious, which aligns with many of Starbucks' green initiatives and efforts.

Summary of Industry Opportunities and Threats

Starbucks offers a quality product that many consumers enjoy, and coffee is a daily routine for many Americans. If Starbucks could continue to make its buying experience more convenient for customers, it could potentially gain more market share. Also, expanding its menu and offering healthy food options would appeal to consumers that are health conscious and desiring on-the-go healthy food options. One of the main avenues of growth includes continuing to expand its business into developing markets.

While most of Starbucks' stores are located domestically, Starbucks does have a plan to expand its global footprint. There is plenty of opportunities the store has for expanding to Asia, India, Central Europe, and some regions of Africa. Starbucks has seen a large decline in-store visits because of the pandemic; however, the coffeehouse must continue to strengthen its online channels and attract more customers through curbside pickup locations and mobile ordering options. One way that the coffeehouse can do this is by implementing a coffee delivery service similar to Uber or Postmates. One of the main threats that Starbucks faces is cheaper alternatives from other competitors, namely Dunkin' and McDonald's. While these two establishments don't offer premium coffee, they appeal to consumers who are more fiscally conservative.

Implication of Strategy Development

Kevin Johnson, President/CEO of Starbucks, said that Starbucks is using the Covid-19 pandemic as an opportunity to differentiate its brand from competitors. The company anticipates incorporating more digital touchpoints, such as mobile orders and the Starbucks Rewards Loyalty Program. These digital opportunities are Starbucks' competitive advantage. Nearly 90 percent of their sales value during Q3 of 2020 flowed through drive-through and mobile order-and-pay. It would benefit Starbucks to continue investing its resources into building drive-thru locations and hiring software app developers to continue to make advancements to its app. Starbucks is also diversifying its menu items by offering more plant-based food options like the Impossible Breakfast Sandwich and a plant-based protein box. To stay afloat during this pandemic, Johnson said it's important that Starbucks makes the habit of adapting to consumers' needs.

Organization

Objectives and Constraints

Starbucks' mission statement claims that the company's motives are "to inspire and nurture the human spirit—one person, one cup, and one neighborhood at a time." This mission statement highlights the company's desire to forge meaningful human connections. The CMS shows off the company's warmth and inviting attitude. Starbucks makes sure that the customer gets the best services and quality products.

In the value section of the Starbucks website, it mentioned how the company wants to make their company a suitable place for employees. The world's largest operator or coffeehouse claims that it's driven to create a culture of belonging, acting with courage, and delivering the best it can do. The company mission statement is powerful because it creates a sense of shared purpose between customers and the company. Part of Starbucks' mission is to provide a "third place" environment, a sociological concept that refers to a place outside the home and work where people can gather and build a sense of community. With the Covid-19 pandemic, Starbucks will need to reimagine this concept. The company has heavily invested in drive-thru delivery and human technology. The company will need to find ways to adapt to their consumer needs of contactless pick-up experiences.

Financial Conditions

Before the pandemic, Starbucks' sales were \$26 billion in 2019. The company's store base surged from 21,000 in 2014 to 31,000 in 2019. However, because of the coronavirus, Starbucks lost more than \$3.2 billion in revenue. The store announced that it'll be closing 400 stores in the US and 200 in Canada. Later on in the year, it announced that it would be closing an additional 100 in Canada in the fiscal year 2021. In response to this dilemma, Starbucks has invested heavily into the international market, especially in China. Same-store sales were down 5 percent a year ago in the U.S. However, China's sales rebounded to rise 5 percent year-over-year.

Management Philosophy and organizational structure

Starbucks management is seen as an employee-first culture. The company realizes that if its employees are happy then the customers will also be happy. The company understands that the employee experience matters since it's quite easy for competitors to replicate its products. Starbucks offers its employees healthcare benefits, stock options/discounted stock purchase plans, and educational discounts. Starbucks has a matrix organizational structure that involves intersections among various components of a business.

Organization Structure / Culture

As time progresses, Starbucks has been known to change its organizational structure. By 2007, the company shifted its focus away from customers and toward expanding its international presence. However, Starbucks' sales steadily decreased because of the lack of focus on the customer experience. When Howard Schultz resumed the CEO position in 2008, he changed Starbucks' corporate structure to focus on the customer experience. Starbucks has a matrix organizational structure, which is a hybrid of different features from the basic types of organizational structure: functional hierarchy, geographic divisions, product-based divisions, and teams. The functional hierarchy of the organization facilitates a top-down approach, with the CEO at the top. The company has geographic divisions, which are based on physical locations of operations that are divisions all over the world. In America, each geographic division has a senior executive. So, each local manager reports to at least two superiors: the geographic head and the functional head. This structure enables more managerial support. The company also has product-based divisions for baked goods, merchandise, and coffee. This development allows for the company to develop and innovate its products through the support of its organizational structure. At the lower levels of Starbucks' organizational structure, the company is differentiated out into teams. For example, in each café, the company has teams organized to deliver goods and service customers.

For Starbucks to become financially successful, the business must be able to function effectively as a team. A company's organizational or corporate structure widely influences employees and business performance. The warm and friendly ambiance in the coffee shops is part of the company's cultural distinction. The company's culture is one of belonging, inclusion, and diversity. Starbucks emphasizes adopting a servant leadership approach. Within this approach, leaders, managers, and supervisors emphasize support for direct reports and make sure that every employee has an opportunity to grow. The company tries to take on an employee-first approach meaning that they try to optimize employee morale and customer satisfaction. To have a successful teamwork environment, the corporate culture of Starbucks emphasizes collaborative efforts through communication. For example, in the company's beginning years, employees were intimidated to speak up to their superiors. To address this issue, Starbucks hosted forums to encourage employees to ask questions and communicate with their superiors.

Summary of Firm's Strengths and Weaknesses

Strengths:

- Starbucks has a strong financial performance and is the number one coffee chain retailer.
- Starbucks has strong brand recognition and is known for its excellence and quality.
- Starbucks values its employees and is known as a positive working environment. This translates to happier employees that provide excellent customer service.
- Starbucks has an extensive network of suppliers. The coffeehouse chain sources many of its coffee beans from Latin-America, Africa, and Asia-Pacific.
- Starbucks treats its employees well and offers numerous benefits. The company is consistently listed as one of Fortune's Top 100 Places to work.
- Starbucks has a strong loyalty program that keeps its customers enjoying their coffee. If a customer accumulates 150 stars then they will earn one free drink.
- Starbucks has a strong focus on innovation and technology. In 1998, it was one of the first companies to launch a website then in 2002 it began offering Wi-Fi to its customers. Starbucks has also experienced exponential growth thanks to its successful loyalty program.

Weaknesses:

- Starbucks is dependent on the price of coffee beans to determine its profitability. The company is strongly impacted by fluctuations in the price of coffee beans.
- Starbucks prices are expensive and are often priced at a premium.
- Starbucks is dependent on consumer's disposable income. Many working professionals may choose cheaper alternatives to Starbucks.
- Starbucks doesn't own a unique product and coffee drinks are highly imitable by other companies. Most other coffee shops and food chains, like McDonald's and Dunkin', offer similar products.
- Starbucks has faced a lot of scrutiny for how they procure their coffee beans. Activists claim that the coffee mogul procures beans from impoverished third-world farmers and violates "Fair Coffee Trade" principles.

Implications of Development Strategy:

Currently, Starbucks is navigating the Covid-19 pandemic and numerous changes in consumer behavior. The coffeehouse will be inventing ways to serve "on-the-go" customers while reducing crowding within cafes. Starbucks will be closing down low-performing stores and investing in drive-thru locations, walk-up windows, and curbside locations. Starbucks envisions having Pick-Up locations within walking distance of traditional cafes. The company will continue to "amplify innovation" by creating exciting new beverage platforms and expanding digital relationships.

Marketing Strategy

Objectives and constraints: Starbucks is known for creating an amazing third place environment where customers can gather to connect and enjoy a cup of coffee. In many ways, Starbucks' customers were paying for the "Starbucks Experience" where they could sit down, chat with friends, and work. Before the pandemic, nearly 80 percent of Starbucks' business was grab and go, so Starbucks business was built on convenience. However, the Covid-19 pandemic has threatened its market positioning as a third place since it's no longer safe to congregate in a public space. Because of this shift in consumer habits, the coffeehouse giant has exerted tremendous effort in convenient coffee buying. Starbucks' digital order and pickup strategy that was initially scheduled to launch in 2023 and 2025 has been reprioritized. The company will now embrace its drive-through locations. Nearly 30 percent of Starbucks have drive-thru locations, but now that will double to 60 percent. The company will also expand its curbside pick-up options. While Starbucks would deny this idea, the coffeehouse chain seems to be prioritizing convenience over the café experience. However, Starbucks claims that it's redefining its third place and recreating it in a different venue.

Analysis of Sales, Profits, and Market Shares: Starbucks' revenue for the quarter ending December 31, 2020, was \$6.75 billion which is a 4.9% decline year-over-year. The Starbucks revenue for the twelve months ending December 31, 2020, was \$23.1 billion which was a decline from 2019's 26.51 Billion. Overall, the company's gross profit for 2020 was \$15.66 billion and its gross profit in 2019 was \$17.98 billion. Starbucks' shares have climbed 18 percent over the past 12 months. The coffeehouse chain also announced that its board of directors approved a dividend of 45 cents per share of outstanding common stock. The world-famous coffeehouse chain has over 31,000 stores worldwide.

The chain has a large number of international stores, nearly 16,000. While Starbucks did have a 5 percent drop in same-store sales in the U.S. and a 3 percent drop internationally, sales did improve in China by 5 percent.

Analysis of Target Market: Starbucks' target market is high-income spenders (around \$90,000) or men and women between the ages of 22-60 years old. Young adults, ages 18-24, account for 40 percent of the coffeehouse's sales because Starbucks provides a space for college students to hang out, study, and meet one another. These customers are typically well-educated, white-collar professionals. Their target audience typically has expendable income and is willing to splurge on a premium coffee drink. A lot of these customers are on-the-go and spend a lot of time in their cars. This also includes suburban customers who are more prone to be sitting in traffic and willing to stop for coffee to pass the time. Starbucks consumers are also socially conscious and committed to protecting the planet. Starbucks is committed to promote sustainable coffee growing, reduce its carbon footprint and improve surrounding communities.

Analysis of Marketing Mix Variables

The marketing mix aims to identify the main components of the company's marketing plan, including product, place, promotion, and price. **Product:** This component focuses on what the business offers to consumers. Starbucks provides premium specialty coffee. Starbucks' "Our Barista Promise," states: "love your beverage or let us know. We'll always make it right." This shows that Starbucks is dedicated to providing consistency and excellence. The coffeehouse chain has entered various marketing mixes to attract different customers. Starbucks continues to offer and delight its customers with a range of new drinks and product lines. The coffeehouse chain has over 1000 varieties of different food items and beverages, fresh fruit juice, blended coffees, and more. Here is a list of Starbucks' main categories: Coffee, Tea, Baked Goods, Frappuccino, Other foods and beverages, Merchandise. The business has a constant stream of ongoing product innovation processes that aim to attract new customers and keep customers coming back. **Place:** This component of the Marketing mix investigates at which venues can customers access products. Consumers can access most Starbucks products at cafes or coffeehouses. Here are the main venues that Starbucks uses to attract customers: coffeehouses, retailers, and mobile apps. Starbucks initially sold its products through coffeehouses. Eventually, Starbucks shifted to using mobile apps to allow customers to place their order line so they can easily get their foods and drinks. The company operates in 76 countries and has over 30,000 stores. **Promotions:** Starbucks utilizes several various promotional strategies to communicate with stakeholders. In 2019, Starbucks spent over \$254.7 million on advertising. Also, Starbucks has invented an ingenious customer loyalty program called Starbucks Rewards that has been very effective. In 2016, the program was established that awarded customers two stars for every dollar spend. Customers who collected 125 stars were able to redeem a free drink and food.

Corporate social responsibility is also an effective tactic that Starbucks uses to promote its products. Starbucks is committed to ethically sourcing its coffee. They made commitments to provide 100 million trees to farmers by 2025. Starbucks is also looking to reduce its carbon footprint by doubling its recycling content and dedications to invest 100 percent renewable energy to power operations at the company. **Price:** Starbucks uses a pricing strategy called the "premium pricing strategy" to take advantage of the behavior tendency of people who purchase more expensive products with the correlation that high price and high value being synonymous. Starbucks is perceived as a high-end specialty coffee because of its premium prices. The company also strives to maintain a high-quality image, so customers are more willing to splurge on an item they perceive has a higher value.

Summary of Marketing Strategy Strength and Weaknesses

Strengths:

- Starbucks has a strong loyalty program, which is also known as its Starbucks Rewards program. This program provides an incentive for customers to return and purchase Starbucks coffee.
- Starbucks' menu offers a wide variety of coffee and foods. The brand is appealing to its more health-conscious demographic with the launch of its vegan Beyond Meat patties and other plant-based options.
- Starbucks dominates the social media scene. The brand has over 18 million followers and is constantly posting creative, engaging content. Starbucks takes advantage of the growing popularity of video content.
- Starbucks mobile app and drive-thru locations offer customers contactless pickup and a safe alternative in a pandemic.

- Starbucks has successfully infiltrated into various international markets, which has helped the company establish another market for steady income

Weaknesses:

- Starbucks' prices are quite expensive, and it's hard for the company to convince consumers to spend money on these resources
- The company has faced some harsh social media criticism on the Black Lives Matter movement and a lack of initiative
- Partly because of the Coronavirus, Starbucks has lost its local home-market feel. Since customers can no longer gather in stores, it seems that the coffeehouse has lost its "third place" identity,

Implications of Development Strategy

Starbucks has a savvy digital marketing strategy that effectively forges deeper connections with its customers. Because of the Covid-19 pandemic, Starbucks has put a considerable amount of emphasis on its mobile app and drive-thru locations. One of the reasons Starbucks executives have put effort into these strategies is because they believe it will provide advanced growth and revenues. Starbucks will continue to implement various promotion strategies like "Double Star" days or "Happy Hour" stars to increase traffic back into its stores.

Problems Found in the Situational Analysis

Statement of Primary Problem: Starbucks has been highly dependent on the United States for revenue. It has a difficult time positioning itself and growing in other international markets, such as Europe and Australia. This is partly because the company doesn't conduct adequate market research on different cultures. Starbucks will falsely assume that some countries, like Australia, are westernized enough to adapt to the company. **Evidence of Primary Problem:** In 2019, Starbucks earned 18.23 billion in the U.S. and \$7.886 billion internationally. Therefore, over 70 percent of the store's revenue was generated in the United States. However, many of Starbucks' competitors, like McDonald's, had revenues from international markets that accounted for 36.5% of its sales. **Effects of Primary Problem:** Starbucks' revenue performance is highly dependent on how the U.S. is performing economically. This means that the store has been severely affected by the lock-down enforcements and Covid pandemic. Starbucks has consequently had to close many of its lower-performing store locations to make up for the capital loss.

Statement of Secondary Problem: Starbucks has a very high price compared to other coffeehouses and charges premium prices for its coffee. **Evidence of Secondary Problem:** McDonald's and Dunkin' are 35 percent and 10 percent lower than Starbucks. The high price of Starbucks coffee chains is something that other chains could exploit, especially with the rising price of coffee beans. With the pandemic many specialty coffee drinkers, are perhaps brewing their coffee at home. **Effects of Secondary Problem.** Starbucks is historically more sensitive to economic turndowns. In 2007, Starbucks sales dropped for eight straight quarters, and consumers turned to less-expensive brands like Dunkin' and McDonald's. However, when the crisis was over, customers returned to Starbucks.

Strategic Alternatives for Solving Problem:

Description of Strategic Alternative #1: Before Starbucks emerged and infiltrated Chinese markets, Starbucks conducted intense market research to form a deeper understanding of these markets. Instead of taking the traditional approach of advertising and promotions, Starbucks positioned stores in visible locations in China. I believe that if Starbucks were to conduct some more intense market research on other international markets other than Europe, it may help the brand become more successful in International Markets. **Benefits of Strategic Alternative # 1:** Expanding to international markets and employing more successful marketing research to learn how to perform better would increase sales and revenue. However, this is a costly venture so developing an effective marketing research approach would benefit Starbucks. **Cost of Strategic Alternative #2:** Starbucks would have to continually navigate different cultural norms and may face some political issues that could increase the cost.

Description of Strategic Alternative #2: Starbucks should maybe consider offering more mid-price level coffee coffees along with specialty drinks. Before the pandemic, when customers were spending \$5 on coffee, they were also paying for a space to have Wi-Fi and ambiance to work on projects. Now that Starbucks has closed down many of its store locations and limited its "Third Place" experience, the brand has to invent ways to recreate the "Starbucks experience" with customers.

Benefits of Strategic Alternative #2:By offering more flexibility in prices, Starbucks won't be so sensitive to economic disturbances or turndowns like the pandemic. **Cost of Strategic Alternative #2:**Starbucks could lose some of its main revenue from its more expensive specialty drinks.

Description of Strategic Alternative # 3: Starbucks should focus on continuing to expand its menu items and product lines to compensate for its cheaper drink alternatives. Right now, the company gets a majority of its sales from morning coffee drinkers and breakfast enthusiasts. **Benefits of Strategic Alternative #3:**By offering a more expanded menu with lunch and dinner items, Starbucks could increase drive-thru traffic during less popular hours. The company should consider offering heartier lunch items, including sandwiches, wraps, and salads. The expanded menu items would increase the company's sales and revenue. **Cost of Strategic Alternatives #3:**By expanding its menu items, it's possible consumers may be reluctant and not like the products. Also, the marketing and advertising for these new items could be costly.

Selection of Strategic Alternative and Implementation:

Starbucks should focus on continuing to expand its menu items and product lines. Right now, the company gets a majority of its sales from morning coffee drinkers and breakfast enthusiasts. By expanding its menu items and product lines, Starbucks would be able to increase its sales, revenue, and growth. Starbucks is predominately known as a coffeehouse that serves coffee, tea, pastries, and some snacks. It does offer some boxed lunches, but these items are very limited. Most people spend their money at Starbucks in the morning and Starbucks hasn't been able to attract enough people during the lunch or evening because it doesn't offer many suitable menu items. Also, as people continue to work from home, Starbucks has seen a huge dip in its breakfast time traffic where Starbucks earns nearly 60 percent of its earnings. Starbucks needs to expand its food offerings to accommodate customers. While it does offer a variety of different yogurts, fruits, pastries, sandwiches, and salads. However, the company needs to appeal more to casual diners. This is a potential area of growth for Starbucks as consumers are spending more money way-from-home. Also, many pizzas and burger chains have emerged as unexpected pandemic winners. Many burger and pizza food chains have caught up or surpassed pre-virus sales because they offer convenient meals. Starbucks needs to expand its menu items and offer more "on-the-go" food options to gain revenue lost from the Covid crisis.

Summary/Conclusion/Recommendations:

Overall, Starbucks is a premium coffee chain company that delivers a high-quality product and provides excellent customer service. Starbucks' marketing highlights the company's mission to provide customers with quality coffee that they can enjoy. Over the past year, Starbucks has been able to effectively adapt to the pandemic by utilizing its digital touchpoints and contactless pick-up and drive-thru services. However, Starbucks has been hit considerably hard by the pandemic and lost nearly \$3.2 billion in revenue. As the vaccines are being distributed, Starbucks remains optimistic that it will be able to recover its financial losses. There is one undeniable factor though—the pandemic has forever changed consumer behavior and perhaps changed Starbucks' third-place environment. Over the past couple of years, consumers have been opting for convenient carry-out options and on-the-go food selections. Starbucks can meet this need by expanding its menu with healthy food options that extend beyond pastries or sandwiches. Starbucks has experienced astronomical success in China where the economy is recovering at a much faster rate than America. Starbucks has been very effective in this market because it brought coffee to a market that was dominated by tea. Starbucks should seek to expand its international presence and revenue, so it's not overdependent on its U.S. consumers. Millennials make up a large portion of Starbucks consumers. They exhibit strong brand loyalty and appreciation for Starbucks chic coffeehouse experience. I anticipate that Starbucks will rebound from the pandemic; however, I believe that moving forward there will be considerable emphasis on mobile app purchases. The brick and mortar Starbucks buildings that were once teeming with students studying for exams or entrepreneurs working on projects will perhaps be a little empty for a while. Although the future looks uncertain, one must remember how Starbucks miraculously recovered from the recession. Under Schultz's leadership, the coffeehouse came back stronger and more profitable. I believe that Starbucks' innovation, resilience, and creativity will help it reemerge from this crisis.

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