



**STARBUCKS**<sup>TM</sup>  
Canada

REWARDING TASTE BUDS: A MARKETING PLAN AND MIXED ANALYSIS OF STARBUCKS

GRANDE 16 FL OZ

## COMR 465: SECTION 101

### GROUP 8

ABYAN SOBHAN	\$4.75		150 cal
EDWARD WANG	\$4.75		150 cal
MONIQUE LIMANTO	\$4.35		150 cal
STEPHANIE ZHONG	\$4.35		150 cal
SUSAN ZHAO	\$3.85		150 cal

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## **Marketing Environment, SWOT and STP**

### **Customers/Consumers**

Starbucks targets middle to upper class people as its current customers. People in this category are commonly “busy ones” who always spend a lot of time sitting in traffic and need a cup of coffee on-the-go. Statistically, combining high income earners and 25 to 34 year old people, it would make up over 50% of the Canadian coffee drinker population (Statista, 2021). University students also have high demands for coffee, which explains the abundance of Starbucks locations on campus (Bean-Mellinger, 2019). As shown in Allegra World Coffee Portal’s study, the size of the Canadian coffee market as a whole is C\$9.5bn. Starbucks, as one of the leading coffee brands in the market, occupies 21% of the market share, which approximately gives the number of C\$1995M as Starbucks’ estimated market size within Canada. (World Coffee Portal, 2020)

Despite the traditional in-store purchasing methods for a cup of coffee, Starbucks has taken another approach by integrating online purchasing with their official app. Customers are encouraged to order through their mobile app, in return for stars which can be redeemed for future beverages or food items. This reward program helps retain loyal customers

With a wide variety of competitors in the coffee market, factors that affect consumers’ decisions vary depending on what they are looking for. Some factors that customers may consider are the quality of coffee beans, location, store hours, seating environment, as well as bakery items. Despite the intense competition, Starbucks’ customers are extremely loyal and come back very often. With product innovation in seasonal drinks, Starbucks is able to stand out from its direct competitors. Beverage items, such as the pumpkin spice latte during fall season, generated huge sales for Starbucks back in 2016, in which the launch attracted over 150,000 more visits in the first two days. (Forbes, 2021). This diversified menu improves Starbucks’ brand equity and attracts customers with different preferences.

### **Company & Corporate Partners**

Starbucks opened its first store in 1971 at Seattle’s Pike Place Market. In 1981, a young New Yorker by the name of Howard Schultz came and was fascinated with Starbucks coffee, which propelled him to join the company the following year. Schultz was the pioneer of Starbucks’ history and was inspired to bring back the experience of warmth and artistry of Italy’s coffeehouse to Starbucks. By 1987, they changed their aprons to green ones and it became the start of their history as a national coffeehouse. Starbucks grew to welcome millions of customers across the globe, but is always devoted to their mission “to inspire and nurture the human spirit – one person, one cup, and one neighborhood at a time” and vision of “treating people like family, and they will be loyal and give their all.”

Starbucks has continued to grow dramatically, entering new markets and channels with fresh products and technologies. It directly communicates with coffee suppliers that are working to make coffee beans the first sustainable agricultural product. Starbucks’ success is due to its strong branding and presence in the coffee industry, being able to provide an experience that has changed how the world thought about coffee shops and how many of us drink coffee outside of our homes (Margalit, 2020). Starbucks’ concept is providing a shared space where people can relax, enjoy a cup of coffee, meet friends, and experience the welcoming ambience. However, due to the COVID-19 pandemic, less people have been inclined to go out of their homes to grab coffee and Starbucks’ selling point of a

third place where people get to grab a coffee and relax have slowly become less attractive. This has led them to close many of their stores. As of October 6, 2021, there are 1323 Starbucks locations in Canada. Ontario has 557 stores, the highest number of locations among all Canadian provinces, encompassing 42% of the total stores in Canada (ScrapeHero, 2021).

Starbucks has many successful partnerships. In August 2018, Starbucks and Nestlé closed a deal granting Nestlé the rights to market Starbucks' packaged goods and food service products globally, outside of the company's coffee shops (Nestle, 2018). Their partnership has been beneficial for both sides to reach consumers across the regions – the strong branding of Starbucks and its products, as well as the power of fast-moving consumer goods distribution of Nestlé. Starbucks also purchased Teavana for \$620 million in 2012 as they saw significant growth in their tea category. Starbucks Shared Planet is their commitment to do business in ways that align for the good of the people and planet. Starbucks has been working with non-governmental organizations (NGOs) to create solutions that support their commitment to ethical sourcing, environmental stewardship and community involvement. The abundance of Starbucks' current partnerships makes it very unlikely that they are missing any other types of partners.

## **Competitors**

Competition is very intense in the coffee industry. With a global market valuation of USD 102.02 billion in 2020, there is plenty of demand for large and small companies to cater to (Business Wire, 2021). As our analysis focuses on Starbucks in the Canadian market, it is important to highlight that the Canadian market was worth over USD \$18 billion in 2020 (Statista, 2020). In this market, Starbucks competes with large corporations such as Tim Hortons, McDonalds and Nestle (ready-made coffee industry), as well as local chains such as Second Cup. Starbucks's main competitor in Canada is Tim Hortons. Tim Hortons boasts over 1,500 restaurants and dominates around 54% of the domestic market, with Starbucks having only a 21% share (World Coffee Portal, 2020). Tim Hortons was also the leading coffee chain in gross sales with around CAD \$1.8 billion in 2018 (Statista, 2020).

The coffee industry is currently dampened by the COVID-19 pandemic. As new consumer patterns emerge from this unique situation, we can see how it affects the coffee industry as a whole. With at-home coffee consumption having increased due to the pandemic, this behaviour and convenience factor has already shown its effect with the popularity of instant coffee and coffee pods seeing an increase. Brands like Nestle reported strong sales growth for beverages and food products in the first quarter of 2020, including coffee as a commonly stockpiled product (Business Wire, 2021). At the same time, retail coffee shops such as Starbucks are seeing a decrease in store traffic as cities deal with government regulation and social distancing practices. Even after consideration of new consumer patterns, the coffee industry is predicted to reach a CAGR of 4.28% between 2021-2026 (Business Wire, 2021). There is also an increase in demand for more ethically sourced raw materials and greater social responsibility from international companies like Starbucks.

Starbucks's main competitors are the large international companies such as Tim Hortons and McDonald's. These companies fight for optimal retail locations that are near schools, busy intersections, and high traffic urban areas all over Canada. Currently, Tim Hortons has more locations in rural parts of Canada and is more tied to the country culture. Starbucks also competes against Nestle and The Kraft Heinz company in the ready-made coffee industry. Further, there are numerous small and local coffee shops all over the country. Some are small chains while others are singular neighbourhood shops. In regards to the smaller coffee chains such as Second Cup and Blenz, they

usually have a common competitive advantage by offering a higher quality product and greater commitment to social responsibility.

Barriers to entry are moderate to low to open a coffee shop. Although there is a moderate cost for business operations, supply chain logistics and raw materials, the cost to develop a brand image is very high. As the market for coffee is purely location based when it comes to regular customers, it is very hard for a one-off coffee shop to develop a brand image that can compete with extremely accessible and global brands such as Starbucks, Tim Hortons and McCafé. Furthermore, without multiple stores, a shop is only limited to nearby consumers. In this case, the business model would solely operate on constantly finding new customers. As a neighbourhood coffee shop, there is success to be found, but in order to take the next step to be a franchised brand, one would need to spend a lot on marketing and focus on a discerning aspect to set themselves apart from the successful giants in the industry. As an international brand, Starbucks does not need to be concerned with small local shops or chains. Instead, they can incorporate what these small shops do well into their own business model

Indirect substitutes to Starbucks would include the coffee pod and bottled caffeinated product industry. Specifically, the coffee pod industry is one that showed a large amount of growth during the pandemic and is expected to reach USD \$51 billion by 2027 (Business Wire, 2021). Many avid coffee consumers have switched to making coffee at home during the pandemic and are expected to keep doing so because of the cost savings and convenience. Companies competing with Starbucks in this industry are Keurig, Nespresso and The Kraft Heinz Company. Another indirect competitor would be Tetley, which is the largest tea company in the UK and Canada (Wikipedia, 2021). Furthermore, local coffee shops and bakeries are indirect competitors that take small portions of potential Starbucks consumers based on their location. As there are several small coffee shops scattered throughout the city, Starbucks loses many consumers simply because there is a coffee shop closer to one's home than a Starbucks. Other times, it is because smaller coffee shops have higher quality coffee and focus on acquiring ethically sourced coffee beans.

## **CDSTEP**

### *Cultural*

The Starbucks coffee drinking culture takes on a different form in different cultures. Starbucks makes excellent use of its localization strategy, so that it can adapt to the preferences and tastes of different cultures. In Canada, coffee is the norm at Starbucks; whereas in Asian countries, tea is more common. Starbucks is able to make changes in its packaging, store design, and brand appearance to gear towards other cultures. This is one of the reasons why Starbucks is so successful worldwide.

### *Demographic*

Starbucks is most prominent in urban areas, where customers of all ages and occupations can easily access the store. It is evident that different age brackets have varying consumption rates and preferences in coffee. In a study done in 2018, 33.78% of Starbucks' customers are between 18-29, with 30.04% of customers between 39-49 years of age, and only 21.05% who are 50-64 years of age (Eira, 2021). With a growing consumption in the younger generations, Starbucks has begun to target that age range by tapping into more media influences as well as creating more targeted ads for that age range.

### *Social*

There has been a growing trend in green consumers, prompting companies like Starbucks to look into more environmentally friendly packaging options, sustainable merchandise and services, as well as plant-based menu options. In 2020, Starbucks announced that it wants to cut its carbon emissions, waste output and water impact by half. Starbucks' introduction of the paper straws this year was a step towards the right direction for a more environmentally sustainable market. This initiative has gained the support of many loyal customers and also attracted new customers. By committing to a more sustainable operation, Starbucks provides a model for other companies to follow and also guarantees its long term viability. Furthermore, the coffee culture is growing steadily around the world, prompting customers to start looking for more specialty coffee. Starbucks could take this opportunity to start looking into more high quality specialty coffee to fill that rising demand.

### *Technological*

The growing market amongst the millennial generation has prompted Starbucks to increase its digital presence, through its mobile app as well as the rewards program. Starbucks makes excellent use of its digital marketing skills to connect with its younger customers through social media; Instagram and Twitter. By doing so, they created this blueprint that many other companies are beginning to follow in order to engage consumers and allow an easier purchasing process. The Starbucks app and rewards program is also very notable because it not only provides customers with a convenient way to order their coffee, but also gives customers an incentive to keep coming back with their rewards program. It is an excellent way to retain loyal customers and to guarantee continued sales. Furthermore, customers can reload their Starbucks card on the mobile app and easily pay for their drink by scanning their barcode on the app, creating a sense of belonging to the Starbucks community.

### *Economic*

The Canadian economy is a large and prominent one. It is one of the ten largest in the world, with a GDP of USD 1.643 trillion. It also holds a large middle class, with a Gross National Income per capita of 47,500 PPP dollars as of 2020 (Data Commons, 2020). And as of 2019, Canada is also said to have the *richest* middle class in the world (Depersio, 2021). Because of this, the average Canadian can be assumed to have high purchasing power, especially in terms of the prices Starbucks charges for their products. As mentioned previously, in recent times Starbucks as well as the Canadian economy have been dampened by the effects of COVID-19, a global pandemic. Specifically, Starbucks reported a loss of USD \$915 million in April 2020 due to reduced store traffic, shortened store hours, and temporary closures (Klein, 2020). As a multinational company, this is sure to affect its ability to conduct business in every country it operates in, including Canada. Because of COVID-19 the Bank of Canada has also lowered interest rates to help Canadians have access to credit when it is needed the most (Bank of Canada). At the same time, many Canadians lost their jobs and saw an increase in their disposable income, thus leading many to finding cheaper alternatives to many daily habits, including how they drink their coffee.

Other economic factors affecting Starbucks include inflationary prices and changes in the exchange rates between Starbucks and the countries it sources its raw materials from. Recently, as extreme weather has ruined crops in Brazil, the world's largest coffee exporter, coffee exports have risen by more than 43% in 2021 (Marcos, 2021). As a large buyer of coffee beans, Starbucks buys their coffee far in advance, which has allowed them to not raise prices. Consumers are also more price-sensitive because of the pandemic and the resulting financial crisis. Considering, if the bad

conditions in Brazil persist along with the bottlenecks caused by COVID-19, Starbucks can expect to see more losses.

### *Political/Legal*

As a large international company, there are multiple political and legal factors that can affect Starbucks. In every region of operation, Starbucks has to conduct research into the political parties, government organizations, and laws and regulations. With their suppliers originating from South America, they must be attentive of the political and legal atmosphere there as well. An example would include high taxation imposed on the providers of their coffee beans in South America. Similarly, tariffs and international trade agreements can also increase the price of coffee beans and other raw materials. Further, over the years, Starbucks has been involved in a myriad of lawsuits and political entanglements from both internal and external parties. Starbucks also has to follow local laws and regulations and factor in the effect it would have for the customers in-store. One example would be a recent controversy of Starbucks allowing customers to “open carry” their guns in states that it is legal in, and not in states that it isn’t - simply following the local laws. Because of this, gun activists had started championing Starbucks as a “pro-gun” company and misleadingly used them as a proponent of their views and ideology. The Starbucks CEO then had to send out an open letter to the public explaining the situation and banning guns in *all* their stores (Starbucks Stories, 2013). Situations like these are an important reason for why Starbucks has to have strategies in place to respond to legal and political developments in their environment.

Companies must also fully understand and comply with government laws and regulations. Starbucks is currently facing a class action lawsuit for not paying their store managers overtime pay. As Starbucks store managers are classified as “working managers”, under the “Employment Standards Act, 2000” they were entitled to overtime pay. Starbucks had misclassified them as employees who were not owed overtime pay. As a result, Starbucks could be facing a CAD \$50 million lawsuit (HRReporter, 2020).

## **SWOT Analysis**

*Refer to Appendix A for the complete table*

### ***Strength***

1. **Brand:** Starbucks’ brand represents both the tangibles, such as Starbucks’ consistent & innovative products and good customer-centered services, and the intangibles, such as the pleasant, restful lifestyle that the company promotes. Because of the strong association between the company and the brand, Starbucks manages to expand its successes quickly by licensing it to contractors across Canada (Starbucks only owns about 1/3 of all shops in Canada, and the rest 2/3 are successful in part because those shops carry the Starbucks brand). The brand also gives Starbucks advantages on pricing given that the consumers are willing to pay a higher price for coffee that carries Starbucks’ brand (Hayes, 1999).
2. **Locational Excellence:** by positioning most of its Canadian shops in city centers and populated areas, Starbucks uses its locational excellence to approach its target customers (namely the high-income middle class) and win over its competitors through taking over strategic locations in high traffic areas first.

### ***Weaknesses***

1. Plummeting Revenue: according to Starbucks Annual Report 2020, the company suffers a major revenue loss of 11 percent (from 26,508.6 million (2019) to 23,518.0 million (2020)) during the year of 2020. The effect of this revenue loss is significant as it forces Starbucks to close over 200 shops in the country in 2020 (Evans, 2020).
2. Increasing costs on supply purchases: as the pandemic strains the global supply chain, the costs to procure coffee bean supplies globally are increasing as well. Reported by CNN Business, the current price of coffee beans is the highest since 2014, and although Starbucks has promised no price change on their products, the company will still lose profits as their earnings per cup decreases (Wiener-Bronner, 2021).

### ***Opportunities***

1. A large, stable coffee market and trending coffee-drinking culture: According to Coffebi.com, with a yearly consumption of 3.9 million pounds, Canada is one of the largest coffee consumers in the world (Coffebi, 2020) The presence of this huge potential market means that Canada can be crucial to Starbucks recovery and expansion after the pandemic.
2. Potentially profitable online ordering market: the pandemic sees the most rapid growth of online ordering in Canada: with a projection that total worth of the Canadian online ordering market will be 85.54 billion dollars in 2024 (about 2000% increase comparing with the amounts in 2019), seizing this opportunity and making their products easily available online can be vital for Starbucks to take back its revenue hard hit by the pandemic as well as possible future expansions in Canada (Rendaje, 2021).

### ***Threats***

1. Strong local & nation-wide competitors: In Canada, due to the lack of anticipation with the Canadian market, Starbucks' sales are challenged by other brands both locally and nationally. For example, Tim Hortons alone has 4000 + shops in Canada (compared with 1600 owned by Starbucks), and its products always price cheaper than those of Starbucks' (operational excellence on price).
2. Accusations of unsustainable practices taken by the company (using a huge number of plastic products every single year): In 2017, 2018, and 2021, there are protests around the world urging Starbucks to use recycle cups, but in the end the company does little to change its policies on cup uses (Gabbatiss, 2018).

*For the complete table please refer to Appendix A.*

## **Three Worthwhile Existing Consumer Segments**

Starbucks has become the default option for coffee lovers all around the world. From students to business men to even elders, there is a special spot for Starbucks in everyone's lives. However, it is evident that some consumer segments stand out more than others, and this is very crucial for Starbucks to determine as they can target their marketing strategies to those larger segments. Every person comes to Starbucks for different reasons and wants. In our analysis, we chose segments naming university students, white-collar professionals, and special drink enthusiasts. These customer segments are targeted by Starbucks by using demographic, behavioural and psychographic segmentation. We found that using psychographics segmentation is appropriate for the special drink enthusiasts customers as it fulfills their self-concept of keeping up with trends by purchasing viral

drinks on social media. On the other hand, university students and white-collar professionals have consistent and significant behaviours that drive their decision to buy from Starbucks.

## **Segmentation**

### *University Students*

University students across Canada, ages of 18 to 23, account for a large consumer segment for Starbucks. University students normally need a boost of energy and keep them awake. The spread of Starbucks stores across university campuses invisibly increases the demand for coffee and facilitates students to have their coffee fix when needing fuel to grind out their studying sessions. The presence of multiple Starbucks across different areas of a university campus also allows easy access for students to socialize with fellow classmates or friends in a Starbucks store to take a break from school or have the change of studying environment at a coffee shop instead of libraries. Although university students might be deemed to be unable to spend a lot of money on higher-end coffee like Starbucks, many students have shown to put their coffee spendings as part of their fixed costs. Hence, multiple locations of Starbucks across campus justify their reason to spend their money on an essential student *need* daily.

### *White-collar professionals*

White-collar professionals, such as accountants, lawyers, and consultants make up a big consumer segment for Starbucks. People in these kinds of professions are on-the-go and generally work within the city, with no doubt there being several Starbucks located nearby. This is one of the main reasons why Starbucks opens many locations in the city, where business men can grab a cup of coffee at any time of the day and take it with them to the office (Bowman 2018). Furthermore, white-collar professionals are often implied to belong in a different social-class than blue-collar professionals, hence why they are able to afford the higher priced coffee at Starbucks. They normally have a higher income and more educational background and prefer to enjoy a more handcrafted cup of coffee. They may also plan a casual meeting with other coworkers at Starbucks because it is conveniently located with comfortable seating areas.

### *Special drink enthusiasts*

Pink Drink going viral on Tik Tok has brought up the trend of trying out secret recipes at Starbucks, with an increasing number of “hidden recipes” being reviewed and shared on social media, Starbucks generated a significant sales revenue, which also created a new segment of customers. In this context, we name them as Special drink enthusiasts, referred to as Gen Z, aging between 14 to 25, who are actively responding to new trends on social media. They became fanatics of these good-looking special or seasonal drinks, which emphasizes the importance of product observability. Throughout all recipe sharing posts, you won’t see prices stated in the captions, as Special drink enthusiasts are relatively less sensitive to the price. What drives them to buy those special drinks is the desire to post pictures on social media therefore to fit in the social group associated. In other words, they buy Starbucks drinks as it is Starbucks, hence they are considered to be the loyal customers.



## **Marketing Mix Analysis**

### **Part A - Analyze**

#### *4Ps for University Students:*

##### 1. Product

University students being heavily influenced by social media are more likely to try out new and trendy drinks. Although Starbucks sells coffee, they have other non-coffee drinks to accommodate more customers. Every season, Starbucks has a lot of new, limited and seasonal menu items to offer such as the pink drink or peaches and cream hot chocolate. This would most probably be ordered by younger generations of Starbucks customers, such as university students since they tend to be more curious and want to find out if the hype is true. However, many students are also prone to order general lattes, nitro cold brew coffee or stronger caffeine based drinks made with more espresso shots. This would be the generic drinks ordered by university students as they correlate having caffeine in their system to providing a boost of energy.

##### 2. Price

The price for a cup of Starbucks drink varies according to the size, customizable add-ins and toppings. For example, a general tall caffe latte starts at \$2.95 and goes up to \$4.15 for a venti size. Their non-caffeinated drinks like the pink drink have an average cost of \$4.45. The price is quite average for students to spend on their drinks, since they find it more of an essential purchase and would not mind paying a bit more to customize their drinks.

##### 3. Place

Starbucks has multiple stores in various areas of university campuses across Canada. This creates easy access for students as they don't have to walk across campuses to grab a cup of Starbucks to go, or simply, have a study session there in between classes.

##### 4. Promotion

Starbucks stores are found in close proximity around a university campus across Canada. This creates an opportunity for students to continue choosing Starbucks and go to a location nearby when there's a long line in one store. Similar to White-Collar Professionals, bringing a Starbucks cup in a student's hand creates awareness and reminders to others to grab their own drink.

#### *4Ps for White-Collar Professionals:*

##### 1. Product

Starbucks has an additional line of stores called the Starbucks Reserves, which make drinks using higher quality coffee beans that are brewed in more technical ways than normal Starbucks locations. This is appealing to white-collar professionals because they may enjoy a more expensive but higher quality coffee while having a chat with coworkers or their clients. This specific type of coffee is only available at the Reserves, which is very appealing for business workers.

##### 2. Price

The price for a cup of coffee ranges depending on what type of coffee and what additional syrups or milk alternative. The general price ranges from \$4.00-\$6.00, a price business workers usually don't worry about too much. The higher price they are paying takes into

account the location and convenience, so Starbucks has an advantage with regards to white-collar professionals.

3. Place

Starbucks are located all throughout the city, but in the downtown area there are more locations than usual. This is because the white-collar professionals usually all work in office buildings within the city center, and Starbucks being right around the corner provides easy access to coffee for those busy office workers.

4. Promotion

Starbucks promotes high quality coffee and convenience, something that white-collar professionals greatly value. When office workers grab a cup of coffee before going to work and bring their drink into the office, it also serves as a promotion to other coworkers, in a way reminding them to get their daily coffee from Starbucks. Starbucks also has weekly promotions, such as “buy one of the following items to get bonus stars”. This may also be appealing for office workers as they buy a cup of coffee very often, and it is also an incentive for them to return back to Starbucks.

*4Ps for Special drink enthusiasts:*

1. Product

What Starbucks offers to this segment is the viral “hidden recipe”. Those drinks are normally innovations of the basic menu, with variation in syrups, milk alternatives and toppings. They share the similarity of fancy-looking, which attracts the young adult customers to try and review.

2. Price

Most special drinks are innovated from items such as Venti-sized Strawberry Acai and Frappuccinos, prices start at \$6.85, with additional dollars on variation in syrups, milk alternatives and toppings. Price doesn’t seem to be a big deal to this segment, across social media, people sharing special recipes seldom state prices in the caption, but this doesn’t stop people from consuming.

3. Place

Place in this segment does not play an essential role as well. As mentioned above, Special drink enthusiasts are considered to be loyal customers, even though Starbucks is located far from where they live, work or study, people would still put in effort on commuting to Starbucks, just for purchasing the special drink products.

4. Promotion

Among all marketing mixes, promotion has the most significant impact on this segment, since without promotions on social media, people are unaware of Starbucks’ special drinks, therefore this segment couldn’t be formed. As these hidden recipes are not inspired by Starbucks officially, promotions have a higher Internet presence, on Tik Tok, Instagram, Youtube, etc. On Tik Tok, where the secret menu trend actually started from, there are over 222.2 million views up until December of 2021 under the #StarbucksSecretMenu. Besides, Youtube also helps the spreading of secret menus. Unlike Tik Tok, where most posts are recipe sharing, Youtubers upload review videos, commenting on the tastes of these Tik Tok viral drinks, which turns potential customers who used to feel skeptical about these drinks into actual special drink enthusiasts.

## Part B - Observations

Starbucks' market strategy in Canada is, in many ways, effective and successful: by carefully designing its brand using a specific 4P market mix, the brand manages to infiltrate into the Canadian beverage market and takes control over a substantial market share in just less than a decade. By 2020, for every single 5 coffee shops in Canada, there is one belonging to the company (Allegra, 2020). However, to some extent, Starbucks also fell victim to its past success: as the company's market share in Canada became stagnant in recent years and the costs on renting keep soaring, it is urgent for the brand to make changes or else it will lose competitiveness to its major competitors.

**Place:** Starbucks does well to capture its target segments, namely the university students and the white-collar professionals, by placing hundreds of shops in high traffic areas around Canadian cities and schools. This effective positioning strategy guaranteed sales and bolstered the company's expansion in Canada through the last decade, but now as the rents in cities start soaring high and the brand reaches its market saturation amongst its current customers, any further expansions around schools and cities will not only be more expensive but also far less profitable as Starbucks shops placed in great vicinity start competing against each other which causes significant self-cannibalisation to the brand.

**Product:** Maybe the first among all major beverage providers, Starbucks expands and maintains its customer base through constant product innovations and frequent menu updates. In the last decade, more than just providing traditional coffee-based beverages, the brand tries hard to create new offerings to keep their existing customers interested and at the same time include as many new market segments as possible. For example, in 2020, in order to appeal to increasingly vocal vegan customers, the company added oat milk as an alternative to milk for all its beverages (Lucas, 2020). Such strategy proved effective throughout the last ten years as it appeals to the younger generation (18 - 24), the company's largest segment, who always crave for novelty and creativeness, and, in a way, this strategy also associates Starbucks to creativity and innovation which are both highly regarded in the current society (Forum Research, 2016).

However, as Starbucks reaches market saturation among its current customers, this strategy is becoming less and less effective in attracting new customers & boosting the company's sales. According to analysts from BMO capital, Starbucks beverage innovations no longer lead to increasing sales but switching between beverages among its old customers (Delventhal, 2019). If the company refuses to lower its price on classic coffee drinks to win the price competition against other competitors, it seems that some new-to-world offerings that appeal to new segments must be made if Starbucks still wishes any further expansion in Canada.

**Price:** Starbucks' price is somewhat to the controversial part of the brand. While the company reportedly owns the most cost-efficient supply system with direct connections to the major coffee bean producers, its products price on average 38 % higher than its Canadian competitors' (Rapier, 2018). Indeed, one can argue that Starbucks deserves a higher profit margin due to its successful branding and creative products, but this higher price also costs the company significant market share as Tim Hortons, a much less influential brand on the global stage, has twice as many stores as Starbucks has in Canada (Allegra, 2020). Also, a higher price means that Starbucks' products will be exclusive to those with higher income since people who are more economical on coffee will just go for similar products from other brands but at a significantly lower cost. Do note that this price

difference is significant to Starbucks consumers since many of them, about 33%, are students struggling on cutting cost and money saving (Forum Research, 2016).

**Promotion:** Taking popular social media and the internet to its advantage, Starbucks is perhaps the most effective firm in reaching out its customers and reacting to their needs. Instead of using the old-fashioned, costly way to put up their advertisements on boards across Canada, the company announces its new products & seasonal promotions on their social media accounts: in interacting with millions of their followers on Instagram and Facebook, the company enjoys its high visibility on social media. Also, through their successful loyalty program on Starbucks app, the brand manages to gather data of its users and make personalised offerings according to past purchases. This process of gathering & interacting helps Starbucks to keep a loyal fanbase who are willing to try and pay more for Starbucks products.

However, this high visibility on the internet also leads to more controversies as the company's flaws are easier to expose and quick to spread. For example, in recent years, the company is under fire on environmental issues for its unsustainable use of plastics: in 2017, 2018, and 2021, there are already protests around the world urging Starbucks to use recyclable cups for all its products (Gabbatiss, 2018). Since Starbucks survives on popularity & social reputation, high coverage of the company's unethical practices can be especially damaging to the brand's image and to Starbucks' sales.

**Summary:** The current market strategy, including taking advantageous positions in cities & schools as well as using product innovations as a way to attract potential consumers and keep the existing ones loyal and interested, was effective in the past but is now no longer profitable or sustainable if the company still seeks expansions in Canada. New promotional strategies and possible price competition should be taken into consideration as the company needs to attract new segments in order to increase its sales.

### **Part C - Proposal Marketing Strategy**

Being one of the largest coffee chains in the world and an internationally recognized brand, Starbucks has already succeeded in identifying its main consumer segments and has targeted their marketing efforts towards those consumers. In order to further strengthen Starbucks' marketing strategy, the company should focus efforts on market penetration. Market penetration could be achieved in each of the three consumer segments that Starbucks focuses on: university students, white-collar professionals, and special drink enthusiasts. The specific strategies elaborated are proposed to increase sales further from their customers who are already loyal to Starbucks.

#### ***University students:***

One strategy Starbucks could improve on market penetration to university students is by adopting the successful "Red Bull Girls" marketing campaign as it has been known to result in a rapid increase in sales (Priya, 2020). Their campaign involved handing out free energy drinks to college students as when students were studying hard for exams and needed a drink to keep them energized and focused. A similar strategy can be implemented to penetrate the university students market since they are already buying coffee on a regular basis but bringing their target audience free samples of their new or seasonal drinks would not only put the product right in their consumers' hand but also get them to spread the word about their new items for free. This would beat other coffee competitors available on university campuses as they would be more prone to choose Starbucks over others.

Many university students also love grabbing quick bites on-the-go for their study sessions and although Starbucks offers food items, many agree that they can be improved to be of better and consistent quality. A bad breakfast at Starbucks might discourage university students to not repurchase the food item, especially knowing that they have a tight budget and would want to make the same mistake of spending their precious money for food that they remember does not taste good. In addition, Starbucks can also create a wider selection of menu items that accommodate people with dietary restrictions. From talking to friends and family, we have found that those who are vegan or gluten intolerant find it challenging to find something to eat. Hence, by improving the quality and creating a wider selection of food items for customers with dietary restrictions, it will not only create a better reputation for the brand but also provoke more interest in university students to purchase more items from Starbucks and in turn, increase their sales.

#### ***White-collar professionals:***

In 2019 when Starbucks announced its partnership with Uber Eats for a door-to-door delivery service, it opened up a large business opportunity for further market penetration. This offered both existing Starbucks customers as well as new customers of Uber Eats to try the online delivery option and to enjoy a new way of having their daily coffee in their routine (Company, 2019). The Starbucks mobile app was a very successful addition to the ordering process. In 2020, almost a quarter of the purchases at U.S. Starbucks stores were made through the mobile app (Campbell, 2020). This mobile ordering process allows customers to reduce their waiting time and helps them go about their day in a more efficient way. This especially benefited white-collar workers who are constantly on-the-go and can only grab a cup of coffee during their break times or before they go to work. Starbucks could further penetrate this consumer market by creating a more specialized rewards program for businesses or for customers who need to place a large order every morning. For example, a white-collar worker might need to place a large pickup order for all of his or her coworkers. To provide an even better incentive for these business customers to keep coming back, Starbucks could develop a rewards program that provides a discount placed on large orders. This would make it easier for white-collar workers who may sometimes be too busy during their morning commute to buy a cup of coffee before going to work. To further enhance the ordering process for white-collar workers, Starbucks could develop a special delivery service that cooperates with businesses. For instance, if a company wants to place a large order of coffee every morning for their workers, they could directly place an order from Starbucks and have the coffee delivered every morning in a more efficient manner while also maintaining the original temperature and flavour of the drink.

#### ***Special drink enthusiasts:***

For the avid Starbucks fans, the #StarbucksSecretMenu trend is well known amongst the customers, and it is used to characterize the drinks that aren't displayed on the Starbucks menu but can be made by the baristas with a mix of the ingredients in the stores (Harrison, 2020). Due to the fact that secret menus are created by customers, what we recommend is making the secret menu trend internal, which allows Starbucks to have more control over it. Starbucks could create a personalized channel on its official app for special drink lovers to post their ideas and reviews on Starbucks items as well as these secret menu drinks. With this new addition to their app, Starbucks is also able to promote its newly-launched drinks in a more concentrated but effective strategy, in which the main target segment are the special drink enthusiasts. It creates a reciprocity between the demand of the customers and Starbucks, and it can be fulfilled by creating a recipe-sharing channel. By doing so, Starbucks can also gain more followers from more downloads of its official app.

With Gen Z becoming more tech-savvy and social, this segment is expecting to interact more with Starbucks on social media (Sprout Social, 2021). Starbucks could look into cooperating with influencers to come up with personalized contents, therefore better promoting its freshly-launched products. Under the topic of “Starbucks Challenge” on Youtube, we could see highly-viewed videos with contents of “Only ate Starbucks food for 24 hours”, “Letting Starbucks baristas pick our drinks for a week”, or “Starbucks roulette challenge”. Starbucks could promote its seasonal drinks as well as secret menus through cooperating with these influencers. Since followers of these youtubers share a similar demographic pattern as the segment of special drink enthusiasts, Starbucks could gain more followers from the exposure, which could possibly turn more prospective customers into actual customers or potentially even loyal ones.

***All-fit recommendation: set up an interactive social media platform on Starbucks’ official app.***

To echo what we suggested for special drink enthusiasts, which emphasizes the effort social media could exert on Starbucks’ current market, we also bring up an all-fit solution for all consumer segments, which is to set up a social media platform on Starbucks’ official app. By integrating all existing functions on the Starbucks’ official app into a new interactive mode, it could provide customers with a place where they can share their favourite drinks and different customizations to their drinks, as well as follow their friends on their Starbucks journey as well. Everyone has the option to express their thoughts and feelings amongst their own network and connect with like-minded people, similar to using a real social media app.

With social media becoming a more essential part of life, Starbucks’ innovation on merging a content-sharing platform into its ordering app helps develop a competitive advantage. Consumers can not only use the app as an ordering platform, but they can also connect with their peers and share their reviews on drinks and build a community. The interactive Starbucks app can attract potential consumer segments and increase the app downloads and expand segment sizes. By creating a new purpose for the Starbucks app, it can further penetrate the current market segments and generate more revenue for Starbucks.

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## Appendix

### SWOT Analysis

Table 1. SWOT Analysis Table

	Positive	Negative
Internal	<b>Strengths</b> <ol style="list-style-type: none"> <li>1. Reputable brand</li> <li>2. Locational Excellence: Good accessibility in cities</li> <li>3. Occupying a big market share</li> <li>4. Consumer Excellence: loyal customers</li> <li>5. Product Excellence: versatile products &amp; options</li> <li>6. Product Excellence: consistent tastes at different locations</li> </ol>	<b>Weaknesses</b> <ol style="list-style-type: none"> <li>1. Plummeting revenue in current economic downfall</li> <li>2. Increasing costs on supplies (etc. coffee beans)</li> <li>3. Reliance on licensed shops for expansion</li> <li>4. Unhealthy and easily imitable products</li> <li>5. Reliance on one single source of revenue (etc. sales from espresso beverage)</li> <li>6. High employee turnover rate</li> <li>7. High product price</li> </ol>
External	<b>Opportunities</b> <ol style="list-style-type: none"> <li>1. A large, stable coffee market and trending coffee-drinking culture</li> <li>2. Potentially profitable online ordering market</li> <li>3. Potential partnerships with companies such as Nestle</li> <li>4. Potential expansions in other market segments (etc. bottled beverage).</li> <li>5. Huge leftover market in Canadian towns and countryside</li> <li>6. Potential market penetration &amp; expansion as local beverage-selling small business dies out during the pandemic</li> </ol>	<b>Threats</b> <ol style="list-style-type: none"> <li>1. Strong local &amp; nation-wide competitors</li> <li>2. Accusations of unsustainable practices taken by the company (using a huge number of plastic products every single year)</li> <li>3. A bad economical environment because of the pandemic</li> <li>4. An increasing tendency that customers choose support small &amp; local businesses</li> <li>5. Self-cannibalism because stores are too close to each other</li> <li>6. Controversies on racial profiling and social injustice</li> <li>7. Market saturation</li> </ol>