

# STARBUCKS COFFEE COMPANY'S MARKETING STRATEGY IN KINGDOM OF SAUDI ARABIA (KSA)

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## Executive Summary

Starbucks Coffee Company has expanded all over the world including Saudi Arabia as a leading company in the beverage industry. It is known for its high-quality food products and its relaxing atmosphere. This paper will review the Company's marketing strategies and its successful market scope.

A brief summary of Starbucks Coffee Company's history and introduction on the Product Life Cycle is included in the beginning of this assignment. The competition amongst Starbucks Coffee Company, McDonalds and Dunkin' Donuts was analyzed. The segmentation strategy and target markets of the Company was also investigated. Finally, the Strength Weakness Opportunity Threat (SWOT) Analysis and the Marketing Mix was conducted to further understand the Company.

This assignment shows how Starbucks Coffee Company's unique, unprecedented method of marketing helped maintained the company's competitive advantage and maintained its high market growth rate. However, Starbucks Coffee Company has to be innovative and creative all the time to maintain its position as a leading company in the beverage industry.

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## Introduction

The Starbucks Coffee Company is one of the most iconic coffee brands in the world, it provides fine quality coffees with a superior level of customer service with above average prices (Isidro, 2004).

In Saudi Arabia Starbucks Coffee Company invested a lot of effort and money in marketing and customer satisfaction. This assignment we will explain the company marketing strategies, principles that helped building the brand in Saudi Arabia, look into detail at their competitions, look into the target market, segmentation, SWOT, market mix and finally provide conclusive comments of the Starbucks Coffee Company's marketing model as a whole.

## Starbucks Coffee Company Overview

Starbucks Coffee Company started in Seattle in 1971 by three friends named Jerry Baldwin, Gordon Bowker and Zev Siegl (Starbucks Coffee Company, 2020). As of June 2019, the company has grown to a total of 30,000 stores across 80 markets and over 160 thousand employees worldwide (Starbucks Coffee Company, 2020).

In Saudi Arabia the first Starbucks Coffee shop was launched in August 2000 in Al Khobar city. By the end of October 2019, Starbucks Coffee Company has opened 210 stores across the Kingdom, including outside the main cities. Thus, creating many job opportunities with a total of 2,200 employees, 500 of them being Saudis (Starbucks Coffee Company Saudi Arabia, 2020).

### **Mission Statement**

As stated on the Starbucks Coffee Company's website:

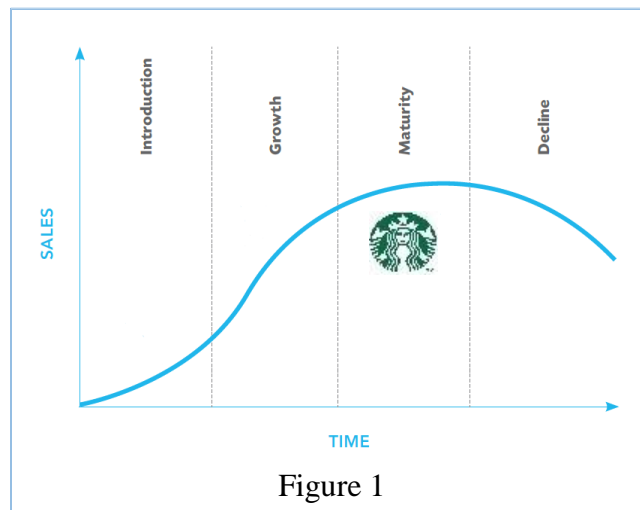
“Our mission: to inspire and nurture the human spirit – one person, one cup and one neighborhood at a time” (Starbucks Coffee Company, 2020).

The company fulfills this mission by creating quality coffee using the finest coffee beans, building connections with its customers, creating a sense of belonging in their stores, being a part of a neighborhood through developing a sense of community, and delivering rewards to all its stakeholders.

## PRODUCT LIFE CYCLE

The product life cycle (PLC) is important to any company especially when new products are launched. It helps manage the stages of a product's acceptance starting with the product's introduction, its growth in market share, maturity, and possible decline in market share (Perreault et al., 2011).

Today, Starbucks Coffee Company's KSA sales are at their peak making the company at its maturity stage as seen in figure 1. At this stage, the customers have more understanding of the products that are offered by the Company (Simon, 2011). The management's aim is to maintain the sales, continue with cost minimization and increase the market share through diversification.



## Competitors

Although the number of companies that enter the specialty coffee market is growing, the primary competition to Starbucks Coffee Company is McDonald's and Dunkin' Donuts (Haskova, 2015). Economists have noted that the competition between those three companies has negatively affected the smaller independent coffee shops as they no longer can compete (Brizek, 2012).

To further understand the competition, it is essential to review the history of the company's major competitors.

## **McDonald's KSA**

McDonald's have grown into a household name in KSA after it first opened in 1993. Today they have 162 branches (McDonalds KSA, 2020). The company joined the Coffee competition in 2009 after introducing McCafe in some of their restaurants. The coffee is equal to the quality of Starbucks Coffee Company's coffee while maintaining lower prices (Brizek, 2012). In 2010, they promoted the coffeehouse atmosphere by remodeling stores, adding oversized chairs, soft lighting, colors, and installed free wireless internet service to its customers (Brizek, 2012). However, McDonald's has a kid-friendly atmosphere which is in contrast to Starbucks Coffee Company's atmosphere where people can meet with their friends, relax, talk, conduct business, study, and socialize (Brizek, 2012). To address this problem, in 2019 McDonald's KSA launched its first independent McCafe in Riyadh. McDonald's plan is to have more than 60 McCafe shops before the end of 2020 and will continue to open McCafes inside all McDonald's branches in the Kingdom before the end of 2021 (McDonald's KSA, 2020).

## **Dunkin Donuts KSA**

Dunkin' Donuts was founded in KSA in 1986 as one of the first major coffee shop chains in Saudi Arabia. Today, the company expanded to more than 400 shops spread over the kingdom (Dunkindonuts.sa, 2020). The company joined the coffee war in 2002, after launching a new line of espressos, lattes and cappuccinos. In early 2006, Dunkin' Donuts was the largest seller of non-flavored coffee, holding a 17% market share, McDonald's Corporation was holding 15%, while Starbucks Coffee Company was only 6% market share (Brizek, 2012). Part of Dunkin' Donuts' success was that their drinks cost at least 20% less than Starbucks Coffee Company's drinks (Brizek, 2012). In 2007, the company introduced coffee drinks at retail outlets including supermarkets and club stores (Dunkindonuts.sa, 2020). Dunkin Donuts can be seen as the middle-class option and serves more rural markets that are not a cost-advantageous option for Starbucks Coffee Company (Brizek, 2012).

Starbucks Coffee Company recognized the competition threat and quickly joined the battle with their own campaigns and improvements (Brizek, 2012). They introduced

breakfast sandwiches and drive-through windows to catch up with McDonald's and reduced the prices of their iced coffees as a responses to Dunkin Donuts.

## Market Segmentation and Targeting

Starbucks Coffee Company pays a close attention to its market segments in order to gain better market share in the coffee industry. Their marketing strategies can be set between mass marketing and segment marketing, as they target a wide public.

- **Demographically:** the target market includes individuals both males and females from 25 to 40 years old with high incomes, or from 18 to 24 years old from richer families. Starbucks Coffee Company's customers mainly are from the Y generation which was born between 1977 and 2000 (Fromm, 2014).
- **Psychographic:** the target market includes coffee lovers of the upper-middle class and the well-off educated customers (Rafii, 2013).
- **Geographically:** Starbucks Coffee Company's stores are predominantly located where there are educated upper-middle class population (Rafii, 2013).

Because Starbucks Coffee Company's target market is middle to high-income office workers with a desire to purchase premium products, the company has been focusing on quality control to meet the high expectations (Khan et al. 2018). They also depend on word-of-mouth, key alliances and partnerships to market themselves.

## SWOT

### Strength

1. Brand equity. Starbucks Coffee Company is one of the best coffee retailers with a raising market share (Brizek, 2012).
2. The Starbucks Coffee Company's experience. Customers appreciated the excellent customer service of Starbucks Coffee Company (George, 2012).
3. Excellent management. Starbucks Coffee Company has the resources to hire the best and brightest minds to continue to come up with innovative and exciting new ideas (Brizek, 2012).

4. Corporate social responsibility. In Saudi Arabia Starbucks Coffee Company partnered with local and international organizations to develop programs that nurture and inspire youth to engage, lead and create innovative solutions for the challenges affecting their communities (Starbucks Coffee Company Saudi Arabia, 2020).

### **Weakness**

1. Starbucks Coffee Company's products is more expensive than its nearest competitors which can greatly influence customer decision making (Brizek, 2012).
2. Starbucks Coffee Company's lack of promotions and advertising compared to competitors (Brizek, 2012).
3. Starbucks Coffee Company's expansion compared to competitors. McDonald's and Dunkin' Donuts have been successful in capturing an early consumer base, and Starbucks Coffee Company is now having to play catch up.
4. Diversification of services and products. Starbucks Coffee Company's primary product line is very limited and fully dependent on the coffee (George, 2012).

### **Opportunity**

1. Today many consumers prefer to make coffee in their homes over visiting a coffee shop (Matzler et al. 2013), Starbucks Coffee Company can therefore focus on expanding its pre-packaged line.
2. Starbucks Coffee Company should begin to focus on diversifying its product line and offer new products to draw new customers in (George, 2012).
3. Starbucks Coffee Company needs to start offering some discounted rates on various coffees to draw in new customers with lower income so they can form habits and patterns (George, 2012).

### **Threats**

1. The economic recession can lead consumers to seek cheaper options and give up higher quality, especially, when Starbucks Coffee Company's competitors are offering premium coffee that is cheaper than theirs (Brizek, 2012).



2. Many company's started copying Starbucks Coffee Company's products and charge the same price or even lower price (George, 2012).
3. Starbucks Coffee Company's has difficulty maintaining good employees. They need to offer better employment incentives (George, 2012).
4. Several new companies are marketing coffee machines and consumers can save by brewing their own coffee at home.
5. McDonald's is threatening to overtake Starbucks Coffee Company's position in the beverage market through its McCafe's expansion plan (Brizek, 2012).

## Marketing Mix

### Product

Starbucks Coffee Company has a standardized set of beverages and products that are similar in taste regardless of what part of the world the shop is in (Swan et al. 2017). However, Starbucks Coffee Company in KSA has two customized changes, first they customized some of their products in order to follow Saudi Arabia law of having only halal food and no alcohol. The second was a customized merchandize that follow norms and preferences according to Saudi culture (Vignali, 2003).

### Boston Consulting Matrix (BCG):

When identifying Starbucks Coffee Company's KSA stores' strategic position through BCG, we can place the company in the star division, refer to figure 2. That is because of the high market growth rate in Saudi Arabia and the increasing profitability indicating that the company will be residing for the long run.

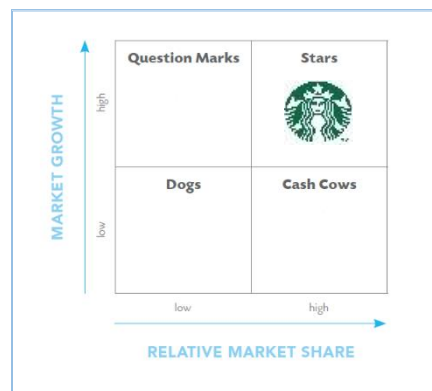


Figure 2

## Place

Starbucks Coffee Company in KSA has witnessed a strong growth in the retail sector recently especially as new investments have entered this sector, and the role of the Saudi youth has grown as investors and employees. Today you can see the Company's stores in shopping malls, airports, movie theaters, drive-through stores, hospitals and well-known educational institutions (Starbucks Coffee Company Saudi Arabia, 2020).

## Price

Pricing can be very crucial to any business as it influences customer turnover (Dayma, 2017). It can be seen that the prices at Starbucks Coffee Company are high as they deliver quality coffee beans, provide perfect ambiance to all the cafes, guaranteeing productive and efficient training to the staff, etc. It can also be other factors such as high operational costs or unexpected increase in the rents (Gajanan, 2018).

## Promotion

Most of Starbucks Coffee Company's advertising is done in and outside of its retail chains. In store the company's comprises of an advertising method that helps customers get comfortable in the comfy chairs with relaxing music and a choice of spending hours sitting without even having to make a purchase (George, 2012). For the out store advertising method the Company used a social media strategy with 1,464,361 followers on Starbucks Middle East Facebook and 375,000 followers on the Starbucks Middle East Instagram account. Furthermore, Starbucks Coffee Company was the first international coffee house to have a bilingual Middle East and North Africa region (MENA) website. It directly engages with consumers in the MENA region in their own language (Starbucks Coffee Company, 2020).

## Conclusion

As we investigate Starbucks Coffee Company's marketing strategies in Saudi Arabia and the reasons that make it one of the leading coffee companies in the Kingdom, we realized that the Company's unique and unprecedented method of marketing that did not compromise the high quality of coffee, the consistency of good standard while ensuring

that the value, culture and environment are well-preserved throughout the globe. Thus, helping maintain the company's competitive advantage from their rivals as well as maintains a high market growth rate.

The success of Starbucks Coffee Company leads other businesses to follow their strategy. Therefore, they have to be innovative and creative all the times. Otherwise, their competitors may take over the market.

Also, due to the extraordinary impact of COVID-19 on today's economy, it will be best if Starbucks Coffee Company become competitive with their pricing during these tough economic times. This does not have to be a long-term strategy, but could ensure the survival of the company through a tougher economic time and also maintain the company's customer base for when the economy goes back to normal, and thereby consumer wallets, are growing again. This would bring the company slightly away from the differentiation focus strategy, but not so far as to move the company into a new strategic marketing focus. In conclusion, Starbucks Coffee Company is still growing, and with a few recommendations for marketing improvement, it can continue to lead and is currently ahead in the specialty coffee industry.

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