**Case Study 3:**

Starbucks is the world’s largest coffeehouse chain, operating in over 30,000 locations and in more than 70 countries. Use the reference material provided below and answer the subsequent questions on the marketing mix of **Starbucks** in India using the **7 Ps approach**.

The reference material is to help you answer the questions related to the 7Ps, which are as follows:

1. Product

2. Price

3. Promotion

4. Place

5. People

6. Physical evidence

7. Process

We have designed a set of questions that will help you understand the business and the operations related to Starbucks. You need to refer to the reference material provided and answer the questions by researching the topics. You can either read all the information and then answer the questions or take a look at the questions and do your own research to find the information.

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Questions on the 7Ps of Starbucks’ Marketing Mix

**Product**

**Q1:** What is the core product of Starbucks?

**A1:** The core product of Starbucks is providing a coffeehouse experience inside the Starbucks store.

**Q2:** What are the actual and augmented products of Starbucks?

**A2:** Actual products are the various products that they sell, such as coffee, tea, food items, etc. The augmented product is the experience of being inside a Starbucks store, with access to Wi-Fi, etc.

**Q3:** What are the various product categories offered by Starbucks?

**A3:** The two primary categories are beverages and food. Under beverages, Starbucks offers

Featured Drinks, Freshly Brewed Coffee, Crème Frappuccino, Cold Brew Coffee, Iced Shaken

Coffee, Espresso, Coffee Frappuccino, Teavana Tea and other beverages (Signature Hot Chocolate). Under food, Starbucks offers featured food, savoury baked items, salads and muesli, sweet baked items, sandwiches and wraps, and desserts.

**Q4:** How has Starbucks adapted its product offering to suit the Indian market?

**A4:** Starbucks offers Indian food items such as Paneer Makhana Comfort Bowl, Chole Masala Wrap, Chatpata Paratha Wrap, Murg Kathi Wrap and Tandoori Paneer Sandwich to suit the Indian palette.

**Q5:** How has Starbucks introduced healthy products in its range?

**A5:** Starbucks offers salads and baked goods without high-fructose corn syrup or artificial ingredients.

**Q6:** Mention an innovation by Starbucks with regard to an existing product.

**A6:** Starbucks introduced Green Coffee Extract in 2012.

“*All coffee starts as a green bean. Now there’s a reason to keep it that way. Traditionally, after coffee is harvested, green coffee beans are roasted to bring out the dark colours and bold flavours coffee is famous for.*

*But now, Starbucks is using an innovative process to pull the naturally occurring caffeine and other good stuff from 100% green arabica coffee beans before they are roasted. The result is Green Coffee Extract - the natural energy from coffee, but with none of the coffee flavor.*”

**Q7:** What are some partnerships that Starbucks has entered, from the point of view of product?

**A7:** Starbucks entered a partnership with Apple to sell music as part of the ‘coffeehouse experience’. It also partnered with Kraft to sell Starbucks products through Kraft’s Mondelezstores, which was later terminated. It also partnered with Pepsi to market and sell Starbucks products in Latin American countries. Further, it entered a partnership with Spotify to allow employees to play music via Spotify. It also partnered with Arizona State University for employee education and with Lyra Health Inc. for employee mental health purposes.

**Price**

**Q1:** What is the most expensive coffee that Starbucks in CP sells?

**A1:** Caramel Java Chip Venti

**Q2:** What is the least expensive coffee that Starbucks in CP sells?

**A2:** Espresso Solo and Espresso Macchiato Solo

**Q3:** Which of the following pricing strategies does Starbucks follow? Justify your answer.

● Economy pricing strategy

● Penetration pricing strategy

● Skimming pricing strategy

● Premium pricing strategy

**A3:** Starbucks follows a premium pricing strategy. Its primary focus is on selling gourmet coffee, which is a luxury product. It also charges high prices for its coffee. So, its primary target segment consists of high-income customers, for whom drinking Starbucks coffee is a matter of prestige. It does not want to sell less expensive coffee and is happy to concede the lower-income customers to its competitors.

**Place**

**Q1:** How many cities in India have at least one Starbucks store?

**A1:** 11 cities (as per data collected in August 2020)

**Q2:** What is the total number of Starbucks stores in India?

**A2:** 176 (as per data collected in August 2020)

**Q3:** Which cities in India tend to have a Starbucks store? Why?

**A3:** In India, Starbucks stores are located in metro cities and Tier 1 cities. This is because Starbucks wants to focus on higher-income customers.

**Q4:** Mention an innovation by Starbucks with regard to its store strategy.

**A4:** In 2009, at least three stores in Seattle were debranded to remove the logo and brand name and were remodelled as local coffee houses ‘inspired by Starbucks’. The CEO of Starbucks, Howard Schultz, called the unbranded stores a ‘laboratory for Starbucks’.

**Q5:** What are some partnerships that Starbucks has entered, from the point of view of the place?

**A5:** Starbucks entered a partnership with Apple to sell music as part of the ‘coffeehouse experience’. It also partnered with Spotify to allow employees to play music via Spotify.

Promotion

**Q1:** What is the primary means of promotion for Starbucks?

**A1:** Starbucks largely relies on word-of-mouth promotion from its existing customers; it uses other means of promotions as well.

**Q2:** How does Starbucks go about executing its primary means of promotion?

**A2:** Starbucks executes its word-of-mouth promotion by making sure that its customers have a great experience. This helps them generate a new customer base.

**Q3:** What is meant by ‘Third Place’ in the context of the marketing strategy of Starbucks?

**A3:** Starbucks likes its stores to be the ‘third place’ where people can relax, have fun and coffee, the first two places being home and workplace. This points to the kind of engaging and enjoyable experience that Starbucks wants its customers to have in its stores.

**Q4:** What is meant by ‘Fourth Place” in the context of the marketing strategy of Starbucks?

**A4:** Given that people spend a lot of time on their mobile phones, Starbucks thinks of its mobile app, online delivery system and social media campaigns as the ‘fourth place’ for people to spend their time and have fun.

**People**

**Q1:** What are the primary target customer segments for Starbucks?

**A1:** Age group of 25-40, looking for people who can spend extra bucks on special drinks, so mainly upper and middle class.

**Q2:** What is the connection between the target customer segments for Starbucks and its choice of price and place?

**A2:** Starbucks targets customers who are either high-income young professionals or are young people from rich families. This allows Starbucks to adopt a premium pricing strategy, whereby they charge high prices for luxury coffee and associated food products. This also means that Starbucks stores have to be located in areas frequented by its target customers, such as high-end business districts as well as luxury shopping areas and malls.

**Q3:** What are Starbucks employees called?

**A3:** They are called Starbucks Partners.

**Q4:** Mention an innovation by Starbucks with regard to its employee training.

**A4:** “*In June 2014, Starbucks announced a new partnership with Arizona State University (ASU) that would allow Starbucks employees in their Junior and Senior years of college to complete four years of college at Arizona State University's online program for only around 23K. Starbucks employees admitted into the program will receive a scholarship from the college, College Achievement Plan (CAP), that will cover 44% of their tuition. The remaining balance and all other expenses would be paid by the student or through traditional financial aid. In April 2015, Starbucks and ASU announced an expansion of the College Achievement Program. The program would now allow all eligible part-time and full-time employees working in a U.S. Starbucks to enrol in the program for full-tuition reimbursement. After the completion of each semester, Starbucks reimburses the student their portion of the tuition. The student can then use the reimbursement to pay any loans or debt incurred during the semester.*

**Physical Evidence**

**Q1:** How does the Starbucks store layout contribute to its marketing strategy?

**A1:** Starbucks stores are meticulously designed to make customers stay longer, buy more and return for another visit. Starbucks often advertises new products on its doors. The ordering counter is placed at the middle or the back of the store so that customers walk past the seating area. Starbucks uses lighting to guide customers through the store, sometimes to brightly lit shelves and Starbucks merchandise, encouraging impulse buys. It has a thin strip of counter between the customer and its coffee machines, making the ordering process feel more inviting. It also has advertising between the coffee counter and the pick-up counter.

**Q2:** What is the Starbucks logo?

**A2:** The Starbucks logo is a ‘twin-tailed mermaid’, also called the Starbucks Siren. A Siren is a creature from Greek mythology.

**Q3:** Has the Starbucks logo evolved over time?

**A3:** The Starbucks logo has become much simpler and less controversial over time. The original “*Starbucks siren was topless and had a fully visible double fish tail … In the second version, which was used from 1987–92, her breasts were covered by her flowing hair, but her navel was still visible … In the third version, used between 1992 and 2011, her navel and breasts are not visible at all, and only vestiges remain of the fish tails … In January 2011, Starbucks announced that they would make small changes to the company's logo, removing the Starbucks wordmark around the siren, enlarging the siren image, and making it green.”*

**Q4:** Can the Starbucks app be considered part of physical evidence in the 7 Ps framework? Justify your answer.

**A4:** Yes, the Starbucks app can be considered part of physical evidence in the 7 Ps framework. Physical evidence includes everything that customers see when interacting with a business. Given that Starbucks has a premium pricing strategy, its customers, being high-income customers, expect a certain aesthetic appeal from the app as well as a certain user experience, which needs to be consistent with the experience that they have when they visit a Starbucks store.

**Process**

**Q1:** What is the process improvement philosophy that Starbucks adopted a decade ago to improve its productivity?

**A1:** Starbucks adopted the Lean Six Sigma philosophy to make sure that its stores become more efficient at making coffee, or serving food, in minutes. For example, baristas can take orders from customers before they pay. Customers can also use the mobile app to place their order and pick it up when they get to the store, thereby reducing their wait time. Commonly used flavors and syrups were placed in a way to be more easily accessible; toppings such as whipped cream and chocolate drizzle, were moved closer to where the beverage is handed to the customer, freeing up the work station for the next beverage to be made. This eliminated the need for baristas to bend over to scoop coffee from below the counter.

**Q2:** What are some of the key metrics that Starbucks uses to measure in-store productivity?

**A2:** One of the ways in which Starbucks measures its productivity is through ‘transactions per labour hour’, which was 8 in 2008 and had grown to 11.7 by 2013. This is a clear indicator of the fact that its lean techniques had made a difference.

Starbucks’ operations management uses various productivity criteria based on the area of operations. Some notable productivity measures in the company are as follows:

● Average order filling duration (Starbucks café productivity)

● Weight of coffee beans processed per time (roasting plant productivity) ● Equipment repair duration (maintenance productivity)