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Company and Marketing Strategy

Partnering to Build Customer Engagement, Value, and Relationships

CHAPTER
PREVIEW

In the first chapter, we explored the marketing process by which companies create value for customers to capture value from them in return. In this chapter, we dig deeper into steps two and three of that process: designing customer value-driven marketing strategies and constructing marketing programs. First, we look at the organization's overall strategic planning, which guides marketing strategy and planning. Next, we discuss how, guided by the strategic plan, marketers partner closely with others inside and outside the firm to engage customers and create value for them. We then examine marketing strategy and planning—how marketers choose target markets, position their market offerings, develop a

marketing mix, and manage their marketing programs. Finally, we look at the important step of measuring and managing marketing return on investment (marketing ROI).

First, let's look at Starbucks, a good company and a good marketing strategy story. Starbucks met with enormous early success by focusing not just on coffee but on the coffee-drinking experience. The company has since taken a bumpy ride from boom to bust and back to boom again. Along the way, it learned that good marketing strategy means more than just growth, sales, and profits. It means skillfully engaging customers and creating value for them. At its core, Starbucks doesn't sell just coffee, it sells "The Starbucks Experience."

STARBUCKS'S MARKETING STRATEGY: Delivering "The Starbucks Experience"

More than 30 years ago, Howard Schultz transformed the coffee industry by bringing a European-style coffeehouse to America. He believed that people needed to slow down—to "smell the coffee" and to enjoy life a little more. The result was Starbucks, founded with a whole new strategy for engaging customers and creating customer value.

Starbucks didn't sell just coffee, it sold "The Starbucks Experience"—"an uplifting experience that enriches people's lives one moment, one human being, one extraordinary cup of coffee at a time." Starbucks gave customers what it calls a "third place"—a place away from home and away from work. At Starbucks, the smells, the sound of beans grinding, watching baristas blend and brew the brand's specialty coffees—all became as much or more a part of the customer experience as the coffee itself.

Over the next two decades, customers flocked to Starbucks cafés. By 2007, some 15,000 Starbucks stores dotted the nation and globe, and the company's sales and profits rose like steam off a mug of hot java. However, Starbucks's enormous success

drew a host of competitors. It seemed that every rival—from independent coffeehouses to fast-food restaurants—was peddling its own brand of premium coffee.

To maintain its phenomenal growth in the increasingly overcaffeinated marketplace, Starbucks brewed up an ambitious growth strategy. It opened new stores at a breakneck pace, seemingly *everywhere*. For example, one three-block stretch in Chicago contained six of the trendy coffee bars. In New York City, there were two Starbucks in one Macy's store. In

fact, cramming so many stores so close together caused one satirical publication to run this headline: "A New Starbucks Opens in the Restroom of Existing Starbucks." The company also blanketed the country with Starbucks kiosks and coffee stands in everything from Target stores and supermarkets to hotel lobbies, and service

businesses from airlines to car dealerships proclaimed, "We proudly serve Starbucks coffee."

The more Starbucks grew, however, the more it drifted away from the core mission and values that had made it so successful. The company's almost obsessive focus on growth for

Starbucks has become America's—the world's—largest coffeehouse by skillfully engaging customers and delivering superior customer value. At its core, Starbucks doesn't sell just coffee. It sells "The Starbucks Experience."

growth's sake began to take a toll on the prized Starbucks Experience. Far from its roots as a warm and intimate coffeehouse, Starbucks began to evolve into more of a caffeine filling station. More and more, the premium brand found itself competing with the likes of—gasp!—McDonald's for many of the same customers.

Founder Howard Schultz, who had stepped down as CEO in 2000, expressed concern. In a 2007 memo to Starbucks management, Schultz lamented that the company's push for growth had "led to the watering down of the Starbucks Experience" and that Starbucks was "losing its soul." Schultz was right that something was wrong. By early 2008, when Schultz reassumed his role as Starbucks president and CEO, the company found itself in hot water. For the first time ever, the average number of transactions per U.S. store fell off and same-store sales growth slowed. Within just the previous two years, Starbucks's stock had tumbled nearly 80 percent. According to one analyst, "The financial vultures circled. Obituaries were drafted."

Instead of presiding over the brand's demise, however, Schultz reacted quickly to restore its luster. He cooled the pace of Starbucks's growth, closed underperforming locations, and replaced most of the company's top executives. Most important, Schultz laid plans to reestablish the brand's core mission and values and to refocus the company on giving customers the authentic Starbucks Experience. "As we grew rapidly and had phenomenal success," Schultz announced, "we started to lose sight of our focus on the customer and our commitment to continually and creatively enhance the Starbucks Experience." Starbucks needed to shift its focus back to customers—to "reignite the emotional attachment with customers."

To emphasize the point, at a cost of \$30 million, Schultz transported 10,000 Starbucks store managers to New Orleans for a morale-building reorientation. A short time later, Starbucks dramatically closed all of its U.S. locations for three hours to conduct nationwide employee training on the basics of producing satisfying customer experiences.

Those early actions began a process of continual renewal by which Starbucks has reignited the Starbucks customer experience through new products, innovative store formats, and new platforms for engaging customers. Beyond improvements in its signature coffee products, Starbucks has developed new products that take the Starbucks Experience into new areas. For example, a few years ago, Starbucks successfully launched Via, an instant coffee that's as good at home as fresh-brewed is in stores. More recently, Starbucks added Fizzio to its menu—freshly carbonated and handcrafted sodas in classic flavors.

The company is also experimenting with new store formats, such as the new high-end Starbucks Reserve Roastery and Tasting Room in Seattle that's part café, part shrine, and part working roastery. Schultz describes the new interactive store as "Niketown meets Apple meets Starbucks"—think of it as the Starbucks Experience on steroids. In another big move,



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Associated Press

Starbucks purchased Teavana—a specialty tea retailer with more than 400 locations in North America. Schultz sees the Teavana acquisition as pivotal to Starbucks's renewal and reinvention. Tea is "a \$90 billion global category, ripe for innovation," he says. "We're going to do for tea what we've done for coffee."

Starbucks's renewal extends the Starbucks Experience well beyond employee relearning, new products, and innovative stores formats. Over the past decade, as much as any brand, Starbucks has built customer engagement and brand community through digital and mobile platforms. Its highly successful mobile payments app, My Starbucks Rewards loyalty program, and prepaid Starbucks Cards now give Starbucks "a direct, real-time, personalized, two-way digital relationship with its customers," says the company's chief digital officer. The Starbucks Rewards mobile payment app has more than 11 million active users, and mobile payments account for 20 percent of all U.S. in-store transactions.

Today, a rejuvenated Starbucks is once again fully engaged with customers and delivering the one-of-a-kind Starbucks Experience. And once again, sales and profits are really perking. Every week, Starbucks serves more than 70 million customers face-to-face in 23,500 stores in 70 countries. Over the past six years, revenues have almost doubled and profits have shot up fivefold.

The moral of the Starbucks story: Good marketing strategy means keeping your eye squarely on delivering customer value. The objective isn't just growth or sales or profits; it's engaging customers in a meaningful way and creating value for them. If a company takes care of customer engagement and value, good performance will result. "It's not just about ringing a register and performing a task," says Schultz. "It's also about creating an emotional, enduring relationship and connection with our...customers. At our core, we celebrate the interaction between us and our customers through the coffee experience. Life happens over coffee."¹