The Perils of Private Provision of Public Goods

Discussed by: Kunal Sachdeva

June 2020

Western Finance Association

The Perils of Private Provision of Public Goods

THE WALL STREET JOURNAL.

English Edition ▾ | June 15, 2020 | Print Edition | Video | Latest Headlines

Kunal Sachdeva ▾

Home   World   U.S.   Politics   Economy   **Business**   Tech   Markets   Opinion   Life & Arts   Real Estate   WSJ. Magazine

BUSINESS

Starbucks Restrooms Open for All Visitors

Employees told in a letter that everyone is 'considered a customer'

Starbucks CEO Howard Schultz speaks at the company's annual meeting in Seattle.
PHOTO: ELAINE THOMPSON/ASSOCIATED PRESS

RECOMMENDED VIDEOS

1. How Coronavirus Is Ushering in a New Era of Concerts
2. Black Small-Business Owners Left Out of PPP Fight to Stay Afloat
3. Coronavirus Update: Hospitalizations Surge, GOP Moves Convention Events
4. Coronavirus Update: Beijing on Alert, Kudlow Says $600 Boost a 'Disincentive'
5. India Reports Record Number of Coronavirus Deaths

What is the Effect of Opening Restrooms to All Visitors?

[A] Starbucks stores experienced a decrease in foot traffic to stores

- Decrease in foot traffic 7.0%, time in story by 4.1%, demographic income by 0.4%, no change in racial demographics

[B] Cross-sectional response varying distance to homeless shelters

- Stores < 2km away experienced declines of 8.5% relative to nearby coffee shops
- Stores > 10km away experienced declines of only 4.8%.

[C] Public urination citations decreased near Starbucks locations

- Rates of other minor crimes were unchanged

Takeaway: Provision of public goods may not leads to increased shareholder wealth.

Interesting paper studying both an important question:

- Creative use of data – we would not be able to answer the paper's question without such data.
- Carefully executed, thoughtful in their analysis.
- Very positive about this paper and the results they present.

My comments are more about pushing the paper further to separate out what is driving the results.

Comment 1: Measurement of Homeless

More Open, But Less Activity?

- Even though stores opened up their policy, foot traffic decreased for Starbucks and customers spent less time at these stores.
- However, at the same time, it is suggested that the homeless population is visit and are spending **more time** at the stores.
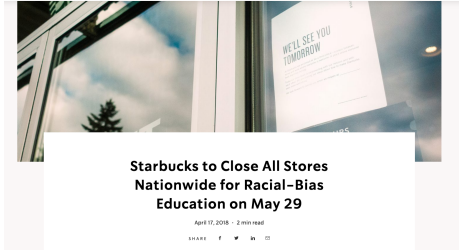
Measurement of the homeless hypothesis:

- Rhoades et al. (2017) suggests a majority of the homeless population owns a smartphone and are likely in your sample.
- The data should capture loitering well, this would suggest that the feedback effect of customers is larger?

Suggestion, Use Device Level Ping Data

- Able to the homeless population visiting Starbucks
    - Track devices that visit a store in a given day
    - Observe their average pings from night
    - Infer from the location if homeless. This can be computationally difficult, so may want to focus on a small set of several cities.

- Provide further insight into visits (time of day, duration, association to homeless shelter, etc.)

- Easier analysis – characteristics of devices (Android vs. iPhone)

Comment 2: What is Driving this Channel?

Starbucks to Close All Stores Nationwide for Racial–Bias Education on May 29

April 17, 2018 · 2 min read

SHARE f y in ✉

A. Racial-bias education
  - "...Around unconscious bias and conscious inclusion and ensuring we take every step we can so that every single customer that steps into our store feels welcome and safe..."

B. New bathroom policy
  - Starbucks Cannot discriminate based on perceived ability to be a paying customer

[2A] Racial-bias education

Difficult to measure the effectiveness of racial-bias education. Customers seem not to value this increased awareness.

	Dependent Variable is Customer Zip Code Pct White		
Starbucks * Post	0.000	0.001	0.001
	(0.67)	(1.21)	(1.21)
Restaurant * Post	-0.001*	-0.001*	-0.001**
	(-1.86)	(-1.90)	(-2.13)
Post	-0.003***		
	(-2.88)		
Time Fixed Effects	No	Yes	No
Store Fixed Effects	Yes	Yes	Yes
City by Time Fixed Effects	No	No	Yes
Observations	2,279,313	2,279,313	2,279,196
R-squared	0.941	0.941	0.942

[2B] New the Bathroom Policy

Channel 1: Customers prefer to not be around certain clientele:

- Difficult to substitute my coffee consumption
- I will not stop my coffee consumption based on homeless person, especially until I go into a coffee
- Duration of visits may be shorter, only to pick up and walk out

Channel 2: Impacted the ability of other customers:

- Are the washrooms out of service now? This is possible.

Suggestion:

- More discussion about the homeless hypothesis.
- Using device level pings you can see if the pattern changes for regular customers versus social visitors. Duration of visits of both customers.

Comment 3: Expanding the Interpretation

How do investors respond to this socially responsible behavior?

- Companies use their bathroom policy to acquire customers.

- Now restaurants cannot discriminate, pooling of all customers.

- Investors know this, so does the stock price reflect the new policy? Or, does the reputation to SBUX reputation more than offset the cost of customers?

Under provision of public goods:

- If you can separate the washroom channel, it would provide a measure of the under provision of public washrooms at the local area.

- If you can separate the preference channel, it would provide a measure of the under provision of reprieves at the local area.

This Paper is Important!