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California and the West

Starbucks wants to save you a trip across the street

Putting stores close together means fewer sales lost because of the distance or long lines. The company reports little cannibalization.

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SEATTLE — The people who work in Seattle's tallest building face a tough decision: Should they get their caffeinated indulgence at the old Starbucks on the building's first floor or the new Starbucks, 40 floors up? And, if the lines at those two stores are too long, is it too far to walk across the street, where a third Starbucks awaits?

Starbucks Corp.'s recently announced goal of having 40,000 stores worldwide isn't just about spreading green awnings through Middle America, the Middle East and other areas of the world not yet tempted by easy access to mocha Frappuccinos and pumpkin spice lattes.

The coffee chain's aggressive growth also hinges on what the company calls "infill" -- adding stores in cities where its mermaid logo is already commonplace. In some cases, that means putting a Starbucks within a block of an existing store, if not closer.

Although Starbucks knows there's plenty to lure people into their stores, they also recognize that many people can't be bothered to walk very far -- or wait very long -- for an optional and expensive treat.

"Going to the other side of the street can be a barrier," said Launi Skinner, senior vice president in charge of Starbucks' store development.

As Starbucks adds a six stores a day on average, the company says it continues to carefully consider many factors, including the direction of commuter traffic zipping by a potential drive-through site and how many people are pounding the pavement on a busy urban block.

As of Oct. 3, Starbucks had 12,440 stores worldwide, including 7,102 company-operated stores and 5,338 licensed locations. In addition to choosing its company-operated locations, Starbucks also has a say in where licensed stores will be located.

In Vancouver, Canada, such planning has meant adding stores on opposite sides of a busy intersection. In New York, there are two Starbucks in one Macy's, as well as two in the 49-story Marriott Marquis hotel.

Starbucks also is flooding some smaller cities. In Spokane, Wash., two Starbucks sit across from each other in a strip mall and a grocery store, close enough that baristas could toss pounds of coffee beans at one another if they wanted to.

Despite such saturation -- and plans for much more -- Starbucks insists that it sees very little cannibalization of its existing business when a new store opens. In fact, the company says, one reason would-be customers don't buy a Starbucks drink is because the line is too long. One solution is to open another store nearby.

Starbucks says about 60% of stores have a wait time of three minutes or less, but the company doesn't track how long the wait has to be before people decide to pass.

Chief Executive Jim Donald dismisses any notion that the company could experience over-saturation as it continues to plop Starbucks near other Starbucks.

"We haven't felt it yet," he said recently.

It takes co-workers Joshua Sanders and Megan Scott about one minute to reach the Starbucks just outside their downtown Seattle office. Sometimes, the two will walk another minute or so to another Starbucks about half a block away because that store sells hot breakfast sandwiches and the closer one doesn't. On a recent weekday morning, both were bustling.

One thing Sanders and Scott won't do is stop for coffee at Starbucks competitor Tully's Coffee Corp., even though it's in their building and they walk past it to get to Starbucks.

Asked why he favors Starbucks, Sanders said: "It's the coffee."

It's unusual for a company to be able to put so many stores so close together and still see the kind of strong sales growth Starbucks can boast, said John Owens, an equity analyst at Morningstar.

"At some stage there [are] limits to their expansion, but to date we really haven't seen any signs that they are near that point," Owens said.

Still, a company faces risks when it grows quickly, Owens said. McDonald's Corp., he said, suffered after trying to expand rapidly in the 1990s. McDonald's has more than 30,000 stores worldwide, compared with Starbucks' 12,000.

Potential negatives that can result from rapid expansion include a drop in quality and a brand losing its luster.

Krispy Kreme Doughnuts Inc., whose store openings once drew cars full of doughnut-hungry masses, learned that lesson the hard way and had to sharply scale back its growth plans.

For now at least, Owens said, Starbucks doesn't appear to have similar worries.

"We haven't seen any evidence of it, but that's certainly a risk," Owens said. "How can they continue to maintain such a strong connection with the customer as they become just basically a global giant?"