



Starbucks Corporation

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Executive Summary

Company Overview: Starbucks first opened its doors in 1971 across from the famous Pike Place Market in Seattle, Washington. Hoping to bring the Italian tradition of a coffeehouse to the US, CEO Howard Schultz transformed Starbucks from just a store with high quality coffee to a "Third Place." Starbucks quickly became the place for community, conversation, and a place to enjoy the *Starbucks Experience*. Since then, Starbucks has built an empire with a very strong brand name, brand recognition, and intense brand loyalty. Through this, they have expanded their specialties to include coffee roasting, coffee and snack shops, and coffee production and manufacturing. Currently Starbucks operates in 81 markets with a total of 18,067 combined company-owned and licensed stores. Most stores are located in the US, China, Canada, and Japan making up 15,468 total stores. Their main core competency is Brand Recognition.

Recommendation: Through this growth, Starbucks has become synonymous with convenience. The launch of the Starbucks Rewards app solidified this, as it allows customers to order coffee from their mobile device and simply walk into the store to pick it up. Despite the immense success of this business model, it clashes with the original vision of Schultz. Our recommendation is to realign with the basis of Starbucks, which is to establish their stores as a third place between work and home, where people spend time together and connect over the love of coffee. Our goal is to get customers to increase the amount of time spent in stores, ultimately leading to increase per person purchases. There are two main aspects of this: increasing convenience for the customer and increasing store visits. To do this, Starbucks will implement tabletop kiosks allowing customers to order from their seats, and an employee will deliver their order to their table. This increases convenience for customers and will encourage multiple orders as they will not have to disrupt their work to get another beverage. Additionally, customers will be able to establish a "home store." Home store purchases will earn 3 stars per dollar spent, rather than 2. This will encourage community within the stores that customers are already visiting regularly. These options coincide with their existing core competencies and align with the trends of the company.

Implementation Plan: Implementation will consist of 2 stages. Stage one will be centered around the development of the tabletop kiosk and home store software, as well as the employee training that will go into the new system once the coding behind the new software is complete. Starbucks will be partnering with Ziosk to gain access to the hardware and experience needed to implement on table kiosk tablets. All employees will have to attend a training that breaks down the goal of Third Place realignment, using the tabletop kiosk, and how to foster an environment that encourages customers to stay for an extended amount of time. Stage 2 will include the roll-out of the first round of stores to implement tabletop kiosks, as well as the launch of the Home Store for all customers, followed by all Single-Tenant Drive-Thrus, End-Cap Drive-Thrus, Cafes, and select interior kiosks. Educating the consumers on the new kiosk and stars system will be crucial in the success of Third Place Realignment. The primary marketing efforts will be put towards individual education, rather than mass advertisement. All initial promotional efforts will be centered around the Star Rewards update to include the addition of tabletop Kiosks and the ability to add a home store. We hope this movement will help Starbucks better serve their existing customers, while presenting opportunities for reaching untapped markets in the future.

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Mission:

"To inspire and nurture the human spirit - one person, one cup and one neighborhood at a time."

Objective:

"To maintain Starbucks' standing as one of the most recognized and respected brands in the world"

Industry:

Starbucks views themselves as not only just a coffee shop, but a place for people to come together and enjoy the *Starbucks Experience*. Starbucks is placed in multiple industries due to the extensiveness of the company, including the coffee roasting, coffee and snack shops, and coffee production and manufacturing industries.

Key Competitors:

Three large key competitors for Starbucks are Nestle, Dunkin Doughnuts, and Keurig Dr. Pepper Inc. These are three companies that Starbucks directly competes with, but there are also indirect competitors including all coffee and tea products sold through stores and other retailers that Starbucks also considers. The rise of niche specialty coffee shops has also provided a new unique competitive set for Starbucks. Though the individual stores themselves don't pose a huge threat the combination of them does.

Geographical Reach:

Starbucks currently operates in 81 markets with a total of 18,067 combined company-owned and licensed stores. Most stores are located in the US, China, Canada, and Japan making up 15,468 total stores.



Changes & Trends MAIN TRENDS

Economic

Coffee tends to be an item that comes from a consumer discretionary income, demand is dependant on the value of the currency, especially the dollar because

Starbucks has the majority of their demand in the US. As consumers become more price sensitive they gravitate towards home brewed or instant products instead of coffee made in-store. Developing economies tend to not have as much discretionary income that the coffee industry relies on for its funds. There is high volatility of coffee bean prices which is offset by the rising price that consumers are charged in store.

Sociocultural

Over the past five years there has been an increase in the consumption of coffee especially by a growing middle class. Starbucks offers a large product portfolio which allows for them to not lose out on various portions of the market. Cold brew and nitrogen-infused coffee are two newer trends in the market that Starbucks has made available for its consumers. The presentation and aesthetic of Starbucks has become increasingly important with the Instagrammable Coffee trend on the rise. Consumers are willing to go to extreme lengths to get the perfect picture of every aspect of the experience, from the coffee and food to the interior and menus.



Changes & Trends - OTHER IMPORTANT TRENDS

Ecological Factors

99% of Starbucks coffee is ethically sourced using C.A.F.E. practices that focus on setting a standard for making coffee sustainable. Sustainability and environmentally friendly cups and packaging remain one of their largest environmental challenges. As part of the NextGen Cup challenge they are testing 12 new recyclable and compostable cup options on top of releasing strawless lids. Trial of a cup tax of 5 pence in the UK yielded higher usage of reusable cups for hot beverages, this could be an opportunity to expand into other locations. Starbucks recognizes climate change as a threat to coffee farmers and has invested in innovative coffee trees that are resistant to the impacts of climate.

Political & Legal Factors

Relations between the US and China are uncertain and could bring increases in restrictions and tariffs. Starbucks imports and roasts a large portion of their beans which requires them to manage customs and contracts with growers in other countries. Regional integration has made it easier to enter countries but there is a lot of red tape. There are also implications with the United Kingdom leaving the European Union this past Friday. This could affect worker visas, financials, licensing and trade agreements as well as taxes on imports and exports. Over the past few years Starbucks has had Employment litigation cases as well as health related legal proceedings have arise that could lead to brand deformation and financial losses.

Technological Factors

Starbucks has established IT systems throughout the business to help manage administrative actions, supply chain operations, transactions and many more aspects. Customers are able to utilize mobile ordering and payment systems that have increased the functionality while operations have also improved from technology developments from reporting systems to brewing instruments. Single serve demand is on the rise, along with the ability to make high quality at home coffee. There has been a third-wave of coffee that is important for Starbucks to keep up with, it focuses on innovative brewing methods to get new flavor profiles, such as the Nitrogen infused cold brew.

Porter's 5 Forces

Threat of New Entrants

As with most firms within the food service industry, brand recognition is crucial. Brand development is a high cost that many smaller firms cannot afford. Switching costs are low, since all that is needed is a relationship with the distributor. In addition, smaller coffee shops have fewer customers to serve and therefore require a less sophisticated supply chain. There is a substantial amount of capital needed to operate, along with great knowledge of how to cultivate the crop and distribute it for the manufacturing half, and a specific "art" to making coffee and espresso for the supplier half of the coffee production industry. Smaller firms lack the ability to front the high costs of new technology to streamline the process and make it less labor intensive. Coffee crops perform best in a specific belt region straddling the equator. For this reason, the beans must be exported throughout the world to reach other demographics. In addition, there are a number of agencies who regulate the quality and packaging of this good, such as the Food and Drug Administration, Federal Food, Drug, and Cosmetic Act, the Fair Packaging and Labeling Act, and the Clean Water Act, which oversees the wastewater discharge. As for technology, there is a low technology change and very few patents within this industry. Overall, threat of new entrants is weak.

Threat of Substitutes

Coffee's main substitute is tea. Tea is ingrained in most cultures, especially where coffee is not as accessible. It is considered the national drink of China, and England traditionally has a specific time in the afternoon set aside for enjoying the beverage. It is much cheaper than coffee, more accessible, and known for its healing properties. There is less required to prepare tea in comparison to coffee, resulting in a very consistent quality no matter where you go. In addition, coffee competes with other caffeinated drinks, such as soda and energy drinks. Both of these options are also much cheaper than your standard espresso drink at a cafe, and they fall victim to fewer cost changes. For these reasons, threat of substitutes is strong.

Supplier Bargaining Power

Although there is a limited region in which coffee beans can be grown, there is a moderate variety of suppliers. Most coffee shops and distributors also offer other goods within their stores, decreasing the supplier's power through the diversification of the supply chain. However, customers usually will come in for the coffee and therefore the supplier's inputs are essential. Switching suppliers would be extremely costly, since most firms have contracts that extend well beyond the foreseeable future. With the volatility of the cost of coffee, redrafting new contracts would sacrifice those predetermined costs and would increase overall costs for the firm. In addition, the coffee industry specifically is known for exploiting human labor. Choosing a supplier is crucial for a firm's image, and it might prove challenging to find another who matches your standards. Therefore, supplier bargaining power is moderate.

Buyer Bargaining Power

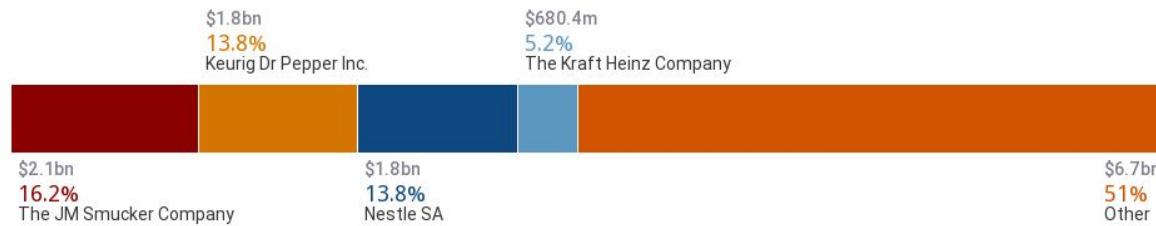
Buyer bargaining power is strong. With the recent emergence of "cafe culture," demand for coffee has been growing. There is market for coffee all over the world, especially within affluent communities. Due to its high cost, customers are very price sensitive; often, demand trends follow that of the economy. In these situations, consumers often switch to coffee that is prepared at home. However, customers who are brand loyal do not experience this fluctuation in demand. In fact, they will go to great lengths to get their desired cup of coffee from their favorite shop. Buyers face little to no switching costs when choosing where to purchase; if anything, they are risking health. Recently, buyers have become more conscious about their health, the sustainability of their purchases, and have been more careful about choosing how to spend their money. This is in part due to trends of fair trade and organic food products.



Rivalry Among Competitors

Within the coffee production industry, competition is high and increasing. Market share concentration is described as moderate, with the top four firms claiming about 50% of the market, illustrated above. As smaller firms enter the market, larger one's focus on acquisition to protect their share. Independent producers continue to threaten the position and power of larger players, and in response those larger players are consolidating. Market share is expected to increase, with larger firms mainly diversifying their portfolios and focusing on the smaller, more specific markets that the smaller players are claiming. Ultimately, the price sensitivity of consumers is what drives the major competition within this industry. The simple placement and packaging of their product within grocery stores can be the key component to setting them apart from competition, emphasizing the importance of downstream suppliers. In addition, competition is price-based, especially with the volatility of the cost of raw goods and the fluctuating world price of coffee. This lead to little industry growth in this mature marke over the last 5 years, but there is high both short- and long-term growth projected for the next 5 years. For these reasons, rivalry among competitors is a strong force.

Major Player Market Share



Analysis

Rivalry among competitors, buyer bargaining power, and threat of substitutes are considered strong forces, while supplier bargaining power is moderate and threat of new entrants is weak. Overall, the industry environment regarding these external factors is considered competitive. Suggested areas for strategic management include competitor rivalry, winning over buyers, and product positioning over substitutes.



Competitors



With a market share of 16.2 JM Smuckers is a large player in the coffee production industry for the US that has brands such as Folgers, Millstone and Cafe Bustelo. They also produce Dunkin' Donuts brand coffee that is a main direct retail coffee shop competitor in the US as well as in stores. Starbucks competes stiffly with Smucker's on the East Coast of the US while Starbucks retains the majority of the market in the West.

Direct Competition: Starbucks recognizes specialty coffee shops as their direct competitor for beverages sales while larger competitors are also a direct threat for what they call "quick-service" restaurants and "ready-to-drink" markets.

Indirect Competition: They broadly state indirect competitors as existing coffee and tea products sold in the market through stores and other retailers.



Nestle has a market share of 13.8 in the coffee production industry for the US with Nescafe Coffee and Nespresso. Starbucks signed a licensing agreement with Nestle in 2018. Though Starbucks still competes with other Nestle brands this deal allows them to market, distribute and sell Starbucks products outside of their own retail locations.



Keurig Dr. Pepper Inc. is a leader in high quality specialty coffee and coffee makers that offers single serve K-cups, Vue packs and also produce Peet's Coffee . The main threat they pose to Starbucks is the ability to make at home coffee, this offers customers a convenient alternative to coming into the coffee shops. Starbucks has a business relationship with Keurig to make Starbucks K-cups.

Small Competitors

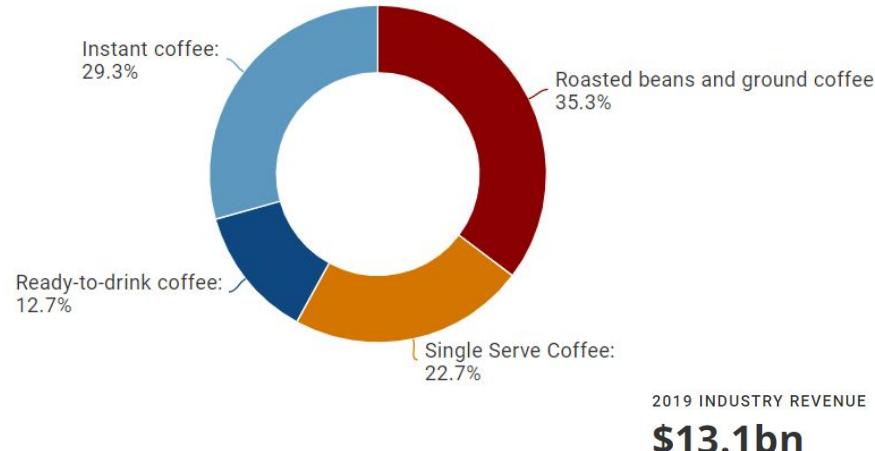
Internationally as well as domestically there has been an increase in specialty coffee shops that lead to less traffic in Starbucks retail coffee shops. Start-ups pose a threat along with established smaller companies that produce coffee and have stores with desirable unique aesthetics. Internationally other coffee shops have a hold of market share such as Tim Hortons in Canada, Costa Coffee in the UK and Lunkin Coffee in China.



Market Segmentation

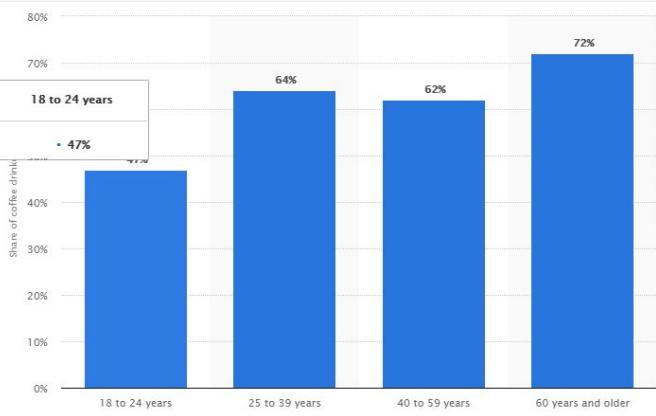
The market for coffee is broken down into four major components, with roasted beans and ground coffee claiming most of the share. Therefore, firms within this industry should focus mostly on offering these products. Currently, half of the market is claimed by four major coffee producers: Nestle SA, Keurig Dr. Pepper Inc., JM Smucker Company, and the Kraft Heinz Company.

In 2019, the total revenue in the market for coffee production within the U.S is \$13.1 billion, proving this market to be valuable especially for Starbucks, having 36.5% of the market share. Starbucks produces a vast variety of products within the coffee production industry that includes whole bean and ground coffee, instant coffee, k-cups, and much more (Zheng).



Additionally, Starbucks provides consumers with access to coffee production products mainly through supplying its own coffee shops as well as restaurants, bakeries, grocery stores, and other businesses all around the world. Currently, Starbucks has 9,974 stores opened in the Americas and 5,860 stores opened internationally. Through the focus of supplying coffee products within their own retail stores, which have rapidly expanded over the past two decades, as well as supplying other businesses with coffee products as well, Starbucks is able to increase their revenues and have a majorly impact the competitive market for coffees (Zheng).

Customer Segmentation



According to a survey of 2,815 respondents having an age group of 18 and older, the biggest age demographic that consumes coffee is 60 years and older at 72% of share of coffee drinkers. However, coffee drinkers over the age of 65 usually consume the product at home. The other age groups within this study still hold a majority of share of coffee drinkers as well. The smallest percent of share of coffee drinkers is 47% being ages 18 to 24 years old. As reported by National Coffee Data Trends, 63% of American adults consume coffee daily. Additionally, the use of drive-through for purchasing coffee has increased from 44% to 46% in 2018 to 2019 within the U.S. The use of a mobile apps to order coffee beverages has also been an increasing trend as well with 2 points increase from last year at 27% currently in the U.S. According to food service analyst Jill Failla, coffee consumers are also price sensitive to organic, fair trade or third-party environmental-certified coffee claim on a 12 ounce bag of ground coffee. These consumers said that they would not be willing to pay over \$6.99 for this type of ground coffee.

Starbucks segments their customers through two main channels: demographic and geographic. Demographically, Starbucks targets the characteristics of age, gender, lifecycle stages, and occupations. Specifically, male and female consumers with ages ranging from 22 years old to 60 years old. Further, Starbucks breaks these consumers into four more specific segments: the bachelor stage (young, single people not living at home), newly married couples (young with no children), full nest I (families with youngest child under six), full nest II (Families with youngest child six or over), and full nest III (older married couples with dependent children). Starbucks considers those who are students, employees, and professionals when targeting consumers. Additionally, Starbucks targets specific regions around the world with areas of high density. This includes the urban areas of the US, Canada, Latin America, Europe, Middle East, Africa, China, and Asia Pacific region.

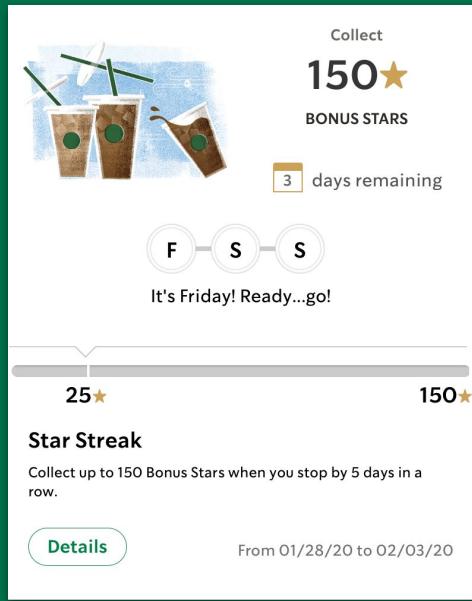
Changing Coffee Consumption



Starbucks currently offers 50 different types of RTD (ready to drink) beverages. Currently, these products are purchased most heavily by those who fall in the lower- and middle-income demographic. According to Failla, young Hispanic and lower-middle class income consumer demographics are growing. Because Starbucks already captures part of this demographic, it can take advantage of this growing consumer base by working towards promoting their RTD beverages through investments in advertising to these even more specific consumer demographics.

Furthermore, Failla also find that consumers of the coffee industry are beginning to turn to coffee for new and different functions. Instead of using coffee for the use of waking up and gaining more energy, consumers are using coffee as a relaxant, which contradicts its traditional function. The industry can react to this information by focusing more on product promotion of decaffeinated coffee products or possibly including CBD oil in coffee products. Lastly, Failla mentions how consumers want coffee to offer health attributes above all else, following the recent popular trends of clean, organic, and healthy beverages with low calories. Firms within this industry can increase R&D to create products that meet these changing consumer preferences in order to still capture these individuals.





Customer Brand Loyalty

Starbucks maintains customer loyalty through implementing stored value cards and a loyalty program. As stated in Starbucks's annual 2018 10k report, "The Starbucks Card, our branded stored value card program, is designed to provide customers with a convenient payment method, support gifting and increase the frequency of store visits by cardholders." The gifting of stored balanced cards would give those who received the gift the opportunity and incentive to go into Starbucks stores and be familiar with Starbucks products. This process brings in new loyal consumers who will continue to buy. Additionally, those consumers who buy The Starbucks Card to gift to others are already loyal to Starbucks products since they believe Starbucks offers great value and would want others to feel the same way through buying The Starbucks Card for them. Furthermore, customers who activate The Starbucks Card are automatically enrolled in the Starbucks Rewards program™. Members in this program receive points or "Stars" that can be used to get free drinks depending on spending factors. The loyalty program is used to give incentives to customers to keep coming back into Starbucks to buy more beverages. With this program, customers become more loyal to Starbucks through customers being apart of the program won't want to purchase from competing coffee shops since they want to build up their points and get free beverages.

Your Usuals

Add to Siri

Reduced-Fat Turkey Bacon...

Royal English Breakfast Tea...
. Tall
. 2 Pump(s) Liquid Cane Sugar

The Classic Bantam Bagel

Since Starbucks has 9,974 stores open in the Americas and 5,860 stores open internationally, it is easy for customers to remain loyal to this giant in the coffee industry, due to the convenience of anyone to be able to find a coffee shop nearby. In Starbucks's annual 2019 report, Starbucks states how "the Starbucks Experience is built upon superior customer service and a seamless digital experience as well as clean and well maintained stores that reflect the personalities of the communities in which they operate, thereby building a high degree of customer loyalty." The stores themselves are well cleaned and maintained, and offer technologies such as high speed wifi and wireless charging hubs. These qualities Starbucks focuses on for their stores guides customers to make Starbucks stores a place where they can get work done and finding the experience to be satisfying, promoting customer loyalty.

Social Impact

Ethical Sourcing

Starbucks' coffee is currently 99% ethically sourced and their goal is to work towards being an 100% ethically sourced coffee company as well as helping others reach this goal. They are actively working towards this by sharing all of their knowledge through their Farmer Support Centers which are open to all farms, including those who do not sell to Starbucks. Starbucks also has a Global Farmer Fund where they are investing 50 million dollars in farmers to help them renovate their farms and equipment to become more sustainable. The long term goal of Starbucks is to work with industry leaders to make coffee the first 100% ethically sourced agriculture product through the Sustainable Coffee Challenge.

Strengthening Communities

Starbucks wants to help the neighborhoods they are in by not only providing coffee, but also providing a community. They actively work towards this by encouraging their employees to participate in community service programs. In 2018 alone Starbucks accumulated a total of 78,000 hours. Starbucks also has given more than 10 million free meals through their FoodShare program. They are working towards rescuing 100% of the food they can donate by 2020.

Leading in Sustainability

One of Starbucks' largest environmental challenges has been reducing its waste from cups and packaging. Their attempt to increase the percentage of coffee purchased using a reusable cups or personal cups has not been as successful as they would have hoped. Though they have partnered with Closed Loop Partners to bring together innovators to create the next-gen recyclable cup. The goal is to develop a 100% compostable and recyclable cup by 2022 as well as eliminate their use of single-use straws. To work towards this goal, Starbucks has introduced its strawless lit which reduced the amount of plastic used by 9%.

Creating Opportunities

Starbucks is also working towards creating opportunities for as many people as they can through their hiring practices. Since 2013 Starbucks has hired 22,000 military Veterans + spouses as well as opening 50 Military Family Stores. Starbucks also launched its 100,000 Opportunities Initiative which focuses on connecting the Opportunity Youth with employers to help the youth of our future. As of 2018, 71,175 Opportunity Youth has been hired by Starbucks.

Threats and Weaknesses

Threats

The economic condition in the US and International markets: Starbucks is a retailer that is dependent on consumer discretionary spending making them sensitive to macro-economic changes in the economy. By being a high priced product Starbucks runs the risk of losing customers to lower-priced competitors or substitutes if there was an economic downturn resulting in less money for discretionary purchases. If these negative economic conditions were to continue for a long period, Starbucks runs the risk of customers making lasting changes to their spending habits and behaviors resulting in negative financial repercussions.

Intense Competition: With so much going into the coffee competition (price, quality, convenience, service, innovation, etc) it is increasingly difficult to stay ahead. Starbucks does not have a leadership position in all of these sectors and is facing an increasing trend of competitors in the quick-service restaurant sector selling specialty coffee beverages. They also face small specialty coffee shops in many markets across the world which can lead to a large decrease in consumer traffic to Starbucks stores resulting in loss of revenue. The increasing trend of single-serve and ready-to-drink beverage market also could impact revenue if Starbucks is not able to get out ahead of it.

Weaknesses

Instability of price and availability of coffee beans: The coffee beans that Starbucks purchases from its suppliers are high-altitude arabica coffee. This type of coffee is typically traded on a negotiated basis at a premium above the "C" coffee market price. This price is determined by the supply and demand at the time of purchase. The supply of coffee beans can be affected by multiple factors such as weather, crop diseases, farming production cost changes, political and economic conditions, etc. All of which vary depending on the country and region the coffee beans are coming from. Starbucks' specific beans are also subject to price changes depending on trading activities in the arabica coffee futures markets. These price changes can create a large disruption to Starbucks' supply chain.

Dependent on the success of the Americas market: Starbucks as of right now is highly dependent on the success of its Americas (US, Canada, and Latin America) segment. This segment accounted for 69% of consolidated total net revenues in fiscal 2019. If the Americas segment was to see a revenue decline the other segments will likely not be able to make up the lost revenue, resulting in significant financial repercussions. Since the Americas segment accounts for a large majority of cash flows any decline in revenues could result in reduced cash flows to expansion efforts in other segments and other business initiatives.

Opportunities and Strengths

Opportunities

Growing International Presence: Looking at the fiscal year-end 2018-2019 the sales growth in comparable stores sales has increased from 1% to 3%. Revenue from company-owned stores accounted for 81% of net revenues in the fiscal year 2019. In comparison in the fiscal year 2019, a net of 216 company-owned stores were opened in the US and 284 total in the Americas segment. Where in China a net of 602 company-owned stores were opened. This is over double the amount of stores opened in all the Americas. This increase in stores also lead to a 12% increase in international revenues and a 4% increase in international operating income. This shows there is a large growing presence in China with the potential to bring in a lot of profits if done correctly.

Strengths

Strong Brand Loyalty and Recognition: Starbucks has built an empire with a very strong brand name as well as brand loyalty. According to Forbes Starbucks is ranked 35th on the list of the world's most valuable brands. They have built this through multiple things including their "Starbucks Experience" and Loyalty Program. The Starbucks Experience is based upon superior customer service, a seamless purchasing experience both in-store and on their mobile app, clean facilities, and well-maintained stores all of which go into building their customer loyalty. Their loyalty program also allows them to maintain their customer base. With each item purchased at a participating Starbucks, customers can earn stars which they can later redeem for various free items. This keeps customers coming back and not going to their competitors, continuing to build that loyalty.

Supply Chain: One of Starbucks biggest strengths in its control over its supply chain. They control close to everything involved in the purchasing, roasting, packaging, and the global distribution of all of the coffee used in their operations. Starbucks can use utilize forward contracts, future contracts, and collars when purchasing coffee to attempt to minimize the risks of price changes due to unforeseen causes. They also operate nine farmers' support centers which are staffed with agronomists and sustainability experts who work with coffee farmers to promote best practices to improve coffee quality and agronomy support to attempt to mitigate climate and other impacts.

HR, Hiring, and Company Culture: Starbucks prides themselves on the relationship they have with their employees and company culture. Every employee from those who work in their stores to those in their corporate offices all have access to the same benefits no matter their job title. Starbucks also refers to all of their employees as partners because they believe they are all partners in shared success. They pride themselves on a culture of inclusion where both employees and customers are treated warmly and with transparency, dignity, and respect.

Core Competencies



TM

Product Customization:

Starbucks has created a unique menu and ordering system in which customers can completely customize every aspect of all drinks on the menu as well as make up their own unique combinations. With each drink you can choose the size, add-ins (sweetener and powders), the number of espresso shots, flavor syrups, toppings(foam, drizzles, whipped cream, candies), milk type, iced or hot, and amount of ice. This customization is available when ordering in store as well as over their mobile app.

Strong Brand Recognition

Starbucks' brand recognition has helped give them a large competitive advantage especially when it comes to any expansion efforts. When going global they can leverage their brand name in hopes of being recognized as a well known and well respected coffee and tea brand. This recognition helps with customer retention through maintaining them with their "Starbucks Experience".

VRIO Framework

Strong Brand Recognition

Valuable:

Yes, as stated previously in both Starbucks' strengths and core competencies their brand recognition plays a large role in their success and is very valuable. Strong brand recognition opens doors for expansion efforts both in the US as well as globally. Starbucks has a brand value of 17 billion dollars.

Rare:

Yes, though having a brand be recognizable is not rare having a brand be recognizable to the extent that Starbucks is is rare. Most coffee companies do not have strong brand recognition, their parent company does.

Costly to Intimidate:

Yes, gaining strong brand recognition is very costly to intimidate. To gain the type of recognition you will need to put in millions of dollars. In the 2019 fiscal year alone Starbucks spent \$245.7 million dollars on advertising..

Organized to capture:

Yes, when looking at the number and locations of all of the Starbucks stores it becomes very apparent. Starbucks has thousands of locations, some of which you are able to see while standing inside of a Starbucks. This shows how strong and organized their brand recognition is.

Product Customization

Valuable:

Yes, the level of product customization that Starbucks offers is very valuable because it allows for a very large range of consumer preferences. They are able to capture a larger audience than their competitors because they are able to offer such a large range of products.

Rare:

Yes, most coffee shops do not offer this extensive of a customizable menu. Most competitors offer a minimal line of coffee products in comparison to Starbucks.

Costly to Intimidate:

Yes, it is quite costly to have so many customizable options because you need to have all the supplies on hand. It is also difficult to predict what customization will be in higher demand when you are first starting out. An expensive and tight supply chain is necessary to have so many customizable options on your menu.

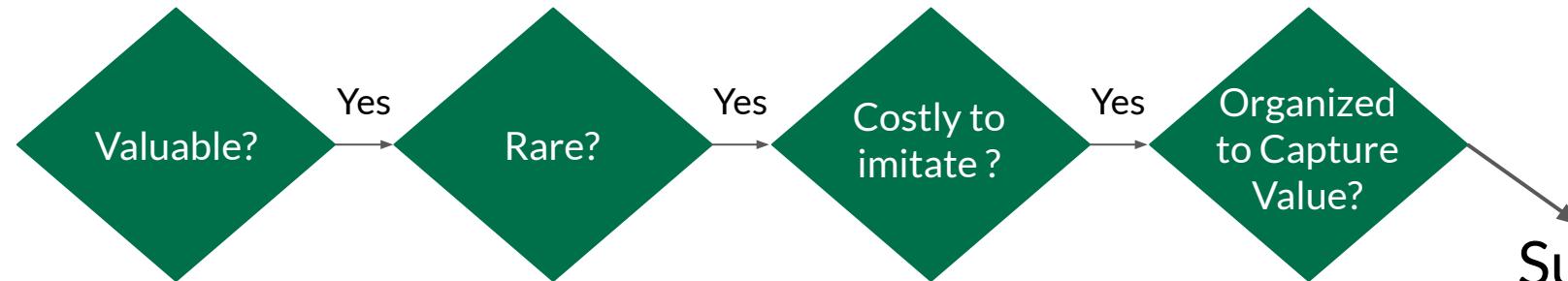
Organized to capture:

Yes, they have streamlined their product customization through their in-store capabilities as well as through their mobile app. The mobile app breaks down each drink and allows their customer to completely customize their drink as they would in person.

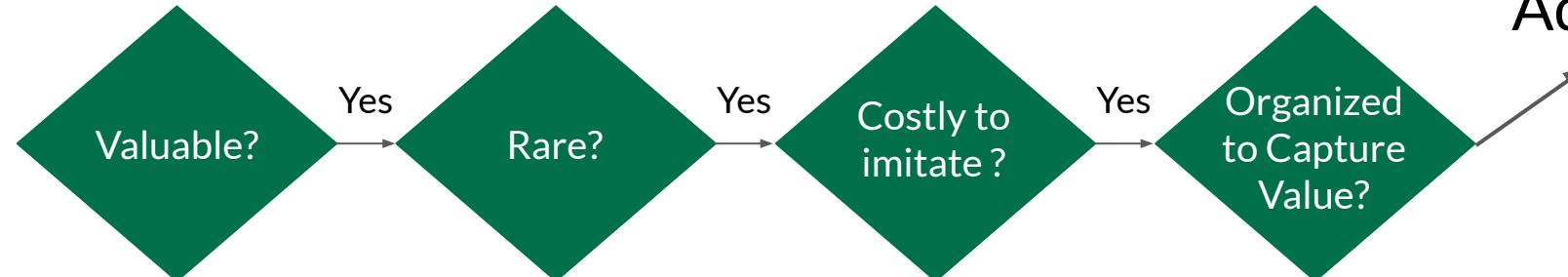


Core Competencies and VRIO Framework

Product Customization:



Strong Brand Recognition:



**Sustained
Competitive
Advantage**

Industry Opportunities

One possible opportunity for Starbucks to face would be to improve its store expansion in South Africa. South Africa, having a current population of 67 million and being the 2nd richest countries on the continent with consumers interested in international brands, presents a huge opportunity for Starbucks to further its growth. One of the major problems Starbucks had, already entering the South African market, is the partnership with Taste Holdings. Taste Holdings has bought a 25-year license from Starbucks which gave Taste Holding exclusive franchising rights. However, Taste Holdings failed to produce enough profit from its current Starbucks stores to invest in expanding more Starbucks stores within South Africa. An important factor that was neglected as Starbucks was brought into South Africa was how price sensitive consumers were to coffee in this market. Starbucks will need to completely reposition their targeting strategy for consumers since only 20% of the population is considered middle class and Starbucks targets middle and upper class consumers. As of November 2019, the partnership has ended since Taste Holdings had sold all its Starbucks stores. Now is the perfect opportunity for Starbucks to come into the South African coffee market and learn from the previous mistakes made by Taste Holdings. Instead of licensing stores to other companies, Starbucks should take full control of its brand and run corporate-owned stores in South Africa.

Another possible route for Starbucks to take would be to include CBD oils in their decaffeinated coffee products. Since millennial consumers in the coffee industry are in demand of coffee for relaxing purposes and 44% say their ideal coffee would have antioxidants, CBD mixed with decaffeinated drinks can provide the perfect solution. Additionally, It is important for consumers to be marketed by being told how their coffee is helping them. In this case, Starbucks can release a new beverage and advertise it as a “calming relaxant” to gain the consumers awareness in the right way.



Alternative 1: RTD Blended with Protein

One option for Starbucks is to produce RTD coffee beverages that are blended with protein powder. The RTD coffee segment grew by 22% between 2017 and 2019, while roasted coffee and instant coffee are slowly losing market share. Additionally, blurred beverages, which includes coffee protein smoothies, and health conscious beverages are in high demand and pose a major threat to brands in the coffee industry who are not shifting towards offering these products. A RTD protein coffee beverage provides health attributes since protein builds muscle, repairs tissue, and promotes the creation of enzymes and hormones. Starbucks, already offering 50 different types of RTD beverages, can take advantage of these factors in the market by releasing a new RTD beverage with protein powder. Starbucks can then position this product as health conscious to raise consumer awareness.

More specifically, Hispanic consumers in America of the lower to the middle class are contributing to a rise in demand for RTD beverages. This segment has also showed an interest in coffee drinks that include high protein; based on 1600 respondents, 35% of Hispanics surveyed preferred high in protein coffee. To cater to this growing segment, Starbucks can produce RTD coffee beverages with protein.

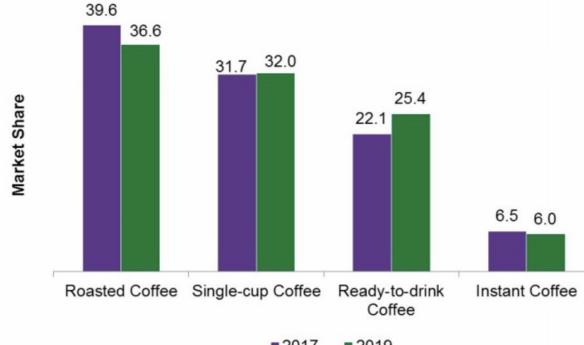
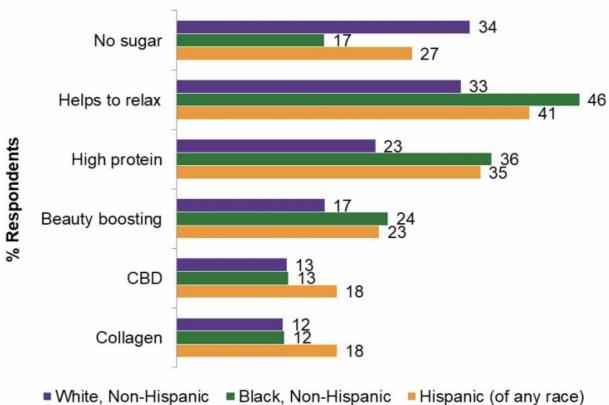


Figure 34: Functional coffee qualities, by race and Hispanic origin, May 2019

Base: 1,600 internet users aged 18+ who drink any coffee beverage

If you could create your own ideal coffee drink, which of the following attributes would it have? Please select all that apply.



Alternative 2: Fresh Food Offerings

Starbucks competes in the “quick-service” restaurant market, primarily serving customers high-quality coffee and tea products. They offer what can be described as ‘complementary’ food offerings, such as biscottis or small sandwiches. Since 2017 Starbucks has been offering a variety of food options to customers with their Mercato menu. The menu has five main categories: Hot Breakfast with 13 options, Bakery with 41 options from cakes to croissants, 7 options in the Yogurt & Custard category, Snacks & Sweets with 51 options from chips and granola bars to apples, and Lunch with 3 cold sandwiches, 11 warm sandwiches, 11 protein boxes, salads and 1 protein bowl. Customer segmentation has shown Starbucks customers to be increasingly more health conscious, but the majority of the current food offerings are not fitting this customer preference shift. This is an opportunity for Starbucks to expand their food offerings to serve this customer base. An increase in the offerings and quality of offerings during lunch would also be a draw for customers who share these specific preferences.

In order to create a healthy option that still reflects the customizability Starbucks prides itself on, Starbucks should offer a salad bar where customers could fill up reusable bowls or boxes with greens, toppings and dressings. A hot food bar with premade pasta salads or vegetables would allow for more variety. Once full, the customer would have their box or bowl weighed and pay based on the price per lbs. The salad bars costs between \$8 to \$10 per lbs. These salad and hot bars would be implemented in select locations in larger cities like New York and Seattle then, if successful, expanded to other locations across the US and abroad.



The Starbucks logo, featuring the word "STARBUCKS" in its signature green serif font with a registered trademark symbol.

PICK UP

DESIGNED FOR YOUR ORDER-AHEAD EXPERIENCE

Alternative 3: Starbucks in China

Currently, Starbucks' largest growing segment is its international market. With Starbucks relying so heavily on their Americas segment, expanding internationally will allow them to mitigate the threat of relying on one market, as well as tap into new markets. China is currently the most successful market outside of the Americas for the US, but Starbucks is currently battling the fast-growing coffee company Luckin Coffee. Similarly to Starbucks, technology is at the core of Luckin, as all orders are made through Luckin's highly streamlined mobile app. Furthermore, Luckin's business model of small coffee stands that operate strictly on a delivery and pick up basis directly oppose the "Starbucks Experience." However, unlike Starbucks, they are not known for their quality coffee, which is where Starbucks has a strong opportunity to capitalize on the fast-growing Chinese market.

While keeping its traditional "Starbucks Experience" model for most of its new stores, Starbucks can begin to open smaller stands that are "pick up only" where customers can only order through the mobile app. These stands would be similar to the Starbucks Pick-up only store in New York. Their initial target consumer would be the on the go business professional who does not have time to wait in line for their coffee. These stands would be in high foot traffic areas such as business complexes and busy public transit areas. These smaller stands would allow Starbucks to compete with the core business model of Luckin in an attempt to slow its growth rate and regaining market share. If these stands were to be a success Starbucks could look into implementing a delivery service from these stands.

Third Place Realignment:

Our Recommendation

To increase convenience for the customer Starbucks can install self order kiosks at each table in their brick and mortar stores, encouraging customers to sit and utilize the space. On this kiosk, customers can sign in with their phone number to access their Starbucks Rewards account and place an order. This order will be printed on a different colored sticker and prioritized, and a barista can deliver their order to their table, based off of which table kiosk the order was placed on. Through this, customers will still have the opportunity to earn stars and pay through their account, but won't have to disturb their work order or to get a refill. In addition, rewards members will feel even more "rewarded" by not having to wait in a long queue. Furthermore, there will be an option during the transaction to check a box to receive their order in to-go packaging. If the box is not checked, customers will receive their order in a special for-here mug, making the "for here" option the default. This will not only make the individual customer feel exclusive, but promote a culture of wanting amongst other customers, and help better align Starbucks with their goal of being more sustainable.

We chose this strategy because inputting kiosks at each table goes hand in hand with the Starbucks store experience and culture. Starbucks is known for its advanced technology, such as wireless charging pads and the fastest in-store wifi for all who visit, not just paying customers. So, this option fits in nicely with their other characteristics and does not conflict with their existing core competencies. Furthermore, this strategy will cater to a larger market than some of our other strategies, such as expanding into international markets who are facing challenges outside of a firm's control and releasing RTD protein coffee beverages to a very niche market.

Starbucks has caught itself in the middle of two conflicting brand images: of convenience and of comfort. Prior CEO Howard Schultz imagined Starbucks to be a "third place" for customers, one that is separate from work and from home, "a warm and welcoming environment where customers can gather and connect.". In fact, this is how he justifies charging more for their products, in exchange for a better connected customer experience. Our strategic recommendation is to recommit to that original brand identity of being a third place. The main way to do this is to make the stores a place people want to gather and stay. Our goal is to get customers to increase the amount of time spent in stores, ultimately leading to increase per person purchases. There are two main aspects of this: increasing convenience for the customer and increasing store visits.

Strategic Recommendation Cont.



To increase store visits, Starbucks can launch a “Home Store” feature. There is a pop culture phrase saying “you’ll pass a Starbucks on the way to your favorite Starbucks” that highlights the loyalty customers feel not only to the brand, but to their baristas and “regular” store as well. To strengthen this connection further and encourage other customers to develop this relationship, the Starbucks Rewards app can add a new feature where customers can select a home store. Here, they will be able to earn 3 stars per dollar spent, rather than the existing model of 2 stars per dollar spent. Customers may only declare one home store at a time. These stores can also hold small events exclusively for community members to foster connections. Furthermore, baristas can greet these members with a “welcome home” once they become acquainted with the regulars in these home stores.

The reasoning behind this strategy because it encourages consumers to see Starbucks as that aforementioned “third place” while incentivizing them to visit stores more often. This is a mutually beneficial suggestion, as customers will be able to earn more for spending the same amount, while creating an atmosphere that makes them want to be there. On the other hand, Starbucks is faced with an opportunity to uphold their image of exceptional customer service, all while preserving their original goal and turning a higher profit. Actually being in the store can help reinforce the reputation of that higher standard of quality and excellence that Starbucks prides itself in.



Implementation Plan

Stage 1. Development

Stage one will be centered around the development of the tabletop kiosk and home store software, as well as the employee training that will go into the new system once the coding behind the new software is complete. All software and coding development will be through the company's point of view of the mobile app, requiring internal updates to infrastructure. All employees will have to attend a training that breaks down the goal of Third Place realignment, using the tabletop kiosk, and how to foster an environment that encourages customers to stay for an extended amount of time. This will involve a customer service workshop to ensure that all employees are aware of what is expected from them. Training will happen three weeks before the addition of the tabletop kiosks regardless of whether or not it will be implemented in their store during the first round.

Hardware Implementation:

Starbucks will be partnering with Ziosk to gain access to the hardware and experience needed to implement on table kiosk tablets. This partnership ensure that the system will be run through a proven and successful vendor. Ziosk specializes in table kiosk tablets that are secure, efficient, and proven to increase sales. If a tablet was to be damaged it would be replaced through the partnership warranty.

Store Layout:

The layout of each individual Starbucks is different, but the amount of kiosks per table will be standardized. There will be one kiosk per table of up to 4 chairs. Any table with more than four chairs will receive another kiosk. For example, a conference table with eight chairs there will be two kiosks, one on each end of the table.

Implementation Plan

Stage 2.1 Roll Out Round One

Stage 2.1 will include the roll-out of the first round of stores to implement tabletop kiosks, as well as the launch of the Home Store for all customers. The first round of stores will include all cafe stores within a 5-mile radius of a university campus with a population of 5,000 graduate and undergraduate students and a 5 mile radius of any large business industry parks. This stage will exclude all Single-Tenant Drive-Thrus, End-Cap Drive-Thrus, Drive-Thru Only, Franchise stores, Interior Kiosks, and Exterior kiosks located within the 5-mile radius. Tabletop kiosks and home store will only be available within the US.

Stage 2.2 Roll Out Round Two

Stage 2.2 will include all cafe Starbucks stores (excluding all franchise stores). This will exclude all Single-Tenant Drive-Thrus, End-Cap Drive-Thrus, Drive-Thru Only, Franchise stores, Exterior kiosks, and some Interior kiosks. All interior kiosks will be individually evaluated based on whether or not non-starbucks customers have access to the tables. If so, tabletop kiosks will not be implemented because employees will not be able to regulate who uses those tables.

Stage 2.3 Roll Out Round Three

Stage 2.3 will include all Single-Tenant Drive-Thrus, End-Cap Drive-Thrus, Cafes, and select interior kiosks. Tabletop kiosks will never be implemented in Drive-thru only stores, franchise stores, Exterior kiosks, and select Interior kiosks. This is because these stores are not inclusive of the vision of the Third Place realignment due to the fact they do not offer seating for their customers. These stores will remain open despite this because they are still beneficial to Starbucks, or they are not able to have the technology needed to support the tabletop kiosks. These stores will be evaluated in 2 years, depending on the success of the tabletop kiosk system.

Marketing and Promotions

Consumer Directed Marketing Efforts:

Educating the consumers on the new kiosk and stars system will be crucial in the success of Third Place Realignment. The primary marketing efforts will be put towards individual education, rather than mass advertisement. The first time a consumer logs into an tabletop kiosk, they will be taken through a tutorial as they order their drink and food. It will be constructed with pop up text boxes and splash pages that inform the customer on how they can order, as well as all of the options, such as a to-go cup, that is available to them.

Initial Promotional Efforts:

All initial promotional efforts will be centered around the Star Rewards updated to include the addition of tabletop Kiosks and the ability to add a home store. The first time customer orders off an tabletop kiosk, they will receive an extra 100 stars. Likely, their first purchase was not made at the kiosk. Thus it encourages a second purchase. If it were ordered in their set home store, they would get an extra 50. After the initial purchase in their home store, customers will receive 1.5 Stars for every order up to 10 orders. The goal of these promotions is to begin to change the habits of existing customers to stay and order more than one drink. There will also be updates to the existing Starbucks Reward Pamphlet (see slide 29).

Secondary Promotional Efforts:

After the initial wave of promotions, a secondary wave of promotions will occur on the app and tabletop kiosks. Star Games such as "Order 4 times at an at an tabletop kiosk and receive 75 bonus Stars" and "Order 3 times at your home store in the next five days to receive 50 bonus Stars."

Rewards Promotional Pamphlet Update

Getting started is easy.

DOWNLOAD THE APP

Order ahead, pay with your phone
Sit down, relax, and order on an in-store kiosk
and other useful stuff - all through your rewards

ADD MONEY

Keep a little money in your account
so you're always ready for coffee

COLLECT STARS, GET REWARDS

Collect 2 stars per \$1 when you pay using the app.
Collect 1.5 stars the first 10 times you order on an in-store kiosk. Redeem Stars for (really delicious) Rewards.

SCAN NOW TO JOIN OR GO TO
STARBUSKC.COM/REWARDS



Some restrictions apply. For full details, visit starbucks.com/rewards

Starbucks Rewards



Hellooooooo, free coffee

More drinks. More fun. More free stuff.
In as few as 2-3 visits



That first sip feeling

Say hello to easy ordering, endless choices - and yes, free coffee



YOUR BENEFITS

Get free food,
drinks, & more

Order and pay on in-store kiosks

Free brewed hot coffee & tea refills

Set your own home store

Double-Star Days, 1.5 Stars for home store & Games

Order ahead & pay with your phone



Signing up is simple. Download the Starbucks app and you'll be on your way.

Free food and beverage Rewards may be redeemed at participating stores and exclude alcoholic beverages and multi-serve items. Star redemption not available at all locations. Birthday reward available after your first transaction. Free refills available during same in-store visit only. For full details, visit starbucks.com/rewards

Get your favorite things for free

25 ★ CUSTOMIZE YOUR DRINK

Make your drink just right with an extra espresso shot, a dairy substitute or a dash of your favorite syrup

50 ★ BREWED HOT COFFEE, BAKERY ITEM OR HOT TEA

A go-to when you're hungry

150 ★ HANDCRAFTED DRINK, HOT BREAKFAST OR PARFAIT

Have a really good morning with a breakfast sandwich, oatmeal, or your favorite drink

200 ★ LUNCH SANDWICH, PROTEIN BOX, OR SALAD

Take a well-earned break with lunch on us

400 ★ SELECT MERCHANDISE OR AT-HOME COFFEE

A bag of coffee, a signature cup or your choice of select coffee accessories



Outside: Back, Front

Inside: Left, Right

Balanced Scorecard

	Objective	Measurement	Target	Initiative
Financial	Increase per customer purchase revenue through ordering frequency	Company-operated store revenue	9% revenue growth rate for company operated store starting post complete implementation	Tabletop kiosks installation and home store
Customer	Increase customers experience and convenience	Satisfactory level obtained by Kiosk satisfaction rating screen after customer orders	80% satisfactory level	Implementation of options for customers to use tabletop kiosks.
Internal Process	Increasing Starbucks sustainable initiatives surrounding reusable cups	Percentage of for here cups ordered through tabletop kiosks	9% of all hot drinks ordered "for here" served in reusable mugs	Tabletop kiosk automatically assuming "for here" unless otherwise stated
Learning and Growth	Using time saved from taking orders at the register to focus on providing consistent, quality products	Track number of remade orders from unhappy customers	Decrease remakes by 20%	Implementing a tracking system for number of remakes per store



Financial Statements

Income Statement

Financial projections were made using the percent of revenue sales method assuming an average growth rate of 8.83% over the 5 year period. Changes were made after the projections to reflect the implementation of the Third Place Realignment. Income statement was affected by the increase in store operating expenses with the cost of the equipment for tabletop kiosks through the partnership with Ziosk. It was also affected by the cost of software coding and web design in year 1. Revenue in years 4 & 5 increases by 9% with the realignment. See appendix A for financials.

Balance Sheet

Starbucks had a 14.1% average total asset growth rate over the past 10 years. This rate was used to project total asset growth. Administrative adjustments were made in order to account for projection discrepancies. From there 5 year projections were calculated using the percent of assets method. Equity and cost investments were made along with the increase in property, plant & equipment when implementing the Third Place Realignment. This also meant changes to accrued liabilities to reflect the costs incurred. See appendix A for financials.

Statement of Cash Flows

Due to structural changes as well as changes in accounting practices and we were not able to make accurate projections for cash flows. The line items in the other statements did not match up with those in the statement of cash flows. Any projections made would not be an accurate representation and would not add value to the analysis of this recommendation.

Year 1 (2020)

In year one we will focus on Software development for an application compatible with Ziosk, which is an android platform. We will be able to migrate the android app we currently have into their systems free of charge with our partnership with the company. However, we will need to tweak the android app Starbucks currently has to include some new features. A professional Android coder will generally charge \$75 an hour. A professional web designer will be around \$40 an hour. It would take around 55 hours for a coder to code and around 20 hours for a web designer to design. We assume the cost to create the software to be \$4,925. See Appendix B.

Financial Plan



Year 2 (2021)

In year 2 the first roll-out of tabletop kiosks will begin, as well as the launch of the Home Store for all customers. This includes 1,458 stores in the US and 10 devices per store. The cost of the Ziosk devices is monthly at \$240 for an order of 24 devices. We assume property, plant and equipment to increase by 1.7 million this year. See Appendix C.

Year 3 - 5 (2022-2024)

In year 3 the second roll-out to implement the tabletop kiosks will take place. 8,318 stores will have 10 devices per store. The cost of the Ziosk devices continues monthly at \$240 for an order of 24 devices. This year property, plant and equipment to increase by 9.98 million. We assume no depreciation costs due to the replacement and upkeep of hardware with the Ziosk partnership. The same costs will continue through year 5 for the devices. See Appendix C.

In years 4 and 5 the Third Place Realignment has been implemented and we project an increased revenue growth rate of 9% in year 4 and 5, yielding \$40.5 billion in revenue in year 5. See Appendix A.



Financial Overview

Industry Trends

Industry trends they are classified by revenue to determine size comparisons. A large coffee shop has revenue of over \$50 million, Starbucks revenue for 2019 was \$26,508.6 million. The growth rates for the Coffee & Tea Manufacturing industry are projected to be around 4%, while the Coffee Shop industry are around growth rates are around 4.5%. Starbucks growth rates are projected to be around 8.83%. Starbucks is in an industry of its own.

Summary

As for costs concerning this upgrade, it is comprised of both software and hardware. Most companies charge depending on the extent of service that is offered, in order to make sure the software is able to adequately serve the firm. However, Starbucks already has this software, so the costs incurred is to make it compatible with the kiosk system and Third Place initiative. We presume that the major financial burden placed on Starbucks is the price of the actual hardware in partnership with Ziosk. As shown in the Excel spreadsheet we expect \$40.5 billion in revenue in year 5 with 9% growth rate with the implementation of the Third Place Realignment.



Risk Assessment

Security and Hacking

The implementation of new technology always poses the threat of security breaches and hacking. Hacks can be related to security issues, such as Personally Identifiable Information (PII) being obtained by the hackers. In 2017, Avanti Markets had 1,900 of their Kiosks hacked, providing the hackers with PII, including user names, card numbers, and email addresses.

Another type of hack involves the manipulation of a weak kiosk system in order to get food or beverages at an extremely reduced cost. For example, a viral video was released to the public in early 2019 of a customer taking advantage of a McDonald's kiosk menu, where through order manipulation, the customer was able to obtain food at no charge.

Hacks, such as these, can negatively affect its brand through the perception of the brand being weak and unsafe, and will be costly for the firm to manage. Learning from these past instances, Starbucks can recognize and prevent these threats when implementing their on-table kiosk systems.

Contingency Plan

In order to prevent any type of hacking, Starbucks must thoroughly test their kiosks before releasing them to the public. Further, any unusual price totals at the end of the transaction will be flagged, put on hold, and require a Starbucks employee to review it before the ticket for the order is printed and the order is prepared. Through this, Starbucks will be able to catch any inaccurate pricing or faulty tampering with the system.

Additionally, to reduce the accessibility of PII, the kiosk systems will require customers to log into their Starbucks Rewards account before placing an order. Customers are able to load money onto their account, where they can then access it for either in-store or mobile-order purchases. Requiring transactions to use the rewards program encourages the customer not to have to insert a credit/debit card into the kiosk every time they wish to place an order. Should a customer have to reload money onto their account by inserting their credit/debit cards into the kiosk, a pop-up window will appear on the kiosk screen encouraging customers to either reload using their mobile device or load prepaid balance at the counter instead of using the kiosk credit/debit card reader. This pop-up window will be included to keep the customers informed of potential risk when deciding to add money onto their accounts using the kiosk machine. Lastly, employees will be responsible for examining the tabletop kiosks on a regular basis to ensure there are no fraud card readers or tampering with the hardware.

Risk Assessment

Damaging Core Competencies

One of the most valued aspects of Starbucks is the outstanding customer service and care for its employees, whom they refer to as partners.

However, implementing a kiosk system brings along perceptions that threaten this core competency Starbucks has spent so long solidifying. Offering a self-ordering system removes the social interaction between customers and cashiers. This can negatively impact the overall association between Starbucks and their customer service.

Additionally, the introduction of kiosks might threaten the employee's jobs, as they might share the same perceptions of automated self-ordering and be concerned over the security of their jobs. Therefore, Starbucks must position this move as beneficial to both customers and employees, specifically by suggesting how it aligns with these core competencies.

Contingency Plan

To avoid altering Starbucks customer service and healthy work environment, the company must focus on careful communication with both groups. For its customers, Starbucks should first emphasize the choice the customer now has in determining how frequently they interact with the staff. They are still able to order from the counter and receive the same type of customer service that they received before but now have more options, including ordering at a table as well. The choice of either ordering at a table or a counter creates a higher degree of customer service by allowing more options for the customer. Furthermore, they could then encourage customers to select a home store, where the entire focus is on creating those close relationships with specific stores and the communities built within them.

To the employees, job security can be communicated through an explanation of how they are now able to spend more time working on other significant aspects of the company, such as product quality and overall customer experience. Instead of the employees spending more time taking orders, they can focus more on filling orders, maintaining the cafe, and interacting with the home store regulars. Employees will still have job security. However, their daily roles will be slightly altered by not having to take orders.

Risk Assessment

Kiosk Life Cycle and Potential Damage

On average, Starbucks stores see more than 750 customers daily, allowing them to be considered high traffic stores. Typically, high traffic stores have an increased risk of damage to their stores in general, including these tabletop kiosks. Kiosk damages can include anything from beverage spills, intentional tampering, and everyday wear and tear. These types of physical damages would require replacement of parts such as credit/debit card readers and screens. Additionally, kiosks have a lifespan of 4-6 years and require replacement after this period. As a result, there will be a cost associated with maintaining and replacing the tabletop kiosks. Some of the maintenance fees include replacing battery-powered backup and upgrading or updating firmware. The costs associated with the life cycle of kiosks are significant for Starbucks to acknowledge when deciding how to implement their kiosks into its stores.

Contingency Plan

In order to minimize the costs associated with the kiosk life cycle and expected maintenance, Starbucks will take two main precautions. First, Starbucks must include a warranty plan in their partnership with Ziosk. We believe this to be rational, especially since Starbucks has leverage in the partnership from purchasing a large volume of kiosks, and the charges are on a per month basis. In this warranty, Ziosk would assume responsibility for maintenance and replacement costs, due to the nature of the monthly partnership.

Additionally, Starbucks will be sure to have the necessary casing to minimize wear and tear, as well as having employees regularly inspect the machines for potential damages.



What's Next for Starbucks?

Starbucks has the unique opportunity to better cater to the business market by pursuing a business model resembling WeWork. With most important networking, meetings, and business decisions happening outside the walls of a company, places like Starbucks have the potential to fill a hole in the market. The success of the tabletop kiosk system could foster this. Through the mobile app, a customer would be able to reserve a table for these types of meetings. The screen of the kiosk at the table reserved would read "reserved" until that customer logged into the kiosk. This aligns with Starbucks' goal of being every type of consumer's Third Place, as well as encourages more in-store purchases per customer per visit. Building upon this, Starbucks can then begin to implement small meeting rooms in larger Starbucks stores near busy corporate parks. Starbucks has already started to move in this direction with a select few locations having rooms that can be separated by curtains to hold meetings and other business-related conferences. By providing this atmosphere, they will be able to reach the demographic who typically uses Starbucks as a place to get coffee, not as a place to sit down and stay, while offering a more confidential space to hold the meetings that are already taking place in stores.



Conclusion

Starbucks is uniquely placed in multiple industries due to the vastness of the company. After analyzing their current position in the market and weighing their opportunities, it is in Starbucks' best interest moving forward to realign themselves with the "Third Place" vision. This is done by improving convenience and allowing customers to set a home store, which strengthens their core competency of Brand recognition and their powerful brand loyalty.

In order to increase the length of stay and ultimately increase the number of beverages ordered, we recommended the implementation of tabletop kiosks. Our research on this alternative has shown risks and costs that could potentially be avoided with another option offered at the tables. We recommend to not move forward with the Ziosk partnership and instead further technological innovation. The tech savvy market already is accustomed to the app, so we suggest focusing on app adjustments that allow customers can order from tables. This could potentially be done through the use of QR codes or table codes that you could enter into the app on a customer's personal device and be used in the same way as the tabletop kiosk we suggested originally.

The goal of the Third Place Realignment is to make Starbucks a place where customers can gather with friends, co-workers, and strangers to connect over a cup of coffee. Our goal is to get customers to increase the amount of time spent in stores, ultimately leading to an increase per person purchases. The realignment not only increases profits per customer, but opens a whole new door for Starbucks as networking and decisions in the business world move outside of the four walls of each corporation and into community places such as coffee shops.



Thank You

Appendix A: Financial Statement Assumptions

Financial data for the next 5 years will be projected using past performance data as a base. The implementation of the Third Place initiative will start in year 1 and be fully implemented in year three with a continuous fixed cost each year for the devices.

Income Statement using 8.83% growth rate for revenues then projections made using percent of sales.

Then in year 4 & 5 Starbucks revenues continue to increase at a 9% growth rate after full implementation of the Third Place Realignment.

Balance Sheet using past 10 years average total asset growth rate was 14.10% to make projections then use percent of assets for the 5 year projections.

Financial Statements:

<https://docs.google.com/spreadsheets/d/1Czq7uLCcrKFmX1UAV3pWK0irSheK4OLavFNc5gMr7cM/edit?usp=sharing>

Appendix B: Financial Statement Assumptions Cont.

Interview with professional coder:

Insight: We are implementing kiosks into Starbucks stores that will use a machine called the Ziosk. Ziosk, which is an android platform, will be able to migrate the android app we currently have into their systems free of charge with our partnership with the company. However, we will need to tweak the android app Starbucks currently has to include some new features into the kiosk.

Question 1: First, what are the ongoing rates for a professional android coder and a web designer in Portland?

Response: A professional Android coder in the Portland area will generally charge \$75 an hour. A professional web designer in the Portland area will be around \$40 an hour.

Question 2: For our first feature, we will have a survey window pop up after a customer has ordered and received their beverage or food items. This survey window will ask the customers how satisfied they are with their overall experience at Starbucks today. The scale will include 1 (being a frowny face) 2 (being a medium frowny face) 3 (being a medium happy face) and 4 (being a happy face), kind of like what Amazon does in their Amazon book stores. We would want the designs to include a Starbucks green theme as well. Additionally, we would need to gather data from customers responses in an orderly way from this feature which would send results to an excel file with specific store location filters. *How many hours do you assume it would take to Integrate this feature into Starbuck's app for a professional Android coder? How many hours do you assume it would take to design this window for a professional web designer?*

Response: It would take around 50 hours for a coder to create this and around 20 hours for a web designer to design.

Question 3: For our final feature, in order to prevent theft of credit card information from being stolen, we will be including a pop-up window when a customer decides to put their cards into the Ziosk machine to load up pre-paid balance into their account. This pop-up window will say "We recommend that you use our mobile app or go to the counter to put more funds into your Starbucks Rewards account". This window does not need much designing. *How many hours would it take for a professional Android coder to create this window in Starbucks's mobile app?*

Response: Sounds like this feature would be easy to code. I would assume it would take roughly 5 hours for a coder to create this window.

Total costs from additional coding features: $\$75*(50 \text{ hours}+5 \text{ hours}) + \$40*20 \text{ hours}= \$4925$

Appendix C: Financial Statement Assumptions

Year Two:

1458 stores x 10 devices per store = 14,580 devices total

14,580 devices / 24 per order = 607 orders

607 orders x (\$240 per month x 12 months = \$3120) = \$1,749,600

Year Three and Beyond:

8318 stores x 10 devices per store = 83,180 devices total

83,180 devices / 24 per order = 3,465 orders

3,465 orders x \$3120 = \$9,981,600

There are a total of 8,575 company owned and operated store in the US. Of these stores 80% are drive thrus and we assume that 3% of the total amount of company owned and operated stores are exterior and interior stores that will not receive kiosk devices. In year two we assume that cafe stores will purchase devices and in year three that all stores excluding drive-thru only stores, franchise stores, Exterior kiosks, and select Interior kiosks will receive the hardware. We also assume based off of research that each device costs \$240 per month for 24 devices. We also assume that there will be an average of 10 devices per store. This is based off of the average of 3 stores in the surrounding Eugene area. We also assume that since it is a per month payment partnership there will no depreciation costs because we assume all the hardware will be replaced as necessary with no additional cost.