STARBUCKS

Case Analysis

Starbucks: Delivering Customer Service 9-504-106

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September, 2013

With only two days remaining, Christine Day, senior vice president of administration at Starbucks begins to prepare for a meeting with Howard Schultz and Orin Smith, the two most senior executives at the company. The agenda for Day's meeting consisted of answering two key questions pertaining to a $40 million plan that promised to increase revenue per store, over time, from about $15,000 a week closer to $20,000 per week. The executable portion of her plan consisted of increasing weekly labor hours from 360 to 380. In doing so, Day was confident in Starbucks' ability to address several shortcomings in customer service. As a result of changes she hoped to implement after meeting with Schultz and Smith, Christine Day was very optimistic in seeing the company's bottom line improve.

With data from market research and performance reports collected, organized and reported in multiple ways sitting in front of her, Day began reasoning again why her plan made sense. While acknowledging the possibility of erroneous logic in "recreating" Day's thought process, the following analysis attempts to provide some insight into and ultimately justify why she may have felt very strongly about recommending the $40 million investment in improving customer service.

In order to reaffirm her objective and review the "bigger picture", Day evaluates some of the qualitative assessments she finds before her. Flipping through summarized market research findings, Day comes across one of the most influential statistics that drove her to rethink customer service in the first place – that only 39% of Starbucks' customers felt they were always welcome at her company's retail locations.

Table B The Top Five Attributes Consumers Associate with the Starbucks Brand

- Known for specialty/gourmet coffee (54% strongly agree)
- Widely available (43% strongly agree)
- Corporate (42% strongly agree)
- Trendy (41% strongly agree)
- Always feel welcome at Starbucks (39% strongly agree)

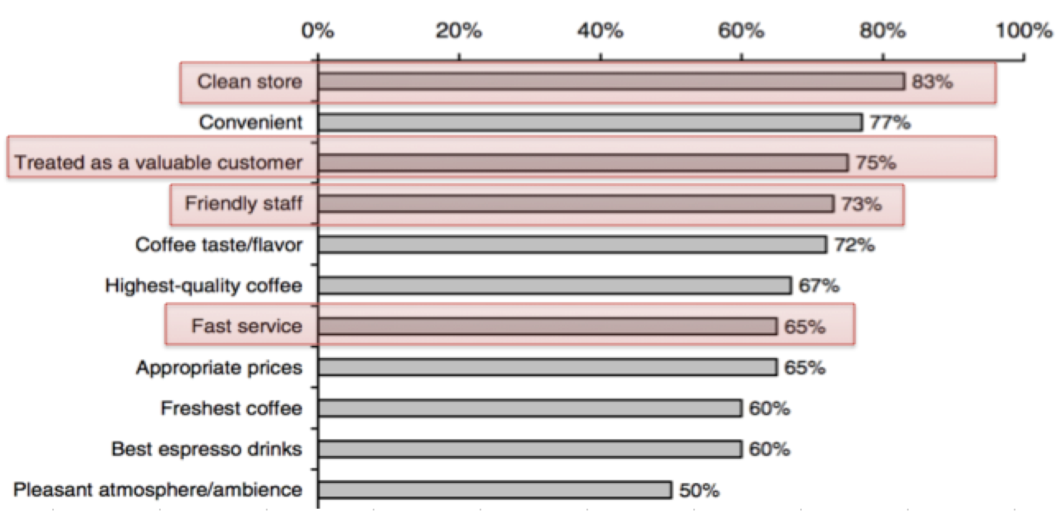
"What would cause a customer to not feel welcome?" she recalls asking herself. She reasons the cause has to be based on perception and customers' interactions with store staff. Making note of the fact her company's employees are among the most incentivized and motivated of any retail business, she skims through various reports looking for relevant insight. Upon coming across a report titled *Factors Driving "Valued Customer" Perception*, Day concludes the issues attributable to such a high rate of dissatisfaction stem from cost and service.

Exhibit 11 Factors Driving "Valued Customer" Perceptions

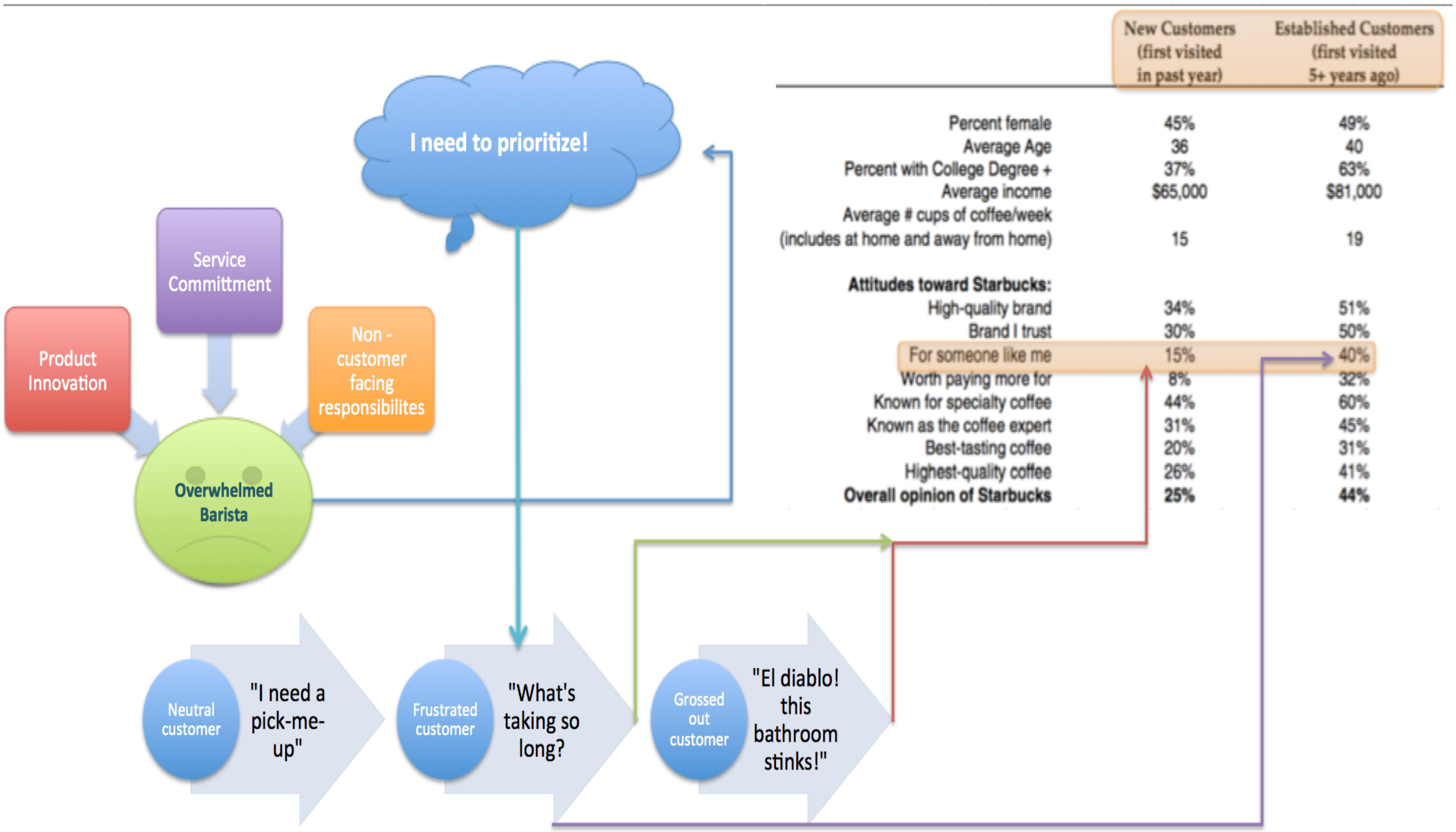
How could Starbucks make you feel more like a valued customer?		% Responses
Improvements to Service (total)		**34%**
Friendlier, more attentive staff	SERVICE	19%
Faster, more efficient service		10%
Personal treatment (remember my name, remember my order)		4%
More knowledgeable staff		4%
Better service		2%
Offer Better Prices/Incentive Programs (total)		**31%**
Free cup after x number of visits		19%
Reduce prices	COST	11%
Offer promotions, specials		3%
Other (total)		**21%**
Better quality/Variety of products		9%
Improve atmosphere		8%
Community outreach/Charity		2%
More stores/More convenient locations		2%
Don't Know/Already Satisfied		**28%**

Holding off on cost for a moment, Day looks for additional insights contributing to her customers' dissatisfaction regarding service. She asks herself "what are my customers looking for?" Day finds her answer in a report titled *Importance Rankings of Key Attributes in Creating Customer Satisfaction*. Not surprisingly, Day makes note of the fact 3 of top 5 attributes are service related and that 65% of customers were in need of speedier service.

To be read: *83% of Starbucks' customers rate a clean store as being highly important (90+ on a 100-point scale) in creating customer satisfaction.*



Day decides right then and there, she needs to make a stronger, more persuasive argument to do the "obvious" her company has been hesitating to do as a result of the economic downturn resulting from 9-11. The toughest part of what she would eventually have to do was convince the company's chief financial officer that her insistence to do the obvious – allow stores to hire additional resources – was actually *an investment*, as opposed to the CFO's current perception of added cost. In order to present a convincing case, Day sketches the reasoning flowing through her mind.



"Yikes! Only 15% of our incoming newer customers feel Starbucks is for someone like them", Day thinks out loud. She reaffirms the validity of results she sees before her by noting:

- Demographic of customer base *is* changing
- Younger "Artsy and Funky" customers accustomed to independent coffeehouses where "lingering was encouraged" are increasingly becoming a part of our customer base
- In order for these customers to linger and "feel welcomed", they need to experience the "intimacy" we initially set to achieve

Simply put, “the future of the company is at stake here” Day thinks to herself. “And, we can stop catastrophe from becoming true if we allowed stores to hire more people?” she continues to ponder.

Committed to closing the obvious *service gap,* Day sets out to do something about it. “OK, let’s break this down!” she proclaims and begins to jot down some additional relevant insights. Referencing the report titled *Importance Rankings of Key Attributes in Creating Customer Satisfaction*, Day comes to the conclusion one additional part-time barista should be sufficient to free up more senior staff to carry out service related details that make good on the “intimacy” promise. Day does the math with rough figures to estimate cost. In doing so, she comes up with:

Stores:	4,500
Additional weekly hours to be allocated to each store:	20
Partners hourly rate:	$9
Additional weekly cost of wages per store:	$180
Weekly cost for all stores:	$810,000
Annual spend:	$42,120,000

Presenting only the approximate $40 million cost and reasoning she outlines above should be sufficient to convince her peers and bosses, but Day acknowledges she needs to do one better and demonstrate to everyone, this plan will actually yield a higher profit.

Referencing all available reports and business statistics available to her, Day begins to logically reason once again. She is, however, aware of the fact that her analysis will be crude and will require vetting and tweaking by her team. Grabbing the chart titled *Customer Visit Frequency*, day makes the following, *logical* assumption:

- “Customers visiting our retail locations more often are likely to be more satisfied with our product and service”

Simultaneously, Day grabs a hold of a summarized report titled *Starbucks’ Customer Behavior, by Satisfaction Level* and makes a surmised correlation between visit frequency and satisfaction level.

Taking note of a second variable called *% of all Starbucks transactions* represented in *Customer Visit Frequency,* Day creates a “preliminary revenue impact mix”, thus allowing her to combine satisfaction level with transactions. Creating a revenue impact mix enables Day to associate the combined <u>new variable</u>, which she calls “Revenue Impact Factor” for the moment, with Starbucks’ categorized customer base (*Unsatisfied, Satisfied, Highly Satisfied*) to derive revenue contribution rates.

PRELIMINARY REVENUE IMPACT MIX

	VARIABLE	Highly Satified	Satisfied	Unsatisfied
A	% of Customer Base	21%	37%	42%
B	% of Transactions	62%	27%	11%
			A x B	
		D	E	F
C	Revenue Impact factor	0.1302	0.0999	0.0462
G	Factor Total		D + E + F	0.2763
		D / G	E / G	F / G
H	**Contribution to Revenue**	**47%**	**36%**	**17%**

Sample inference from above diagram: *"Highly Satisfied Starbucks' customers, about 21% of ALL Starbucks' customers, as a group account for 47% of total contribution to revenue."*

Since Christine Day decided to correlate visit frequency with satisfaction level of Starbucks' customer base, she places relevant information side by side to visualize what she was thinking. As she starts summarizing her thoughts, Day recalls the most influential statistic that drove her to rethink customer service in the first place. In doing that, she reasoned that in order for someone to be truly, *highly satisfied*, they must indeed *always feel welcome*. Under the same "logic", she concludes there exists an opportunity to increase revenue by addressing service issues; an opportunity she sees coming from 19% of Starbucks' customer base.

Category Details	Customer Base	Primary Inference	Secondary Inference
Highly Satisfied 7.2 Visits $4.42 8.3	21%	ALL 21% ALWAYS FEEL WELCOME	BEST CUSTOMERS
Satisfied 4.3 Visits $4.06 4.4	37%	18% ALWAYS FEEL WELCOME	**19% of "Satisfied" don't ALWAYS feel welcome**
Unsatisfied 3.9 Visits $3.88 1.1	42%		

"What if the 19% of those who say they're satisfied ***also*** always felt welcome?" Day probes. "It's pretty clear, they'd join the ranks of Highly Satisfied" she reassures herself. In that case, 19% of the customers' visit frequency jumps from an average of 4.3 to 7.2, ticket value per customer jumps from $4.06 to $4.42 and last but definitely not least, average life jumps from 4.4 years to 8.3 years.

Christine Day is left with one last task before she decides to share her thoughts and seek confirmation or guidance. She puts together a simple *before* and *after* of expected weekly revenue for a single retail location.

		Weekly Customers = 570		Weekly Revenue		$15,400		
	CURRENT				FORECAST			
	Customer Base	Avg. Customers	Revenue Contribution	Revenue Share	Per Customer	Base Reallocated	Customers	Revenue Share
Highly Satisfied	21%	120	47%	$7,238	60.47	40%	228	$13,787
Satisfied	37%	211	36%	$5,544	26.29	18%	103	$2,697
Unsatisfied	42%	239	17%	$2,618	10.94	42%	239	$2,618
REVENUE TOTAL		**570**		**$15,400**				**$19,102**

Based on her flow of thought, assumptions and inferences, she concludes the $180 investment in hiring one other person, or allocating 20 additional hours to each store, can potentially and highly likely will yield additional revenue of $3,702 on a per store basis.