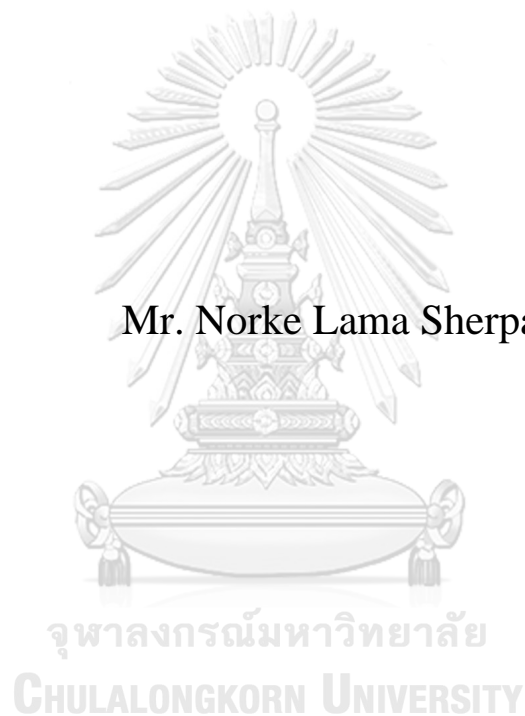


The Application of Marketing analysis : A case study of
Starbucks in the US



Mr. Norke Lama Sherpa

An Independent Study Submitted in Partial Fulfillment of the
Requirements
for the Degree of Master of Arts in Business and Managerial Economics
Field of Study of Business and Managerial Economics
FACULTY OF ECONOMICS
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นายนอร์เค ลามา เซอร์ฟา

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ลิขสิทธิ์ของจุฬาลงกรณ์มหาวิทยาลัย

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By Mr. Norke Lama Sherpa
Field of Study Business and Managerial Economics
Thesis Advisor Lecturer Dr KATIKAR TIPAYALAI

Accepted by the FACULTY OF ECONOMICS, Chulalongkorn University in Partial Fulfillment of the Requirement for the Master of Arts

INDEPENDENT STUDY COMMITTEE

----- Chairman
(Assistant Professor NIPIT WONGPUNYA)
----- Advisor
(Lecturer Dr KATIKAR TIPAYALAI)
----- Examiner
(Assistant Professor SAN
SAMPATTAVANIJA)



จุฬาลงกรณ์มหาวิทยาลัย
CHULALONGKORN UNIVERSITY

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ปีการศึกษา	2564	ลายมือชื่อ อ.ที่ปรึกษาหลัก

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TIPAYALAI

Starbucks Corporation is an American multinational with coffee stores all across the world and is the leading market share in a retail coffee stores. In this Individual Study I will be assessing the marketing strategy of Starbucks in the USA by applying SWOT analysis, Marketing Mix 4ps, and Porter's 5 forces. A qualitative Literature Review of previous studies was used as a methodology to assess the marketing strategies of Starbucks. Furthermore, in order to find which marketing strategy Starbucks can implement to increase its market share, I used the Quantitative Strategic Planning Matrix (QSPM), and External and Internal Factor Evaluation analysis models. This paper uses Subjective Weighting for weights and ranking for analysis. The findings suggest that Starbucks differentiates its product from its competitors and implements Premium Pricing Strategy to maintain its market share. As for the new marketing strategy, Starbucks can implement a market penetration strategy and focus on the increasing market share of current products in existing markets through Green Marketing.

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1. Introduction

Starbucks Corporation is the leading retail coffee store in terms of market share as they have 40% of the total coffee stores all across the United States with 15,337 stores. Currently, even though the US coffee retail market is dominated by Starbucks, other major retail stores that had success in other domains such as McDonald's and Dunkin Donuts are entering the coffee retail market. When other major retail stores that already that have established brand awareness and strong financials enter the retail coffee market, Starbucks needs to be wary of losing its dominant market position to its competitors. Thus, Starbucks need to understand its own current marketing strategy to see whether their strategy is working or not. Because Starbucks is a market leader in this sector, some companies will try to imitate Starbucks strategies to gain market share whereas other companies will try to come up with different marketing strategies to fill the gap where customers find more value and shift toward Starbucks competitors. Furthermore, due to the changing landscape in marketing strategies courtesy of environmental awareness amongst consumers as well as drastic changes in consumer behavior because of the Covid-19 pandemic, companies need to come up with new feasible marketing strategies to appeal to the consumers and their beliefs. In this study I want to answer these two research question- What marketing strategies does Starbucks currently use to maintain its leading market share in the industry and what new marketing strategy can Starbucks implement to maintain or increase their market share in the industry?

Therefore, in this individual study, I wanted to answer what marketing strategies a market leader like Starbucks implements to maintain its leading market share in the industry. Furthermore, I also wanted to come up with a feasible marketing strategy that Starbucks can implement to maintain or increase its market share in the industry.

In terms of strategy, Starbucks has adopted a differentiation strategy where they differentiate themselves from their competitors by providing premium quality coffee, great customer service, and aesthetic-looking cafes while charging premium prices relative to their competitors. In this study, I have conducted an in-depth study of how a company maintains its leading market share in the industry and how it can further expand its market share using new marketing strategies

As for the significance and contribution of this paper, I have applied a combination of tools and marketing theories to identify marketing strategies that Starbucks uses. According to Paurova et al. (2019), when creating a marketing strategy, instead of relying only on marketing mix, companies need to consider other factors and tools and that marketing strategy needs to be constantly developed according to market conditions. In this study I have used marketing mix to understand the marketing strategies implemented by Starbucks as well as various tools such as SWOT analysis to identify internal and external factors that affect Starbucks and Quantitative Strategic Planning Matrix (QSPM) to develop marketing strategy for Starbucks.

Previous literatures on marketing strategies have made direct correlation between success of a business and its marketing strategies. According to Paurova et al. (2019), Marketing strategies greatly influences the success of a company and that a good marketing strategy leads to customer satisfaction and increased profitability. Thus, we can deduce that a good marketing strategy translates directly to profitability and customer goodwill for a company.

Finding the right marketing strategy can save a company lot of money and time. According to David et al. (2017), if marketers can do an assessment of various strategies prior to investing for marketing then companies can save millions of dollars.

My study will help understand marketing strategies that works for Starbucks and help create marketing plan to cater to needs of customer and communicate company value to customers. This study also provides methodology for companies to assess attractiveness of various strategies so that they can form a successful marketing strategy. Most of the literatures that study marketing strategies for Starbucks uses marketing mix or SWOT analysis. The gap that this study hopes to fill is to use a mixture of SWOT analysis, External and Internal Factor Evaluation (EFE & IFE) and Quantitative Strategic Planning Matrix (QSPM) in research of marketing strategies of Starbucks.

2. Literature Review

In my Individual Study paper, the primary objective is to understand Marketing Strategies applied by Starbucks using tools such as SWOT analysis, Porter's 5 forces, and Marketing Mix 4Ps. The secondary objective of this paper is to use tools such as the Quantitative Strategic Planning Matrix to evaluate alternative strategies that Starbucks can implement to maintain or improve its market share. There have been several literatures that have studied these tools to analyze marketing strategies for Starbucks and I have reviewed the following papers that justify my research study.

In the case of Porter's 5 Force analysis. According to Massimiliano (2021), it is easier for retail coffee stores to open a coffee store as there is low capital required. However, Markoulakis (2012), argues that the capital required for retail coffee stores to compete with major coffee stores like Starbucks when it comes to distribution and the number of retail stores is too high. The threat of substitutes is low for Starbucks according to Sakal (2018), as Starbucks has diversified into selling other products such as tea and fruit juices as well. For the bargaining power of suppliers Markoulakis (2012), argues that since there are a lot of suppliers who are from developing countries, the bargaining power of suppliers is low. As for the competitive rivalry according to Geereddy (2013), the competitive rivalry is moderate for coffee retail stores as the industry has matured and there is a low growth rate as the coffee store industry is oversaturated with coffee stores in various locations.

For SWOT analysis Geereddy (2013), argues that Starbucks locating itself in prime locations with high traffic and its significant market presence in the United States retail coffee market are key signs of strength for Starbucks. For the weakness of Starbucks, according to Madhave (2022), Starbucks products are priced at a higher premium price than its competitors and Musonera (2021), adds that firms such as McDonald's and Dunkin Donuts price their products lower to capture the market that does not want to pay a premium price for retail store coffee. As for opportunities for Starbucks, according to Geereddy (2013), Starbucks can use its brand recognition and expertise to enter a new market. Whereas when it comes to threats to Starbucks, Geereddy (2013) adds that if there is an economic crisis then customers are likely to shift away from premium products to lower-priced products.

For the marketing mix strategy, according to Musonera (2021), Starbucks uses a premium pricing strategy to differentiate its product from its

competitors.

City, Q. (2021) applies External and Internal Factor and Quantitative Strategic Planning Matrix(QSPM) to come up with strategies for Starbucks to maintain or improve their market share in the market. According to David et al. (2017), QSPM should be used to assess alternative strategies and is an important tool that can be used to make a successful marketing strategy. Therefore, in this study I have used these tools to build an effect strategy for Starbucks.

3. **Company Background and History**

Starbucks is a multinational coffee retail store and was founded in Seattle, the United States in 1971. It was first founded by Jerry Baldwin, Gordon Bowker, and Zev Sieger. The initial business model of Starbucks was based on selling premium coffee beans and coffee equipment to their customers. The name Starbuck was inspired by the character in the book 'Moby Dick'. Due to their high-quality coffee beans, their reputation became widespread and so they opened their outlets in other areas of Seattle as well. The Starbucks that we know of today as a premium retail coffee store only happened after Howard Schultz, a fellow salesman who used to sell coffee equipment to stores first came to Starbucks and saw the potential the store had. After convincing the founding partners to hire him in the company, Howard Schultz convinced the partners that Starbucks could be more profitable and scale higher if they would sell coffee as well instead of just coffee beans. It was after a business trip to Italy where Howard Schultz was impressed by the Italian art of coffee making and the communal vibe created around coffee stores that he came back to the United States and started instilling the art of baristas freshly brewing coffee for customers in front of them that is still in vogue today.

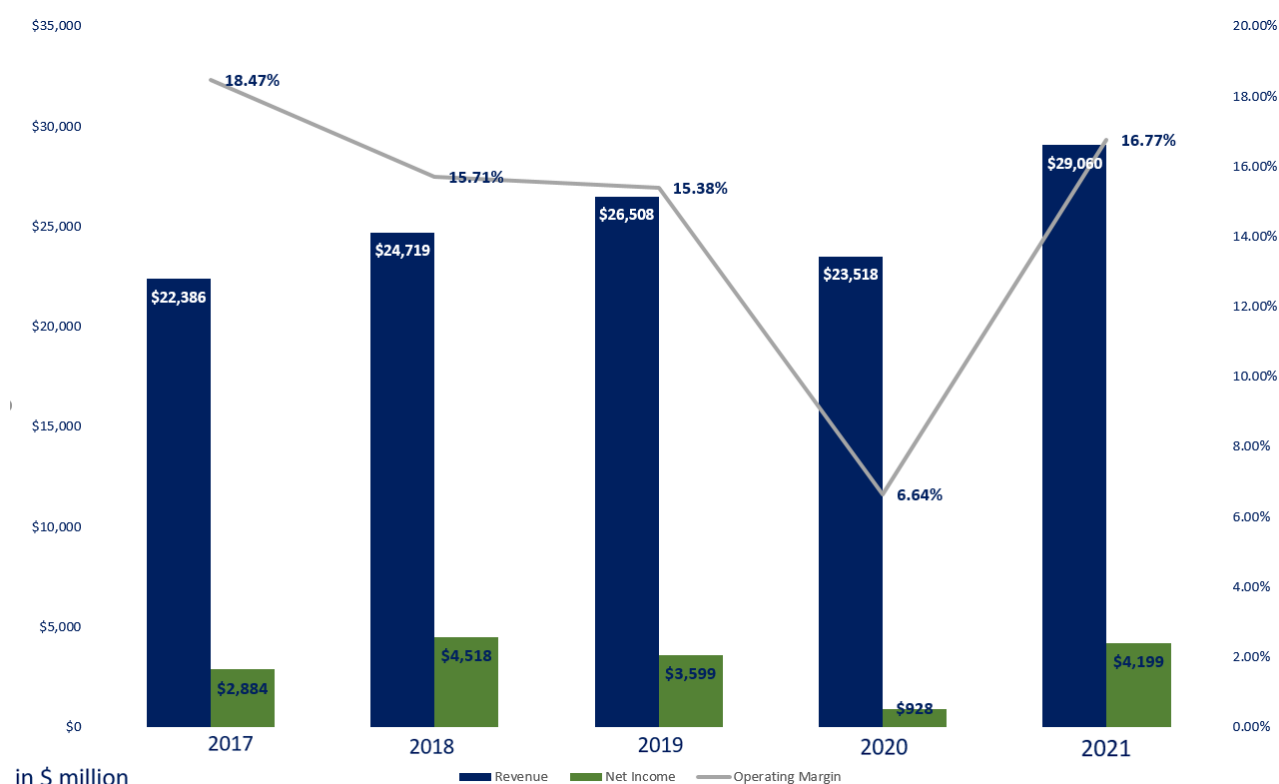
In North America as of 2021, Starbucks operates 16,826 stores of which 9,861 are company-operated and 6,965 stores are licensed stores.

Globally speaking Starbucks operates 17,007 stores worldwide of which

7,272 stores are company operated and 9,735 stores are licensed stores.

3.1) Financial Result for FY 2021

For the Fiscal Year 2021, Starbucks net revenue was \$29.1 billion with a 24% growth rate considering in 2020 net revenue for Starbucks was \$23.5 billion. The operating income increased by \$1.6 billion in 2020 to \$4.9 billion in 2021.



Graph : Starbucks Financial Performance (FY 2017-FY 2021)

Source : Starbucks' 10-k , 2021

3.2) Starbucks Stock Performance

In 2021, Starbucks returned \$2.1 billion to shareholders through dividends in comparison to FY 2020 where Starbucks returned \$3.6 billion to shareholders through share repurchasing and dividends. During the Market Crash caused by the Covid-19 virus, Starbucks' price dropped as low as \$50 per share in March of 2020 from the highs of \$100 per

share. The US government and Federal Reserve's strategy of quantitative easing infused capital into the equity market from which we saw the S & P 500 rallying to record highs after the 'corona dump'. In this rally, we saw Starbucks stock price rise from the lows of \$50 per share to an all-time high price of \$126 per share, a 150% price rally in a span of a year. During this period government also started relaxing Covid restrictions and allowed businesses to operate and thus, Starbucks were able to increase its revenue by 24% in 2021 compared to 2020.

After the historic rally in the equity market, we then saw an unprecedented increase in inflation and the rising cost of living which caused the Federal government of the United States to raise the interest rate and follow a quantitative tightening strategy to control the inflation rate. This Quantitative tightening measure by the government also had an effect on the equity market causing investors to shift their portfolios towards risk-averse financial instruments like bonds and thus reduce their holdings in the equity market. Today Starbucks is trading at the range of \$70- \$80 per share, almost 40% down from the all-time high share price. However, in a high time frame perspective which would be looking at the stock performance from the recession of 2008 when Starbucks was trading at \$3 per share till now, Starbucks share price has increased by 2000% giving investors a return of almost 20x multiples over the course of 14 years.





Chart - Starbucks (SBX) share performance
Source - Trading View



SBUX 64.96 % SPY 49.58 % NDAQ 81.96 %

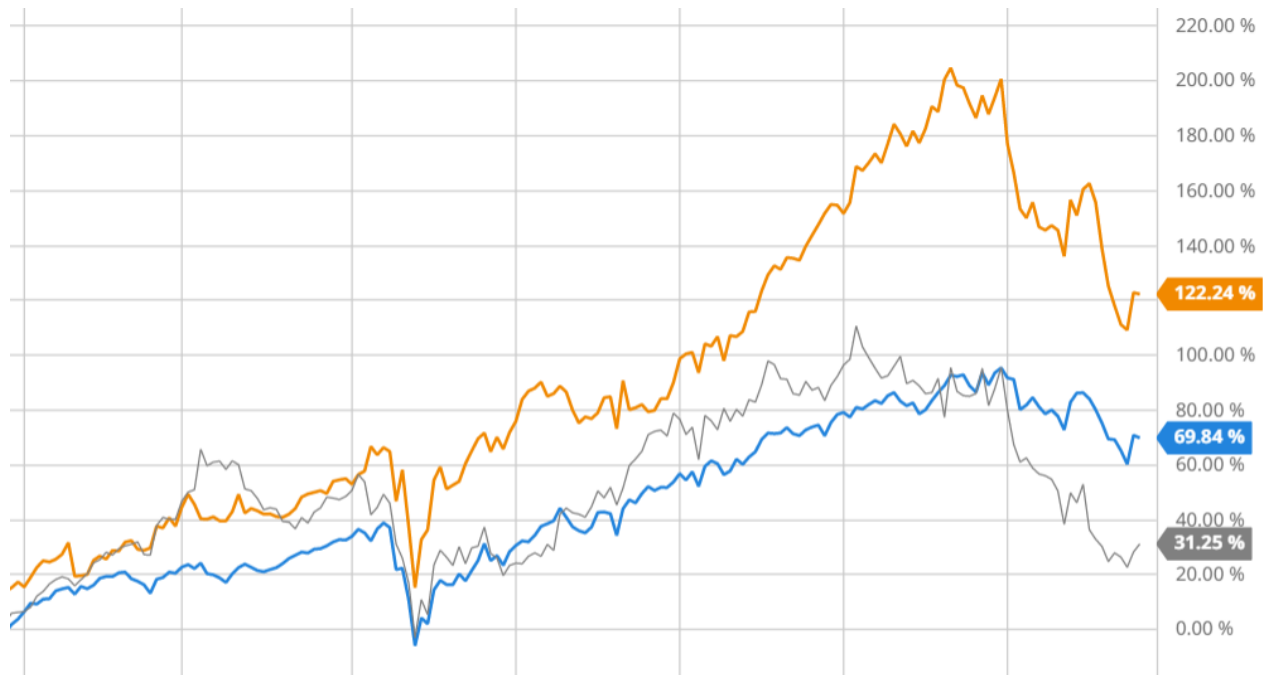


Chart - Starbucks (SBUX) stock in comparison with S&P 500 (SPY) index and Nasdaq (NDAQ) index.

Source - Barchart/ stocks

4. Methodology

In this study, I will be assessing the marketing strategy of Starbucks in the USA using established market theories such as SWOT analysis (Proctor, 2000), Marketing Mix 4ps (Borden, 1964) and Porter's 5 forces (Porter, 2008). I will be using Porter's 5 forces to help understand the industry structure of the coffee industry and mark out Starbucks competitive advantage within it. Porter's 5 forces will help understand the external variables and structures that influence Starbucks' strategies. SWOT analysis will be done to assess which areas Starbucks can improve compared to its competitors. Finally, to understand and create effective marketing strategies Marketing Mix (4ps) will be conducted. To create a marketing strategy for Starbucks, I will be using Quantitative Strategic Planning Matrix (QSPM). To create QSPM I will be using External Factor Evaluation (EFE) and Internal Factor Evaluation (IFE).

In this study I will be using secondary research method which involves literature review and secondary data. Starbucks is one of the biggest

companies in the world and is the leading market share company in retail coffee stores, thus there have been plenty of extensive studies and literatures done on marketing strategies of Starbucks. Therefore, I have researched and summarized the literatures done on marketing strategies of Starbucks. I have also referred to secondary data from Starbucks official website, the annual report, USDA - United States Department of Agriculture), ICO - International Coffee Organization, NCDT - National Coffee Data Trends and IBISWorld websites.

5. Porter's 5 forces of Retail Coffee Industry

5.1) Threat of new entrant - Medium

According to Massimiliano (2021), In the coffee industry it is easier for new competitors due to low capital requirement and ease of setting up shops and coffee cafes in a limited budget. Although the capital requirement to set up one coffee shop is not high Markoulakis (2012), argues that the cost of capital required to compete with major coffee retail stores like Starbucks in terms of distribution, no. of retail stores, promotion is too high. This argument can be validated by the fact that there are only a few major coffee chain stores such as Starbucks, Dunkin Donuts and McCafe in the United States. Interestingly the emergency of McCafe should be a sign that other big retail stores could be looking into Coffee as a form of diversification. McDonald's had the retail footprint, prime locations and financial backing to diversify into coffee and now they are one of the biggest coffee stores in the US. According to Duke (2018), retail stores that have potential to compete with Starbucks in terms of retail footprint such as Chipotle could see it as an opportunity to further increase their revenue.

5.2) Threat of substitute - Low

“There is a mathematical relationship between the prices and demands of the coffee and its substitute products, which is represented by the cross-price elasticity of demand.” (Massimiliano, 2021, p. 106). According to the cross-price elasticity of demand equation if the price of primary product, in this case coffee increases due to fluctuation in price of coffee

beans then the demand of substitute product will increase as a result of consumers switching to economical products. This measures the price sensitivity of consumers between products demanded when their prices change. Substitute products for coffee would be tea, energy drinks and fruit juices. Regarding the threat of substitution of coffee, Massimiliano (2021) notes that the threat of substitute for coffee is low because the substitute products are already existing in coffee stores and the demand of coffee stores depends actually on the convenience of store locations and preference of coffee store brands of customers. Particularly in the case of Starbucks, according to Sakal (2018), Starbucks has diversified into other products and started their brand of tea and fruit juices and Geereddy (2013) adds that Starbucks are also selling coffee bean packs and coffee makers to counter the threat of consumers making their own home brewed coffee.

5.3) Bargaining power of buyers - Low

According to Massimiliano (2021), we need to assess the demand of buyers in comparison to the number of suppliers and in terms of coffee store industry, the United States demand for coffee is price inelastic. This means that the consumers will keep buying coffee regardless of the price change thus this would entail that the bargaining power of buyers is low. Now regarding the coffee store industry, the switching cost is low for consumers which means that they can choose to purchase from other coffee stores. For example, if a customer purchases a particular coffee drink from Starbucks everyday but the price in Starbucks increases then the customer has a wide variety of suppliers to choose from where he can buy their coffee at a reduced price. This should be analyzed closely by coffee stores and strategize to retain customers.

5.4) Bargaining power of suppliers - Low

According to Porter (1996), there are few supplying companies in the industry, switching costs are high and if the industry depends on the product and there are no substitute products. Markoulakis (2012) notes that, in terms of the coffee store industry, the majority of coffee is sourced from developing country's coffee farms and there are a vast number of suppliers to buy from which makes bargaining power of supplier's low. When it comes to Starbucks, due to its size and demand volume of coffee beans a lot of suppliers depend on Starbucks purchase

for their survival which lowers supplier bargaining power.

5.5) Competitive rivalry - High

In the coffee store industry there is high intensity of competitive rivalry amongst competing firms. Even though Starbucks has the majority of coffee store industry market share, the switching cost is low for consumers and competing companies like McCafe and Dunkin Donuts are providing coffee items for lower price so there is high competitive rivalry. According to Geerreddy (2013), the coffee store industry is oversaturated with coffee stores around every prime location which has resulted in industry becoming mature and low growth rate causing the intensity of competitive rivalry to be moderate.

6. SWOT Analysis

6.1) Strength

Global Brand Recognition

Starbucks has one of the most recognized brand names when it comes to retail coffee chain stores. Starbucks has 8,470 company operated stores and 6,947 licensed stores (Appendix 1) making them one of the biggest retail coffee chains in the United States. This has helped Starbucks differentiate themselves from their competitors as a market leader which propelled them from a coffee store which started in Seattle to now a coffee store chain with market capitalization of \$84 billion. At present Starbucks operates around 32,000 stores in more than 75 countries. Liu et al. (2022) suggests that Starbucks has a good corporate reputation and background which is a requirement for a top global brand. According to Geerreddy (2013), Starbucks has a significant market presence in the United States with 36.7% of the market share and with Starbucks being one of the most recognized brands in the world, they can leverage it to gain significant advantage over its competition while expanding internationally.

Location and Aesthetically appealing stores

According to Geerreddy (2013), Starbucks has stores in prime high traffic

and strategic locations which are visually aesthetic and appealing, giving them competitive advantage over their competitors and helps them penetrate new markets and gain market share in the retail coffee chain stores.

Customer based loyalty

Liu et al. (2022) suggests that Starbucks' use of exquisite membership cards and the experience that Starbucks stores offer has been key to retaining customer loyalty.

According to Geeredy (2013), the membership card makes it easier for customers

in purchasing coffee and gift support thus increasing the frequency of their visit to stores. Starbucks reward program is one of the key factors behind Starbucks increase in revenue. According to Kumar (2016), in 2015 the number of My Starbucks reward program had increased up to 10.4 million users and from these 6.2 million members were gold members in 2015. Kumar (2016) argues that My Starbucks reward program had incentives for customers to purchase more products from Starbucks to receive more rewards which was a great tactic promotion wise to gain customer loyalty.

Strong Financial Performance

Revenue for Starbucks increased from \$23.5 billion in 2020 to \$29.1 billion in 2021 which showed a 24% increase (Appendix 2). Operating Income increased from \$1.6 billion in 2020 to \$4.9 billion in 2021 (Appendix 3). For shareholders of Starbucks, the Earning per Share (EPS) increased from \$0.79 in 2020 to \$3.54 in 2021. This shows that despite covid lockdown Starbucks has increased its revenue and operating income. This strong financial performance allows Starbucks to invest further in its Research and Development, marketing and locations which will help them increase market share and penetrate new markets as well.

6.2 Weakness

High priced product

Starbucks products, which are majority coffee drinks, are priced at premium compared to their competing rivals. According to Madhave (2022), Starbucks products are 38% more expensive than their competitors. While understandably the cost of premium locations and premium coffee experience are passed down to customers, other rivaling

competitors like McCafe and Dunkin Donuts have coffee drinks that are cheaper than Starbucks drinks. For customers who view coffee as a daily necessity rather than luxury experience they might shift to competitors because of their price sensitivity. Kumar (2016), argues that the premium pricing of coffee has not contributed to brand loyalty as the coffee is priced higher than the quality offered.

According to Musonera (2021), McDonald's and Dunkin Donuts are priced 35% and 10% lower than Starbucks and this premium pricing of Starbucks is something that other retail coffee chain stores could exploit to take market share. Musonera (2021) also argues that during the economic downturn, eg-2007, Starbucks sales had dropped for 8 consecutive quarters and consumers had switched to McDonald's and Dunkin Donuts during that time period.

Oversaturation of stores

According to Geereddy (2013), Starbucks strategy of aggressive expansion and overcrowding of stores in the market will cause oversaturation that can result in self-cannibalization and reduced profit margin in the long term. Self-Cannibalism in business refers to decrease in sales of a current product due to release of a new product by the same company. Starbucks operates around 15,000 stores in the United States alone and whilst this has led to increase in sales and market share for Starbucks it has also led to decrease in profit margin and sales from other stores of Starbucks itself. Sakal (2018) adds that the oversaturation of stores in a region will lead to them taking market share from one another thus hurting Starbucks growth in the long run.

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6.3 Opportunity

Emerging countries

With the market in the United States being oversaturated, Starbucks needs to look into expansion into other countries to continue its growth rate and increase market share in the world. Emerging economies with high growth potential such as India and China are prime for Starbucks to enter and capture the market share. Especially in the emerging countries,

demand for coffee is expected to increase exponentially. According to Sakal (2018), Starbucks plans to open more than 600 new stores in China given the fact that Starbucks had a revenue growth rate of 46% in the third quarter of 2018. Oliveira and Santos (2020), point that the growth rate of coffee demand in China is expected to increase by 11% annually up to 2024. With the increasing purchasing power of the rising middle class population in China as well as other Southeast Asian countries as well as an increase in demand for coffee consumption, Starbucks is primed to take advantage of this global expansion opportunity. Geereddy (2013) adds that Starbucks can use their expertise, brand recognition, financial size and experience to penetrate into a new market to increase their market share.

Digital Transformation

Starbucks is primarily known for its coffee products but recently have been expanding their product scope to accommodate changing customer behavior. Ever since Starbucks released its app in 2015, there has been increased adoption of this app's use by the customers. According to Oliveira and Santos (2020) , “ Mobile order and pay adoption boosted same-store sales by 2 percentage points, achieving 16% of total transactions in the US in 3Q 2019” (p.8) .Olivera and Santos (2020) also add that delivery has been a huge component of their sales and partnership with other companies like UberEats in the US to provide delivery service to customers has increased their revenue. Post covid, consumer behavior has changed dramatically with more people working from home and wanting the option to order online from their home instead of going to the store itself. This brings in a significant opportunity for Starbucks to line themselves up for digital transformation and adopt necessary changes to

6.4 Threat

Economy downturn

A recession will affect many aspects of business throughout the country due to contraction of economic growth and capital. Starbucks being known as one of the premium brands in coffee retail stores might deter customers from paying premium price for coffee during a recession as was observed in the housing crisis of 2007-2008. During that recession Starbucks had to shut down around 900 of its stores in the US and laid off more than 7000 workers due to decline in sales throughout that period. During an economic downturn, customers will potentially switch to

competitors who have priced their product at a cheaper price compared to Starbucks. There is also a threat that if the economic downturn continues longer than it could change customer behavior in the long run which could have detrimental effects on Starbucks revenue and profitability. According to Geereddy (2013), the economic crisis will make consumers shift away from premium products to lower priced products due to their limited budget.

Emergency of new competition

Right now Starbucks major competitors include McCafe, Dunkin Donuts, Costa Coffee. Dunkin Donuts is its closest competitor in terms of market share with Dunkin Brand taking 25.6% market share to Starbucks 36.7% (Appendix 4).

According to Sakal (2018), coffee roasters that do not have stores but sell directly to consumers through their presence in social media such as Onnit and Black Rifle Coffee. These competitors can gain competitive advantage in pricing by pricing themselves lower than Starbucks coffee items and thus gain market share.

7. Marketing mix (4ps)

According to Singh (2012), marketing mix is an amalgamation of 4 marketing decision variables that allows a company to form a strategy to market its product and services. The 4 variables are product, price, place and promotion and in this study I will be using a marketing mix to identify how Starbucks can develop marketing strategies to boost their brand image.

7.1 Product

Starbucks has various types of beverages which range from different types of coffee to tea and coffee shakes which are known as Frappuccino. In terms of coffee, Starbucks has coffee types that range from Espresso, Caffe Americano, Caffe Latte, Cappuccino, etc. For Frappuccino drinks, Starbucks product items are Match White Chocolate Affogato, Chocolate Cream Chip, etc. For tea products Starbucks has Green Tea Latte, Matcha and Espresso Fusion, etc.

Starbucks also offers other bakery items such as cake, ice-creams,

waffles. Other bakery items include sausage roll, cookies and pie as well. Starbucks has also diversified to selling sandwich, omelet bistro, soups, pasta and salads as well. Starbucks also sells packaged foods which included potato chips of various flavors as well as freshly baked croissants and raisins at their store.

Starbucks Coffee Beans are Arabica beans which are sourced from different regions and Starbucks makes sure that the standard of coffee beans is of highest quality. The beans for the coffee are sourced from coffee farms situated at higher altitudes and this gives the coffee beans a premium quality and flavor. (Starbucks, 2022). According to Wei (2016), Starbucks also has a tasting department that goes through a rigorous process of selecting coffee flavor by tasting it 250,000 times to ensure it is of unique and special quality. It affirms the fact that Starbucks differentiates themselves from their competitors by providing premium coffee beans.

7.2 Price

According to Musonera (2021), Starbucks premium pricing strategy is targeted at consumers who correlate high price with high value which leads them to purchase expensive products. Starbucks differentiates their product from their competitors and it shows in their price as they are priced at premium compared to Dunkin Donut and McCafe. This would be the premium pricing strategy that Starbucks employs because of the premium brand image they have cultivated over the years with consumers regarding their product and the ambience of the cafe that comes with it. A medium sized (Venti) fresh brewed coffee in Starbucks costs \$2.10 in the USA. (Starbucks, 2022). This additional premium cost is for the top quality coffee, ambience of the cafe and unique customer service that customers enjoy in Starbucks Cafes. This strategy allows Starbucks to maintain their brand image as a premium brand

7.3 Place

According to Jang and Jung (2013) , a lot of Starbucks stores have settings made with cherry blossoms with soothing lights with emphasis on the aesthetics of the store for their customers. This experience would evoke all senses of touch, sight, smell and sound which are key elements to activate customers' sensory experience. Jang and Jung (2013) also add that Starbucks ability to activate emotional memories and create emotional connection with its customers are key to their marketing

strategy.

Currently in North America there are more than 15,000 Starbucks stores and one of the strategies they have applied is to open a Starbucks in every prime location so that their stores are visible and accessible to their consumers.

7.4 Promotion

Starbucks use of loyalty cards allows their customers to gain various promotions set by the stores. Starbucks 'My Rewards' program offers various promotions such as free coffee or reduced pricing and upgrades of products if they have the card and reach a minimum money spent on their card. Another one of their promotions is providing a 10 percent discount to customers who bring their own drinking cup or tumbler. According to Lingley (2009), Starbucks focuses primarily on word of mouth marketing and partnership with key alliances which helps them expand their customer reach and product image.

8. Marketing strategy during Covid-19 pandemic

In the beginning of 2020, when the United States of America declared Covid-19 a pandemic and the government issued a full lockdown, all of the businesses in the States suffered massive loss due to closure of business and loss of revenue. The Hospitality and Restaurant sector were hit one of the hardest as they were not able to pivot to remote working like other industries. Starbucks was also impacted by the covid-19 pandemic with revenue and profit decreasing a lot compared to previous years. The last time Starbucks had this massive negative impact on sales and net profit was in the recession of 2008-2009 during the housing market collapse in the United States which was caused by overleveraged financial derivatives created by Banks. Here we can see a correlation in that Starbucks performance is heavily reliant on economic health of the country and an economic downturn or recession can impact Starbucks bottom-line significantly.

However, in a study on how Starbucks navigated through the covid pandemic according to Kee et al. (2021), about 70% of Starbucks customers were still visiting and purchasing drinks from Starbucks during this pandemic which suggests that consumers are still loyal to Starbucks coffee even during the Covid-19 pandemic. Some of the strategies that

Starbucks applied to maintain their brand image and customer loyalty were to first and foremost prioritize health of their customers by following CDC guidance, following mask mandates where required and cleaning and sanitizing their facilities to meet public health guidelines. To ensure that the customers received the best service, Starbucks made sure that the employees were happy and satisfied as well by providing them mental health support and providing financial support to employees who were facing financial difficulties due to covid-19 pandemic. Key Strategies to maintain market share of the coffee retail industry was also to embrace the new normal and pivot accordingly. Starbucks focused on improving their drive thru service and delivery service. Starbucks also improvised on grab and go service where customers were able to pre-order from their mobile phone app and Starbucks also upgraded their app and rewards which gave incentive for customers to use their application for better convenience. (Starbucks, 2021)

9. Future Strategies and Recommendations

City, Q., (2021) also used the Quantitative Strategic Planning Matrix (QSPM) to evaluate best possible strategic factors that could be used for marketing strategy for Starbucks.

The steps to create recommendation was to conduct SWOT analysis and Porters five forces and list internal and external factors that affects Starbucks. The external factors include opportunities and threats whereas internal factors include the strength and weaknesses. The second step is to assign weights to each factors. The weights range from a score of 0 to 1, with 0 being the least importance and 1 being of the highest importance. Giving weight to each factor is important because we can decide which factor affects Starbucks more and make a calculated decision. As for the ratings, the numbers range from 1 to 4 with 1 being a company reacting to the factor with least response and 4 being a company reacting the factor the most.

Subjective assigned weighting was applied for weights and rankings for this analysis. According to Jurevicius (2021), assigning weights and ratings for EFE and IFE matrices is a subjective process where we need to use our opinion as well as opinion of analysts to assign weights and ratings.

After the weight and ratings are assigned to each factor, the next step is to multiply the factors weight by its ratings to get a weighted score for each factors.

After the EFE and IFE matrix is conducted, the next step is to develop Quantitative Strategic Planning Matrix (QSPM) where two potential strategies Market Penetration and Product Development were selected to analyze. Market Penetration is a strategy where Starbucks would focus on increasing market share by focusing on increased sales of current product in current market whereas Product Development is a strategy where Starbucks would focus on introducing new products to the existing market. The weight for the QSPM matrix is retrieved from the EFE and IFE matrix and then we assign attractiveness of the factors to each strategy. The attractiveness score is rated from 1 to 4 with 1 being the least attractive and 4 being the most attractive. According to David et al. (2009), assigning attractiveness scores while subjective requires good judgement and should be rational and reasonable.

After assigning the attractiveness score for each strategy, the next step is to calculate total attractiveness score (TAS) by multiplying the weights with the attractiveness score. After that the next step is to sum up the total attractiveness score (TAS) of each strategy. The strategy with the highest sum of total attractiveness score (TAS) will be selected as a new marketing strategy.

9.1 External Factor Evaluation (EFE)

External Factor Evaluation (EFE) matrix is an analysis method used to evaluate external factors that affect a business and in this study I used Porter's 5 force and SWOT analysis to identify factors for this analysis. The first step is to list external factors that contains opportunities and threat factors for Starbucks.

Table 1 : External Factor Evaluation (EFE)

Key External Factors	Weight	Rating	Weighted Score
Opportunities			
Emerging countries with high demand of coffee	0.15	4	0.60

Digital Transformation in consumer behavior	0.20	4	0.80
Growth of coffee consumption	0.10	3	0.30
Diversify into other products	0.05	3	0.15

Threat

Economy Downturn or Recession	0.05	1	0.05
Emergence of new competition	0.20	2	0.40
Consumer preference towards Substitute products	0.15	2	0.30
Coffee supply decrease due to supply chain issue	0.10	2	0.20
Total	1		3.25

A rating between 1 and 4 is given to see how Starbucks's current strategies respond to the factor where:

- 1 – response is poor;
- 2 – response is average;
- 3 – response is above average; and
- 4 – response is superior.

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9.2 Internal Factor Evaluation (IFE)

Internal Factor Evaluation (IFE) matrix is an analysis method used to evaluate internal factors that affect a business and in this study I used Porter's 5 force and SWOT analysis to identify factors for this analysis. The first step is to list internal factors that contains strength and weakness factors for Starbucks.

Table 2 : Internal Factor Evaluation (IFE)

Key Internal Factors	Weight	Rating	Weighted Score
----------------------	--------	--------	----------------

Strength

Brand Recognition	0.15	4	0.60
Location and aesthetically appealing stores	0.20	4	0.80
Financial Strength	0.05	3	0.15
High quality product	0.10	4	0.40

Weakness

High Price	0.20	2	0.40
Oversaturation of stores	0.10	2	0.20
Dependent on suppliers	0.15	1	0.15
Operation cost is high	0.05	2	0.10
Total	1		2.80

A rating between 1 and 4 to is given to see how Starbucks's current strategies respond to the factor where:

- 1 – response is poor;
- 2 – response is average;
- 3 – response is above average; and
- 4 – response is superior.

9.3 Quantitative Strategic Planning Matrix (QSPM)

Table 3 : QSPM Matrix based on SWOT

Quantitative Strategic Planning Matrix	Market Penetration (Strategy where focus on increasing sales of existing product in existing market)	Product Development (Strategy where new product is introduced to an already existing market)
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Key Factors	Weight	AS	TAS	AS	TAS
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Opportunity

Emerging countries with high demand of coffee	0.15	2	0.30	2	0.30
Digital Transformation in consumer behavior	0.20	4	0.80	2	0.40
Growth of coffee consumption	0.10	4	0.40	3	0.30
Diversify into other products	0.05	3	0.15	4	0.20

Threat

Economy Downturn or Recession	0.05	2	0.10	2	0.10
Emergence of new competition	0.20	4	0.80	2	0.40
Consumer preference towards Substitute products	0.15	2	0.30	4	0.60
Coffee supply decrease due to supply chain issue	0.10	2	0.20	3	0.30

Total	1.0				
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Strength

Brand Recognition	0.15	4	0.60	3	0.45
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Location and aesthetically appealing stores	0.20	4	0.80	2	0.40
Financial Strength	0.05	4	0.20	2	0.10
High quality product	0.10	3	0.30	2	0.20

Weakness

High Price	0.20	3	0.60	2	0.40
Oversaturation of stores	0.10	1	0.10	1	0.10
Dependent on suppliers	0.15	1	0.15	3	0.45
Operation cost is high	0.05	2	0.10	2	0.10

Total	1.0		5.90		4.80
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Findings

Table 3 shows the QSPM Matrix based on SWOT analysis where we assessed strength, weakness, opportunities and threats for two strategies - Market Penetration and Product Development.

The Quantitative Strategic Planning Matrix (QSPM) score for two strategies - Market Penetration and Product Development are 5.90 and 4.80 respectively.

Market Penetration has the higher score with 5.90 and thus for new marketing strategy of Starbucks I recommend a Market penetration strategy for Starbucks. This indicates that Starbucks needs to focus on strategies that increase their sales of existing products in an already existing market.

Limitations and Improvement of QSPM matrix.

QSPM is a great analytical tool to evaluate strategies and according to

David et al. (2017), QSPM allows markets to estimate the factors affecting strategies by assigning numerical values to it. However, QSPM does have limitations to it as well. According to David et al. (2017), the weight, rating and attractiveness scores are based on assumptions and judgement. Therefore, this subjective assignment of weights and ratings can have personal bias problem and thus researcher need to take every step possible to remove personal bias.

QSPM allows us to evaluate strategies however, there can be improvements done on this approach as well. There are several papers that have suggested various approaches to improving the QSPM matrix. According to Nasab and Milani (2012), since judgement is used quantify weights and attractiveness score, a new approach where fuzzy numbers are used to calculate attractiveness score alongside employing Multi criteria decision making (MCDM) model can be an improvement to the QSPM model.

In another study a quantitative technique called LINMAP technique is used to improve upon the QSPM model. Shahbandarzadeh and Haghghat (2010) note that in order to remove the problem of attributing weights through judgement, LINMAP technique can be used to to assign weights in IFE matrix and EFE matrix in a scientific way.

9.4 Marketing Mix Strategy.

Now that we have narrowed down to Market Penetration strategy for Starbucks which means the recommendation would be a strategy that relies on increasing sales of already existing products in an existing market. “Branding usually assures high or at least consistent quality and hence encourages repeat purchasing” (Singh, 2012, p. 43) .

Branding is of high importance when it comes to customer loyalty as customers are always looking for value and quality for their monetary purchase of any products or services. One of the marketing strategies Starbucks can implement and focus on to improve their branding is Green Marketing. Green Marketing is a type of marketing where companies market how their production and distribution processes are environmentally friendly to provide eco-friendly products to consumers. According Dwipamurti et al., (2018), the effect of green marketing on brand image and consumer purchase uses quantitative methods to hypothesize correlations and study the findings. According to Dwipamurti et al., (2018), Green marketing has direct influence on branding of a company and also has a positively significant effect on

purchasing decisions of customers. The result from this empirical study also suggests that positive brand image has positive and significant effect on customer purchase which goes to say that Green Marketing leads to positive brand image for Starbucks which will directly lead to positive effect on consumer purchase. Since we are going for a marketing penetration strategy, this Green Marketing strategy is an optimal marketing strategy to increase sales of products.

9.5 Recommended Strategy -

Market Penetration strategy where Starbucks focus on increasing market share of current products in existing markets through Green Marketing.

Actionable Suggestions -

As for place marketing mix, Starbucks can start focusing on selling through digital platforms. A solid social media presence can allow Starbucks to funnel sales through online channels and delivering straight to consumers can increase the sales revenue without having to change product items or expand location of stores.

To ensure that Starbucks signals their Green Market strategy to their consumers, advertisements and awareness campaigns about their environment friendly coffee bean procurement process is also of necessity. This can be done by blog posts, advertisements, podcasts and influencer brand partnerships. As for the product since the strategy recommended is for existing products a slight change to be recommended is to replace plastic cups and replace it with cups which are recyclable and eco-friendly. Another recommendation is also to keep continuing Starbucks discount promotion for customers who bring their own Cup or tumbler for drinks.

Preliminary working bibliography (provide reference to useful papers for this study)

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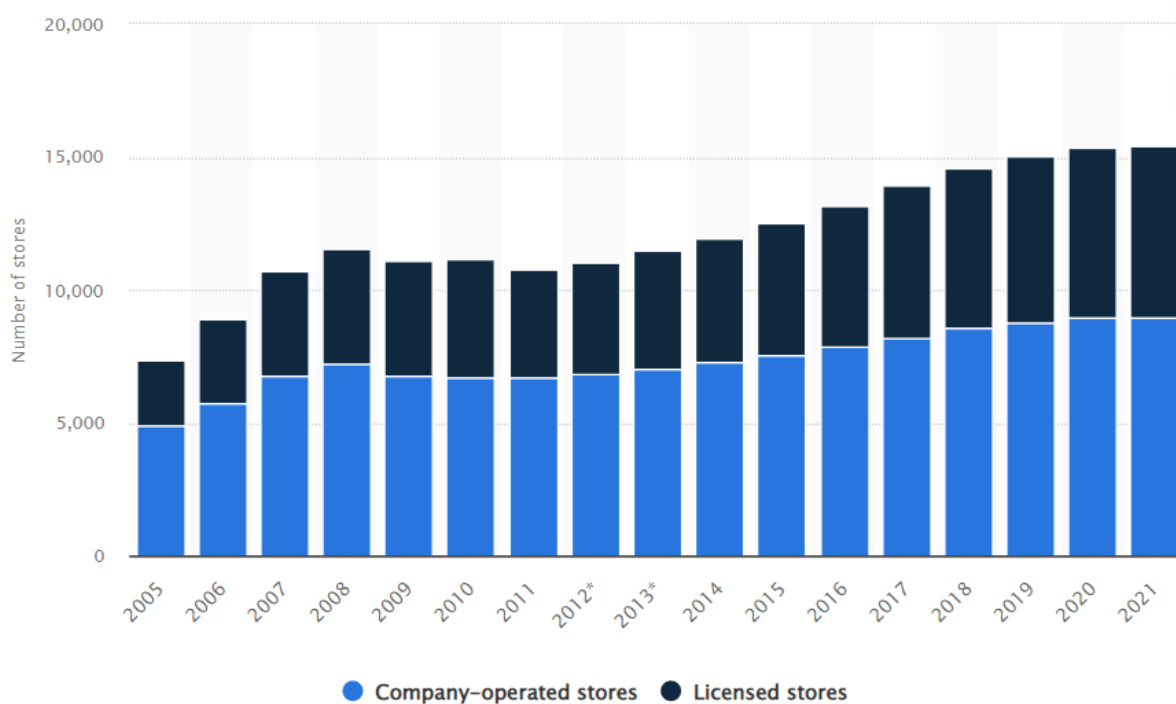
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Appendix

Appendix 1: Number of Starbucks stores in US from 2005 to 2021



Appendix 2 : Results of Operation

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Consolidated results of operations (in millions):

Revenues

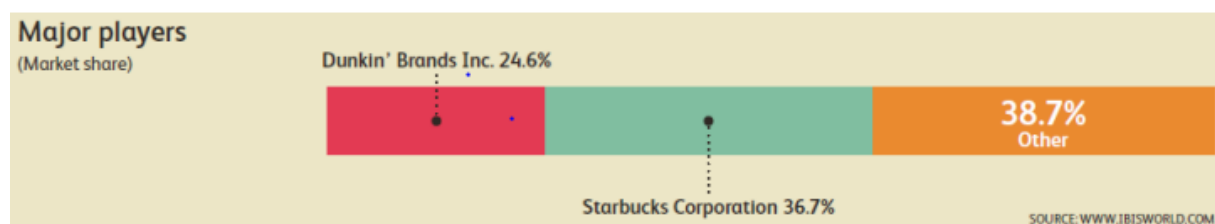
Fiscal Year Ended	Oct 3, 2021	Sep 27, 2020	% Change
Net revenues:			
Company-operated stores	\$ 24,607.0	\$ 19,164.6	28.4 %
Licensed stores	2,683.6	2,327.1	15.3
Other	1,770.0	2,026.3	(12.6)
Total net revenues	\$ 29,060.6	\$ 23,518.0	23.6 %

Appendix 3: Operating Income

Operating Expenses

Fiscal Year Ended	Oct 3, 2021	Sep 27, 2020	Oct 3, 2021	Sep 27, 2020
	As a % of Total Net Revenues			
Product and distribution costs	\$ 8,738.7	\$ 7,694.9	30.1 %	32.7 %
Store operating expenses	11,930.9	10,764.0	41.1	45.8
Other operating expenses	359.5	430.3	1.2	1.8
Depreciation and amortization expenses	1,441.7	1,431.3	5.0	6.1
General and administrative expenses	1,932.6	1,679.6	6.7	7.1
Restructuring and impairments	170.4	278.7	0.6	1.2
Total operating expenses	24,573.8	22,278.8	84.6	94.7
Income from equity investees	385.3	322.5	1.3	1.4
Operating income	\$ 4,872.1	\$ 1,561.7	16.8 %	6.6 %
Store operating expenses as a % of related revenues			48.5 %	56.2 %

Appendix 4 : Market Share of Coffee Industry in US



Source : IBISWORLD





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VITA

NAME	Norke Lama Sherpa
DATE OF BIRTH	11 July 1995
PLACE OF BIRTH	Kathmandu, Nepal
INSTITUTIONS ATTENDED	Master of Arts in Business and Managerial Economics, Chulalongkorn University.
HOME ADDRESS	Taulung , Budhanilkantha, Kathmandu, Nepal



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