Starbucks Case Study: Innovation in CRM strategies, means of enabling E-Commerce

Brand recognition is a crucial factor for business growth when customers pay premium prices for robust brands. Marketing connects a company with its customers and aims to influence consumer consumption habits. Latest marketing trends and technologies make value addition and steady revenue stream towards a company. Marketing communication means create demand for goods and services. Chief marketing officers and brand manager designations are common in marketing departments of an organization. Organizations deploy adequate marketing budgets for brand management and the creation of a sound customer base (Kotler & Keller, 2009). Consistent change management is the essence of marketing management where the stagnant position of a company is its failure.

Starbucks Company

Starbucks has positioned its brand in the market as a high quality customer experience brand. Starbucks sells its high quality products and services at premium prices. The high quality of products and good customer experiences are the main differentiators of its brand from other coffee brands in the market. The Company has designed its stores on theme of Italian bars and provides a home like experience to its customers. The customers of Starbucks are very loyal to the brand as Starbucks gives very first priority to customer satisfaction in order to form a loyal customer base of its brand. Respectively Starbucks focuses on customer relationship management by integrating communication with customers.

Starbucks has used aggressive strategies to sustain its position as a
market leader due to intense competitive rivalry in the service industry, it has adopted branding strategy due to which it changed the logo that is more focused and highlights the sustainability of company policies. Seven attributes of marketing mix are demonstrated as product, price, place, promotion, people, process, and physical environment. (e-Marketing Mixology, 2012) The main objective of marketing mix program is to create communication and deliver value to customers. Starbucks is using different marketing strategies like customer relationship management, integrated marketing communication, creating a good customer experience and social media marketing. The objective of Starbucks is to share its customer experience with consumers from low income groups and develops a long term relationships with them. The weak point of marketing mix strategy is that it focuses on short term goals and ignores the long term interests of a company.

Starbucks has adopted a brand differentiation strategy through product uniqueness and product differentiation in order to promote its products, it has used innovation in its products and services in order to gain competitive advantage in the market. The brand has also positioned itself best coffee brand in the market by providing attractive store design, unique environment, elegant taste and high quality coffee beans (Kotler & Keller, 2009). The main target market of Starbucks, are customers who range from professionals, businessmen and tourists to students of colleges and universities. Starbucks customizes its products and services according to the tastes and culture of different regions and countries therefore it has opened its coffee shops in other countries in order to introduce its products and services to customers of international market.

Company markets and sells its products through four channels as food service operations, consumer packaged goods, licensed stores, and company's owned chain of retail stores (Starbucks Inc, 2014). Company's competitive advantage regarding distribution strategy includes approaching customers while they are at shop, dining, travelling, and at work through formulating strong distribution network (Kotler et al., 2005). Manufacturing process of fruit juices and beverages is best in class than competitors. In order to retain natural ingredients, company prepares beverages by high pressure pasteurization (HHP) process to preserve nutrients of juices (Starbucks Corporation, 2012). In addition to stores' experience and robust process of HHP, healthy beverages portfolio is also source of unique selling proposition.

www.crmasia.org
New CRM mobile application tool

Starbucks the last years has offered convenient purchase options through smart phone mobile apps. Mobile application payment option generates barcode to be usable in targeted stores. Purchasing is made by Starbucks card mobile app with the use of a scanner. Customers can reload balance through PayPal. This payment option is considered as most flexible and convenient for customers because it's processing is fast. Company has launched two iPhone applications for customers namely Starbucks card mobile and my Starbucks. Card mobile application allows enjoying the useful features of Starbucks card and mobile commerce features (Kharif, 2012). Company also launched mobile commerce features for Android smart phones. Company is gaining competitive edge in rendering mobile commerce transactions while leveraging technology to cater customers. On the other side, company's strong operating performance is aiding its global expansion strategy despite the poor consumer response due to weak economy and economic crisis.

Mobile marketing will play a major role for future marketing strategies as it might establish it as an important channel to reach and interact with consumers and may give rise to a higher level of emphasis placed on the use of mobile devices in the marketing mix. In 2010, Starbucks developed and implemented an iPhone and Android mobile application called the 'Starbucks Card Mobile Application' for customers in the United States (Sande, 2011; Starbucks, n.d. 1). The main feature of the App allows customers to generate a 2D barcode on their mobile device to be scanned and used as payment in stores. The App is an extension of Starbucks’ existing, tangible, pre-paid reward card for loyal customers (Starbucks, n.d. 1; Van Grove, 2011). The App is marketed based on its benefits in saving time and making purchases more convenient for the customer. Starbucks (n.d. 1) refers to the App as “the fastest way to pay”.

The mobile payment and reward card application is an extension of the current direction of the Starbucks' marketing strategy (Starbucks n.d. 3). Based on a growth of 21% in the usage of reward cards from 2009 to 2010 Starbucks established the utilization of the mobile reward card application in 6800 stores across the United States (Birchall, 2011).
Developing mobile marketing programs it seems to present a further opportunity for Starbucks to fortify the targeted long term relationships with its customers. Customers allow Starbucks to gain access to their mobile phones in exchange for improved experience and convenience. Thus, perceived benefits have to exceed perceived risks such as the safety of personal data as well as the security of financial transactions via mobile phones. To enhance the benefits on the consumer side, Starbucks enables customers to receive rewards for the usage of the mobile application by receiving a free coffee after a certain amount of purchases via the card. This also serves as a positive reinforcement for users of the mobile reward card (Alreck & Settle, 1999). When applying the CRM, we can see that the Smartphone App is improving Starbucks' core service provision by making it more convenient for customers to purchase their coffee (perceived service quality, perceived value). Relationship bonds are also applied in the Starbucks case because the App utilizes volume and frequency rewards in its reward card feature. Social bonds are applied because continuous and personal relationships are encouraged with the App, by making the service accessible to each customer direct to their mobile phone. Customization bonds are applied by tailoring the App to fit the individual needs of the customer. Structural bonds are applied because this App incorporates the service delivery system of the customers' Smartphones to make the service offering more productive. This element in particular is related to S-D logic theory (Service – Dominant Logic) because there is an interplay between different service systems in value co-creation. These core service provisions and relationship bonds raise the switching barriers for consumers to move to competitors because they have now developed a stronger loyalty to Starbucks.

In the case of the new App, Starbucks and Apple have co-created value in their service systems to allow customers to contribute to their own service offering. This makes it more convenient, time-effective and rewarding for a customer to choose Starbucks, which therefore adds value to Starbucks' service offering. These benefits of convenience and saving time are elements of Roger's (1995) innovation characteristics of relative advantage. Relative advantage is the key factor in whether an individual will adopt or reject an innovation (Dann & Dann, 2011). This App saves time for the customer because they no longer have to wait in line to be served and they no longer have to be inconvenienced by carrying around a bulky wallet. It essentially combines a wallet and a phone in one convenient and time-saving package.

From this case study, five key marketing directions are meant to be given. These include:

www.crmasia.org
Mobile marketing will play a major role for future marketing strategies. These lessons may establish mobile marketing as an important channel to reach and interact with consumers and may give rise to a higher level of emphasis placed on the use of mobile devices in the marketing mix. Service delivery through mobile marketing appears to be an important component in building successful differentiation in highly competitive and mature markets. Mobile technologies can help companies develop their customer relationships and create positive experiences for their consumers. In order for an online-based technology, such as this App, to provide its value-added service it needs to be integrated with offline marketing components. Offline elements such as the baristas’ skills in producing the coffee, the well-placed geographic locations of the stores, the physical promotional channels creating and maintaining brand equity, the tangible card-reader hardware and the sensory experiences of the in-store ambience needs to be combined with online elements such as the software platform hosting the App, web-based community forums and individualized online customer profiles. Even the nature of the mobile payment App cannot function without the simultaneous integration of its online and offline components. The customer is using the App to process the transaction online while at the same moment they are receiving the product in person (offline).

**Limitations of innovation CRM Strategy**

From this case study, five key limitations and risks have been identified.

1. The first limitation is that international transference may be restricted. Some countries may not have as extensive or substantial technological infrastructure to support this program and their consumers may not be as advanced in the adoption of Smartphones and progressive applications.
2. The second limitation is the trialability of the App. Consumers who have no experience with this method of payment can download the

www.crmasia.org
App for free, but in order to actually test it in-store they need to open an account and upload credit for the transaction. This may be asking a higher level of commitment than the consumer is prepared to give.

3. The third limitation is the high cost and increased risk associated with future developments. The next step in mobile payment is to utilize Near-Field Communication without the barcode, which requires the installation of embedded chips within the phone to enable the data transfer (Kharif, 2011; Patauner et al., 2007). This also requires specialist machine readers in each store, which can be expensive for a company to implement. Furthermore, a simple touch-on payment transaction without verification may raise even further the perceived risk of financial information security.

4. The fourth limitation is the lack of acceptance of mobile payment. Mobile payment in itself is currently limited as it is not a widely accepted practice in society, for consumers as well as businesses (Portio Research, 2010). However this may change in the future if more companies standardize the practice and consumers adopt the behaviour.

5. Finally, this technology is not unique for Starbucks since competitors may implement similar applications and create similar experiences. To remain competitive with value-added service, such as with the Mobile Payment and Reward Card App, Starbucks must monitor the effectiveness of innovations and utilize future technologies where applicable to satisfy customer needs before its competitors.

Industry wide broadness and uniqueness of the products are the elements of differentiation strategy which is used by Starbucks as part of its market strategy. **Innovation of new product ideas is the heart of company's competitive strategy that puts a company in the position to charge premium prices as compared to its competitors.** Provision of good and pleasant environment, healthy trends in the lives of its customers is the prime focus of the company. The company used differentiation strategy in its products, quality of coffee beans, brand, taste, roasting and pleasant environment of café.

Conclusion
Company is facing difficulties in retaining its premium brand image due to slow down of economy but comparatively it has bright opportunities in China and India. Company has implemented strong HR practices to satisfy employees so they act as brand promoters of company and manage effective customer relations. The company is consistently engaged in improving the quality of its products which lead the improvements of the lives of its customers. The rush of customers at the company stores, increasing sales and profitability is the demonstration of the company’s marketing success in achieving its objectives. Company should be careful about its expansion strategies to avoid destruction of brand as happened in near past. Company should sustain its social media marketing strategies while devising innovative practices. Company did not rely on external channels like YouTube, Facebook, and Twitter but established its own communication channels to connect the customers with company as "My Starbucks Idea". Starbucks should create good combination of different elements as part of its overall social media plan that attracts and retains millions of fans towards brand's doing. Localized marketing strategies and use of technology is advisable in its campaign. Starbucks should revitalize its brand in world new regions and existing markets where it has distorted. It should design its marketing strategies in order to attract customers from low income groups and also investigate the possibility of providing its products with discounted prices in order to attract low income customers, it is wellknown that in Greece they have the most discounted prices, they have lowered them when at the same time in other European Countries Starbucks has raised its prices by 10 or 20 per cent. A new pricing policy may combine focus on new product development, careful customer segmentation, loyalty compensation, new tech & applications utilization etc.. A famous and well recognized brand should "pay back" in multiple ways if it is to keep its loyal customer base and ask for premium prices within a turbulent and recessionary business environment.