Strategies

This past week, Starbucks Corp. reported its fiscal third-quarter profits jumped 34 percent as same-store sales increased 8 percent in the U.S. and 5 percent abroad with growth in customer traffic, at the amount customers spent per visit. The stock is up 24 percent this year to $40 after being as low as $7 in 2008. In 2007 through 2009, after 200 straight months of same-store comp sales increases, Starbucks experienced many months of decline, often in double digits. The company was battered by an obsession with growth and distracted from building the core business, resulting in declining customer experience and store traffic.

The company had lost its way. It took success for granted and the success covered up many small failures. In addition, it faced increased competition and was negatively impacted by the Great Recession. How did Starbucks engineer such a successful turnaround? In January of 2008, Howard Schultz, the entrepreneur who built the company but had stepped down from active management in 2000, returned as CEO. Schultz, all the while, was writing a book (written in lowercase). Schultz has written a new book, “Onward,” that documents the steps he took to turn the company around. The insights from these books should be valuable to anyone running a company today.

Schultz defines the essence of the Starbucks brand as creating enduring and personal connections. In his words, “We succeed by creating an experience that comes to life because of how we treat our people. ... We are a people company that serves coffee.”

To deliver that experience, the company had from its early beginnings provided “great coffee.” The word for employees who worked at least 20 hours per week with both comprehensive health-care coverage and stock options. This enabled them to hire a high type of talent that could deliver superior customer experiences.

There had been too much turnover and too little education of the frontline employees. The “true ambassadors of the brand.” With the rapid growth in stores, many of the company’s baristas were inadequately trained in how to make the coffee. As Schultz put it, “without great coffee we have no reason to exist” and “knowledge can breed passion.” Making espresso is an art that requires practice and proper procedures.

One of the first things Schultz did, at a cost of $6 million in labor and lost sales, was to close all 17,100 U.S. stores for four hours to retrain the company’s 135,000 employees. The company shipped a DVD player and a training video to all the stores and immediately the quality of the coffee improved significantly.

The next step was to respond to the recent Consumer Reports article that rated McDonald’s coffee higher than Starbucks, a stunning finding to many at Starbucks. The company commissioned a market research that revealed that the Starbucks coffee was too intense for some people and found that others wanted a consistent blend. (Starbucks had been changing the blend daily so customers could experience different types of coffee.)

The research led to many changes, including the development of a new blended smoothie coffee, Pike Place Brew, which was available every day. In addition, the company returned to its process of grinding the beans in the stores to reducing hold times from one hour to 20 minutes. Quality and customer satisfaction increased significantly.

Schultz invited partners to e-mail their ideas to him directly, which resulted in the receipt of 5,600 e-mails the first month. Customers were sent in. To help prioritize the ideas, Starbucks invited customers to rate the best ones and more than 100,000 people voted. Schultz says, “as long as consumers call, we’ll continue to listen and respond.”

Unlike most consumer brands, Starbucks had not been built using traditional advertising. Starbucks decided to engage customers through social media, telling consumers directly the story of what Starbucks was doing. Today the company has more than 27 million Facebook fans around the world. One million people follow Starbucks on Twitter, and each month their website receives 12 million visits. Popular apps enable consumers to locate the nearest Starbucks store, get nutritional information or even pay for purchases.

As the recession cut consumers to seek increased value, the company launched My Starbucks Rewards. The goal was to preserve and protect the core customers. They were losing them by trying to get them to blend during a down economy. It was seen to be much greater than the cost of investing in them and trying to keep them. This database became one of the company’s crown jewels. Another challenge was how to get people to drink Starbucks coffee when they were on the go and not near a store. This led to the development of VIA, a breakthrough instant coffee product that tasted as good as the brewed version in stores. Conventional wisdom said stay away from instant coffee, but U.S. sales of VIA reached $100 million in the first 10 months after its launch. Although Starbucks did many other things, such as investing in new equipment and store design, closing 600 stores, improving the supply chain, finding ways to reduce costs, and using Lean techniques, the following stand out as the major factors in Starbucks’ transformation:

- Have a relentless focus on quality and the customer experience.
- Use market research to uncover unsatisfied customer needs and opportunities for innovation.
- Engage frontline employees in improving the customer experience.
- Tap consumers for ideas on how to improve your product and their experience.
- Use social media to engage consumers and tell your story.
- Find ways to increase your value proposition, especially for core customers.
- Don’t be afraid to go against conventional wisdom.

While these were the major factors in turning around the company, using them consistently will prevent the company from having a turnaround.

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EXECUTIVE MARKETPLACE

Biz on capital quest

More business owners expect to seek capital in the next year as business confidence has increased significantly over the past two years, according to a poll of 1,221 entrepreneurs by Pepperdine University.

Of the respondents currently seeking financing, approximately 38 percent anticipate raising less than $100,000 in capital in the next year, followed by 19 percent reporting $100,000 to $500,000, 14 percent $500,000 to $1.3 million, 14 percent $1.3 million to $5 million and 11 percent more than $5 million. Net increases were 17.7 percent in spring 2010 relative to the same period in 2009.

Approximately 62 percent of respondents are not seeking financing, which is up from 53 percent in the last year.

Business owner confidence has increased significantly over the past two years, the study found. Net increases were 1.3 percent in fall 2009, 17.7 percent in spring 2010, 18.1 percent in fall 2010, 36 percent in summer 2011 and forecast at 44 percent for the next 12 months.

Most respondents felt the No. 1 emerging issue facing privately held businesses was government regulations, at 31 percent, followed by 18 percent who cited economic uncertainty/confidence and 14 percent, access to capital. Of the 1,221 privately held businesses that responded to the survey, 26 percent had businesses that involved manufacturing and 11 percent were in the engineering and construction industry.

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