

MOHANBIR SAWHNEY

Starbucks: Driving Growth Through New Dining Occasions

When Howard Schultz returned to Starbucks as CEO in early 2008 after eight years, he concluded that Starbucks had lost its way in its quest for growth. In an interview in 2011, he commented that growth at Starbucks had become a “carcinogen” and that the company needed to pursue a strategy of healthy growth.¹ According to Schultz, when growth is seen as a strategy it becomes seductive and addictive. He set about returning Starbucks to a more disciplined approach to growth.

In the first few years, Schultz focused on the fundamentals—returning Starbucks to its roots of creating a national brand around coffee and offering a unique experience in the Starbucks stores. The growth strategy from 2008 to 2013 sharpened focus on the core business of coffee and pursued growth in both emerging markets and new products and brands like VIA instant coffee to leverage the Starbucks retail store footprint.

The Five-Year Growth Plan—2014 to 2019

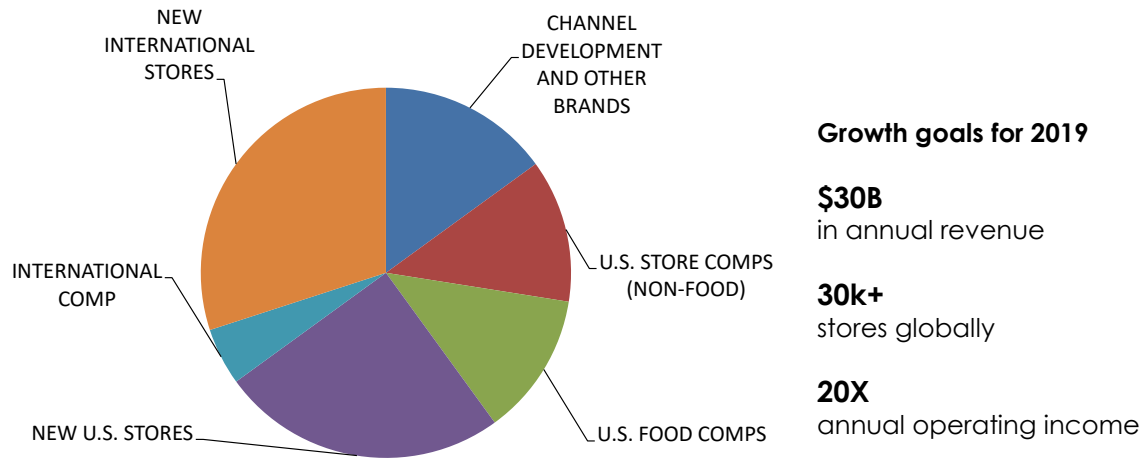
In December 2014, Starbucks announced the next phase of its growth strategy. It laid out ambitious five-year goals that included nearly doubling revenues (from \$16 billion to almost \$30 billion), doubling operating income, and operating more than 30,000 stores globally by 2019.

¹ Allen Webb, “Starbucks’ Quest for Healthy Growth: An Interview with Howard Schultz,” *McKinsey Quarterly*, March 2011, <http://www.mckinsey.com/global-themes/employment-and-growth/starbucks-quest-for-healthy-growth-an-interview-with-howard-schultz>.

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The sources of growth included new stores, new channels, new products, and new occasions (see **Figure 1**).

Figure 1: Growth for Starbucks, 2015–2019



Source: Starbucks 2014 Investor Day Presentation.

To achieve these ambitious growth goals, Starbucks outlined seven strategies, including growing its core business of coffee, building a new business in tea, expanding the global footprint of stores, growing its portfolio of consumer packaged products, and creating more occasions for sales later in the day (see **Figure 2**).

Figure 2: Seven Growth Strategies for Starbucks

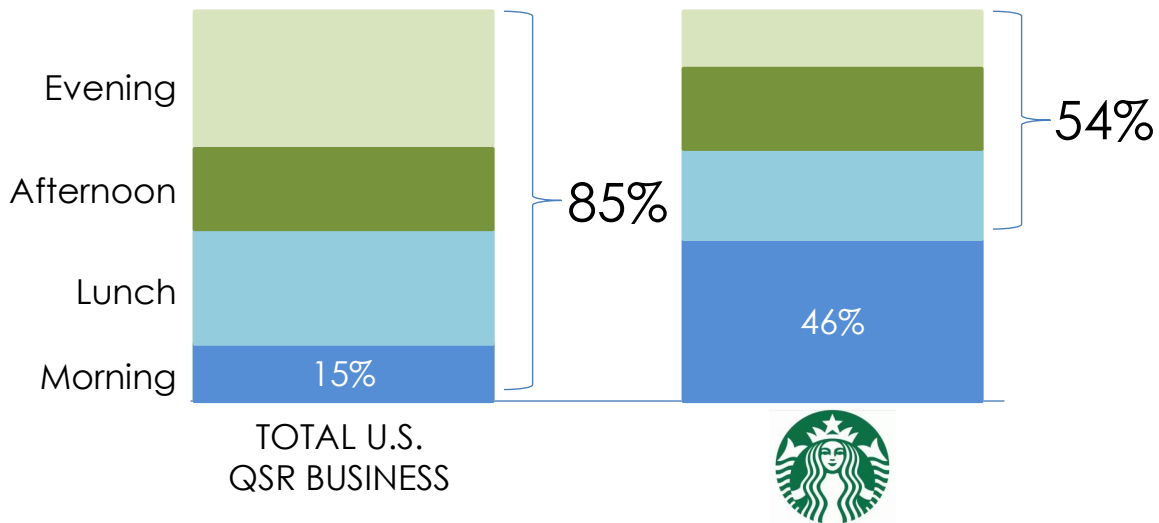


Source: Starbucks 2014 Investor Day Presentation.

Creating New Occasions

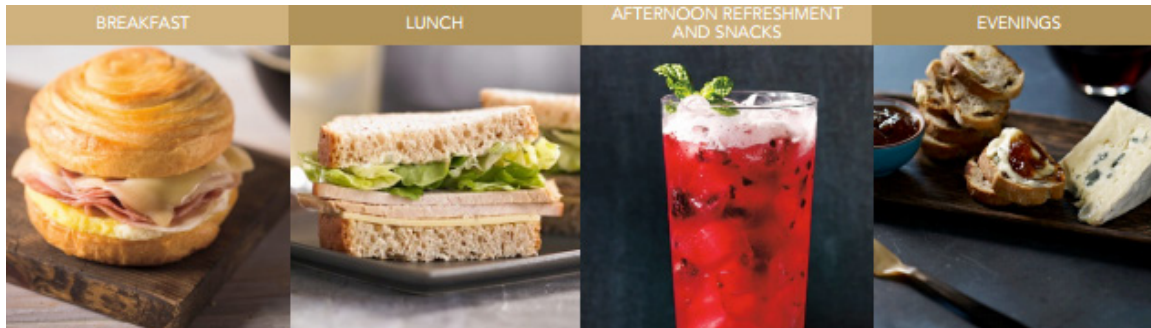
A key growth strategy for Starbucks involved diversifying its revenues beyond mornings. As **Figure 3** shows, the morning daypart contributed 46% of its total 2014 revenues. This was far higher than the 15% of revenues that other quick service restaurants (QSRs) got from the morning. To make things worse, competition for the morning daypart was becoming more intense, with Taco Bell, Panera Bread, Subway, and McDonald's now competing fiercely for the breakfast and morning coffee occasion. Starbucks urgently needed to increase its relevance for the other dayparts.

Figure 3: Revenues by Daypart for the U.S. QSR Market and for Starbucks



Source: Starbucks 2014 Investor Day Presentation.

Starbucks aimed to generate at least \$1 billion in incremental revenues from the other dayparts by 2019. The company's vision was to be relevant to customers across the entire day. Customers could begin the day by brewing Starbucks coffee at home with K-Cups in their Keurig brewing machines. They could then order a mid-morning delivery of coffee to their desk or grab a coffee beverage from the Starbucks machine at the office. At lunchtime they could use their smartphones to order a sandwich ahead of time so that they could socialize over lunch and still be back to work within the hour. In the mid-afternoon, customers could recharge themselves with a Starbucks smoothie. After work, they could stop by Starbucks with co-workers to unwind with a glass of wine and small plates. With this vision in view, Starbucks had begun to create new products and new experiences for afternoons and evenings (see **Figure 4**).

Figure 4: Expanding the Occasions for Starbucks

Source: Starbucks 2014 Investor Day Presentation.

Growing the Afternoon and Evening Dayparts

Lunch

As part of the goal to evolve Starbucks into a food destination across multiple dayparts, the company aimed to grow its lunch offerings by expanding its breakfast sandwich platform. Starbucks expanded its lunch menu with new salads and sandwiches, including a barbecue beef brisket sandwich on sourdough bread and a chicken artichoke panini on ancient grain flatbread (see **Figure 5**).

Starbucks also introduced grab-and-go offerings, including prepackaged bistro boxes containing fruits, vegetables, crackers and cheese, eggs, or hummus. The grab-and-go offerings were placed in high-volume urban stores where people would be likely to grab a bistro box for lunch along with their morning coffee.

To accelerate its push into food, Starbucks acquired the Bay Area bakery chain La Boulange in 2012 for \$100 million. In September 2015, Starbucks announced that it would close all twenty-three La Boulange retail locations, as well as the two manufacturing facilities that served these locations. However, the La Boulange brand would live on in the form of La Boulange food products inside Starbucks retail locations.

Figure 5: New Lunch Sandwiches at Starbucks

Source: "Starbucks Introduces a New Chicken Artichoke Panini," press release, April 27, 2015, <https://news.starbucks.com/news/starbucks-introduces-new-panini-nationwide>.

Evenings

In August 2015, Starbucks launched the Starbucks Evenings program in select stores in Florida and New York after piloting the program several years earlier at a single location in Seattle. The Starbucks Evenings offerings included a selection of wine and craft beer along with small plates like truffle mac and cheese and flatbreads (see **Figure 6** for a sample Starbucks Evenings menu).

The goal of the Evenings program was to attract customers meeting up with friends after work to unwind and socialize over a glass of wine or craft beer, accompanied by snacks. Starbucks stores traditionally had very little store traffic after 4 p.m. because few people wanted caffeine that late in the day. The Evenings program offered customers a new reason to visit Starbucks in the evening.

Starbucks also redesigned stores' seating arrangements to accommodate the Evenings program. Stores with the Evenings offering featured lounge seating, areas for larger groups, community tables, and exposed brick walls. Wine and beer were carefully curated. Starbucks used a team of sensory experts to evaluate more than 500 wines and select a list of ten wines that would be served in the stores.

Figure 6: Sample Menu for Starbucks Evenings

Source: Jason Nottle, "How a Starbucks with Beer and Wine Actually Works," *The Street*, March 27, 2014, <https://www.thestreet.com/story/12543832/1/how-a-starbucks-with-beer-and-wine-actually-works.html>.

Sunset Menu

Starbucks also focused on the post-lunch daypart by launching a "Sunset" menu that would be offered only after 3 p.m. The new menu options included granitas (shaved ice sweetened and topped with espresso, white tea, or limeade) and trifles (scones or a brownie topped with whipped cream and flavored drizzle). See **Figure 7** for examples of the new Sunset beverages. These menu items were intended to be cool and light. Starbucks positioned the Sunset menu as a "refreshing way to jump-start your evening and take you into a long summer night."²

Starbucks was betting that the time-specific Sunset menu would persuade the morning Starbucks customers to make an afternoon visit to try out the new drinks and treats. However, this involved the difficult task of changing people's habits. In addition, not all the new menu items were unique. For instance, the granita was not all that different from a Starbucks Frappuccino and Starbucks already offered pastries, cookies, and other desserts.

² "Granitas and Trifles on Starbucks New Sunset Menu," press release, June 14, 2016, <https://news.starbucks.com/news/granitas-and-trifles-on-starbucks-new-sunset-menu>.

Figure 7: Sample Beverages from the Sunset Menu at Starbucks

Source: "Granitas and Trifles on Starbucks New Sunset Menu," press release, June 14, 2016, <https://news.starbucks.com/news/granitas-and-trifles-on-starbucks-new-sunset-menu>.

Challenges with the New Occasions Strategy

Starbucks needed to be careful in pursuing the New Occasions strategy in its quest for "healthy growth." Specifically, it needed to avoid the following pitfalls:

- *Brand dilution:* According to Howard Schultz, disciplined growth for Starbucks was about finding "innovative growth platforms worthy of our coffee."³ This statement affirmed the core equity of the Starbucks brands as being about products and experiences surrounding coffee. When customers thought of Starbucks, they tended to think of coffee. However, Starbucks was quickly evolving into a "food and beverage destination" with the addition of gourmet sandwiches, small plates, wine, beer, Teavana tea, and craft soda. Excessive menu expansion could create confusion in the minds of Starbucks customers, current and potential. Could Starbucks evolve from a coffee shop into a QSR that served premium food and beverages? In seeking to broaden its product portfolio, did Starbucks run the risk of diluting its brand?
- *Choice overload:* As Starbucks expanded its product portfolio, its food and beverage menu was becoming more complex. The abundant new choices would not necessarily create

³ Allen Webb, "Starbucks' Quest for Healthy Growth: An Interview with Howard Schultz," *McKinsey Quarterly*, March 2011, <http://www.mckinsey.com/global-themes/employment-and-growth/starbucks-quest-for-healthy-growth-an-interview-with-howard-schultz>.

- higher customer satisfaction. Some academic studies on consumer choice suggested that consumers are more likely to make purchases when offered fewer choices and that they are more satisfied with their purchases when they select from fewer options.⁴ By giving customers more choices, Starbucks ran the risk of making customer decisions less productive and less satisfying. In addition, customers would take more time to make up their minds, which would increase wait times and lead to lower customer satisfaction with service.
- *Operational complexity:* The New Occasions strategy also had implications for several operational functions, including the supply chain, store design, and employee training. Starbucks stores were originally designed to produce and sell coffee. When customers ordered food as well as beverages, the order became more complex because the employees who were preparing food would need to coordinate with the employees making beverages. This in turn increased the probability of miscommunication and incorrect orders. Employees would also need additional training on the new routines to prepare gourmet food. Finally, inventory in the store would increase and it would be more challenging to maintain freshness of food. Starbucks would also need to redesign its storefronts to look more like QSRs, wine bistros, and beer pubs. This redesign would come at a significant cost and could be hobbled by execution challenges.

Conclusion

Starbucks hoped that the New Occasions strategy would persuade customers to visit Starbucks for lunch, for afternoon refreshments, and for evening drinks and snacks. If the strategy worked, Starbucks would be able to increase same-store sales and improve store profitability. However, the company needed to make sure that the new offerings would be compelling for customers and that the expanded range of offerings would not dilute the focus of the company.

Starbucks did not want to relive its past mistakes in the pursuit of growth. In his book *Onward*, Schultz criticized the Starbucks foray into hot sandwiches:

*Breakfast sandwiches drove growth and profits. They also caused a mess. The more popular they became, the more time Starbucks baristas spent heating them. The cheese would inevitably drip and sizzle in the ovens, releasing a pungent smell. Whatever rich, hearty coffee aroma remained in the store was overwhelmed by singed Monterey Jack, mozzarella, and, most offensively, cheddar. Where was the magic in burnt cheese?*⁵

In his second stint as the CEO, Schultz was painfully aware that growth is healthy only when it does not compromise the essence of the brand.

⁴ Sheena S. Iyengar and Mark R. Lepper, "When Choice Is Demotivating: Can One Desire Too Much of a Good Thing?" *Journal of Personality and Social Psychology* 79, no. 6 (2000): 995–1006.

⁵ Howard Schultz and Joanne Gordon, *Onward: How Starbucks Fought For Its Life Without Losing Its Soul* (New York: Rodale, 2011).