# OPENING CASE

# HOW STARBUCKS IS CHANGING TO A DIGITAL AND SOCIAL ENTERPRISE

Starbucks is the world’s largest coffee house chain, with 23,043 retail stores (see news.starbucks.com/uploads/ documents/AboutUs-Company\_Timeline-Q42015.pdf). Many people view Starbucks as a traditional store where customers drop in, place an order, pay for coffee or other products, consume their choices in the store, and go on about their business. The last thing many people think about is the utilization of computers in this business. The opposite is actually true. Starbucks is turning itself into a digital and social company. For a long time, Starbucks was known as appealing to young people because of the free Wi-Fi Internet access provided in its U.S. and Canadian stores. But lately, the company embarked on several digital initiatives to become a truly tech-savvy company.

**The Problem**

Starting in 2007, the company’s operating income declined sharply (from over $1 billion in 2007 to $504 million in 2008 and $560 million in 2009). This decline was caused by not only the economic slowdown, but also by the increased competition (e.g., from Green Mountain Coffee Roasters), which intensified even during the recession. Excellent coffee and customer service helped, but only in the short run. A better solution was needed. Starbucks realized that better interaction with its customers was necessary and decided to solve the problem via digitization.

**The Solution: Going Digital and Social**

In addition to traditional measures to improve its operation and margin, the company resorted to electronic commerce, meaning the use of computerized systems to conduct and support its business. The company appointed a Senior Executive with the title of Chief Digital Officer to oversee its digital activities. It also created the Digital Venture Group to conduct the technical implementation.

* **The Electronic Commerce Initiatives**

Starbucks deployed several e-commerce projects; the major ones follow.

**Online Store**:

Starbucks sells many of their products online at store. starbucks.com. These offerings include coffee, tea, and Starbucks equipment and merchandise. The store was in operation for years, using a typical shopping cart (called My Bag), but in August 2011, the company completely redesigned the webstore to make shopping more convenient and easier. In addition, customers (individual or companies) can schedule deliveries of standard and special items. Customers can order rare and exquisite coffee that is available only in some U.S. stores. Finally, online customers get exclusive promotions.

**The eGift Card Program**:

Customers can buy Starbucks customized gift cards digitally (e.g., a gift card for a friend’s birthday is auto delivered on the desired date). Payments can be made with a credit card, through PayPal, or the Starbucks app for mobile devices. The gift card is sent to the recipient via e-mail or postal mail. The recipients can print the card and go shopping at a Starbucks physical store, transfer the gift amount to their Starbucks’ card, or to a Starbucks gift card.

**Loyalty Program:**

Like airlines and other vendors, the company offers a Loyalty Program (My Starbucks Rewards). Those who reach the gold level receive extra benefits. The program is managed electronically. Mobile Payments Customers can pay at Starbucks stores with prepaid (stored value) cards, similar to those used in transportation, or pay using the Starbucks mobile app from smartphones. Shoppers can download an app on their mobile device. Payment is made by selecting “touch to pay” and holding up the barcode on the device screen to a scanner at the register. The system is connected automatically to a debit or credit card. The system works only in company-owned stores.

* **Social Media Projects**

Starbucks realized the importance of social media that uses Internet-based systems to support social interactions and user involvement and engagement . Thus, it started several initiatives to foster customer relationships based on the needs, wants, and preferences of its existing and future customers. The following are some representative activities.

**Exploiting Collective Intelligence:**

My Starbucks Idea (mystarbucksidea.force.com) is a platform in which a community of over 300,000 consumers and employees can make improvement suggestions, vote for the suggestions, ask questions, collaborate on projects, and express their complaints and frustrations. The community generated 70,000 ideas in its first year, ranging from thoughts on the company’s rewards cards and elimination of paper cups to ways to improve customer service. The site also provides statistics on the ideas generated, by category, as well as their status (under review, reviewed, in the works, and launched). The company may provide incentives for certain generated ideas. For example, in June 2010, Starbucks offered $20,000 for the best idea concerning the reuse of its used coffee cups. This initiative is based on the technology of collective intelligence, also known as crowdsourcing, and is supported by the “Ideas in Action” blog. This blog is written by employees who discuss ideas submitted to blogs.starbucks.com/blogs/Customer.

**Starbucks’ Activities on Facebook:**

Starbucks maintains a strong social media presence on Facebook (facebook.com/Starbucks), with over 36 million “Likes” (as of March 2016). The company uploads videos, blog posts, photos, promotions, product highlights, and special deals. The millions of people who “like” Starbucks on Facebook verify that the company has one of the most popular fan pages (see current statistics at fanpagelist.com and at facebook.com/Starbucks). Starbucks offers one of the best online marketing communication experiences on Facebook to date as well as mobile commerce engagements. Starbucks posts diversified information on its Facebook page, whether it is content, questions, or updates. The company also advertises on its Facebook page (e.g., contests, events, new products).

**Starbucks’ Presence on LinkedIn and Google+:**

Starbucks has a profile on LinkedIn site with over 667,000 followers (March 2016). It provides business data about the company, lists new hires in managerial positions, and advertises available jobs. Starbucks is also active on Google+. It provides business data about the company, shows employee profiles, and advertises available jobs. Note that Starbucks is regularly assessing the cost–benefit of advertising on social networks.

**Starbucks’ Activities on Twitter:**

In March 2016, Starbucks had over 11 million followers (Follow@starbucks) on Twitter (twitter.com/starbucks). Whenever the company has some new update or marketing campaign, the company posts a tweet (e.g., discounted drinks). By October 2013, Starbucks was the number one retailer to follow on Twitter. In November 2013, Starbucks gave away a $5 gift certificate to 100,000s of their customers who Tweeted a coffee to one of their friends or followers (see blissxo.com/free-stuff/deals/cash-back-and-rebates/ free-5oo-starbucks-gift-card).

**Starbucks’ Activities on YouTube, Flickr, Pinterest, and Instagram:**

Starbucks has a presence on both YouTube (youtube.com/ Starbucks) and Flickr (flickr.com/Starbucks), with a selection of videos and photos for viewing. It also runs advertising campaigns there. Finally, Starbucks has about 7.9 million followers on the photo-sharing company Instagram (instagram.com/Starbucks).

* **Starbucks Digital Network**

When customers are at Starbucks, they have more than Wi-Fi, they get access to the Starbucks Digital Network from all major mobile devices, including tablets and smartphones (see starbucks.com/coffeehouse/wireless-internet/ starbucks-digital-network). The Network, in partnership with Yahoo!, features free premium online content, such as news, entertainment, business, health, and even local neighborhood information channels. In 2014, Starbucks switchedto Google Wi-Fi, instead of AT&T, to give their customers faster Wi-Fi and network speeds.

**Early Adoption of Foursquare:**

A Failure Not all Starbucks social media projects were successes. For example, the company decided to be an early adopter of geolocation by working with Foursquare (Chapter 7). The initiative simply did not work, and the project ended in mid-2010. The company experimented in the UK with a similar location company called Placecast. As of fall 2011, Starbucks had a better understanding of the opportunities and the limitations, so it may decide to try geolocation again with Facebook Places, or it may revive the Foursquare project.

* **The Results**

Starbucks turned sales around by effectively integrating the digital and the physical worlds. In 2010, its operating income almost tripled ($1.437 billion versus $560 million in 2009) and so did its stock price. In 2011, the operating income reached $1.7 billion. Since then, the operating income is increasing rapidly. Sales are lifting due to digital and social media promotions. The company’s social media initiatives are widely recognized. In 2012, it was listed by Fortune Magazine as one of the top social media stars (per archive.fortune.com/galleries/2012/fortune/1205/gallery.500-social-media.fortune/5. html), and in 2008, it was awarded the 2008 Groundswell Award by Forrester Research. The site is very popular on Facebook where it has millions of fans, (sometimes more popular than pop icon Lady Gaga). Starbucks attributes its success to ten philosophical guidelines that drive its social media efforts. Sources: Based on Brohan (2015), Panagiotaropoulou (2015), Straut (2015), Loeb (2013), Moth (2013), Allison (2013), Schoultz (2013), Welch and Buva (2015), mystarbucksidea. force.com, blogs.starbucks.com/blogs/Customer, and starbucks.com (accessed March 2016).

***LESSONS LEARNED FROM THE CASE***

The Starbucks.com case illustrates the story of a large retailer that is converting to be a digital and social enterprise. Doing business electronically is one of the major activities of e-commerce, the subject of this book. The case demonstrates several of the topics you will learn about in this chapter and throughout the book. These are:

1. There are multiple activities in EC, including s including selling online, customer service, and collaborative intelligence.

2. The case shows major benefits to both buyers and sellers. This is typical in EC.

3. The EC capabilities include the ability to offer products and services in many locations, including overseas, to many customers, individuals, and businesses. You can do so because you can have a larger customer base online, and people can buy from anywhere at any time.

4. In a regular store, you pay and pick up the merchandise or service. On Starbucks.com and other webstores, you order, pay, and the product is shipped to you. Therefore, order fulfillment needs to be very efficient and timely.

5. Being digital can be very useful, but a greater benefit can be achieved by extending it to be a socially oriented enterprise. Both approaches constitute the backbone of electronic commerce, selling online, customer service, and collaborative intelligence.