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Starbucks: Brewing Customer Experience through Social Media

This case was written by Indu Perepu, IBS Hyderabad. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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Starbucks: Brewing Customer Experience through Social Media

"It's not an accident that Starbucks is the No. 1 brand on Facebook and Twitter. We've used that to engage with our customers in a much more real, authentic, emotional way. It's lowered the cost of customer acquisition and built customer loyalty."¹

– **Howard Schultz, CEO, Starbucks, in 2011**

"If we had approached it not from 'what you know and love about Starbucks,' but as a marketing channel, we would have taken this down a path that would have been very different. This was not [built as a] marketing channel, but as a consumer relationship-building environment."²

– **Chris Bruzzo, VP-brand content and online, Starbucks, in 2010**

"I think what they've done is elevate the entire experience away from just a cup of coffee into, really, Starbucks being the corner bar, and they've used social media to leverage that positioning."³

– **Reggie Bradford, Founder and CEO of Vitruve⁴, in 2010**

A SOCIALLY ENGAGED COMPANY

In March 2012, US-based Starbucks Corporation (Starbucks) was adjudged the most socially engaged company in a study conducted by PhaseOne⁵, an advertising research firm. The study⁶ was conducted to find out the factors that drive social media engagement, across different media. The study said that Starbucks' media engagement through its web pages, advertisements, and social network sites, was focused on individual customers and each customer's experience with the brand. PhaseOne observed, "Starbucks, which the study ranked as the most successful in social media engagement, has a brand that uniquely delivers its story with consistent messaging and strategy across all of its touch points."⁷ The other brands that were most socially engaged, according to PhaseOne, were Audi, McDonald's, RedBull, and American Express. (Refer to Exhibit I for the details of how PhaseOne measured social media engagement)

¹ "Rekindling the Heart & Soul of Starbucks," www.success.com, March 07, 2011

² Emily Bryson York, "Starbucks gets its Business Brewing again with Social Media," Advertising Age, March 22, 2010.

³ Douglas Quenqua, "Starbucks' Own Good Idea," www.marketingpower.com, February 25, 2010.

⁴ Virtue is a Atlanta, based social-media management company,

⁵ US-based PhaseOne is an analytical-based research and consultancy firm.

⁶ The study, conducted between July 2011 and January 2012, considered 75 top brands and looked at social media engagement of 22 brands. Brands were analyzed across six verticals — Automotive, Dining, Food/Beverage, Retail, Services and Technology.

⁷ "Starbucks Rates Number 1 in Study of Most Socially Engaged Companies by Research Firm PhaseOne," www.phaseone.net, March 28, 2012.

The history of Starbucks dates back to 1971, when the ‘Starbucks Coffee, Tea, and Spice’ store was opened in Pike Place Market in Seattle, Washington. After Howard Schultz (Schultz) acquired the company in 1987, Starbucks started setting up outlets which were a combination of a retail coffee-bean store and an espresso café. Over the years, Starbucks built the brand through its employees, known as partners. The baristas in each of its retail outlets were customer-friendly, and provided a high level of service. They were responsible for creating a good impression about the brand and providing a great customer experience.

Starbucks expanded rapidly in the 1990s and 2000s. From being a small-sized company with around 165 stores in the US in 1992, it became a global behemoth with around 15,000 stores in more than 40 countries by early 2008. However, this rapid expansion brought some problems in its wake. The services of the baristas turned impersonal and interaction with them grew limited due to the new espresso machines that were installed across Starbucks’ retail locations. The recession in the US also had an adverse impact on the company, with people becoming unwilling to pay a premium for a coffee at Starbucks. At the same time, fast food retailers like McDonald’s and Dunkin’ Donuts started selling coffee at a lower price. These factors had an adverse impact on the fortunes of the company.

Schultz, who had been the CEO till 2000, assumed the role once again in January 2008. He then announced sweeping changes, which included closing underperforming stores, and declared that the company’s comeback would be based largely on customer experience and innovation. As a part of this strategy, the company, alongside traditional advertising, ventured into social media in a big way. Schultz was of the view that through social media, the company could regain customers, who had turned cynical towards Starbucks.

Starbucks started interacting with customers through its own website, MyStarbucksIdea.com, where customers could put forward their suggestions to improve the company, and also through other social media websites like Facebook, microblogging site Twitter, and video sharing website YouTube. Starbucks went on to become one of the most ‘liked’ brands of Facebook and one of the most followed brands on Twitter.

These digital tools helped Starbucks enhance the customer experience and improve customer interaction. According to David Brotman (Brotman), Chief Digital Officer of the company, “Digital has to help our store partners and help the company be the way we can tell our story, build our brand, and have a relationship with our customers.”⁸

BACKGROUND NOTE

Starbucks was started by Gordon Bowker (Bowker), Jerry Baldwin (Baldwin), along with Zev Siegl (Siegl) in the US. Bowker was a writer, Baldwin an English teacher, and Siegl, a history teacher. They opened the first Starbucks store in 1971 in Pike Place Market, Seattle and called it Starbucks Coffee, Tea and Spice. The first store sold fresh-roasted, gourmet coffee beans and brewing and roasting accessories. The firm’s logo was a two tailed mermaid with the store’s name around it, designed by an artist friend of the trio.

Encouraged by the response that the store received, the founders decided to open their second store at the University District in Seattle. By 1980, Starbucks had become the largest roaster of coffee in Washington, with six retail outlets. In the same year, Zev Siegl sold his share in the partnership to Baldwin and Bowker, and left to pursue other interests.

Around the early 1980s, Starbucks attracted the attention of Schultz, who was then the vice-president of Hammarplast AB’s⁹ (Hammarplast) US operations and was based in New York.

⁸ Jennifer Von Grove, “How Starbucks is Turning itself into a Tech Company,” www.venturebeat.com, June 12, 2012.

⁹ Hammarplast AB had been manufacturing plastic products for home, storage, and garden needs since 1947. It was headquartered in Tingsryd, in the southern part of Sweden.

Schultz became particularly curious about Starbucks when he found that the company was regularly buying a huge number of drip coffeemakers from Hammerplast.¹⁰ He then joined Starbucks as head of marketing.

Shortly thereafter, on a business visit to Milan, Italy, Schultz noticed that every street had coffee bars which not only served espressos and other coffee-based drinks, but also were meeting places where people could socialize. On his return, Schultz tried to convince the owners to enter the restaurant business. Although Baldwin did not share Schultz's enthusiasm, he let him experiment with selling espresso in a corner of the Starbucks store that opened in April 1984 in downtown Seattle. This proved very successful, with the store serving 400 customers by the end of the first day (compared to an average of about 250 customers a day in other Starbucks stores). In the next two months, the popularity of the coffee bar grew and around 800 customers visited each day. After much persuasion, the owners allowed Schultz to put espresso machines in two other stores. However, although they realized that the espresso business was proving really successful, Baldwin and Bowker believed that it was a distraction from the main business. Schultz, eventually, decided to start out on his own, and established a coffee house named "Il Giornale," meaning "The Daily" in Italian.

In 1987, Baldwin and Bowker decided to sell all six of their Starbucks stores and roasting plants along with the brand name. "As soon as I heard, I knew I had to buy Starbucks. It was my destiny,"¹¹ said Schultz, who pitched in investors to support the cause and raise the money to purchase it. Il Giornale acquired Starbucks in March 1987 for US\$ 3.8 million and the combined enterprise was christened Starbucks Corporation. Schultz renamed his Il Giornale coffee houses "Starbucks" and converted the six roasting shops that Starbucks owned into classy and comfortable coffee houses, modeled on Italian espresso bars.

Under Schultz's management, the company expanded rapidly. A new store format was developed, which was a combination of a retail coffee-bean store and an espresso café. Fresh espresso beverages, cold blended beverages, a wide range of whole-bean coffees, food items that complemented coffee, and other merchandise related to coffee were retailed through these stores. Starbucks' first international venture was Vancouver, Canada, where it opened its outlet in 1987.

In the 1990s, Starbucks expanded rapidly. When Starbucks went public in June 1992, there were 165 Starbucks coffee houses in operation. By 1997, it had over 1,400 stores in North America and the Pacific Rim. It opened new stores at a rate of more than one per day. By the late 1990s, Starbucks was one of the most reputed brands in the US and the company was firmly established as the leading retailer and roaster of specialty coffee in North America.

In 1999, Starbucks bought the Tazo Tea company, a Portland, Oregon-based tea manufacturer and distributor. Starbucks acquired Hear Music in 1999, and began selling compiled CDs under the Hear Music brand at its stores. In early 2000, the number of Starbucks outlets in the US reached 2,200¹².

In 2000, Schultz stepped down from the post of CEO. Orin Smith (Smith), who till then was the chief operating officer (COO), was made the CEO. Schultz assumed the newly-created role of chief global strategist in addition to continuing to hold the position of chairman. In 2001, Starbucks Card¹³ was introduced.

In October 2002, Jim Donald (Donald) was appointed as President of Starbucks. In May 2005, Donald assumed the role of CEO, after Smith retired. He also filled Smith's seat on the board of directors. Starbucks continued to expand in the international markets. In all, as of 2005, there were more than 10,000 stores worldwide, with 7,300 in the US alone.

¹⁰ "Howard Shultz and the Coffee Experience," www.venturenavigator.co.uk, August 2007.

¹¹ "Howard Shultz and the Coffee Experience," www.venturenavigator.co.uk, August 2007.

¹² "Starbucks Corporation," www.answers.com, retrieved on August 23, 2005.

¹³ Starbucks Card is a stored-value card, which customers can use and reload.

Though the company was expanding rapidly, beginning 2007, Starbucks saw a slowdown after years of growth.¹⁴ The company's shares fell 20 percent by mid-2007, compared to their value in mid-2006. The slide was attributed to several factors, but the main one was the economic situation in the US, which made consumers cut back their spending.

At the same time, several internal factors also affected the company adversely. Due to rapid expansion, Starbucks lost its appeal as an exclusive place. Also, the company started to open kiosks at busy areas such as airports and book stores. "Starbucks built its whole empire on the experience in the store — the aroma, the seats, the fact that customers can relax, read a newspaper or work on a laptop. There may have been brand dilution between the airport kiosks, its availability in bookstores, and the coffee beans appearing on shelves. It may have become just another coffee brand,"¹⁵ said Rick Ferguson, editorial director, Colloquy, a loyalty marketing consultancy. Starbucks opened so many stores in close proximity with each other that they cannibalized each others sales.

While Starbucks offered a varieties of coffees, tea drinks, fruit smoothies, ice creams and its own range of breakfast snacks, plus franchised merchandise like T shirts, books and music, its chief revenue earner was the premium coffee. However, it was also something that could easily be imitated by its competitors. In fact, Starbucks was starting to face competition from the likes of Dunkin' Donuts and McDonalds, which started selling coffee.

Some of the observers and customers pointed out that the automatic machines that were installed in 1999, in place of the manual machines, did not allow baristas to make eye contact with customers, due to which the service turned impersonal.

Schultz, who started pursuing other interests after leaving Starbucks, expressed his concern about the company in an internal memo on February 14, 2007. He wrote, "Over the past ten years, in order to achieve the growth, development, and scale necessary to go from less than 1,000 stores to 13,000 stores and beyond, we have had to make a series of decisions that, in retrospect, have lead to the watering down of the Starbucks experience, and, what some might call the commoditization of our brand."¹⁶ He also wrote that the stores started to feel like a mass chain stores. "Clearly we have had to streamline store design to gain efficiencies of scale and to make sure we had the ROI on sales to investment ratios that would satisfy the financial side of our business. However, one of the results has been stores that no longer have the soul of the past and reflect a chain of stores vs. the warm feeling of a neighborhood store."¹⁷

In January 2008, Schultz replaced Donald as the CEO of Starbucks. By then the share price dropped by a half compared to 2000. Schultz said in an official communiqué that he would focus on "customer experience and innovation" to reverse the slide in shareholder value.

STARBUCKS EMBRACES SOCIAL MEDIA

From the beginning, Starbucks had been a tech-savvy company. It had ventured into media products like CDs and videos. It was also involved in websites like Yahoo! In association with Yahoo!, Starbucks was involved in marketing the Yahoo! personals site. For some time, it was involved in creating personalized CDs for its customers at its outlets. It had a custom channel in iTunes, and was also involved in distributing weekly iTune songs. However, Starbucks was not very savvy about the social media. In 2005, it fired a few employees for blogging about the company.

¹⁴ Howard Schultz, Chief Executive, Starbucks, in the Starbucks Annual Report.

¹⁵ Richard H. Levey, "A Slip between Cup and Lip," <http://directmag.com>, May 1, 2008.

¹⁶ "Starbucks Chairman Warns of "the Commoditization of the Starbucks Experience", <http://starbucks-gossip.typepad.com>, February 23 2007.

¹⁷ Tim Beyers, "Has Starbucks lost its Soul," www.fool.com, February 26, 2007.

In 2008, the social media was abuzz with negative reports about Starbucks. A popular magazine in the UK carried a report about Starbucks wasting more than 23 millions of liters of water a day by keeping the taps running in all its outlets across the world. The magazine claimed that the water wasted by Starbucks could meet the daily water needs of millions of people in the drought-hit countries of Africa. Peter Robinson, of Waste Watch¹⁸, said: “Leaving taps running all day is a shocking waste of precious water. And to claim you are doing it for health and safety reasons is bonkers. Tap water comes from rivers and groundwater and wasting it can cause great harm to the environment and wildlife. Big companies should set an example.”¹⁹ Though Starbucks tried to justify the practice as the commonly prevailing technique in the industry, it subsequently issued a statement that a new operational procedure would be introduced.

Starbucks claimed that the report was exaggerated but the incident taught it a lesson. According to Schultz, “The lesson was that the world had changed. Something that had happened in London had created a worldwide story that positioned Starbucks with venom and disrespect. And we didn’t know how to respond. The issues of social media, digital media, and getting smart about the rules of engagement emerged as a tremendous weakness for the company.”²⁰

At the same time, the company was exploring way to reconnect with the customers. Schultz drew a detailed turnaround plan for the company, which included a wide social media presence. (Refer to Exhibit II for more about Social Media).

The social media plan of Starbucks was in tandem with its roots and the way it had grown. Starbucks started in a small way and expanded one store at a time. While building each store, it was important for the company to interact and engage with the customers on an individual basis. Starbucks viewed the social media as an extension of this philosophy, and its digital vision was “to be the leading brand that engages in digital communication, to build meaningful relationships, benefit the bottom line, and give the company a competitive advantage.” The social media strategy of the company was guided by the principles – listen; be transparent; use authorities; be human; share timely information; offer personal attention; be humble in replies; don’t preach; give fans access; and don’t spam users.

Starbucks then started a social media team with six people. By 2009, the team had 13 personnel, who were involved in managing the digital marketing initiatives of the company. The team was a part of the marketing department and coordinated with employees from different functional areas within the organization, thus forming a cross-functional, centralized group. If the group felt the need for additional resources or support, employees and experts from the other departments were consulted. This helped in capturing ideas from different areas. When Starbucks ventured into the social media, all the business units gave content for the pages. Starbucks also constantly took inputs from different departments. According to Alexandra Wheeler (Wheeler), Digital Strategy Director, Starbucks, “We don’t think about it as just a marketing or public relations channel. This is about [answering the question of] how do we extend the very strong customer experience that we deliver every day in our stores into these other really relevant spaces?”²¹

MYSTARBUCKSIDEA

In the annual shareholders meeting in March 2008, Starbucks announced several customer-facing initiatives to halt sliding sales. These included introduction of semi-automatic espresso machine that allowed baristas to make eye contact with the customers; complete reinvention of brewed

¹⁸ Waste Watch started as a community recycling movement in the 1980s. It became a charity in 1991.

¹⁹ Veronica Lorraine, Brian Flynn, “The Great Drain Robbery,” www.thesun.co.uk, October 05, 2008.

²⁰ Adi Ignatius, “The HBR Interview: “We had to Own the Mistakes” – An Interview with Howard Schultz,” www.hbr.org, July 2010.

²¹ Douglas Quenqua, “Starbucks’ Own Good Idea,” www.marketingpower.com,

coffee in-store; introduction of loyalty program that would reward registered cardholders; strengthen Starbucks' relationship with Conservation International²²; and the launch of MyStarbucksIdea.com, marking Starbucks' entry into the social media arena.

MyStarbucksIdea.com was launched in July 2008 as a forum to interact with customers directly. MyStarbucksIdea.com was an online community where customers and employees could submit their ideas for new products and on how Starbucks could improve its service. Starbucks used this forum as a tool to channelize the organizational resources toward initiatives that customers thought was important.

During the launch the website displayed the message – “Help shape the future of Starbucks – with your ideas. You know better than anyone else what you want from Starbucks. So tell us. What’s your Starbucks Idea? Revolutionary or simple – we want to hear it. Share your ideas, tell us what you think of other people’s ideas and join the discussion. We’re here and we are ready to make ideas happen. Let’s get started.”

Within a few days, customers started posting several ideas on the Starbucks site. The ideas included, giving away free drinks to customers on their birthdays, getting a free cup of coffee for buying a certain number of cups, creating a loyalty club for frequent coffee drinkers, pastries with fewer calories, free Wi-Fi, ‘Splash Sticks’, which were plugs for sip holes, new kinds of cake pop flavors, reintroducing Ethiopia Sidamo coffee, and improving recycling methods in stores. The customers could also post queries on the website.

MyStarbucksIdea had 48 idea partners who were involved in other activities in the company. They were trained by Starbucks in social media engagement, and any query from customers related to their area of expertise was transferred to them.

Starbucks considered all the ideas, and those worth implementing were taken up for further review. Out of these a few were implemented. All the ideas presented were listed on the website, and users could post their comments about them. The website showed current ideas, live feed of all the ideas, and various popular ideas. When any idea was implemented, a check mark was placed against it. If an idea was tagged with a piece of paper, it meant that the idea was being reviewed; if the idea was marked with a piece of paper with a check mark, it meant that it had already been reviewed. According to Wheeler, “It’s a significant way to co-create through that program, to inform business decisions that were underway or forming. It’s a natural extension of the brand through that experiment, and through our success with that, we started to expand beyond that. It was important for us to go where consumers are and to provide a valuable and meaningful brand experience.”²³

The website had a section called ‘Ideas to Action’, which was a blog where people could see how the ideas were being implemented. It was essentially a blog by the employees of Starbucks, where they wrote about the implementation of different ideas. By visiting the site, customers could get to know if the idea they had suggested was being implemented. There was a section for ideas that had been rejected, Starbucks also explained why some of the ideas had not been implemented.

In the first year, over 75,000 ideas were posted and Starbucks implemented 25 of them. Some of the suggestions implemented were reintroducing the Yukon blend of coffee which had been discontinued and development of an iPhone app to find out the nearest Starbucks store.

By 2011, 250,000 people had signed up with the website, over 100,000 ideas had been submitted, a million votes cast, and 98 ideas implemented.

²² Conservation International was established in 1987 with the mission to conserve the Earth’s natural heritage.

²³ Elaine Wong, “Why Starbucks is the Top Brand on Facebook,” www.adweek.com, August 12, 2009.

TWITTER

In mid 2008, The company was looking at different ways to engage with the customers through the social media. A barista with the company, Brad Nelson (Nelson), who was keen on being a part of Starbucks' online efforts, approached Chris Bruzzo (Bruzzo), Vice President brand content and online, and told him about opportunities on Twitter, and how Twitter could be used to communicate with customers on a real time basis. He put forward the idea that interacting through Twitter was like being an online barista. Starbucks entered the world of Twitter in July 2008, with Nelson as its product manager.

Nelson's main task was to bring Starbucks experience to the online community, chat with people, look for unhappy customers and address their problems, chat about new offerings, blends and contests. By 2010, he had 775,000 followers. According to Bruzzo, "I guess you have to have a brand like this and an environment that's open to innovation and someone like Brad (Nelson) with the passion and personality."²⁴

Starbucks had several accounts on Twitter, each for different purpose. One was Starbucks Coffee, with over 2 million followers as of mid-2012, which was a general account. Another twitter account was for MyStarbucks Idea, which was specifically for sharing ideas. There was a twitter account for StarbucksStore.com, which was used to help customers purchase merchandize of Starbucks. StarbucksLive was an account where people could follow the live events. Apart from these accounts, there were separate accounts for most of the countries in which Starbucks operated. These included accounts for Starbucks in Canada, UK, Spain, Mexico, Indonesia, Argentina, South Korea, and Japan.

Through twitter, Starbucks connected with each of the customers individually. Most of the conversations on Twitter were customer service oriented, or were questions and answers, and retweets about what the customers were telling about Starbucks. The tweets were posted in a tone that was similar to a barista's interaction with customers.

Most of the tweets were replied to immediately. Customers were highly impressed by the replies that their tweets received. A customer said, "What's even better is that each reply feels personal. Not one reply back to a customer feels generic, which is quite impressive since the company is a large corporation with a lot of tweets on their Twitter page."²⁵

A complaint like not receiving an e-coupon on birthday on Twitter received an immediately reply – "Sorry to hear! Please call us at 1-800-STARBUCC. We promise we'll help you celebrate your birthday, even if it's a bit belated!"

In 2009, Starbucks placed new advertising posters in six cities in the US. Then it asked consumers to hunt for the posters and be the first to upload a picture of them with the poster on Twitter. The winners were given a gift card for US\$ 20. Within hours, Starbucks received several pictures on Twitter. Starbucks got the idea to launch such a campaign after it found that several people were posting their pictures and were writing about their activities on different social media websites. According to Bruzzo, "It shows a level of connection to our brand that we wouldn't have concocted on our own."²⁶

Often, Twitter was also used to address the problems of disgruntled customers. On one occasion, Nelson came across a customer, who was particularly negative about Starbucks' sourcing practices. Then Nelson managed to make the customer speak to the director of ethical sourcing, after which

²⁴ Emily Bryson York, "Starbucks Tweeter in Chief," Advertising Age, February 22, 2010.

²⁵ "Starbucks: The Perfect Blend of Social Media Marketing," www.thumbprintmarketinggroup.com, June 21, 2012.

²⁶ "Starbucks' Social Media Strategy," www.businessreviewusa.com, August 05, 2011.

he changed his perspective about the company, and wrote a blog titled –"Starbucks, I done you wrong." As of 2012, Starbucks was one of the mostly followed companies on Twitter. (Refer Table I for the list of Fortune 500 companies with most followers on Twitter)

Table I
Fortune 500 Companies with Most Twitter Followers

(As of June 2012)

Company	Twitter Followers
Google	4.7 million
Whole Foods	2.6 million
Starbucks	2.5 million
Southwest	1.3 million
The Washington Post	1.0 million
Coca Cola	0.53 million
Best Buy	0.26 million

Source: <http://www.nationaljournal.com>

FACEBOOK

Starbucks' Facebook page was created in November 2008. At that time, there were already some fan pages of Starbucks existing on Facebook. The company approached those who owned the pages, informed them that it was starting an official Facebook page, and asked them to be a part of it.

At the beginning, Facebook had a small community of Starbucks' fans. The company then carefully built the community by constantly updating the pages with relevant content, experience, and offers to the members. According to Bruzzo, "It's not like we started our Facebook community, got to a million people, and started pushing offers at them. We built up a community of people who enjoy engaging with our photo albums from our trip to Rwanda, who loved to have these shared moments around their favorite drinks."²⁷

Through the Facebook pages, Starbucks did not try to sell any of its products, but used it to inform customers about new products, new services, activities, etc. According to Wheeler, "a brand can promote the heck out of themselves on Facebook and still not build a [strong] following if they don't have anything behind that and only nurture and care about it as marketing, but not as relationships. We're developing and fostering those relationships to ensure that we're entering this space in the right way."²⁸

The Facebook pages of Starbucks had a tab called International, which gave details of Starbucks stores in countries around the world. Clicking on the country took the users to the Starbucks page of that country. For example, clicking on Germany took the users to www.facebook.com/starbucksDeutschland. The page dealt with Starbucks' activities in Germany.

As of August 2012, there was a tab with 'Pumpkin Spice Latte'. It took users to a game, which promised that the Pumpkin Spice Latte²⁹ would be sold in the city of the winner one week before it was introduced in other cities. Users could play different games on the page, and earn points for their city. Within one hour of the launch of the contest, the application crashed due to overload.

²⁷ Emily Bryson York, "Starbucks gets its Business Brewing again with Social Media," Advertising Age, March 22, 2010.

²⁸ Elaine Wong, "Why Starbucks is the Top Brand on Facebook," www.adweek.com, August 12, 2009.

²⁹ Pumpkin Spice Latte was a popular autumn drink that Starbucks introduced in 2000.

Other tabs included a tab about employment opportunities; a tab giving the details of Starbucks' Card, through which Starbucks Cards could be reloaded; a tab on different events that took place at Starbucks – like free coffee on July 4, selling Starbucks Petites at US\$ 2, breakfast at US\$2, etc. There was another tab where different videos about Starbucks were posted. The videos included those wishing the customers during the holiday season, videos asking customers about their wishes for summer, videos featuring artists like Sheryl Crow, and bands like OK Go, talking about their new albums, advertisements for products like Pike's place roast, vanilla flavored VIA coffee, interviews with music artists, stars like Josh Ritter, the performance of singer John Legend, etc. Some of the videos featured details of how Starbucks sourced its raw materials, its Fair trade practices, etc.

Facebook was also used to inform the customers about special drinks, discounts, offers, etc. When Starbucks was conducting the Frappuccinos Happy Hour campaign, customers were informed about the time and day when they could avail of discounts. On Facebook, the conversations were mostly about new beverages, customers' ratings for those, and favorite beverages. They were also about the rituals at Starbucks, the values that it stood for, sourcing, environmental responsibility, creating AIDS awareness, etc.

On Facebook, Starbucks often posted pictures of its outlets, new products, and its staff. Pictures of the staff involved in voluntary activities such as working in children's homes and cleaning up the parks were posted regularly. Starbucks also posted pictures of Schultz's visit to coffee plantations in Rwanda. This helped it tell the world about its procurement practices and the impact its business had on the community, and to enlighten them on how the best quality coffee was procured.

Starbucks' Facebook page was also a place where discussions were held on several topics. Some of the topics that received a lot of attention were Starbucks' endorsement of the marriage equality bill³⁰ and its policy to allow people holding guns into its stores, wherever it was legal. There were several posts from those who supported Starbucks and those who opposed its stance. Starbucks did not make any deliberate effort to remove comments that were against it from the pages, in order to let the conversation continue uninterrupted.

According to the PhaseOne report, "Starbucks' Facebook page engages the visitor by speaking to his or her coffee preferences and personal stories. It continues this trend today with a Web page featuring interactive content that taps into visitors' unique tastes, including "What's YOUR Everylove story?" and "Do YOU prefer Starbucks Blonde Roast, Medium, or Dark?" In this way, Starbucks taps into visitors' desires for individualized experiences that appeal to their unique preferences."³¹

One of the noteworthy features, according to analysts, was that Starbucks did not try to sell products through its Facebook pages. It ensured that every day, new content was added to the Facebook pages. Most of the posts by Starbucks were shared multiple times, and received several 'likes'. Some of the posts were discussed widely and received hundreds of comments.

By 2009, the number of fans on Facebook had crossed the 3 million mark. In July 2009, it surpassed Coca-Cola to become the most popular brand on Facebook, and by August 2009, it had 3.7 million fans. As of April 2012, Starbucks had 30 million fans on Facebook. (Refer to Table II for the list of Fortune 500 companies with the largest presence on Facebook).

³⁰ It is law prevailing in some states of the US allowing gender-neutral marriages.

³¹ "Starbucks Rates Number 1 in Study of Most Socially Engaged Companies by Research Firm PhaseOne," www.phaseone.net, March 28, 2012.

Table II
Fortune 500 Companies with Largest Presence on Facebook

(As of June 2012)

Company	Facebook Likes
Coca-Cola	42.1 million
Starbucks	30.2 million
McDonalds	19.8 million
Walmart	15.8 million
Levis	21.8 million
Target	12.6 million
Nike	9.2 million
Kohl's	6.5 million

Source: <http://www.nationaljournal.com>

MOVING AHEAD

Starbucks also had a presence on YouTube. It used YouTube to upload videos about its brand, advertisements, videos of its voluntary activities, its beginning, events in its history, origins of different coffee blends, etc. Starbucks allowed the videos that it uploaded on YouTube to be embedded anywhere on the web. Starbucks also had a presence on Instagram, which was a smartphone app that allowed users to share photographs in a stream. Through Instagram, Starbucks posted pictures of its products, outlets around the world, in-store ambiance, coffee tasting sessions, new product ideas, logo ideas, etc. Customers could also post content using the Starbucks hashtag³². By January 2012, Starbucks had 200,000 followers on Instagram.

Starbucks started using Foursquare location-based mobile services, which gave details about cities to new people, about good eateries, stores, shopping, discounts, etc. Starbucks was among the most searched brands on the location-based services.

The in-store ambiance of Starbucks was also modified, in tandem with its foray into the digital media. From June 2010, all the Starbucks stores across the US started offering free Wi-Fi to customers. Using the Wi-Fi, customers at Starbucks' outlets could access content from different categories like music, entertainment, lifestyle, business news, etc. It also provided access to paid content of sources like the Wall Street Journal. Local content from Foursquare was also a part of the Starbucks page. The users could also download weekly tracks. According to Schultz, "There are 30 million people signing up for Wi-Fi access at Starbucks every month. As this 'third place' (after home and work) in America, we have a really unique opportunity to do things that have not been done before, to integrate a national footprint of our stores with the social media networks that we've been building."³³

Starbucks also developed an application using which customers could pay for the goods using their smartphones. The application was initially tested in September 2009 and in January 2011, Starbucks started accepting mobile payments through the Starbucks Card, the iPhone, and the Blackberry at of its outlets. Customers needed to show the barcode on their phones at the checkout

³² Hashtag are words prefixed with '#' symbol, to mark a keyword on microblogging websites.

³³ Josh Dickey, "Starbucks' Schultz: Social Media is Key to Building Brand Trust," www.thewrap.com, September 2010.

line, when they paid using this system for the first time. Their identity then got registered. The next time they were in the outlet, the store was notified about their presence. The customers' details appeared to the cashier, and the customers could pay by just confirming their name. Within a span of two months, over 3 million customers used this facility to pay at Starbucks. According to Schultz, "Starbucks today, and this is an important point, we are the number one company, not in the U.S., but in the world, in terms of mobile payments in transactions, and dollars. All of this is wrapped into the relevancy of the Starbucks' brand and the experience and this is what is driving much of the incrementality that we are experiencing."³⁴

Starbucks also started using the mobile social network Brightkite to remain connected with customers. Through Brightkite, Starbucks was able to bring out locally targeted brand integration. It was used for The Frappuccino Happy Hour promotion in 2010. Brightkite users who went to Starbucks at a specified Happy Hour time, when the promotional event was on, could get Frappuccino at half the price, and were also given a badge, which they could post on their Brightkite profile.

Through social media, Starbucks reinforced and deepened its relationship with existing customers. Not only that, as several users of social media were in the younger age group, Starbucks was of the view that in future, they would become its loyal customers.

SOCIAL MEDIA TO IMPROVE CUSTOMER ENGAGEMENT

Starbucks engaged with customers in multiple ways through social media. This ranged from serious issues like World AIDS Day or having fun on the April Fool's Day, introducing new products, increasing awareness about the brand, gathering ideas, holding contests, etc. Instead of using social media as an advertising platform, Starbucks used it to provide customer experience and to build relationships. According to Annie Young-Scrivner, global CMO, listening to customers and engaging with them "has allowed us to stay very fresh"³⁵

Starbucks promoted events like a 'Free Pastry Day', in 2010 during which customers who downloaded coupons from Facebook were given free pastry. This campaign attracted one million customers to Starbucks stores on a single day. To make the baristas ready for the day, they were trained on redeeming coupons that were printed from the website, and digital coupons sent through mobile phones.

To promote green initiatives, Starbucks promoted an event through Facebook. During this event, customers bringing their own cups to Starbucks were given free coffee.

The digital media strategy of Starbucks helped it cross over into the consumer packaged goods category. One such product that was introduced and was distributed through 40 distribution points was VIA coffee. The product was launched in 2009, in two markets in the US. Social media was used to mainly listen to people's opinion about the product, share stories about how the product was being used, and to learn about customers' reactions on Starbucks entering into a new space.

The company then rolled the product out across the country. At the same time, a contest was held asking people to share how they used VIA on different occasions. The customers responded immediately with videos, photographs, and stories about how they had used VIA in their homes, offices, on outdoor trips, etc. Many people were not in favor of trying instant coffee, but interacting with other Starbucks' customers on the social media helped change their minds.

Starbucks gave a free cup of coffee to those who voted in the US presidential elections in 2008. The awareness about this campaign was created by posting about it on the Facebook page. On that page it asked the followers to confirm whether they would be visiting Starbucks for a free coffee. A commercial was telecast announcing a free coffee on Election day. It was uploaded on YouTube

³⁴ "Howard Schultz: How Twitter and Facebook are Saving Starbucks Money," www.geekwire.com, January 26, 2012.

³⁵ Maureen Morrison, Starbucks: Forging a Moment of Connection. Advertising Age, November 07, 2011.

and became the fourth most watched ad over the next three days. On Twitter, Starbucks found a mention every eight seconds, in the next few days. By the time the campaign ended, over 250,000 people had said they planned to visit Starbucks. This message was then spread to the friends of those who confirmed, after which it went viral, and garnered 83 million impressions on Facebook.

Frappuccino was one of the very popular and old brands from Starbucks. From several years it had not been reinvented, and people were highly passionate about the brand. With the idea of leveraging on the idea of Frappuccino being personal, a Twitter account was opened asking for suggestions to build and customize the beverage. Then with the suggestions provided by the customers, changes were brought about in Frappuccino. Besides, it could be customized by adding more milk, more coffee, replacing milk with soy milk, adjusting the intensity and sweetness etc.

In one instance, a deaf customer posted a video on MyStarbucksIdea asking the baristas to learn how to say thank you in sign language. In reply, an employee promptly posted a video conveying thank you in sign language. The video was requested on MyStarbucks Idea, was uploaded on YouTube, and was tweeted about and retweeted to reach several people.

Starbucks also used the social media to reply to allegations that it faced from time to time and to dispel rumors. Once it was alleged that Starbucks did not supply coffee to the US troops in Iraq and Afghanistan as it did not support the war. This issue was addressed and Starbucks' stance was made clear through the 'myths and facts' section in its website. The same issue was addressed through other social media sites as well. In 2010, the Internet was abuzz with news clipping that Starbucks was donating a portion its profits in Israel to the country's army. The fact was that Starbucks did not have a presence in the country Starbucks immediately conveyed the truth to all the customers through its social media sites.

Starbucks considered its interaction with customers as a relationship and did not limit it to offers and advertisements. Through the social media people were made to feel a part of the company. Many of the initiatives like sharing a part of sale on the World AIDS Day with charities, its Fair Trade practices, and Schultz's trip to Rwanda, which were posted on Facebook, made people identify themselves with the company and its activities.

CONCLUSION

In 2010, Starbucks became the first consumer brand to have 10 million fans on Facebook and was ranked No.1 in online engagement. It also reached the milestone of becoming the most tweeted brand. Analysts pointed out that the Starbucks experience, which had been lost in the rapid expansion of Starbucks had been brought back by the social media initiatives. They also said that Starbucks continued to provide its unique experience to customers even if they were away from the retail location, by remaining connected with them through the social media.

Several observers commented that Starbucks' digital media efforts were 'digital marketing worth watching'. Listening to conversations on the social media helped Starbucks realize people's perceptions, and understand what kind of brand and product experience they were expecting, and to bring in appropriate changes in its offerings.

By concentrating on the social media, Starbucks was able to spend less on traditional advertising media, but still improve its performance in a few years. As of 2010, Starbucks spent only 1% of its US sales on advertising. According to media measurement technology company General Sentiment, Starbucks benefited to the tune of US\$ 67.8 million in terms of brand exposure between September and November 2010, through online news media, social media, and Twitter. According to Bruzzo, customer engagement, through social networking gave it an advantage compared to other companies which spent millions of dollars on advertisements. He said, "It's the difference between launching with many millions of dollars versus millions of fans."³⁶

³⁶ Claire Can Miller, "New Starbucks Ads Seek to Recruit Online Fans," www.nytimes.com, May 18, 2009.

Schultz pointed out that the social media was a cost-effective way of engaging with the customers. He said, “There probably (aren’t) very many companies in America that have created the capability and the discipline that we have with almost 40 million worldwide fans on Facebook, a leading company on Twitter and Foursquare. And what that has done, it has given us the ability to lower our cost of customer acquisition in terms of traditional advertising and build a more enduring, emotional relationship with our customers.”³⁷ Analysts pointed out that apart from other factors, the revival of Starbucks could also be attributed to its ability to remain connected with the customers through social media. (Refer to Exhibit III for Starbucks’ Yearly financial statement and Exhibit IV for Starbucks’ quarterly financial details)

In March 2012, Starbucks created the post of Chief Digital Officer (CDO), and appointed its Senior Vice President of Starbucks Digital Ventures as the CDO. The CDO was responsible for all the digital projects of the company like web, mobile, digital marketing, e-Commerce, Wi-Fi, Starbucks Card, and Starbucks Digital Network. According to David Brotman, the CDO, “[Digital] has been an essential part of how we build our brand and connect with our customers... there’s been such a seismic shift [in our interactions with customers] that we needed to pull it all together and make it a priority,”³⁸

Social media allowed Starbucks to connect with customers and the environment, and build an emotional connection with them. According to Wheeler, “Brands love emotional connections and human connections are one of the biggest entry points we have as we aggressively experiment our way in this space and start to mature that experimentation.”³⁹

Not only in the US but also in other countries, Starbucks was among the top social media brands. In the UK, it was ranked among the top ten in the Social Brand List. The list was compiled by social media monitoring service Brandwatch and social branding agency Headstream. The study considered different social media platforms like Facebook, Twitter, YouTube, and foursquare, and also companies’ websites and blogs.

Using social media was not devoid of problems. In 2009, Starbucks asked customers to take a picture of themselves in front of the outlet and post it on Twitter. But some documentary film makers who made a critical documentary on Starbucks’ labor practices, encouraged the users to take their pictures holding protest signs and post them on the same Twitter account. This gave a lot of negative publicity to Starbucks. But supporters of Starbucks countered the campaign by posting facts about its Corporate Social Responsibility initiatives and employment policies.

Some critics pointed out that the ideas that were accepted through MyStarbucksIdea were old ones, and had been initiated even before the customers had come up with them. Though Starbucks was highly popular in the social media with millions of fans, there were more than 200 Facebook pages calling for a boycott of the company. The reasons for the boycott demands included its political stance, Howard Schultz selling the NBA team, not supporting the Iraq war, and its procurement policies.

³⁷ “Howard Schultz: How Twitter and Facebook are Saving Starbucks Money,” www.geekwire.com, January 26, 2012.

³⁸ Jennifer Von Grove, “How Starbucks is Turning itself into a Tech Company,” www.venturebeat.com, June 12, 2012.

³⁹ Elaine Wong, “Why Starbucks is the Top Brand on Facebook,” www.adweek.com, August 12, 2009.

Exhibit I

Phase One – Measuring Social Media Engagement

Social Media engagement was measured through:

- Ability to influence online content. This was accessed using Klout, a measure of a user's online influence on a scale of 1 to 100. Klout's algorithms scouted through social media data, and the score was calculated using variables like number of followers, frequency of updates, retweets, number of likes, updates received, Klout scores of friends and followers, etc.
- Online consumer sentiment of the brand was assessed using NetBase, which was developed by NetBase Solutions Inc. NetBase's tool provided a set of analytics, charts, and research tools to monitor online activity, which helped in engaging with customers in real time. The tool measured online sentiment about a brand.
- Direct online consumer association was measured through Facebook fans

For all the brands' TV ads, web and Facebook pages were collected, analyzed, and coded for 250 variables. These variables captured the details regarding style and content, uniformity across different media, product ideas, consumer benefits, etc.

The study found that those brands which conveyed social benefit attracted users on social media, as the users, by their association with different brands, wanted to send across a message to others on their social network, about how they liked to be perceived.

Adapted from www.phaseone.net

Exhibit II

About Social Media

Social media is also known as social web. Social media tools include news feeds, share buttons, blogs – blogger, TypePad; micro blogging – Twitter, Plurk; social networking — Facebook, LinkedIn, MySpace; Social media news sites – dig; social bookmarks – Delicious; Question and Answer Community – Yahoo! Answers, Google Answers; Photo sharing – Flickr, Picasa; Video Sharing – YouTube, Vimeo. As of 2012, social media accounted for almost 25% of the time that people spent online. The reach of social media can be gauged from the fact that if the members on Facebook constituted a country, it would be the third most populous country in the world after China and India.

Prior to the advent of social media, companies interacted with their customers mainly through mass communication media like print, radio, and television advertisements, and sometimes through individual communication in the form of telephone calls, e-mails, mailers, etc. In such a scenario, there were not many avenues through which customers could communicate with each other. Customers could share their experiences, either good or bad, only with a limited number of people. The primary goal of marketing is to reach consumers at the right point to influence the buying behavior.

Social media websites like Facebook, MySpace, Twitter, YouTube, etc. have changed the way people interact, shop, and make purchasing decisions. They have also changed the traditional way of marketing. Social media play a crucial role in communication from the company to customers; from customers to the company; and among the customers about the company. Social media also give the customers an opportunity to produce, use, and redistribute the content.

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Several Fortune 500 companies have changed their marketing strategy to encompass digital marketing tools. The digital media presence helped them remain connected with the customers, respond to their queries and complaints, and also make changes in the products / services in response to customers' demands. The Social media helped the companies understand not only their own customers, but also competitors' products and services and the reaction of their customers.

Several analysts claim that word-of-mouth is the most popular method of reaching the consumers, and the social media have the ability to augment it. At the same time, social media can also be used by the customers to spread negative publicity. Very often, the social media websites of organizations carry several hostile comments about the companies. It is also common for people to open threads and groups on social media sites, citing the name of the organization, but criticizing it.

When a company decides to enter the social media space, it should be ready to face any sort of backlash from unhappy and disgruntled customers. The customer to customer interactions on the social media about the companies provide a lot of information that can be used by the companies to address problems, correct inaccuracies, and also enhance their image.

Though social media are easy to deploy and of low cost, it is important to maintain uniformity of content and thought across all the social media platforms. Once a company engages in social media, it is important to constantly remain engaged. Very often, companies create social media pages but do not have dedicated teams to maintain the pages. So often, the pages are left unattended and embarrassing and malicious content is posted.

Compiled from various sources

Exhibit III

Starbucks – Selected Financial Data

(in US\$ million)(Except per share data)

	Oct 2 2011	Oct 3 2010	Sep 27 2009	Sep 28 2008	Sep 30 2007
Net Revenues					
Company Operated stores	9632.4	8963.5	8180.1	8771.9	7998.3
Licensed Stores	1007.5	875.2	795.0	779.0	660.0
CPC, food service & other	1060.5	868.7	799.5	832.1	753.2
Total Net Revenues	11700.4	10707.4	9774.6	10383.0	9411.5
Operating income	1728.5	1419.4	562.0	503.9	1053.9
Net earnings including non-controlling interests	1248.0	948.3	391.5	311.7	673.7
Net earnings attributable to non-controlling interests	2.3	2.7	0.7	(3.8)	1.1
Net earnings attributable to Starbucks	1245.7	945.6	390.8	315.5	672.6
EPS – diluted	1.62	1.24	0.52	0.43	0.87

Source: Annual Report, Starbucks.

Exhibit IV

(in US\$ millions) (Except per share data)

Starbucks – Quarterly Financial Information (2011)					
	First	Second	Third	Fourth	Total
Net Revenues	2950.80	2785.70	2932.20	3031.90	11700.40
Operating Income	501.90	376.10	402.20	448.30	1728.50
Net earnings attributable to Starbucks	346.60	261.60	279.10	358.50	1245.70
EPS – diluted	0.45	0.34	0.36	0.47	1.62
Starbucks – Quarterly Financial Information (2010)					
	First	Second	Third	Fourth	Total
Net Revenues	2722.70	2534.70	2612.00	2838.00	10707.40
Operating Income	352.60	339.80	327.70	399.30	1419.40
Net earnings attributable to Starbucks	241.50	217.30	207.90	278.90	945.60
EPS – diluted	0.32	0.28	0.27	0.37	1.24

Source: Annual Report, Starbucks.

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