Starbucks: taking the “Starbucks experience” digital
Creating the digital “Starbucks experience”

At Starbucks, coffee is big business. Since opening its first location in Seattle, Washington in 1971, the company has grown into one of the world’s largest specialty foods retailers and one of the most globally-recognized brands. But Starbucks has built a billion-dollar enterprise on more than just coffee; it has succeeded in creating a unique Starbucks experience in its stores and online. Today, 94% of all Facebook users are either a Starbucks fan or are friends with one. Starbucks boasts 7 million active users of its mobile payment system, and nearly 100 thousand downloads of its mobile apps every week. In 2012, the company booked $3 billion in payments via its loyalty card, and is on track to double user enrollment to 9 million in 2013.

For many within (and outside) the retail industry, Starbucks is leading the way in creating a digitally-enhanced customer experience (see Figure 1).

The company has not always been a digital leader. Following a rapid expansion, Starbucks faced declining same-store sales in 2008 and its share price had been nearly cut in half over the prior two years. The picture wasn’t much better on the technology front. Unintuitive point-of-sale systems still ran on antiquated technology, and store managers did not have access to email. To turn the tide, senior leaders took a number of strategic actions, key among them using digital technologies to engage customers in new ways.

Starbucks’ recipe for success in Digital Transformation has been equal parts technology-savvy and committed leadership. Today, Starbucks continues to leverage these strengths to create value for customers and shareholders alike through digital.

“Everything we are doing in digital is about enhancing and strengthening those connections [with our customers] in only the way that digital can and only the way that Starbucks can.”

- Adam Brotman, Chief Digital Officer

Figure 1: Starbucks’ digital presence in mobile, social and on the web drives nearly 35 million unique monthly visitors – comparable to that of a large media company.

Our Web Sites and Mobile Applications - 34.8 million visitors

Source: 2013 Annual Meeting of Shareholders
Leading the way in mobile payments

Starbucks has leveraged mobile channels in a number of ways to enhance the Starbucks experience. Today, the company boasts over 7 million mobile apps users and expects to collect 10% of in-store payments via mobile by the end of 2013.4

Starbucks’ first foray into mobile was the company’s myStarbucks app, released in 2009. myStarbucks allowed customers to locate the nearest store, learn more about the company’s coffees and even build their own drink. In January 2011, Starbucks took its loyalty program digital with the introduction of its Starbucks Card Mobile app. This app allowed Starbucks’ customers to pay for in-store purchases with their mobile phone. Rather than bolt cutting-edge technology onto existing infrastructure, Starbucks opted to implement a simple 2D barcode approach. To pay, app users could present an on-screen version of their prepaid loyalty card, and could top-up funds via the web, mobile or in stores. This approach integrated easily with existing point-of-sale technology, which was already set up for reading barcodes. Since launch, the program has been extremely successful: today, 20% of all loyalty card transactions are conducted via mobile.5

Keeping pace with advances in mobile technology, Starbucks has continued to expand its mobile payment capabilities. In 2012, it announced that customers would be able to make payments at the register via Square – an app-based mobile payment system – following a $25 million investment in the service.6 Starbucks has also enabled integration of its application with Apple’s native Passbook feature, which consolidates ticket, coupon and loyalty card information on an iPhone or iPod Touch for convenient access.

Mobile payments at Starbucks have been a success for customer convenience, but they are proving to have financial benefits as well. The company has been able to reduce the processing fees for transactions through its mobile app and Square. At 3 million mobile payment transactions per week, this has made a significant impact in reducing transaction fees.7
Engaging customers through social media

As one of the world’s most recognized brands, Starbucks is also building a leading presence in social media. The company’s 54 million Facebook fans, 3.4 million Twitter followers and 900 thousand followers on Instagram have earned Starbucks a #1 ranking among socially engaged companies.10

But, Starbucks’ social media presence has earned it more than just fans - the company also uses social media to fuel customer-driven innovation. Through its My Starbucks Idea site, Starbucks has collected over 50 thousand customer-submitted ideas to improve its products, customer experience and corporate initiatives (see Figure 2).11

Once an idea has been submitted, the site’s customer community can vote the idea up or down, helping Starbucks identify and implement the best ideas. The company closes the loop with its Ideas in Action blog, where employees respond to ideas personally, and let customers know when they can expect to see their ideas realized in stores. For example, one community member suggested making it easier for people to manage multiple orders – especially for customers going on mid-day “Starbucks runs” for their coworkers. In less than a month, Starbucks introduced its Runner Reward program. The program provides runners with a convenient form to manage orders, and offers them a fifth drink (their drink) free-of-charge.12

Figure 2: In March 2013, My Starbucks Idea celebrated its fifth year in operation, and 275 customer ideas launched

Source: 2013 Annual Meeting of Shareholders

“Today, 94% of all Facebook users are either a Starbucks fan or are friends with one.”1

“...We are just getting started and only beginning to see the benefits of the convergence of our retail, CPG, and social and digital media initiatives”21

- Howard Schultz, CEO
Bridging the online and offline customer experience

The company’s unique Starbucks experience is rooted in connecting with customers. Describing the company’s in-store experience, the company’s mission statement says, “When our customers feel [a] sense of belonging, our stores become a haven, a break from the worries outside.” Now, Starbucks is extending that customer experience into the digital world by bridging its local, in-store experience with new online channels.

The Starbucks Digital Network offers in-store customers premium digital content to enjoy alongside their coffee, delivered via a free Wi-Fi connection (see Figure 3). Users with a laptop or mobile device have access to a range of content from The New York Times, The Economist, The Wall Street Journal and other publications. In line with the company’s commitment to a local experience, the Starbucks Digital Network offers access to local content as well. Customers can browse local news, view local restaurant reviews free from Zagat, or check-in via Foursquare.

“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.”

- Adam Brotman, Chief Digital Officer

Figure 3: The Starbucks Digital Network gives in-store customers access to premium digital content

Source: Business Wire
Organizing digital capabilities

Starbucks also made significant organizational changes to enable its Digital Transformation. As part of the company’s 2008 turnaround, then CIO Stephen Gillett created Starbucks Digital Ventures: an internal, venture capital-style incubator for digital technology. The unit remained separate from the company’s Marketing and IT groups, but collaborated closely with both to drive innovation in the company’s digital strategy. In a 2011 interview with InformationWeek, Gillett discussed the decision to keep Starbucks Digital Ventures separate: “If I take the digital capability and put it under engineering or IT, even with the best of intentions, it becomes heavily influenced by the technology initiatives... And if I take the same function and put it under a marketing function, it will inherently be dictated by the cadence of a marketing campaign. We needed it to have the autonomy of its own destiny, of its own vision.”¹⁴

In 2012, the company took its digital organization a step further, when it announced that Adam Brotman would lead the group as Starbucks’ new Chief Digital Officer. The move put all of the company’s digital initiatives - from mobile apps to loyalty programs - under a single, executive-level role reporting to CEO Howard Schultz. According to a recent Venturebeat interview with Brotman, “[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.”¹⁵

Creating a digital advantage

Through its keen use of digital, Starbucks has been able to enhance its customer experience. Starbucks’ customers are not the only beneficiaries of this strategy – shareholders are seeing value as well. The company is able to reduce transaction charges through its mobile payment system, lowering its operating costs.¹⁶ Due to the success of its loyalty card and gift card programs, 30% of all in-store transactions are now prepaid, improving cash flow.¹⁷ In parallel with these direct benefits, the company’s share price has also made significant gains. Since the start of Starbucks’ digital journey in 2008, Starbucks stock has grown at double the rate of its industry peers.¹⁸

Starbucks has made digital innovation as integral to the company’s strategy as to its customer experience. As the company continues to grow at home and in new markets, digital will likely play an important role in maintaining the company’s leading position in the industry. According to CEO Howard Shultz, “As a result of our [digital] capabilities and insight, we have been able to do things that almost no other consumer brand or retail company have done before. And we’re just getting started.”¹⁹

For more information on Starbucks’ digital transformation, see the Sloan Management Review’s interview with Chief Digital Officer Adam Brotman and CIO Curt Garner.
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