

# THE HUB

THINKING MARKETING FOR BUSINESS VISIONARIES™ | November/December 2005

BEST PRACTICES

## House of Starbucks

**Anne Saunders,**  
svp of marketing  
for **Starbucks,** says  
creating customer  
loyalty starts with just  
one thing: A really  
great coffee house.



### What business is Starbucks really in?

A favorite saying we have around here is, “we’re not in the coffee business, serving people; we’re in the people business, serving coffee.” Coffee is who we are and what we do, and the quality obsession around finding and then roasting and delivering to a customer the best cup of coffee possible is at the core of who we are.

Inextricably linked with that is the way in which that’s done, which revolves around the interaction customers have with people—the employees who are in the store—and what the whole environment is about. It’s very much the totality of the experience; that’s certainly what the customers would tell you, as well.

### Does the way that you go about connecting with your customers change appreciably based on things like gender, ethnicity, income, age, and so forth?

No, not at all. If you’re a regular customer, we aspire to know what drink you have. We certainly don’t do that all the time or with every customer, but we aspire to know the customer at that level versus having a big magic database where you have some profile based on 15 variables. It’s a “higher touch” experience than that.

### How does Starbucks’ venture into music fit within that context?

We really think of ourselves as a coffee house. A lot of folks—more than 30 percent of our customers—kind of “hang.” They are at Starbucks to enjoy themselves—and entertain-

ment, books, literature, newspapers and music has always been part of that. We’ve always played music in the store. We would have music playing overhead and people would want to know what it was. Then they’d want to know where they could buy it, or if they could buy it from us.

We looked at how our customers love music. They enjoy it and say they listen to it frequently. But they don’t buy it that much

anymore. It’s hard for them to find a place to buy music and they’re excited about being able to do so at a place where they go so frequently. It’s also a place that helps them discover new music. There are not a lot of people there who are suggesting or recom-

mending a new CD, song or artist. It’s one of the things that our customers enjoy about the experience as well.

They trust the company—they know we’re not out promoting the latest movie on our cup. As we bring forward new ideas it’s not because someone paid us to be in the store. We have an editorial voice and a notion of who our customer is and things that they might like to discover. It all fits with the broad relationship we have with the customer, with what people enjoy doing in a coffee house and the whole ambience and entertainment aspect of our stores and the environment. →



← **There have been news reports that your CD-burning venture with Hear Music maybe isn't going as well as you might have hoped.**

We're doing awesome with the music venture overall but we are definitely still in test mode with the burning stations. I don't agree with the thesis that it's not going very well. It's been a really strong and healthy part of our business, and we'll keep at getting the digital piece right. It's new. No one else is doing it. We really want to make sure we learn and get it right.

**Are there other aspects of popular culture—like fashion, for example—that might provide a similar kind of connection with your customers?**

Maybe. I don't know that selling clothes is as core to the coffee house as music or entertainment might be. We resist putting our logo on everything. You look around at companies, brands or people who have licensed their names so far away from the core equities of who they are that the entire proposition is diluted. So, fashion isn't high on the list, but you never know.

**As you move into these new areas like music, how do you make sure that you don't lose sight of what made Starbucks great to begin with—the coffee?**

We spend a lot of time around here drinking coffee and talking about coffee. It's one of the core foundations of our business. We have a mission statement and six guiding principles. One of those principles is about coffee. The rest are not product specific but they're about how to be good stewards of the environment, how to give back to the communities we're in, how to treat each other—so much more than about how we're going to run the business.

But coffee is one of our guiding principles, and every year we do an anonymous survey that 75 percent of our

employees participate in, at the hourly-worker level. More than 90 percent of them say that the values—the mission statement and the guiding principles—have a direct impact on how they do their job every day.

So, fundamentally, at the core of who we are, we all know and understand that we are a coffee company. Do we always get it right on every occasion, on every week or on every transaction? Can we be distracted? No question. But we are so fundamentally focused on who we are as a company that I don't feel we're in any danger of losing our way.

**The Starbucks marketing organization seems different than the marketing departments of other corporations.**

It is very different in its purpose and in terms of how we think about it. It's very non-traditional. We don't do a lot of mass advertising. What we are all about is creating intimate connections with customers—creating experiential connections with customers, be it in our store or in how

we sample our products. Our mass vehicle is sampling; we sample in 35 markets and we'll do it over 12 weeks each year in each of those markets. We'll serve something like 3 million samples this year.

It really is about connecting with someone in a more intimate, experiential way that we think will have longer lasting ability to build affinity than a 30-second TV commercial or an ad. Yes, we do some advertising, and we see value in that as well. But I have a team of people who, given our product line, are focused on what we are going to do in the stores, and how we communicate that.

I also have a team of people that's two or three times the size of our small staff team that's out in the field, and that are accountable for about a third of the dollars that we spend. They do the lo-

cal, grass roots events and really try to build affinity in the community. I have a team of people internally who define our visual look and feel, that develop all our packaging, do our in-store materials and collateral and our annual report. They develop the kind of visual language that you would see manifested in our stores. I have a team of people who do similar kind of work internationally and help bring Starbucks to life outside the U.S.

**Starbucks is famous for having launched itself without using much in the way of traditional advertising. How does that legacy affect your view of advertising—and of advertising agencies?**

It's a hugely interesting question. I come from a background where I worked at agencies and have worked with agencies. Advertising—traditional advertising—has been a fundamental part of how we built our business and connected with consumers. I'm very positive about advertising and think that it's very useful for consumers and businesses in many, many respects.

The thing I've learned since I've come to Starbucks is that advertising isn't the only way. You can be extraordinarily successful as a business using what people would call non-traditional means. It's really expanded my view of how one creates awareness and builds loyalty and affinity among customers. It's expanded my notion of how important experience versus information or one-way communication can be.

We have the huge luxury of having the huge number of stores that we do. If I had a consumer packaged good that someone had to choose off a grocery shelf once every six weeks, my circumstances would be a lot different and the vehicles I would use to help communicate about my business would be very different. But I have a wonderful opportunity.

The average customer is in our store six times a month. If I look at our heaviest 20 percent of customers, they're in our stores an average 16 times per month. So I have this great opportunity to have those people have an experience and a relationship with us that in many, many businesses you don't. So, part of that gives me the luxury to think about marketing in a different way.



**You previously were head of interactive for Starbucks. How has your view of interactive changed since you've become senior vice president of marketing?**

Interactive was an interesting group of things. Some of it was how one might traditionally define it; we did e-commerce, and so forth. But we also started up the company's wireless initiative, for example.

We still are really excited and bullish about the terrific network we've put in place. It's something that month-over-month continues to grow in terms of customer use and high perceived value. We did end up re-examining and eliminating some of the components of our e-commerce—our direct-to-consumer business. As we continued to expand our distribution into grocery channels, selling coffee online became something that was less and less relevant to our consumers.

So, it's evolved a little bit, but always in response to consumers. We still think that direct-to-consumer and web-based communications are another facet of our brand. Most of our interaction with our customers obviously happens in our stores every day. But interacting with them in other ways is still a highly relevant part of our business, by and large.

**How else might technology change the Starbucks experience in the years ahead?**

We're thinking about things like how people order and pay. Are there different ways to do that? We've experimented with different methods there. In a way, the Starbucks card, which is a stored-value card, is another form of tender, another way that people pay. It's kind of technology based. So, we feel there are ways that technology can be used to enhance the customer experience.

From our perspective, "choice" is always really important. I don't think you'd ever see a situation where people are not given options. People have different feelings about technology and how much they want it to be part of their Starbucks experience, so it definitely is one of the things we want to make sure our customers have a lot of choice in.

**How do you see cellphones, in particular, as a medium for marketing?**

I'd classify cellphones as a mass medium (albeit a non-traditional one) and Starbucks doesn't tend to do a lot of mass media. We tend to spend the vast majority of our dollars doing very local, grass-roots kinds of initiatives. We might have a store adopt a school and build a playground. Or we might sponsor an AIDS walk or have an employee art show. We might do that with a local museum and then sell tickets in the store and the opening night benefit goes to arts education.

We don't tend to look for vehicles like cellphones to communicate a message. We don't discount and we don't do offers—so some of the immediacy that one might get with a cellphone just isn't quite as relevant for us. We feel that the experiential kind of marketing—or the way to help people understand who we are—really creates a lot more impact on customers than does a cellphone message or a 30-second television commercial.

**What would you say are the most important things to understand about the integration of online and offline marketing experiences?**

One of the challenges for us concerns how "experiential" our customer interactions are. People clearly come to Starbucks to get a great cup of coffee, but they also come for the feeling and the community part of what we provide. There are hugely interesting parallels to the sense of community that can be created online.

But we have a great opportunity to try to see how we could simulate some of the same kind of community aspects or experiential aspects online as we do in terms of what people are looking for from

us offline. That's a wonderful thing—I find it very intriguing as an idea. There are really only a handful of companies that have been able to create the community piece online. I think there's a lot we could learn from them because "community" is what we do. It is our reason for being. We definitely haven't cracked the code on that, however.

**Do you use technology at all to support the brand management process itself?**

No, not really. We are, in the scheme of things, relatively unsophisticated. We don't do a g'zillion different offers. We don't have a lot of mass media spending that we're trying to analyze. We don't have a huge CRM initiative. I get a lot of calls from these huge brand management programs and systems providers, but we don't manage the brand that way.



**There was a minor controversy that erupted over your coffee cup quotes campaign. How do you make sure that sort of thing doesn't adversely affect your image?**

If there's an advocacy group or non-governmental organization that takes a particular point of view that's critical of us, we are very open to sitting down and talking with them, really understanding their position and making sure we're as clear as we can be about our position. So, we spend a lot of time in dialogue. You can't always manage how your position is represented in the media, but we try to be available and talk to people about it. We do our best to see if we can be as clear as possible.

**There are also news stories that challenge the balance between your philanthropy and the profits that you make.**

We do try to be a good corporate citizen. It's wonderful to work for a place where all I have is pride for what we do. There is nothing that we can't be transparent about. We need to just continue to do a good job of talking about what we →

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do. In terms of profitability and the impact on that, we feel we've gone to market in a really different way. The kind of company we are has bred the kind of success we've had.

This year, we will spend more on health-care for all of our partners (we call all of our employees "partners") than we will on coffee. That is a contributing factor to lower turnover. It helps us attract highly qualified and terrific employees to the company. It gives them a sense of purpose and mission that leads to better service for our customers. We're very much of the opinion that you do well by doing good, and it's been proven out in the success we've had.

### How many more Starbucks stores can you possibly open?

Our current statement is that we can get to 20,000. We just passed the 10,000 mark internationally.

### Is Starbucks saturated anywhere?

No. We think there is a lot of oxygen left. Even though we have, as I said, average visits of six times a month—a year ago that was five times a month. So we're growing our average number of visits. We're growing among our current customer base of heavy users, which we define as eight or more visits a month. If you look at three years ago, 17 percent of the customer base was heavy users, while today it's 24 percent. So, we're growing in frequency among heavy users and growing heavy users, too.

But at the same time, over the last three years, 25 percent of our users will tell you that they're new to the franchise within the

last year. So we're still bringing people in. If you're in New York City, it feels like there are lots of Starbucks stores. But there are many, many places where there would be lots of opportunity. We just recently put in something like our 260th store in the Seattle metropolitan area and it is performing at or above average for all of our stores. We still think there's a lot of room.

### What are the challenges that keep you up at night (other than perhaps having one too many lattes)?

There is one thing that I'm trying to deal with and have not found an analogy for in other businesses. I mentioned that our approach to marketing is very grass roots oriented.

That makes it highly labor intensive. It means we have high impact but it doesn't necessarily mean for an individual event we have a lot of reach.

When our business was highly concentrated in ten metro areas—which it was not that long ago—that's easy to do. But when you're in 75 metro areas in 36 countries, how do you maintain the integrity of what built your brand, the intimacy and the experiential components of it?

There is no model for that. It's a model we're out inventing every day. We're really trying to think through how can we be true to what we think, build our business and our brand, but do it in a way that is going to be effective and efficient at scale. ■



**Anne Saunders** is senior vice president of marketing for **Starbucks Coffee Company**, leading the brand and marketing function, which includes field marketing, retail store, Hear Music, creative, public relations, market research and Starbucks Global Card Services teams.

Anne joined Starbucks in August 2001 as vice president of Starbucks Interactive, leading several company programs including the Starbucks Card, the Company's wireless initiative, Starbucks Express and Starbucks.com. In addition, she was responsible for development of innovations targeting mobile customers and customers who are early adopters of technology.

Anne later became vice president of marketing in June 2003 and senior vice president of Marketing in May 2004. Prior to Starbucks, Anne was president and ceo of E-Society, a business-to-business e-commerce company. She also spent nine years as a corporate officer at McCaw Communications, which became AT&T Wireless, where she was one of the 10 highest-ranking women at the company.