

INTERACTIVE SESSION: ORGANIZATIONS

TECHNOLOGY HELPS STARBUCKS FIND NEW WAYS TO COMPETE

Starbucks is the world's largest specialty coffee retailer, with over 1,700 coffee shops in 55 countries. For years, Starbucks grew throughout the United States and internationally, opening franchises at an impressive rate. From 2002 to 2007 alone, the company tripled the number of stores it operated worldwide. Starbucks offers a unique experience: high-end specialty coffees and beverages, friendly and knowledgeable servers, and customer-friendly coffee shops. This was a winning formula for many years and enabled Starbucks to charge premium prices.

During the economic downturn beginning in 2008, profits plunged. Customers complained that the company had lost its hip, local feel and had become more like a fast-food chain. Many coffee drinkers went in search of cheaper alternatives from McDonald's and Dunkin' Donuts for their coffee fixes. Starbucks stock lost over 50 percent of its value by the end of 2008. Major changes were in order.

Starbucks seized the opportunity to overhaul its business by using several different strategies simultaneously. First, the company has revamped its in-store technology and sought to integrate its business processes with wireless technology and the mobile digital platform. Also, rather than copy the practices of competitors, Starbucks pursued a more aggressive product differentiation strategy, intended to emphasize the high quality of their drinks and efficient and helpful customer service. At the same time, however, Starbucks also focused on becoming 'lean', like many of their competitors, eliminating inefficiency wherever possible.

When Starbucks set out to improve its customer experience, it found that more than a third of its customers are active users of smartphones. The company set out to implement several features and improvements that would appeal to this segment of its customer base. First, Starbucks implemented a technology that allows customers to pay using a smartphone app. The app is integrated with the Starbucks Card system, which allows regular customers to pay with a pre-paid and rechargeable card at any Starbucks branch. When customers make a purchase using the app, a cashier scans a bar code displayed on the phone, and the resulting sale is charged to the customer's Starbucks Card

account. Customers report that paying using this app, available for all major smartphone operating systems, is much faster than traditional forms of payment. In its first 15 months of use, the Starbucks mobile payment system processed 42 million transactions.

Many of Starbucks' most loyal customers regularly spend time using the free Wi-Fi wireless network offered in each store. A majority of these customers also use mobile devices to connect to the in-store Wi-Fi networks. Recognizing this, Starbucks launched what it calls the "Starbucks Digital Network," a portal designed specifically for mobile devices as opposed to traditional Web browsers. The site is optimized for all major smartphone operating systems (iOS, Android, and BlackBerry), and responds to the multi-touch capability of devices like the iPad.

The Starbucks Digital Network site was developed in partnership with Yahoo and functions as a content portal. Starbucks customers using the site will receive free Wall Street Journal access, select free iTunes downloads, and a wide variety of other content. The site will integrate with Foursquare, a location-based social networking site for mobile devices. This arrangement will allow users to check in and receive award points using Starbucks' site. Because Starbucks has the most Foursquare check-ins of any company to date, this feature has been popular with customers.

Rather than serve ads on the site, Starbucks has opted to offer the site free of advertising, hoping that striking deals with content providers will make it a profitable venture. Even if the Starbucks Digital Network is not highly profitable, analysts suggest that the site is an effective way for Starbucks to improve its relationship with its most valuable customers and a creative use of the mobile digital platform to enhance customer satisfaction.

In addition to revamping their business to better serve the needs of their mobile users, Starbucks has made a concerted effort to become more efficient, reduce waste, and use the time saved to provide better customer service. Starbucks set out to streamline the business processes used in each of its stores so that baristas do not need to bend down to scoop coffee, cutting down on idle