

Segmentation

In marketing the new Starbucks rewards card, areas of the marketing segmentation must be identified and evaluated for maximum exposure. The selection of the target market will be comprised of segmentation data collected, based on demographic, geographic, psychographic, and behavioral characteristics. The nature of the business requires that all four major variables in the segmentation of consumer markets be explored.

Demographically, coffee is enjoyed by a countless number of individuals regardless of gender, age, nationality, and race, therefore wide range offerings to this group must exist. Next, with 3,767 stores internationally, the company exists in various countries, and with a goal of 20,000 stores outside the United States (Richman, 2007) it is vital that the rewards program be introduced to all international markets. Bill Tancer, in an article in Time Magazine (2008), used a marketing behavioral web site called Mosaic to determine the typical United States Starbucks consumer as “the Urban Commuter Family”. This consumer is described by Mosaic (2008) as “college-educated households containing dual income couples”. The upwardly mobile individual who resides in the working through upper class societal structure is groups that will be targeted with this promotion. Focusing on this multiple segmentation marketing strategy will enhance the overall marketing mix and provide Starbucks with a specified target market for maximization of advertising dollars.

Starbucks enjoys a stronger than normal brand loyalty factor which is an essential aspect of the marketing decisions for the new card offering. These loyal and even occasional consumers will be targeted in the segmentation by researching the benefits loyal customers are seeking; whether it is extra cash, Starbucks or other products, gifts, or services. In understanding the

existing loyal Starbucks customer's willingness to pay a little extra for their specialty blend, the company will be able to reach new, while keeping true to existing customers.

Differentiation and Positioning

In the introduction of a new product or service into the market, the strategy needs to identify the points which differentiate the new product or service from the competition. While differentiating the new service, the strategy must also stress the positive aspects of the new offering in relation to the competition. In addition to the high quality of specialty blended beverages, atmosphere, and excellent service, Starbucks will give customers added value over the competition with the issuance of the new card offering.

The place a product or service offering occupies in a consumer's mind on important attributes in relation to products presented by competitors is referred to as product positioning (Berkowitz, Hartley, Kerin, & Rudelius 2006). In this case, repositioning will be needed to change the mindset of the consumer and how they feel about the offerings of the existing card. Perceptual maps will be developed to identify important attributes, evaluate existing brands, and rate the ideal brands within Starbucks and the competition. As a result of the maps, a brochure will be developed and available at the point of sale (POS); along with direct mailing of new cards to the existing card members with the new card benefit information. The marketing team feels the added consumer value of the new offering and repositioning of the service will achieve the goals set forth by the company.

Cost

The cost going forward with the offering of the new Starbucks reward card is going to include the outsourcing of card production and shipping, along with the cost of sales and promotional materials. There is no fee incurred to the customer for the reward card so no mark-

up is involved in the new offering. The rewards card is a service offering that will be included on all cards once the card is activated, which includes gift cards. The gift cards range in price so there is no selling price for the service; although the perceived value of the card has high potential.

Starbucks has activated around 96 million gift cards in North America since November of 2001 and customers have reloaded those cards around 38.6 million times (AP, 2006), which relates to approximately 13,714,285 cards per year. The information provided has the initial rollout of 10,000,000 cards to be manufactured and delivered to various retail outlets, along with the Starbucks facilities for point of sale purchases. Included in the cost is the direct mailing of all promotional information and newly issued reward cards for existing customers. In obtaining this number of cards, the fact that nearly 14% of all United States Starbucks transactions were paid for with the card (Horovitz, 2008); and few companies have seen so many of their customers hang on their cards as long and reload as often as Starbucks (AP, 2008) was taken into account. Future card production will increase around the holiday season, raising the total cost of production, but the initial promotional internship will reveal more detailed numbers.

With the value of the card equal to the purchase price there is no mark up to speak of and the value a consumer can upload can vary, so there is no suggested selling price. There are however, gift cards which can be purchased in denominations of \$5, \$10, \$25, and \$50. The gift card segment of Starbucks has flourished, with a record \$287 million worth during the first quarter of 2007 (Richman, 2007), but since the economy has stagnated sales. The revitalization of the loyalty program and the introduction of the Starbucks elite card will develop a quality relationship with existing and new customers. The perceived value of the new offering has tremendous upside, because of the nature of the card; those who receive it as a gift card are

automatically enrolled when the card is activated. This enables that person to reload the card as often as they like and potentially makes that consumer a lifelong Starbucks customer.

The low cost of initiating the new offering, along with the potential advantages of saturating the market with loyal customer cards and incentives, will make this a successful venture for Starbucks.

References

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