

Starbucks Marketing Plan

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## **Introduction**

One of the core functions of marketing managers is to design and implement a marketing plan. Marketing teams have different tools and methods in any organization. Marketing plans have specific functions identified as an overview of the organization, a description of the new product or service, a SWOT analysis of the product or service and a marketing mix. Marketing research, segmentation, differentiation, and positioning are vital components of the marketing plan. Once these components have been researched and developed, a marketing mix, budget, and means of monitoring or control are established.

## **Organizational overview**

Starbucks Coffee Company was originally founded in Seattle, Washington in 1971. Starbucks has become the world's leading retailer of specialty coffee and retail products. Starbucks retail stores are located throughout the 50 United States and 43 countries worldwide. The company mission statement, "to establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles as we grow," is part of overall vision and goal to achieve 20,000 worldwide locations (Starbucks 2008). In addition to trademark coffee, other products sold include handcrafted beverages, assorted merchandise, selected food items, entertainment products such as CDs and innovative global products. Starbucks stock went public in 1992. The company's stock is traded on the NASDAQ under symbol SBUX.

Two important elements of the Starbucks Mission Statement are "to develop enthusiastically satisfied customers all of the time and to recognize that profitability is essential to our future success" (Starbucks, 2008). Through remaining a leader in innovative ideas, the key to success are new methods to capture and maintain customer interest. As part of an ongoing

process to expand Starbucks' capability, the following marketing idea identifies a service to further aid Starbucks in fulfilling its mission.

### **Product Description**

Currently, Starbucks has a re-loadable gift card, available in fixed monetary amounts, to be used for any Starbucks drink or product. Although Starbucks gift cards can be used as rewards cards, many of the current cards are not used. With only four existing options available for rewards, a new tiered approach to additional rewards is needed. Rewards in the form of cash or points allow consumers to purchase Starbucks products will be offered. The primary purpose of a Starbucks Elite card is to provide an incentive to consumers while securing customer and brand loyalty. By combining a new incentive rewards card program, consumers will experience the opportunity to earn reward points or cash for purchases. The new program will directly benefit consumers while reinforcing the company's mission statement and strengthening Starbucks customer base.

Starbucks Elite Card Attributes Include:

Cost

- Card is free
- No maintenance fees
- No reload charges

Monetary Value

- Prepaid Visa
- Value of card only worth what the customer reloads onto the card

Usability

- Personal
- Business

Customization:

- Image: 2 options
  - Design customized Starbucks card
  - Choose a pre-made template design
- Customer can choose the limit for reloads

- 6 different free offers a customer can choose from for customizing
- Choice of house syrups with any beverage order
- Free dessert with the purchase of two desserts
- Free beverage on Fridays
- Additional Wi-Fi connection
- 5% off of every \$10 purchase
- 10% off of every \$15 purchase

#### Online Access

- Register Starbucks Rewards Card
- Reload Starbucks card
- Reload another users card
- Set-up Auto-reload
- Manage card account
- Adjust custom settings

#### Availability

- Sign up at any Starbucks location & Online
- Card never expires
- Any Starbucks location can look card up for coupons & points

#### Points

- With every purchase points will be applied to rewards card
- Every dollar spent equals 5 points
- Every 50 points earned, \$5 dollars is credited to rewards card monetary value
- The points will be used in credit range of \$10 to \$100.
- Businesses will have a larger credit range when services are used in larger aspects

### **SWOT Analysis**

The following S.W.O.T analysis of Starbucks Coffee Company for this new and revised service offer to customers will directly enhance consumer experience. Starbucks name is part of its strength and synonymous with the company's reputation for quality and innovativeness. The company's reputation for introducing and maintaining the finest products and services to consumers is unmatched by other competitors in the marketplace. As one of Starbucks core competencies, a strong relationship with customers and communities is achieved through the development of a diverse, well trained and experienced staff. Additionally, Starbucks provides

partnership opportunities with manufacturers to use a wide range of Starbucks products as client incentives. Regarding weaknesses, Starbucks branding strength could hamper its diversification into other business ventures, rewards cards could remain underutilized, and customer card activation and reward options could be unclear. If clear and used, Starbucks ability to expand the demographic base while providing greater value for consumer dollars spent will produce a synergistic effect for companies and consumers. The opportunity to gain greater insight into customer's needs will facilitate a more personal relationship with customers.

A threat to this venture is Starbucks exposure to the rising costs of materials and property. With the recent downturn in the stock market and a decline in consumer spending, ineffectively analyzing trends to meet consumer demands and industry competition will provide the greatest threat to Starbucks stability. Therefore, before marketing a new and improved Starbucks card, research and information must be gathered effectively to identify target markets.

### **Marketing Research**

By researching a marketing plan, data collected will provide insight into demographics, psychographics, and comparative intelligence of our target market. The use of scientific analysis will serve as a primary tool for selecting a marketing strategy. Starbucks marketing research process include 5 steps of orderly processes. The 5 steps are: (1) define the problem, (2) analyze the situation, (3) getting problem specific data, (4) interpreting the data, and (5) solving the problem. An effective marketing strategy will be developed and employed for the Starbucks Elite Card and Program.

Marketing research must be completed by performing a thorough customer analysis of the target market for the Starbucks Elite card. How will the Starbucks Elite card benefit our customers? At the annual meeting of shareholders, meeting customer's needs for value and

quality is a priority for Starbucks. The company CEO, Howard Schultz further states that “our customers are telling us they want value and quality, and we will deliver that in a way that is both meaningful to them and authentic to Starbucks” (*Food and Beverage Close-Up*, 2009).

Will this effort capture and retain the desired market? Demographic consumer analysis will help locate and determine the best selected target markets. A demographic survey will determine what age, income, marital status, educational, and occupational data are represented in this new campaign. A psychographic consumer analysis will help marketing researchers gain additional insight. Before selecting a marketing option, collected data on consumer interests and opinions will be analyzed and used in determining the target market. Psychographic analysis reveals consumer lifestyles and how consumers spend his or her time. An analysis of geographical data supplies marketing departments with information on areas most likely to use and benefit from the Starbucks Elite card.

Marketing research data will be collected by survey. Surveys will be available online and at Starbucks retail locations. Customers will also have the option to fill out a postage prepaid survey and mail it to a regional service center. Starbucks baristas will inform Starbucks customers on how to participate in the survey and upon completion will receive a coupon for a complimentary Starbucks tall coffee and be automatically entered in a drawing to win \$1,000.

The marketing research data collection and analysis is similar to a previous marketing research data collection and analysis survey that Starbucks performed in June 2008. . During the 2008 campaign Starbucks offered free WiFi for Starbucks rewards card holders. All 7,000 Starbucks company owned stores offered free WiFi service. Customers had to purchase a Starbucks card worth \$5 or more to be engaged in the Starbucks card rewards program.

Cardholders received complimentary milk and syrup for some drinks, and free refills on coffee. Starbucks benefited by gathering data about customer preferences through their purchases.

During this campaign Starbucks will collect and analyze data received from all stores. Nearly one third of Starbucks customers have reduced his or her number of visits to Starbucks (Morgan & Stanley 2008). Survey data suggested that if prices were lower customers would increase their visits to Starbucks. The current Starbucks rewards card offering is intended to meet customers' demands for a more aggressive customer rewards program.

A competitive analysis shows that Starbucks main competitor is Dunkin Donuts. They are the world's largest coffee and baked goods chain. McDonalds is also a new arrival to the specialty coffee industry. With the growth of the industry at a constant rate, Starbucks strives to stay ahead of the competition by holding on to their loyal customer base while trying to find new ways to gain new customers.

### **Segmentation**

In marketing the Starbucks Elite 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 a wide range of offerings to this group must exist. With a goal of 20,000 stores outside the United States it is vital that the rewards program be introduced to all international markets (Richman 2008). In a 2008 Time Magazine article by Bill Tancer, the author discussed the use of 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 as “college-educated households containing dual income couples.” The upwardly mobile individual who resides in the working through upper class societal structure is groups to 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**

Through 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.

### **Marketing Mix**

Developing and reevaluating the success of the Starbucks Rewards Card will be a continuous process. Statistics related to trends and sales should be reviewed every 90 to 180 days to ensure the correct marketing mix for the Starbucks Elite card program is in line with sales forecast estimations.

The type of product identified earlier is a revision of Starbucks existing Rewards program. The new card and associated program for individual and corporate clients features a combination the incentive and gift card features which enable consumers to earn cash for purchases or rewards points for any Starbucks merchandise. Through this new incentive program, the new Card, designated as “Starbucks Elite,” will offer several enhanced features.

Unlike other rewards cards or incentive programs such as McDonalds, Dunkin Donuts or Krispy Kreme, the Starbucks Elite Card will offer exclusive features designed to solidify customer loyalty and reinforce Starbucks identity and branding opportunities. As an example, consumers would be able to earn five points for every dollar spent and 50 accumulated points could then converted into a \$5 credit to be used as cash for consumable purchases or for any Starbucks merchandise such as mugs, t-shirts, CD’s or prepackaged coffee. These unique card features are currently unavailable or offered by any other Starbucks competitor. With the recent

downturn in the worldwide economy, market competition is fierce. Starbucks must capitalize on its identity on a national and international scale to reinforce customer loyalty.

Starbucks logo and reputation for premium coffee is known on a worldwide scale. Since the company's creation in 1971, the company has expanded its sphere of influence and operates over 16,000 locations throughout the United States and around the world, (Starbucks, 2008).

Using the third revision (left) of the company's traditional logo (right), which was changed to its current look in 1992, the twin finned mermaid encircled by the words Starbucks Coffee is recognized throughout



the world, (Gourmet, 2009). The new Starbucks Elite card should retain the corporate logo and other standard features of traditional cards such as sizing, magnetic striping and appearance and be delivered through Starbucks locations, online and throughout high traffic shopping areas such as grocery and convenience stores. In order to meet company and consumer expectations, the correct pricing strategy must be identified and implemented to enhance sales.

### **Price**

In evaluating pricing strategy options, several pricing objectives must be considered to determine if a profit oriented, sales oriented or status quo oriented approach should be used.

With the Starbucks Elite cards marketed and sold at face value, a profit oriented pricing strategy would be ineffective. Profit oriented, defined as a “percentage amount that the price will be offered at in order to make a profit,” would not be advisable since cards would be sold at a higher, rather than face, value. The same would be true for a sales oriented strategy and card sales, regardless of company or service offered, are all sold at face value. Since consumers have numerous choices when it comes to gifts or merchandise cards, a status quo pricing strategy is recommended and, as such, “this objective can lead to discounting or some other aggressive pricing strategy such as rebates and sales,” (Witiger, 2009). With the status quo pricing objective, using rebates and sales on volume would be the ideal method to maximize sales and deliver profitability. The use of this method is further reinforced with Starbucks existing gift card statistics. As of December, 2008, Q1 2009 statistics recorded 26.7 million card activations valued at \$406.2 million with an average activation transaction of \$15 per card. Additionally, 74.7 million existing cards were using during the quarter had with an average transaction of \$4.00 per charge which generated over \$323.4 million in net sales, (Starbucks, 2009).

### **Place**

Distribution methods are a critical part of any businesses ability to deliver goods and services to meet consumer needs and demands. Points of sale, internet and intermediary are the three methods of delivery currently used by Starbucks to meet target objectives.

Point of sale (POS) distribution has been the primary distribution method and should be considered the primary distribution delivery method due to the direct product-payment transfer. This option also offers one-on-one personalized service by a staff member and is designed to positively influence consumers. Internet sales are also an effective delivery method and, in today’s internet culture, many consumers shop online and can secure cards or purchases from

home. This method is extremely effective when time or distance limitations are present and this distribution method provides a convenient alternative to consumers. The third distribution deliver method involves an intermediary. This method involves pre-priced cards for sale through high volume locations such as shopping malls, convenience stores and stores such as Target, Kroger, Wal-mart, Publix and Kmart.

These distribution delivery methods provide consumers a wide variety of options to purchase a Starbucks Elite card. Each distribution method has obvious advantages and disadvantages, and, although all three methods could be used as a sole distribution channel, the combination of all three methods creates the synergy necessary to maximize Starbucks Elite card sales.

### **Cost**

The cost going forward with the offering of the Starbucks Elite card is going to include the outsourcing of card production and shipping, along with the cost of sales and promotional materials. No fees are incurred to the customer for the Starbucks Elite card, so no mark-up is involved in the new offering. The Starbucks Elite card is a service offering that will be included on all cards once the card is activated, which includes gift cards. The perceived value of the card has high potential, since no selling price exists.

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, which relates to approximately 13,714,285 cards per year (AP 2006). 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). Few companies have seen so many of their customers hang on their cards as long and reload as often as Starbucks (AP 2008). 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 no mark up occurs and the value a consumer can upload can vary, so no suggested selling price exists. 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 past, present and future 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.

### **Promotion**

Promotion is “concerned with telling the target market or others in the channel of distribution about the right product,” (Perreault & McCarthy 2004). The Starbucks Elite card will be promoted to retain loyal customers and to acquire new customers. Several methods of promotion will be used in getting this program out to customers..

Personal selling will take place between Starbucks' baristas and customers. All Starbucks employees will be trained and instructed to make each Starbucks customer an offer to acquire a Starbucks Elite card. Instructional information will be given to all customers who express an interest in getting a Starbucks Elite card. Each potential customer will receive the personal courtesy that Starbucks employees have to offer.

Advertising is the form of mass selling that Starbucks will use to reach the greatest number of their target market. Direct mailings will not be used to mass advertise, but since many Starbucks customers use the internet, it will be used to advertise the Starbucks Elite card.. Currently the Starbucks website opens up the world of Starbucks to the current and potential customers. Starbucks website visitors and customers can shop for brewing equipment, gifts, music CD's, books, and, many other items. The new Starbucks Rewards card will be offered on the web site along with a survey. The card can be purchased, loaded, and reloaded online. The website user who becomes a Starbucks Elite card holder can also redeem earned points and check the number of points they have earned.

A new venue for advertising, for Starbucks, for advertising is beginning to take shape. The Starbucks Elite card will use this venue. According an article published in *Advertising Age* in 2008, Starbucks aired its' first television commercial as a promotion during NBC's "Saturday Night Live" show. The article states that "Only at Starbucks could a single broadcast spot, an online ad buy and a product giveaway-all of which cost well under \$1 million-pay off with a chunk of the Election Day news cycle." This single television promotional tactic significantly boosted the company's "buzz" rating, and the total cost to Starbucks was well under \$1 million. Television and advertising and promotions are the venues that will be used to tell the target market about the right product. The market promotion schedule for the introduction stage is 60-

90 days. During this period all Starbucks stores are expected to reach all Starbucks loyal customers and gain new customers.

Starbucks is looking at how they can maximize the changes that are occurring by focusing on new drinks, health and wellness, and reaching out to the public with a national coffee tasting day (PR Week 2008). Starbucks is extending itself to the public with the offering of the Starbucks Elite card.

### **Budget**

To have an effective marketing plan budget, money has to be allocated from the operational budget. This will cover the costs of sales, production, distribution and advertising. Within every marketing budget for a new product or service 5% of the gross sales is factored into the budget. For 2008, Starbucks took in a profit of gross sales of \$8.43 billion for the fiscal year. Based on the previous years' gross sales, the sales costs are  $8,430,000,000 \times .05 = \$ 417,000,000$ .

The costs of production include the production method, delivery of service and material costs. Based on the need of 10 million Starbucks Rewards cards to be produced annually at the cost of .15 cents per card the total cost of that is  $10,000,000 \times 1.5 = \$15,000,000$ . Since Starbucks has invested in 10 million rewards cards to be manufactures 100,000 sample prints were produced at .13 cents per card. The sample cost of the cards is  $100,000 \times .13 = \$13,000$ . Aside from the costs of manufacturing the cards, the supplier offers Starbucks a recycling incentive fee of .03 cents per card. Production costs are estimated to be  $15,013,000 \times .03 = 450,390 \rightarrow 15,013,000 + 450,390 = 15,450,390$ .

Aside from production costs are distribution costs. The supplier will reduced the overheard production costs by providing free transportation of the product. The supplier provides free delivery to all store locations.

Advertising budgets are based on a 1% allocation of funds from revenues. In 2008 4<sup>th</sup> Quarter, Starbucks had revenue earnings of \$10,383,000 (Hoovers 2009). The available advertising budget is  $10,383,000 \times .01 = \$103,830$  allocated to be used on advertising and promotions. Cost-effective methods will be used to narrow down the promotional methods that will not increase advertising costs that is by eliminating any direct mailings. This commercial postage used to deliver to millions of customers mailboxes.

The total budget for the Starbucks Rewards card including, sales, production, distribution, advertising and promotions and marketing research is as follows:

5% Gross Sales:	\$417,000,000
Production Costs:	\$ 15,450,390
Advertising Costs:	\$ <u>103,830</u>
Budget Total:	\$432,554,220

### **Control**

Marketing strategies and decisions are components within an organization or business, such as Starbucks, that need to be maintained. Any current objectives may need to be modified to meet the customer's needs. A way to gauge the progress of the Starbucks Elite card is through feedback mechanisms. Feedback mechanisms are processes that loop back to maintain the control of a system.

### **Feedback Mechanisms**

To ensure that the marketing strategies outlined are effective certain feedback mechanisms will be put into place to establish a relationship that coincides with the need of maintaining the objectives. The feedback mechanisms are Starbucks Snapshot Audit, Customer



surveys, and register software. These feedback mechanisms overtime will adapt to changes with the company and the target market segment.

The Starbucks snapshot audits are systematic catalog of a store and its ability to please the customer. Currently the Starbucks snapshot audit includes measuring the service, product quality, cleanliness, and speed of service (Frankel 1993). A new category to measure employee productivity as well as service to customer is employee productivity. This category will not only ensure that Starbucks employees are suggesting products to customer, but upselling the available services as well, such as the Starbucks Elite card. Through measuring an employee's productivity research marketing can gauge a percentage of how many rewards cards are used daily.

Customer surveys are an essential component in feedback. Every time a customer reloads a Starbucks rewards card, whether in store or online a survey will take place. The questions will be a series of five questions that will be different based on the objectives of the marketing strategy. As to not make customers feel overwhelmed or annoyed with the surveys, it will only be based on an amount reload of \$15. This will keep the customers happy as well as provide an insight into the success of the Starbucks Elite card.

Software installed in Starbucks store location registers will enable Starbucks associates to keep track of rewards daily, weekly and monthly. Under reports in the register menu under manager functions an associate can access the current transaction percentage of rewards used so far in a day. The link will be under reports named "Rewards Department Total." This will ensure that employees are aware of the importance of providing this service to customers.

### **Evaluation Processes**

Following the feedback mechanisms to ensure that progress of the marketing strategy objectives is evaluating the progress of the marketing strategy. When evaluating the progress of a

system or any decision a particular set of questions need to be posed when measuring a product or service, such as the Starbucks rewards card. The purpose of the service has to be evaluated to make sure the target market segment is being successful. A SWOT analysis should be conducted to see if any changes occur based on an increase or decrease in the economy or a decrease in customer traffic. Through evaluating the existing distribution of the online market, individual market and business market, Starbucks can determine if any new channels have opened up as potential customers. All current aspects of the marketing mix, such as price, place and promotion should be evaluated to improve or modify. The budget, must be evaluated to ensure that the money and time spent going into this project is a success. Comparing the competition intelligence of competitors with Starbucks services, will enable to show Starbucks' spot in the market.

### **Performance Objectives**

Performance objectives are quantifiable elements that help determine whether a product or service is successful. Such elements include profit margin, market share, promotional effectiveness, and market penetration. Profit margin is important because it enables Starbucks to compare itself, with competitors in the market, to determine if profitability increases. The higher the profit, the more potential a business has of becoming lucrative. Profit margin ratios enable investors to see into a management's efficiency especially when a company can squeeze money from the total revenue or total sales.

Market share is important because Starbucks will compare its size in the market with those of competitors. Investors of Starbucks especially shareholders will look at a market share increases and decreases carefully because they can be a sign of relative competitiveness of a company's products and services. As Starbucks Elite card program grows, Starbucks is maintaining the market share as revenues growing are the rate for the total market (Investopedia,

2009). If Starbucks' market share is growing then the revenue will increase as compared to such competition as Dunkin' Donuts and McDonald's. Market shares will allow for Starbucks to improve upon operations and profitability.

Promotional effectiveness of a product or service is important because it helps understand long-term implications, such as future cannibalization, portfolio cannibalization, and promotion profitability. The need to increase the promotional mix is important because the impact of variances in price levels and promotions will be used in analyzing the effectiveness of the promotions of the Starbucks Elite card. Based on the facts and input of promotional performance Starbucks can improve promotional effectiveness, make better decisions about promotional resource allocation, enhance promotional planning, and improve the ROI of promotions (Analytic Partners 2009).

Market Penetration is a measure of the amount of a product or service compared to the total market of that product or service. The amount of sales earned from the Starbucks rewards card will be considered the sale of Starbucks. While the market that Starbucks retains holdings in will be a total estimate of the potential customers for future sales (Investopedia, 2009). As the Starbucks rewards card gains in age, the greater the market penetration Starbucks will obtain. Market Penetration will also gauge the competitiveness in the market segment of Starbucks as compared to Dunkin Donuts.

The Starbucks Elite card is the direction the company should head for future growth and customer added value. The plan set forth to gain new customers while offering existing customers an extended service is the basis of what Starbucks was founded on. The new incentives are just another step forward in developing a stronger relationship with our customers, both new and old.

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