

# Consumer Behavior Audit

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## Introduction

Consumer behavior is largely influenced with various internal as well as external factors. Impacts on consumer behavior can be studied as their perception towards product or service of any organization. Consumer's buying behavior is referred as a decision process when a consumer decides to buy any product or service considering its features and advantages. Factors such as culture, motives, needs, social class, family, personality, economic, perception etc play vital role in influencing behavior of the ultimate consumer (Abbasi & Torkamani, 2010). This paper has described significant internal and external factors those influence consumer's buying behavior to larger extent. Considering Starbucks Coffee, segmentation and positioning are analyzed to understand consumer's behavior and their importance in increasing sales. Marketing mix for Starbucks coffee is evaluated that aims to provide learning on pricing, distribution and promotion strategy.

## Overview of the Company

Starbucks is world's leading brand in coffee segment that provides specialty coffee blended with high quality superior coffee beans. Howard Schultz started this business in 1971 with just a single store in Seattle but today it has over 22000 stores in more than 60 countries across the world. Over the years, Starbucks has become consumer's choice for coffee consumptions and Starbucks Experience has led in developing phenomenal brand image among in the coffee market segment (Forbes, 2013). Company has been focused on giving importance to customers by serving excellent quality service and offering high quality products.

## Internal factors influencing Consumers

### Needs, Motives and Emotions

Needs, motives and emotions are considered one of the foremost factors that influence consumer's behavior. Every individual has different needs for consumption of coffee or other substitutes. Coffee is largely consumed in US, UK, Russia, Australia and Asian countries. Maslow has identified important needs such as physiological needs, biological needs, social needs that play important role in affecting consumer behavior. Once basic need is fulfilled, it becomes motives for other needs. Starbucks coffee satisfies social and psychological needs of consumers. Emotions behind consuming Starbucks coffee are linked to consumption of branded and high quality coffee and to experience world class service (Quelch, 2006).

### Perception

Starbucks has gained brand value over the periods of its business where consumer's behavior is largely influenced with the perception of branded coffee. Perception is generally understood as the process of selecting, organizing and interpreting information about any particular product or brand that leads to decide whether to make a purchase or not. Excellent customer service and blended coffee at Starbucks have made a positive perception among coffee consumers where people always prefer to visit Starbucks café to enjoy blended taste of coffee.

### Lifestyle

Lifestyle has become one of the important internal factors that influence consumer buying behavior. Increasing income level and spending capacity have led people to establish good lifestyle and enjoy branded products. Starbucks coffee has been recognized as a status symbol among consumers and a key for lifestyle. Brand image of the company motivates consumers to consume coffee at café even though it has high price as compared to other available brands.

## External Factors influencing Consumers

### Culture and Social Classes

A consumer is always influenced by culture, subculture, social class, groups, family, personality and different needs. Culture has become an important external factor that affects behaviors of consumers. Impacts of culture vary from country to country on the basis of regional or local culture values and adoptability to other culture (Rani, 2014). Starbucks strives to create a culture those values and respects diversity and inclusion. For Starbucks, culture of customers differ geographically as in the western countries culture is different and in Asian countries it is completely different. Western countries like US, UK etc have more consumption of coffee whereas in Asian countries consumption of tea is preferred over coffee. For Starbucks it is very important to understand cultural factors in understanding consumer behavior and decision making for expansion into different locations.

Social classes are often considered as groups with similar interests, perception, values, and lifestyle (Rani, 2014). Consumers of similar social classes generally possess similar buying behavior. Corporate people, working women, students, professionals, etc are form of social class that is considered important for Starbucks. Management at Starbucks always looks for evaluating these factors as it directly influences buying behavior of consumers.

### Economic Situation

Economic situation also has greater influence on buying behavior of consumers as it is ultimately the purchasing power that allow customer to consume Starbucks coffee regularly. Starbucks coffee products are considered expensive and sometime it is not possible for a low earning family to consume coffee on regular basis. This is where, Starbucks is known as a destination of choice for people with good economic situation.

### Reference Groups

Reference groups are considered as groups where people join to communicate in society, at workplace, families or with friends. These groups have wider role in influencing consumers' attitudes and behavior as people involved in the group gets influenced on the basis of discussion and opinions made by others. For Starbucks reference groups include 'Starbucks Experience' that provides a community advantage to consumers. Moreover, social networking such as Facebook, Twitter etc also plays important role in influencing consumer's behavior for the brand. Positive feedbacks and sharing experience of Starbucks coffee directly influence others to make buying decision from Starbucks café.

### Market Segmentation

Market segmentation is a vital tool to provide strategic resources to organizations in identifying target customers and target market on the basis of their demographic and geographic characters. Decision making strategies for organizations use market segmentation when they look for expansion in their product line or market areas (Porter, 1998). Starbucks has been using both demographic segmentation as well as geographic segmentation.

### Target Market

In the US market place, Starbucks has over 33% market share in the coffee segment (The Houston Chronicle). Company targets customers on the basis of age, gender, income level, ethnic and culture values (Cachola, 2012). Men and women between the ages of 25-40 are primary target customers for Starbucks that accounts for almost half of the total customers for the company. This range includes customers such as professionals, working people or business persons with high income level and spending capacity. Growth rate of this group as customers for Starbucks is at 3% annually. In addition, company also targets young group of customers that include adults of 18-24 years as they are significant in increasing sales for Starbucks coffee.

Young generation is largely influenced with branded products and attract towards good lifestyle. Young people including students account for about 40% of overall sales for Starbucks where company offers better environment for students, writers, etc to study and meet people (Cachola, 2012). Focusing on technological innovation in marketing and advertising such as digital media, facebook, twitter etc, Starbucks create an appeal to attract this customer group. Target market on the basis of geographical locations is opening stores nearby offices, colleges or public places where people can easily visit cafes to experience Starbucks coffee. Company is continuously expanding its presence in multinational locations across the world.

### **Product Positioning**

In the world coffee industry, Starbucks is considered as an upscale brand where company aims to provide high quality and differentiated products to its customers enabling them experience rich flavor and taste of coffee blended with roasted coffee beans. Not only coffee products, but also service at Starbucks has been positioned higher to influence consumers. Rich experience at Starbucks has been positioned as a strategy to improve sales. Company targets young and professional customers with this positioning strategy. Starbucks has also positioned its products targeting social communities, groups and neighborhoods who look for spending good time with friends or family on a cup of coffee.

Starbucks has also positioned its quality products to distinguish itself from others aiming to gain competitive advantage. Company's positioning strategy is associated with its mission statement that is 'to inspire and nurture the human spirit - one person, one cup, and one neighborhood at a time.' In order to position brand value, positioning strategy is based on customer attention that allows company to provide best customer services. This focus can be considered as strategic option for the company to hold sustainable competitive advantage and

provide customer satisfaction (Hanssens et al, 2014). Starbucks is also positioned itself as best place to work as employees are considered valuable asset for the company.

### Pricing

Pricing strategy for Starbucks takes benefits of behavioral tendency of people in buying expensive items. Company uses premium pricing strategy where quality products are priced high as compared to normal price available in the market (Rahmani et al 2015). Consumer's perceived value and satisfaction is correlated between high price and high value.

Reason behind focusing on premium pricing strategy is to maintain a brand image of high quality products and specialty image of the company. Pricing is related to generic strategy of the company that helps business to maintain global image in the beverage market. Price plays a vital role in affecting customer's buying behavior; however target customers at Starbucks are considered of high paying capacity and income level. This let the company to be focused on delivering high value to the customers by outsourcing rarest and superior coffee beans from the global marketplace.

In order to gain competitive advantage, Starbucks has started to offer \$1 bottomless cup of coffee that can be refilled multiple times (Hines, 2008). Company also introduced various other value added services like such as "breakfast pairings" at only \$3.95 that includes breakfast along with a coffee (2010). These attempts were aimed to provide services to price oriented customers. This is to target the price conscious customers. However, company has different pricing in other countries as cost is largely depended on the supply of raw materials. 'Tall Latte' is sold for \$4.50 in China whereas it is available for \$3.50 in the US (Dan, 2010).



## Distribution

Starbucks has over 22000 stores and cafes around the world where most of the products are offered to customers. Company aims to distribute products mostly from stores however there are few other important distribution channels widely used to distribute the products.

1. Online Store
2. Starbucks App
3. Retailers
4. Franchise Owners

Though company distribute its products majorly through Starbucks cafés, technology advancements and increasing internet market have opened up new distribution channel where customers look for ordering Starbucks items online. It gives them ease in comparing products on the basis of their features and price and order online. All added services other than coffee are also available on online channels. Company also sells its products through retailers where retailers like Tesco, Walmart, M&S etc distribute Starbucks items at their own stores. Distribution at Starbucks can be understood as the best combination of channels to offer products to target markets and reach to maximum number of customers (Lee, 2007).

## Promotion

Promotion has been an effective part of Starbucks's advertising strategies where company promotes the brand through digital promotion, personal relations, sales promotion, electronic media and print media (Ihlen et al, 2009). Promotional plans are aimed to establish effective communication between customers and the company. These channels are used to keep the target customers informed about the new updates and products and also to interact with customers. Use of digital marketing tools such as Facebook, Twitter, Communities, Groups etc

are highly effective for Starbucks to promote the products and establish brand image. Public relations have not been very successful for Starbucks to some extent. Starbucks's attempt for public relations known as Starbucks' Race campaign was widely criticized. Loyalty cards are used to improve customer loyalty and enhance customer retention.

## Conclusion

From organizational point of view, it is very important to identify and understand possible factors that have significant impacts on consumers as these factors help in formulating business strategies, marketing plan, and value propositions and develop customer relationship. Effectively targeting customers, segmentation and positioning products on the basis of consumer behavior is considered key to success in achieving organizational objectives. From the discussions above, it can be clearly evident that Starbucks has used marketing mix to influence customer buying behavior. Company has established effective segmentation and positioned itself to target its audiences. Consumer behavior is largely influenced with culture, price, economic level and perception of the brand.

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