

## Study on Competitive Advantages of Starbucks Surfers' Paradise Coffee Shop

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### Abstract

This study is conducted to give a clear picture of the competitive advantage of the Starbucks Surfers' Paradise coffee shop. With this purpose as the direction, a thorough marketing research is conducted. According to results of the research, a conclusion of the competitive advantages of the shop is achieved based on the analysis of its marketing mix and positioning. Generally speaking, the Starbucks Surfers' Paradise coffee shop's convenient location, guaranteed high quality of both coffee and service, and the Starbucks brand itself give it assurance of success.

**Key words:** Competitive advantages; Starbucks; Marketing mix

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### INTRODUCTION

Starbucks, as a U.S. based coffee retail chain, is successful in marketing in a global environment. With the interests in its big success, this essay is mainly focused on its Surfers' Paradise coffee shop. Based on a series of researches including literature reviewing of relevant marketing theories, interview with manager and staff of the shop, distribution of questionnaires, and the analysis of various kinds of data collected, the essay is conducted to find out the competitive advantages of Starbucks Surfers' Paradise coffee shop.

In the first part of the article, researchers review some

marketing theories including marketing mix, positioning, competitive advantages and the interrelationship among them. Further, on the base of the literature review, the essay analyzes the specific situations of the shop in question from two aspects of marketing mix and positioning in order to obtain the competitive advantages. Finally, according to some problems found in the course of the research, some recommendations are given to help achieve a further success in marketing efforts.

## 1. LITERATURE REVIEWS

### 1.1 Marketing Mix

Product elements, place cyberspace and time, promotion and education, price and other user outlays, process, productivity and quality, people, and physical evidence are the eight strategic elements for managers in service organizations, which refers to Lovelock and Wright (2002) as 8Ps model. In the research by Kasper *et al.* (1999), the implementation of Marketing Mix is aimed at actually accomplishing the goals set, the competitive advantages given the relationship the firm and the customer want to attain and the success they are looking for.

### 1.2 Positioning

Positioning strategy is used by a company to distinguish its products from those of its competitors in order to give it a competitive advantage within a market (Palmer, 2000). Lovelock and Wright (2002) pointed out that positioning means establishing a distinctive place in the minds of customers relative to competing products. Additionally, in the research by Anderson and Narus (2004), market positioning includes three critical components: target market, product attributes and value proposition.

According to the research by Czinkota *et al.* (2000) and Quester *et al.* (2001), a firm's target market is more formally recognized as the specific group of customers based on their needs, geographical, social, economic and

demographic characteristics, etc., toward which a firm directs its market efforts. As demonstrated by Zikmund and D'Amico (2002), identifying and choosing targets, rather than trying to reach everybody, allows a marketer to tailor marketing mixes to a group's specific needs. As the old adage states, "You cannot be all things to all people." Having chosen a segment to target, Palmer (2000) argued that a firm must decide how to position itself based on its product's attributes, its price, distribution methods or any other factors that allow for differentiation from its competitors for that segment, so that the firm can obtain the competitive advantages.

Lovelock and Write (2002) pointed out that the augmented product including both the core product (a good or a service) and all supplementary elements delivers value for customers. Besides the core product, researchers Hotabe and Murray (2001) addressed that supplementary services are either indispensable for the execution of the core service activities or are available mainly to promote the satisfaction of the core product bundle, such as hospitality and exceptions (e.g., special requests).

Research by Anderson and Narus (2004) identifies that value proposition expresses the points of difference (products attributes difference & service difference) that should persuasively convey how the target customer will be more profitable by using the supplier's brand rather than its competitors. Shelth, Mittal and Newman (1999) believed that the product-based differentiation is the way in which marketers present their new or better products differently from their competition in order to become the customer's choice. However, in some circumstances where the physical product cannot easily be differentiated, the key to competitive success often lies in adding more value-added services and improving their quality (Kotler *et al.*, 1999). To conclude, the strategic importance of the product positioning decision in achieving competitive advantages in the marketplace is well recognized (Punj & Moon, 2002).

### 1.3 Competitive Advantages

In marketing-based approaches, competitive advantage is defined as an advantage, which over competitors and gained by offering consumers greater value, through lower prices or by providing more benefits that justify higher prices (Johnson & Scholes, 2002; Kotler *et al.*, 2003). A sustainable competitive advantage is considered to be the best service strategies to provide organizations a way to meet customer needs in a specific market segment better than other competitors in the short run (Lovelock & Wright, 2002). Thus, to against the competitors, each firm must choose its positioning strategy and differentiate its offer by building a unique bundle of competitive advantages (Kotler *et al.*, 2003; Lovelock & Wright, 2002).

## 2. RESEARCH METHODOLOGY

In order to specifying the target customers of Starbucks Surfers Paradise shop, and understanding how can Starbucks shop achieve competitive advantages, it is essential for the project group to using research methodology to achieve some information.

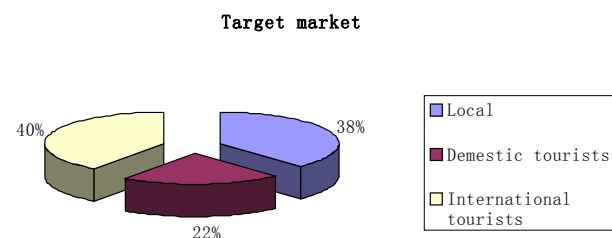
In this case, primary and secondary research has been applied. In primary research, the group was using methodology of questionnaire surveys, face-to-face interviewing with shop managers and employees, and observation. There was 120 questionnaires had been handed out for the customers of Starbucks, and unfortunately, the group got 100 back. Microsoft Excel was used to analyze the data from questionnaires. The main purpose of those questionnaires was to discover who are the main target markets for this shop. There were two interviews with shop manager Mr. Jason Bourne, and several interviews with different employees. The purpose was to from managers and employee's view to know who their competitor was and what was the differences between the shop and the competitor.

The secondary research is "the investigator analyses data that have been previously compiled" (Weaver & Oppermann, 2000, p.401). The group searched from both academic journals and academic books to find academic support. And the group also found some quite useful information from company website.

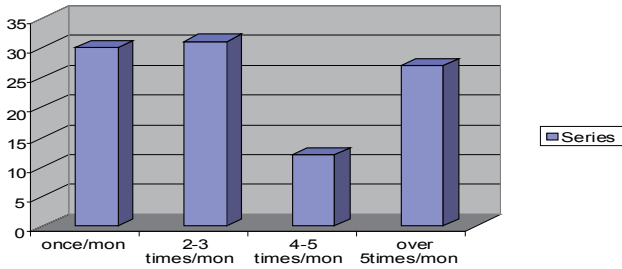
## 3. RESULTS

According to the 100 questionnaires, there are 36 male customers and 64 females, and 38 of them are from local, and 62 are tourists (22 are domestic tourists and 40 are international tourists). Most of them have heard about Starbucks brand before. The reasons for them to visit this shop are partly because they can easy pass by it, and partly because the quality and the service of Starbucks.

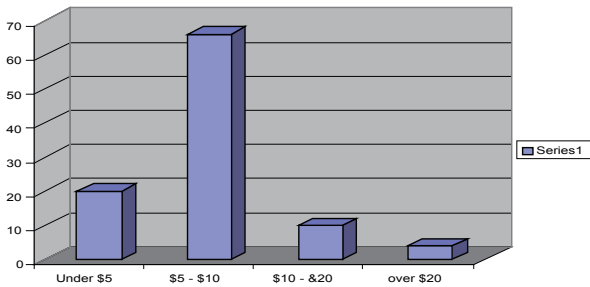
The main things that the group found was first, that their target market are tourists and local community, who are easily passing by this shop, and are often spend \$5-\$10 per visit (see Figure 1 to 4). Secondly, some competitive advantages have been found, such as coffee quality, atmosphere, location, service quality etc., which will be discussed further (see Figure 5). Thirdly, their competitors are some coffee shops around the area, and especially Gloria Jean's (see Figure 6).



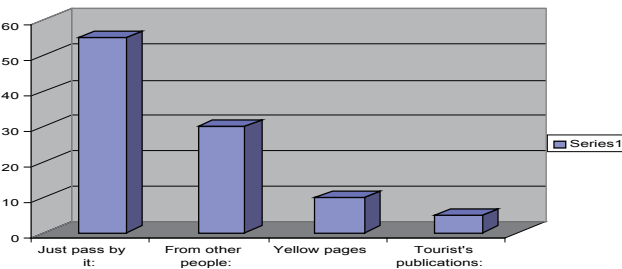
**Figure 1**  
**Target Market**



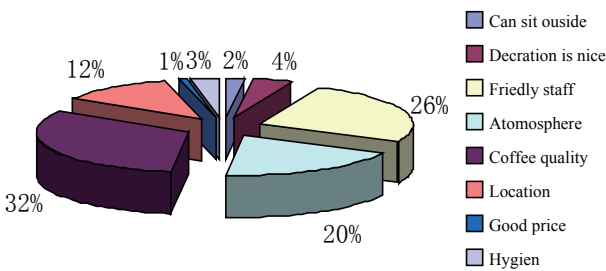
**Figure 2**  
How Often Do the Customers Visit Starbucks Surfers' Paradise Shop Within a Month



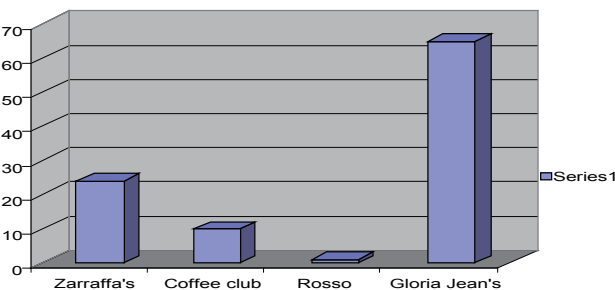
**Figure 3**  
How Much the Customers Spend per Visit



**Figure 4**  
How Do the Customers Know About This Coffee Shop



**Figure 5**  
What Is the Best Quality of Starbucks (Customers' View)



**Figure 6**  
Competitors of Starbucks Surfers Paradise Shop

## 4. ANALYSIS

The following part will take the specific situations of the shop into considerations in order to generate the competitive advantages.

### 4.1 Marketing Mix

#### 4.1.1 Physical Evidence

Since a service is not tangible that cannot be felt, smelt or tasted as is the case when you want to buy conventional products such as soaps, drinks or foods, advantage must be taken of every opportunity to link with what is physical. In Starbucks Surfers Paradise Store, customers can often see the Starbucks logo on every take away cups, and napkins. They can see some comfortable chairs inside the store, and especially one couch is sited outside. They also can feel quite warm and relaxing, due to the warm colors that has been printed on the wall, and listening to the jazz music. They can also see the smiling face of every employee that made them feel good. And they are also can see the clean environment around, and smell the coffee bean.

All of those things are referring as the “tangible clues”, which make customers feel that they are having a quality service here. In theory, many of that physical evidence are seen by the consumer as part of the product, and they can be often used to influence behavior of customers (Bateson, 1992).

#### 4.1.2 People

Many services are involving both actions of employees and customers, which is essentially showed in the case of Starbucks. Strategically, service personnel are an important source of product differentiation (Hoffman & Bateson, 2002). It is often challenging for café to differentiate itself from similar business in the benefit bundle it offers or its delivery system. Starbucks recognized this problem. The strategies for Starbucks are to offering customers with the friendly services. For instance, Starbucks treat their employees as their partner rather than employees. They provide their partner with three months training, which educate them with the basic knowledge of Starbucks service skills, and Starbucks culture. The promotion training is also offered for staff self development. The partners are trying to record the name of their customers, personalise their service, and offer the service individually.

In Starbucks case, customers have to stay in the actual process of production in order to receive service, so their behaviour and their reaction for the service encounter will play important role. The nature of these interactions strongly influences the customer's perceptions of service quality (Lovelock & Wright, 2002).

#### 4.1.3 Place, Cyberspace, and Time

The element is to set a question for managers to ask when, and where to serve the customers. “Starbucks is the ‘third place’ away from home and work where the individual has

a place and time of his own” (Kumar, 2003). According to survey, some local business people are likely to stop by Starbucks, because it is near to their work. Some tourists are also likely to go in, because it is in the central of Surfers, and the store can be seen just by the roadside. Such obverse location provides target customers to choose it to be the place that they want to stay and relax.

The shop is open all year around except Christmas, and unlike most shops of Gold Coast, it opens until 9 pm every day. Therefore it is quite suitable for the people who like night life, which is fit with the “night time shopping” in Surfers Paradise area.

## **4.2 Positioning of Starbucks (Surfers Paradise) Coffee Shop**

### **4.2.1 Target Market**

According to the results of survey that we have done, target market of Starbucks (Surfers Paradise) coffee shop includes two part of population: tourists (International tourists & local tourists) and local community specialized in the Surfers Paradise area. Figure 1 (Appendix) shows that 40% of customers are international tourists. They brought the profits for the coffee shop with the average expenditure of \$5-10 during the each visit. Staff working at the shop also gives the same answer that international tourists are one of the shop’s target markets. Besides, those customers (38% of all as shown in the Figure 2) who either live or work at the Surfers Paradise community are also regarded as the other target market.

### **4.2.2 Products and Services as Value Bundles for Its Targeted Customers**

Based on the needs of the target market, the shop provides a bundle of products and services as value for its targeted customers. Customer value is the difference between the values, which the customer gains from owning and using the product, and the costs of obtaining the product (Kotler, Brown, Adam, & Armstrong, 2004). Core products at the coffee shop were Espresso Traditions Coffee; Brewed Coffee and Frappuccino’ Ice Blended beverage, and coffee beans. Besides, some supplementary elements provided by the shop can also add value to the customers. Those include special services, such as high-chair for children and newspapers for senior citizen.

### **4.2.3 Product and Service Differentiation**

For the purpose of meeting needs and wants of its target market and differentiating itself from its competitors, the coffee shop offers some special products and services for the customers. For example, it is the only coffee shop so far that supplies Freppuccino’ Blended Coffee and green tea (specially offered for Asian tourists) at Surfers Paradise. Further, for the customers with special requirements such as pregnant women and senior citizens, its staffs supply table-services instead of queuing. In addition, in order to meet the special needs of the local community, the flavour of coffee at the shop is softer

than other coffee shops’ products compared to its major competitor “Gloria Jeans”, which is the most important difference why many customers choose Starbucks. Finally, as discussed above, some supplementary services such as newspaper and high-chair can also differentiate the shop from its competitors.

## **4.3 Competitive Advantages**

According to the results of the survey, the major competitor of the Starbucks (Surfers Paradise store) is the Gloria Jeans Surfers Paradise café shop, which is located at the corner across the street opposite to Starbucks. Through the interview and observation, the five major competitive advantages of the shop can be generated, which are going to be analyzed in details in the following part.

### **4.3.1 Brand Name**

Since a successful brand creates financial assets for a company by adding values for customers, thus, brands equity is considered as a key determinant of corporate value of marketing and business strategy (Doyle, 1998). A brand can be defined as a specific name, term, symbol, sign, or design used by a firm to differentiate its offerings from its competitors (Doyle, 1998; Czinkota, Ronkainen, Moffett, & Moynihan, 1998). The results of the questionnaires proved that its green and white logo has successfully achieved high brand awareness (Bednall & Kanuk, 1997) compared to other competitors (such as Gloria Jean’s, Zarraffa’s cafe). Most of international tourists heard about the brand name or had visited Starbucks abroad. The positive brand image can influence the decision-making process of this customer group and build customer loyalty to the Starbucks.

### **4.3.2 Location**

According to Kasper *et al.* (1999), location is the physical site (place) where the service delivery process takes place. Starbucks set its shop in the center of Surfers Paradise, which is facing to Gold Coast Highway, the main traffic road of Surfers Paradise, and in front of shopping center. The result of interview shows that 52% (Figure 2) of the customers visit the shop when they pass by the shop. The general manager, Jason Bourne, thinks the good location is a significant element for the shop’s success. Starbucks has occupied a primary predominance over the location factor.

### **4.3.3 Product and Service Standardization**

Quality of a product or service is determined by the customer’s perception of the degree of excellence of its characteristics (Gaither, 1992). Quality is the key issue in relationship marketing which heavily influences the customer satisfaction (Kasper *et al.*, 1999).

Most of customers think that Starbucks (Surfers Paradise shop) offers the same service and product quality as other Starbucks coffee shops do. One of a loyal customer of Starbucks from U.S. said that the coffee taste

and the way of service are exactly the same as what she experienced in her home country. Additionally, Starbucks Surfers Paradise coffee shop provides consistent commitments about its coffee and service quality during the whole trading hours.

#### 4.3.4 Employee Satisfaction

For a service organization, there is a positive relationship between job satisfaction and customer satisfaction (Kasper *et al.*, 1999). Jason Bourne believes that only the happy and knowledgeable employees can make best efforts to satisfy the customers. Starbucks Surfers Paradise shop gives every possible staff training. Meanwhile, the employees of Starbucks are encouraged to help customers to choose the most appropriate coffee products according to their personal tastes. This point can be drawn from interviewing the staff who stated that he was satisfied with the job and was willing to.

#### 4.3.5 Service Innovation

Innovation and new products development have become the key strategic focus for today's most successful companies (Doyle, 1998). The service innovation is defined as "developing and delivering products or services that offer benefits which customers perceive as new and superior" (Doyle, 1998, p.198). As demonstrated above, Freppuccino' Blended Coffee, green tea, newspapers and high-chair are offered by Starbucks Surfers paradise coffee shop for acquiring its competitive advantages.

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## 5. RECOMMENDATIONS

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Based on the previous analysis, there are some issues should be taken into considerations to make further improvements for the Starbucks Surfers Paradise coffee shop.

First one is based on the customers' expectation from the survey results. Some customers suggest that Starbucks should offer more comfortable armchairs and coaches, canopy and replace the outdoor floor with the wooden floor as same as the indoor decoration. In service industry, customers often look for tangible clues, namely physical evidence which can influence customer's evaluation of service quality (Lovelock & Wright, 2002). In this case, there is knowledge gap between the service providers and the customers perceived service quality (Lovelock & Wright, 2002). (or standards gap? Actually, I don't think this point is necessary.) More comfortable environment can help create friendlier atmosphere, which enhance the supplementary services by adding values to customers (Lovelock & Wright, 2002). It is more attractive to customers, especially when they want to have a relaxed time in this Starbucks shop except for a cup of coffee.

Besides that, many customers were surprised when they heard that Starbucks also offer a reward card called "Starbucks Card Duetto Visa", which, however, is not

introduced to customers by staff, compared to the Gloria Jean's positive attitude to introduce their discount card to customers. Loyalty reward programs can offer existing customers incentives to remain loyal and perhaps even increase their purchases (Lovelock & Wright, 2002). In this case, the coffee shop appears negative to reward their customers, which is easily resulting in customer defection because customers will feel like being defected when they get to know the truth. The Surfers Paradise shop should realize that existing customers are more profitable while winning new customers are costly (Whitwell, Lukas, & Doyle, 2003).

Thirdly, the Surfers Paradise shop should pay more attention to educate its customers about Starbucks' coffee culture. Starbucks does well in brand building. Besides good coffee, it also provides its customers a very particular type of experience called the "third place", a place away from their home and work, where people can meeting friends and business partners or just get relaxed by reading a book with a cup of gourmet coffee (Whitwell, Lukas, & Doyle, 2003). This is the Starbucks' positioning, the selling point. However, according to the survey results, no one knows it. The shop should realize that differentiation is most of the time why people buy (Boyd, Walker, Mullins & Larréchē, 2002). A clear concept of what the difference is will directly pull customers to come in.

Last, during the interview, the shop's manager Jason Bourne told that the store is considering establishing Internet access to attract more customers. If it became the truth, it would be a great reason for customers to come in. However, should be the cost shared by customers by raising the price of coffee or charging access fees, or entirely borne by the business itself? Will that be profitable? There should be a complete consideration about the cost issue before taking action.

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## CONCLUSION

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As one of the famous Starbucks brand shop, the Surfers' Paradise coffee shop does well in the field of marketing. According to the analysis of the shop's situations concerning the marketing mix and positioning, a clear picture of the shop's competitive advantages can be achieved. Generally speaking, there are some important factors that help the shop to achieve business success, which include convenient location, guaranteed high quality of both coffee and service, and the Starbucks brand itself. On the other hand, the essay also gives some recommendations to help to solve problems found during the course of research. For example, the shop should pay more attention to create a more comfortable environment in the guests' area, and be more positive to introduce the "Starbucks Card Duetto Visa" which can help to build more stable and loyal customer relationship.

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