Costa Coffee vs Starbucks
Business Intelligence

Prof. Joseph Rodenberg

Ivana Mrđa
Sanja Nikić
Strahinja Baturan
Agenda

• Introduction
• History
• Coffee Market UK
• PESTEL
• Competition
• Porter’s five forces
• Industrie leader perspectives
• SWOT
• Segmentation
• Marketing MIX
• Conclusion
Introduction

In the last five years, the coffee brewing industry has seen so much activity in terms of massive changes in the landscape of coffee brewing companies. These changes range from mergers and acquisitions to changing consumer tastes and finally, to different branding strategies. These activities are expected to continue over the course of the next ten years.
Starbucks

- Three friends, Jerry Baldwin, Zev Siegl, and Gordon Bowker, who all had a passion for fresh coffee, opened a small shop and began selling fresh-roasted, gourmet coffee beans and brewing and roasting accessories. The company did well, but things began to change in the 80s.
History - Starbucks

- Leading retailer, roaster and brand of specialty coffee in the world
- Sells drip brewed coffee, expresso-based hot drinks, snacks, mugs and coffee beans
- Company started in 1971 in Seattle in Washington, U.S.\(^6\)
History - Costa Coffee

Costa Coffee

- Bruno & Sergio Costa set up their famous coffee roastery in Lambeth, London in 1971, supplying local caterers and Italian coffee shops with an exciting coffee, slow-roasted the Italian way.
- People couldn’t get enough of it and by 1978 the first Costa espresso bar opened in Vauxhall Bridge Road in London.
- To this day we still use the same method of slow-roasting our coffee beans, serving the brothers’ authentic blend of 6 Arabica beans to 1 Robusta in 500 coffee shops all over the world.
“THE PERFECT CUP” IN FOUR “M”

1. Miscela
   Blend: Costa has a unique blend we call the Mocha Italia

2. Macinatura:
   Grind: Every cup of Costa is made from freshly ground beans; ground to the exact consistency to ensuring perfect extraction of flavors & aroma. We use the Ferrari of grinders—the Mazzer—to ensure the “Perfect Cup”

3. Macchina:
   Machine: Costa shops use specially designed Italian espresso machines. They have been tuned & perfected over the last twenty years to achieve high volumes of perfect espresso [the heart of every coffee drink]

4. Manna:
   Hand: the skill of the Barista influences the “Perfect Cup” So they undergo extensive & intensive training at our Coffee Academy to reach the excellence that’s Costa
• Despite the adverse economic trends in the first half of the year, the United Kingdom as a whole experienced relatively robust economic growth. It is estimated that the United Kingdom, taken together, posted a better-than-expected GDP growth of 4.5% last year, slightly higher than the 4.1% growth that they achieved in 2002.

• Many English provinces have also seen the risk-weighted capital adequacy ratios of their banking systems improve due to government-sponsored bank recapitalization programs, continued progress in financial restructuring, and improvements in financial risk management. The capital adequacy ratio of commercial banks in these countries is now far higher than the 8% Basle norm.
Starbucks was and is market leader but since 2007 Costa has more Outlets
<table>
<thead>
<tr>
<th>Political</th>
<th>Coffee beans are grown in developing countries. Discussions about work conditions, child labor. Also political influence by tariffs and taxes.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic</td>
<td>The key business challenges for the industry as a whole firmly relate to the economic recession from 2008, as consumers become much more cautious with their discretionary spend due to the high unemployment and personal debt.</td>
</tr>
<tr>
<td>Social/cultural</td>
<td>People spent more and more money on coffee (UK: Tea: £623m, Coffee: £738m). Customers do not only go to coffee shops to drink a coffee but also to sit down, and relax.</td>
</tr>
<tr>
<td>Technological</td>
<td>Better and cheaper coffee machines are available for home usage (Senseo).</td>
</tr>
<tr>
<td>Environment</td>
<td>As raise of environmental awareness, coffee companies have to be concerned about the way their coffee beans are produced, the way they design their supply chain and the way they prepare and sell their products.</td>
</tr>
<tr>
<td>Legal</td>
<td>See political</td>
</tr>
</tbody>
</table>
Porter’s Five Forces

• The competition on the coffee market is quite high
• A unique strategy is important to attract customer

**Threats of New Entry**
- High economies of scale (coffee import)
- Brand awareness
- No special knowledge needed (using coffee machine)
- Low capital requirement

**Competitive Rivalry**
- Mature market
- Many competitors with little differentiation (Costa, Nero etc.)

**Supplier power**
- Low bargaining power cause many coffee bean producer (Indonesia, Brasil etc.)

**Buyer power**
- Buying power of a single person is low, buy only little quantity
  +/- Medium level of price sensitivity
  - Low switching cost

**Threat of Substitution**
- Tea, Hot Chocolate
50% believe that branded chains will gain over independent operators.

62% of industry players observe decreasing spend per visit as consumers cut back on spending.

58% view ethical coffee options such as Fair-trade-certified and Rainforest Alliance as growing in importance despite the economic downturn.
<table>
<thead>
<tr>
<th><strong>Strength</strong></th>
<th><strong>Weakness:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Famous brand which is associated with high quality</td>
<td>• High price products</td>
</tr>
<tr>
<td>• People like Starbucks atmosphere</td>
<td>• Coffee quality is not as good as reputation</td>
</tr>
<tr>
<td>• Starbucks has many outlets and often is in high class locations</td>
<td>• Aggressive expansion</td>
</tr>
<tr>
<td>• Well trained and treated employees</td>
<td>• Unhealthy products</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Opportunities:</strong></th>
<th><strong>Threats:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Launching new products/product extension (e.g. tea, healthy, premium, co-branding)</td>
<td>• Growing competition within the Coffee Outlet industry and new competition from Fast Food restaurants</td>
</tr>
<tr>
<td>• Capturing new markets (retailing) and new consumer groups</td>
<td>• Lack of ownership of coffee farms</td>
</tr>
<tr>
<td>• Selling more whole coffee beans and equipment</td>
<td>• Global crisis/financial resources</td>
</tr>
<tr>
<td>• Develop in non high street areas</td>
<td></td>
</tr>
</tbody>
</table>
**SWOT**

<table>
<thead>
<tr>
<th>Strengths:</th>
<th>Weaknesses:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• has products that boast of a very powerful retail.</td>
<td>• a weak control of its empire, despite its IT advantages.</td>
</tr>
<tr>
<td>• a reputation for value of money, convenience and a wide variety of products</td>
<td>• operates globally, but its presence is located in only relatively few countries worldwide.</td>
</tr>
<tr>
<td>• has grown significantly over the years, and has experienced global expansion.</td>
<td>• lack the flexibility</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities:</th>
<th>Threats:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Taking over, merging, or forming strategic alliances with other coffee companies</td>
<td>• is the target of competition, the company to beat</td>
</tr>
<tr>
<td>• expanding various consumer markets, such as those in China and India.</td>
<td>• might be exposed to political problems in the countries where the company has operations</td>
</tr>
<tr>
<td>• diversification of the company’s branches from large super centers to local-based sites.</td>
<td>• Intense price competition</td>
</tr>
<tr>
<td>• continuously expanding</td>
<td>• The latest developments in information technology which could possibly change the markets</td>
</tr>
</tbody>
</table>


Targeting Starbucks:

• Age: Young adults
  Nice place to relax, chat, chilly music
  Trendy coffees which present their lifestyle

• Age: Middle age
  Place to calm down, relax, chat, read a book
  Possibility for a small (healthy) snack with a great coffee

• Psychographic: Coffee lovers
  Trendy, fresh, high quality, new developed coffee (some: fairtrade)

• Psychographic: Atmosphere lovers
  A great third place
Targeting Costa Coffee:

• While evaluating their consumer market the conclusion was that the ideal consumer’s economic profile will be
  – Upper Middle Class
  – Privileged Class

• While the age demographics will be:
  – Students and Youngsters
  – Professionals
  – Families
  – Mature Consumers

• Gender and Ethnic/Religious Background was researched to have minimal or no effect on the choices concerning coffee made by consumers and their patronage of coffee houses.
Marketing MIX

1. Product

Product Costa Coffee
- Brand Name.. Their brand name is their signature. The name of Costa signifies luxury, excellence and perfection all over the world.
- The image of Costa is luxury
- The theme of Costa, from the brand logo, the color scheme of the premises, to the entire feel of our business is warm tones & relaxing colors.
- Service.. Costa’s reputation for excellence applies not only for the exceptional coffee but also the insistence on perfect service.

Product Starbucks
- Enlarge product line
  - Special Coffees
  - Tea
  - Juice/Smoothie
  - Hot chocolate
- Healthy organic sandwiches, salads and pastry for vegetarians
- Serve best product by best trained staff
- Coffee Cups fitting to coffee choice
- Higher product variety and quality
- Higher product variety and quality
2. Price

Price Costa Coffee

- The prices of all the products are comparatively higher at . But this is offset by the outstanding quality and discerning tastes at . One of the reasons for choosing the privileged and higher middle classes in the target market is the prices.

Price Starbucks

- “We don’t want to be price leader – We serve more for more“
3. Place

**Place Costa Coffee**
- After thorough research, and competitive analysis the perfect locations in terms of exposure, accessibility and competitive edge have been acquired.
- The inventory and easy transport facilities have also been a part of the deciding factors while choosing the appropriate locale.

**Place Starbucks**
- High quality and well designed furniture
- Free WiFi to everybody
- Children Corner
- Board that shows Starbucks suppliers
- Board with coffee beans supplier and their “story”
- Develop outlets in non-high street areas and developing cities
Marketing MIX
4. Promotion

Promotion Costa Coffee

- Brand name is enough to muster the required target market.
- Most of the awareness will be through the word of mouth of people amongst the masses.
- Hence the reputation is more that counts.

Promotion Starbucks

- Fair trade and “Green Coffee”
- Charity
- Product placement
- Cross selling
- Online or mobile Coffee-Ordering for busy people
- New Coffee evaluation
Costa Coffee has been able to remain one of UK’s leading coffee brewing companies for more than a century now primarily because of the execution of the company’s branding and positioning strategies to perfection. Add to the mix the company’s dedication to high quality of service and the formula for success is at hand. Moreover, the utilization of the appropriate knowledge management tools is necessary for their products to reach out to people even in different cultures. However, certain points have to be taken into consideration by Costa Coffee regarding knowledge management tools. Since their income is relatively higher than most coffee brewing companies, the time for implementation of their chosen knowledge management tools would take longer than usual, aside from being expensive. But since the goal of Costa Coffee is towards a long-term dominance and stability in the brewing industry, then the pursuit of these promotional campaigns will be beneficial for the company in the long run.
Conclusion

Starbucks has appealed to such a wide target market, it seems every product introduced will be an instant success (sodas, teas, ice creams, pastries). As the most innovative company, it’s no surprise that the new technological addition, the Starbucks Card, boosted sales and helped growth during a time when the economy was struggling. “Starbucks went back to basics, and they’ve approached the basics with a science and intensity that no one has ever done before.”

   http://www.allegra.co.uk/pdf-files/2004-12-00-fs.pdf


   http://business.timesonline.co.uk/tol/business/industry_sectors/leisure/article3381092.ece

   http://starbucks.co.uk/en-GB/_About+Starbucks/History+of+Starbucks.htm

7. London Evening Standard: Starbucks wakes up to £47m loss a year (2009)
   http://www.thisislondon.co.uk/standard/article-23748711-coffee-giant-pins-hopes-on-boho-redesign-for-branches-in-capital.do
8. Marketing Magazine: Starbucks launches heritage branding in UK
   http://www.marketingmagazine.co.uk/News/MostDiscussed/964788/Starbucks-launches-heritage-branding-UK/

