A Study on the Use of Social Media to Understand Consumer Preference: The Case of Starbucks

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ABSTRACT:

The paper seeks to identify Starbuck's experience in using social media, understand how social media is linked to customer knowledge management, and assess how social media services could have contributed to Starbucks success. Starbucks demonstrates versatility to engage customers and support different part of customer knowledge management strategy through various social media platforms, such as MyStarbucksIdea, Facebook, Twitter and Foursquare. The paper finds that the emergence of social media has empowered the users because they were able to comment and recommend the firm products more effectively than before. Starbucks closely follows the principle of 'design with customers' in defining the role of customers, allowing them to play the role of creators and evaluators of ideas. Taken together, social media has been an effective platform for Starbucks to better understand consumer needs and preferences that eventually bring forth much improvement in Starbucks' operational performance.

Keywords: Consumer knowledge management, Social marketing, Starbucks

INTRODUCTION

Over the last ten years, there have been rapid advancements in media marketing. The appearance and rapid acceptance of digital tools has led to new communications and marketing approaches for marketing to better understand consumer needs and develop products that consumers will buy. As the number of users of social networking sites increases, the awareness generated through social media sites is massive.

The world of business has changed significantly with the use of social media. Reviews and feedbacks of a business can spread online via social media networks within seconds. Good reviews improve the reputation of a business whereas poor reviews are damaging for business and impact the firm adversely. Indeed,

the Internet provides a platform to spread information, bypassing physical barriers to reach more customers.

The paper seeks to identify Starbuck's experience in using social media, understand how social media is linked to customer knowledge management, and assess how social media services could have contributed to Starbucks success. Starbucks is the largest coffeehouse chain company in the world. It originated from Washington in 1971 with a small retail store in Seattle's Pike Place Market. At the moment, Starbucks has more than eighteen thousand stores distributed in 62 countries. The paper finds that the emergence of social media has empowered the users as they

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were able to comment and recommend the firm products more effectively than before. Starbucks closely follows the principle of 'design with customers' in defining the role of customers, allowing them to play the role of creators and evaluators of ideas. Taken together, social media has been an effective platform for Starbucks to better understand consumer needs and preferences that eventually bring forth much improvement in Starbucks' operational performance.

The Case of Starbucks

Coffee is a very popular beverage. It is hard to find a corner of the world that does not offer coffee. It has been reported that coffee ranks as the most valuable commodity in the world, behind only to oil. There are more than 50% of Americans drinking coffee every day, and consuming over 330 million cups of coffee every day. Different flavors of coffee are offered to satisfy changing preference of customers.

Starbucks has emerged as one of the largest and most successful coffee houses in the world. Starbucks was originated from Washington in 1971. The first Starbucks was a small retail store in Seattle's Pike Place Market. Starbucks provides customers fresh-roasted whole bean coffee.

In 1983, Howard Schultz traveled to Italy and became captivated with Italian coffee bars and the romance of the coffee experience. He wanted to bring the Italian coffeehouse tradition back to the United States. Schultz opened Il Giornale coffeehouses. In August 1987 he purchased Starbucks with the help of local investors.

Starbucks offers hot and cold beverages, whole-bean coffee, full-leaf tea, ice cream and snacks. It also sells cakes, sandwiches, tumblers and mugs. Starbucks designs different organizational structures for each branch depending on different market situations. These are sole proprietorship, joint venture, license agreement, franchising and other business models.

Table 1 shows the financial performance of Starbucks Corporation in the period 2011-13. As

1- Rom Neal (2002) "Caffein Nation" (extracted from http://www.cbsnews.com/news/caffeine-nation/_ on 6 June

can be seen, gross profit grew by 14% in 2013 as compared to 10% a year ago. Share price of the company grew from \$9.46 per share in end 2008 to \$32.13 and \$78.39 by the end of 2010 and 2013, respectively (table 1).

Every Starbucks coffee house has two to four barista, one supervisor, one manager assistant and a manager. Starbucks positions their coffee house as the third most important place in people's life, next to home and office. The environment of Starbucks is simple and comfortable. Most of their coffee houses provide sofas, charger and Wi-Fi services.

The profitability and selling price of Starbucks are however heavily dependent on the price of coffee beans. Many factors, such as hedge funds activities and weather conditions may change the price of coffee beans that organization has minimal control. Starbucks coffee is a pricy product due partly to the quality of the coffee beans and excellent services provided.

The advancements in technology provide Starbucks the opportunity to improve its efficiency and reduce customers' waiting time. That said, Starbucks faces intense competition and challenges in the international business. Local coffeehouses could offer relatively lower price and localized menu for consumers. That has not stopped Starbucks from entering China and India, which house a large number of middle income population. Working with local partners (such as Tata Group in India) helps Starbucks to overcome obstacles. As Howard Schultz wrote about the partnership with Tata, "Tata helps us find great locations for our stores (the Elphinstone Building, for example, is one of Tata's). They helped us with store design and in getting the food menu right. They helped us overcome many logistical and infrastructure obstacles to make sure everything on our India menu is fresh" (Schultz, 2013).

Literature Review

Social media is an up-to-date Internet service that attracts millions of people. Laptops, Internet, websites, emails and mobile phones have changed the way people communicate, work and live. Today, there are more than 1.3 billion of people with Facebook accounts.

Table 1: Financial performance of Starbucks corporation (in thousands of US\$)

Period Ending	Sep 29, 2013	Sep 30, 2012	Oct 2, 2011
Total Revenue	14,892,200	13,299,500	11,700,400
Cost of Revenue	6,382,300	5,813,300	4,915,500
Gross Profit	8,509,900	7,486,200	6,784,900

Source: http://finance.yahoo.com/q/is?s=SBUX&annual (extracted on 11 June 2014)

Over one million links are shared, and three million messages are sent in every 20 minutes on Facebook. There are more than one billion registered users on Twitter, averaging 500 million of Tweets posted every day.

According to Woodall and Colby (2011), a growing number of customers are willing to share their experiences and excitement with others via social media. The information obtained may be unbiased in the sense that users are able to give real opinions and feelings that would appear to be more reliable and trustable than those derived from salespeople. Online social communities also offer a platform for individuals to come together and discuss topics of interest. Social media service has the potential to unleash users' passion to engage in knowledge sharing (Maswera et al., 2006; Plessis, 2007).

Levy (2009) presented four social media services that have been commonly used by organizations to communicate with their customers:

- Micro blogging services allow organizations to get in touch with customers through micro-posts. Micro blogging services support the concept of "design with customers" (Sigala, 2012) where organizations obtain input from consumers in design and production. Organizations monitor micro-posts to analyze consumer needs and preferences, allowing the company to focus on relatively more important business winning factors (Flanagin and Bator, 2011).
- ✓ Social networking service supports interconnection between organization and customers to initiate constructive conversation. The interconnection allows organization to acquire knowledge from customers (Magnier-Watanabe et al., 2010) and for organization to explain changes in

- the products and service (Zanjani et al., 2008).
- ✓ Location-aware mobile service enables the organization to manage customer knowledge in specific locations (Bhalla, 2011). For example, organization uses location-aware mobile service to post information about offers and discounts available at selected branches and encourage customers to 'check in' at these locations (Dooley et al., 2012).
- ✓ Corporate discussion-forum services allow organization to offer information of the existing products, service and ideas to organizational buyers (Wagner and Majchrzak, 2007). The service encourages customers to post their requirements, doubts and purchasing intentions.

Developing own social media platforms is a good way for organizations to inform their customers about their strategies and getting ideas from them to develop their products and service (Fuchs and Schreier, 2011). Some organizations combine the use of different social media services to better achieve their marketing objectives. During the 2008 U.S. President Election, Starbucks published a 60-second advertisement which promising each voter with a free cup of coffee. Starbucks only not posted the video on its website, but also used Facebook and Twitter to widen its attention and viewership. Until the day before election, the video had been viewed over 400,000 times on the website, attracted thousands of comments on Facebook, and customers could find a related tweet in every 8 seconds (Miller, 2009). Kaplan and Haenlein (2010) have argued that social media has the potential of building brand recognition, increasing brand reputation, developing new products, acquiring and sharing customer knowledge and managing customer relationship (see also Hull et al., 2000; Gebert et al., 2003).

Taken together, social media tools enable firms to better manage customer knowledge. Effective management of customer knowledge is associated with understanding the requirements and changing preferences of customers (Davenport et al., 2001). The ability of continuously creating new customer knowledge and effectively managing customer knowledge assets are the key competitive advantages in the global economy (Rowley and Slack, 2001; Zhang, 2011). Customer knowledge management does not only capture simple transactional information, but extends to the development of new products and the formation of strategic partnership (Horovitz, 2000; Davenport et al., 2001). Based on a study conducted by the University of Massachusetts Dartmouth, the use of social media has been increasing extensive among the Fortune 500 companies as a means to manage customer knowledge. 73% of the firms have their official corporate accounts on Twitter and 66% of the firms have corporate Facebook page. 28% of these firms registered the corporate blogs in 2011 (Barnes, 2012).

RESEARCH METHOD

This paper applies netnography and collects primary data to access consumer behavior. Netnography, a term coined by Robert V. Kozinets (1998), is a new qualitative research method that often uses online marketing research techniques to acquire useful insights to analyze the free behavior of individual and investigative consumer behavior in online communities.

Netnography is different from traditional marketing research method, such as interviews, questionnaires and focus groups. It is less obtrusive, faster, easier, and cheaper than ethnographic methods (Kozinets, 2011). According to Xun and Reynolds (2010), netnography enables the organization to reach broader respondents thereby allowing the firm greater capacity and flexibility to observe and analyze consumption pattern and behavior.

This paper selects four samples of online communities namely MyStarbucksIdea, Facebook, Twitter and Foursquare.

RESULTS AND DISCUSSION

Table 2 shows a summary of the online discussion on Starbucks as collected from My Starbucks Idea website, Starbucks corporate page on Facebook, Starbucks corporate page on Twitter, Starbucks corporate page on Foursquare (table 2).

'My Starbucks Idea' was launched in 2008, a period which saw Starbucks losing customers to other fast food outlets which offering fresh-brewed coffee as well, such as McDonald's. The downturn served as a catalyst for Starbucks to find out what customers really wanted from coffee shops and accordingly, develop products that consumers would buy. 'My Starbucks Idea' starts to work as a hub where consumers share their ideas and suggestions. Within the first two months of launching the websites, over 41,000 customers posted their comments and proved they were willing to engage with each other (York, 2010).

Table 2: Summary of online discussion

Online Communities	Observations		
MyStarbucksIdea	More than 120,000 product ideas, 41,000 experience ideas and 24,000 involvement ideas are posted in the community. (As at 2 April 2014)		
Facebook	More than 36 million likes on the Starbucks corporate page; over 180 thousands users are talking on this page and 17 million users have visited this page. (As at 2 April 2014)		
Twitter	Starbucks has post 18.7 thousand tweets on it corporate blog. There are 5.95 million followers following and focusing on this brand. (As at 2 April 2014)		
Foursquare	There are more than 40 million users follow Starbucks on Foursquare. (As at 2 April 2014)		

Source: Authors

The users on 'My Starbucks Idea' have the ability to see what other customers are suggesting, voting on their ideas and checking out results. The website has over 180,000 registered users. It is akin to the idea of voting. Customers have their own say in terms of their favorite coffee and ideas. The motto of My Starbucks Idea is 'Share. Vote. Discuss'. For product ideas, users can discuss about new coffee flavors, new products and new branches. For experience ideas, users can comment on the payment methods, ambience (music, for example) and staff's service. For involvement ideas, users can post ideas about building and engaging new communities, how to strengthen social responsibility and other ideas.

Starbucks responds to posts from the consumers. For example, 'Arenas' had posted the ideas of Starbucks card. She commented that Starbucks had used black background on the emails for specials and rewards, and that led to wastage of black ink. She also suggested using half page of print to save paper. Starbucks responded to her pleas and vowed to improve Starbucks Rewards System. At present, members could use their smart phones to redeem offered just by showing the emails on their phone.

Another customer commented that while Starbucks offered a good atmosphere for people

to patronize during the day, it did not seem to offer a suitable place for people to visit during the evening. The comment was taken seriously by Starbucks as it searched for the solution to make Starbucks a better place for evening visitors. A new concept called "Starbucks Evenings" was essentially coined and applied by Starbucks to create stores that catered specifically to the evening crowd.² Selected Starbucks stores would offer soft lighting, comfortable seating and special menu, including some savory snacks, dessert and various wines for people to meet their friends in the evening. Starbucks has pledged that it would add more evening stores.

With regards to the use of Facebook, Starbucks is one of the most 'liked' brands on Facebook with more than 36 million fans. The contents posted are varied containing information about the products, environment, and also sharing a healthy lifestyle, a warm moment and customers' ideas. Table 3 shows a sample of posts on the Facebook, the number of users who 'liked' the cases and the number of comments posted in each of the cases. The five cases were posted on 23 February, 28 February, 11 March, 20 March and 31 March 2014 (table 3).

Table 3: Samples of posts on Facebook

	About the case	Comments	Likes
The case posted on 23 Feb	To introduce some tips about the production of a cup of coffee.	767	10.351
The case posted on 28 Feb	To share the photo that ladies are having latte on their coffee time.	1.476	93.597
The case posted on 11 March	Starbucks is going to Disneyland. And the first store in Disneyland is in Anaheim.	2.533	54.943
The case posted on 20 March	To announce the new partnership with Oprah Winfrey, and will offer customers Teavana Oprah Chai.	1.007	12.943
The case posted on 31 March	To introduce their store in Mexico City's Bosque de Chapultepec which is the largest park in Latin America.	499	15.283
Source: Authors			

¹⁻ Arenas posted on 6/20/2013 10:40 AM [Less 'black ink' use please!]

http://mystarbucksidea.force.com/ideaview?id=08750000000 Is73AAC; Starbucks responded on Mar 06, 2014 [Save at Starbucks. Save on Ink.]

http://blogs.starbucks.com/blogs/customer/archive/2014/03/0 6/save-at-starbucks-save-on-ink.aspx (extracted on 12 Nay 2013)

²⁻ See posting on 3/18/2008 3:21 PM [Make Starbucks an after dinner destination]

http://mystarbucksidea.force.com/ideaview?id=08750000000 4CjzAAE. Starbucks replied on Dec 12, 2013 [Reconnect and Unwind at Starbucks This Evening]

http://blogs.starbucks.com/blogs/customer/archive/2013/12/1 2/reconnect-and-unwind-at-starbucks-this-evening.aspx (extracted on 14 May 2014).

Using Facebook allows Starbucks to share rich knowledge of its products, service and locations to its customers. Starbucks posts new promotions and activities to keep customers abreast of new changes and attract them. For example, "Free 12 fl.oz. Caramel Flan Latte only on Jan 9" and "Handcrafted Latte Buy 1 Get 1 Free on Valentine's Day" were posted on Starbuck page to gain the attention from the public. Starbucks reported that it could sell one Frappuccino in every average 15 seconds when it promoted "Frappuccino Happy Hour" through Facebook.

Starbucks has also used Facebook to seek consumers' votes. Consumers were asked about personal favors, preferences and feedbacks. Starbucks monitors these comments to understand consumer behaviors, preferences, expectations, degrees of satisfaction, and the way they are willing to accept new products and changes (The Nikkei Weekly, 2010).

Twitter is one of the popular micro blogging services. It encourages users to share tweets with others, but every tweet is limited to 140 characters. These tweets are not only words and messages, and usually accompanied by attached photos and videos. Every user on Twitter can build a follower-followee relationship with others. When someone is a follower of another one, he or she can receive all the tweets from the followee.

For Starbucks, there are currently 5.9 million followers on Twitter. Starbucks informs customers about its latest products, offers and events by posting tweets. For example, Starbucks posted "Iced Green Tea Latte + 1 pump vanilla = Spring in a cup " on Twitter to promote the products. Another tweet posted by Starbucks "Save 25% on select at home coffee and gear during #AtHomeCoffeeWeek: available in-store and online" was aimed at introducing recent offers in Starbucks.

However, the tweets on Twitter are subjective. Rumors and false message may spread among users. In 2009, news spread that Starbucks was donating its profits to Israeli's army. It created a wide-spread anger from Starbucks customers. Starbucks became aware of this rumor and customers' concerns through Twitter. Starbucks tweeted quickly to respond to the rumor and dealt with the misconception.

The use of Foursquare is vital as a popular location-aware mobile service that helps users to locate the nearest place of interest and check in at real-world location. The popularity of the location correlates with the number of check-ins. Users are able to earn more badges when they check-in to the locations and the action enhances the reputation of that specific store. When users check in, they can leave comments on the site and share these with others.

In the case of Singapore, the favorite Starbucks store appears to be in Tampines Mall (a shopping mall located in the eastern part of the city state) which scored 9.1 out of total score 10. In all, there are over 20,000 'check-ins' at this location. There are a total of 95 comments for this location. Of the twenty comments sampled, 14 were positive. The remaining posts complaint about the services and made useful suggestions for improvement.

By using Foursquare, Starbucks provides customers knowledge about its daily events, such as the new products and exclusive offers at specific location. For example, Starbucks posted "This week get 25% off packaged coffee, mugs, and brewing equipment" on 2 April 2014 and this was catered specifically to residents of Seattle. Starbucks encourages customers to visit their stores by creating special badges and statuses on Foursquare. Customers usually leave their tips when they check in their stores. These are valuable source of information to Starbucks. On 4 October 2012, 7TOMA, a user who had checked in Starbucks Tampines store, left the following tip: "this place is so popular among the hip hop youngster they come with laptop and hang around for hours". Tips such as these serve as potential marketing information to enhance customers' understanding about the store in specific locations.

CONCLUSION

The purpose of this study is to examine the use of social media in understanding consumer needs by referring specifically to the case of Starbucks. There is increasing diversity of customer needs and changing preferences of customers. The emergence of social media makes the role of online users more significant as the comments they published can be seen by all the users worldwide. Starbucks demonstrates

versatility to engage customers and support different part of customer knowledge management strategy through various social media platforms, such as MyStarbucksIdea, Facebook, Twitter and Foursquare.

This paper finds that Starbucks has used the social media to bond and engage with the community. Starbucks deploys baristas to respond to the postings. Prompt replies make customers feel that their comments are valuable. Starbucks pays attention on both negative and positive comments and encourages further engagement with the consumers. The negative comments are seen as an opportunity to improve on the products and services offered (Michelli, 2007). For example, Starbucks Singapore posted a status about the new beverage, hazel nut macchiato. A user by the username of "Daphne" replied to the post and left her comment that the drink was nice but too sweet. Starbucks Singapore responded that she could ask for less sweet and this could be done with any of the drinks. It can be argued that Starbucks has closely followed the principle of "design with customers", which redefines the role of customers and allows them to play the role of creators and evaluators of ideas.

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