

STARBUCKS BREWING SUCCESS

Spilling the beans on how Starbucks is brewing profits and great customer experience using a great blend of innovation and technology

By Prashobh Chandralayam

If the most recent Starbucks investor call was any indication, technology and digital initiatives are becoming a huge priority for the coffee giant. Starbucks executives spent a large chunk of the time of the post-earnings call talking about the company's investment in new technology. During the call, the word 'digital' was mentioned more than 70 times.

CUSTOMER CONVENIENCE = STARBUCKS CASH FLOW

Starbucks' primary digital asset is its mobile application. Used by over 12 million customers, the app allows for quick and easy payment, rewards for loyalty, and additional features like store locator and music recommendations. How does Starbucks translate a great app into great economics? Well, for one thing, they get your money upfront. Think of all the transactions you make in a day or week – how many of them do you actually pay for before the service has been received? Somehow the convenience, rewards, and predictability of the Starbucks experience allows customers to mentally justify the prepayment proposition.



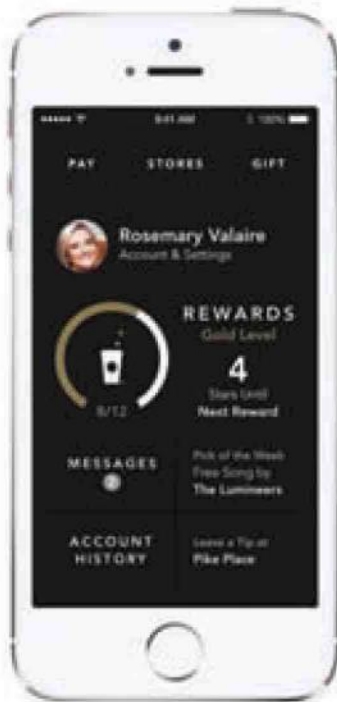
In 2016, Starbucks achieved 38% of its revenue, \$6 billion, from prepaid cards. This favorable working capital line item translates to serious cash flow for the coffee giant. In recent years, the company has achieved an annual net cash benefit of \$150 million from prepaid cards, which will only grow as more customers join the platform.

MORE CASH FLOW = BETTER INNOVATIONS

Starbucks, therefore, gains an ad-

vantage in reinvesting the earnings in what CTO Gerri Martin Flickinger refers to as the 'Starbucks digital flywheel'—innovations that continue to enhance the Starbucks experience and facilitate value capture. This includes game-changing initiatives like the 2015 introduction of Mobile Order and Pay. This new functionality allows customers to conduct the entire purchase process within the app and simply pick-up their ready-made drinks in stores

Images Courtesy: Starbucks



► App Dashboard

of choice. The feature now accounts for about 8% of Starbucks transactions. While there have been some minor operational growing pains in adapting to this immense demand, mobile ordering platforms have proven to increase customer loyalty, purchase frequency, and average ticket sizes.

BETTER INNOVATIONS = MORE SALES

Customer-centric innovations drive regular customers to migrate to the digital platform, which further contributes to Starbucks' bottom line. A case in point would be the in-app rewards programme. After the introduction of the rewards program on the Starbucks app, spends have increased by a minimum of 20%

across all customer segments. It has been observed that, in general, app users are more loyal than the average Starbucks customer and reportedly spend three times more. Digital conversion also drives value by facilitating the seamless collection and utilization of data. With 12 million active users—almost 20% of all Starbucks customers—the company can observe customer and store data in real-time and use it to create personalised targeting.

DIGITAL FLYWHEEL & BEYOND

Digital transformation story of Starbucks has been named the Digital Flywheel program. This is a proprietary asset that is driving deep customer engagement, revenue and profit growth. Part of that rollout includes allowing Starbucks to flexibly change its rewards program to create new benefits for customers. Early next year, the company will also allow non-rewards members to



► Starbucks Cherry Mocha

place an order via the Starbucks app — that includes folks who want to use the mobile order-ahead feature.

ROADMAP

Starbucks sits in a unique position in the ever-changing retail world, as it has a huge physical retail footprint — 27,000 stores in 75 countries serving roughly 90 million customer visits each week — with a robust digital platform. Starbucks' new CEO Kevin Johnson did not mince words when he said, "Clearly, the entire retail sector is going through this massive disruption and it's clear that the winners coming out of this are going to be those companies who find elegant ways to bring an in-store experience together with a digital experience". 🍷



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