

What is Responsible for Starbucks Ability to Charge Premium Prices

Introduction

Starbucks has a worldwide branch of coffee shops. Starbucks purchases and roasts high-quality whole bean coffees and sells them along with fresh, rich-brewed, Italian style espresso beverages, a variety of pastries and confections, and coffee-related accessories and equipment, primarily through its company operated retail stores

Starbucks is the worlds leading coffee shops with their large number of branches and high quality coffees. Starbucks have an ability to charge premium prices, which leads to an increase in revenue. I am going to research and analyse the ways in which this is made possible without a great decrease in the demand for Starbucks coffee.

One of Starbucks main 'driving forces', which they use is branding to have the ability to charge premium prices for the products sold in their coffee shops.

I am going to investigate the reasons why people still want to buy Starbucks products even though it can obviously be seen that the goods are being charged at premium prices.

Background

For a firm to be able to sell products at premium prices without affecting the demand for the good or service too much will give the firm a great advantage towards the success of the firm as they will have value added tax. This is because by doing this the profit per good will become larger making the total revenue much greater than it would be if the goods were sold at regular prices, with greater profit.

There are many different markets, which include firms that are able to sell their goods or services at premium prices these include:

- Coffee shops
- Designer Clothes
- Holidays
- Entertainment (Concerts, etc.)
- Jewellery
- 'One off goods' (paintings, etc.)
- Perfumes
- Luxury Cars
- Restaurants

Firms are able to sell their products at premium prices because even though the price is much higher than it could be sold at people are still wanting to buy the products, due to factors such as branding, because the demand is not affected by the price of the products.

Methodology

I have decided to do my research by giving out a questionnaire to thirty people, of different age groups, genders and different levels of income to get a fair result, of people who use the coffee shops such as Starbucks. From this I should be

able to find the reasons why people are prepared to pay for premium priced products in Starbucks and see which are the most popular well known coffee shops which are also charging premium prices.

Investigation

Starbucks coffee shops are well known worldwide as one of the leading coffee shops competing in the coffee culture which was rapidly spread across the world. This is due to the publicity that was spread about the new coffee culture by programmes such as 'Friends'. This is different to most other markets where there are firms competing against each other. Usually firms will compete by lowering their prices more than the competing firms to gain a larger market share. In this market the competing is all about who is able to get the best atmosphere, brand image, coffee quality and the convenience of the location at which the coffee shop is set. The price is not really an issue in the coffee culture which shows that the demand for the products sold by each of the coffee shops must be inelastic, meaning that a change in the price will not lead to a great difference in the demand for the good. This is because the good/service is fairly inelastic (*see appendix*).

With Starbucks being a leader in the coffee culture they can also be compared with regular coffee brands such as Nescafe. This is because the majority of people would rather instead of drinking their coffee at home or at work would much rather go to coffee shops like Starbucks even though this is going to be much more costly than drinking it at the usual places. This is because they feel that they are not only paying for the high quality coffee but also for the culture. And it is seen as a social and 'classy' thing to do with people or just on their own. Starbucks is also well known for being used as a casual place for business meetings, which means that it is busy almost all the way through the day.

My questionnaire, which can be seen in my analysis, was done and the results were collected and put into a table and various graphs. The results show that the most popular brand of coffee is Nescafe who do not own any coffee shops which may show that people do not go to the coffee shops for the choice of coffee. The results show that the majority of people are prepared to pay between the prices of £1.50 to £2.00, these are slightly lower than the prices charged at most coffee shops which may show that people are prepared to pay more for a coffee at coffee shops. Starbucks is clearly the most popular of the coffee shops; this is probably because it is the most well known worldwide coffee shop. The most popular reason for using coffee shops was because of the atmosphere closely followed by the brand image and the price was only the reason for a small majority of people.

The coffee culture is worth a lot of money for the firms competing against each other. However even though the coffee shop names are all well known and are placed in most busy areas they are making very little profit for the size of their firm due to the cost of competing with other coffee shops by buying building for shops that would not be necessary if the competition was not so great. They are

competing though because once a few of the coffee firms begin to 'drop out' due to competition, which means that the firms which are able to survive will be receiving an extremely large amount of profit from the customers due to the high demand of premium priced goods.

Even though the brand image was not the most popular reason for going to coffee shops but to become one of the most popular coffee shops in the coffee culture Starbucks has had to use branding. This is because Starbucks is well known for its high quality coffee with a relaxing atmosphere in the coffee shop, which has made it able to be a large competitor in the coffee culture.

Another way in which the coffee shops is to make the locations of their shops as good as possible and where people are most likely to want to go into a coffee shop. Starbucks have successfully used economies of scale (this is when a firm can use its size as an advantage over its competing firms), they did this by opening many more coffee shops than any of its competitors. An example of this was when Starbucks unfairly opened two coffee shops either side of one of their main competitors so the customers were more likely to go to a Starbucks than a shop of another firm then after successfully gaining market share in this area closed one of the coffee shops. The locations are chosen carefully so people will find it convenient to go to the coffee shop, as people are unlikely to go out of their way to visit a coffee shop. This is because it is likely that if one of the competitors have a more convenient place for their shop that the customer will go there instead of the one which they have to go out of their way for. An example of one of Starbucks competitors, which have invested towards making the shop more convenient for its customers, is when Costa Coffee put some of their shops into Abbey National Banks. By doing this they made it more convenient for people who were using the bank to go into Costa Coffee, so therefore choosing Costa Coffee over competitors such as Starbucks. . So from this convenience is a main factor which people may not realise is the main reason why they will choose a particular coffee shop over another.

The Atmosphere, which was the most popular reason why people used coffee shops, is also a big factor of why people may choose one over another. However this will not be the reason why people started going to one of the coffee shops as they are more likely without going in any coffee shops either because of its brand name or convenience. The atmosphere could be a reason for people changing which coffee shops they would choose over another if it was not to their taste, which does make it a factor of the reason to go to a coffee shop.

Conclusion

In conclusion to this I have found that what is responsible for Starbucks ability to charge premium prices to its customers is because the coffee culture which has been introduced worldwide. By getting a good brand image the firm will encourage customers to go to Starbucks instead of one of its competitors. Convenience is also another factor of this ability because people will not go out of their way to go to a coffee shop because the coffee shop that is most

convenient will probably be the one that succeeds most in that area. Then once a customer starts going to the chosen coffee shop the atmosphere will then become an important factor, because a change in this could bring more people or send people away from Starbucks. So these allow Starbucks to succeed even though they are charging premium prices.

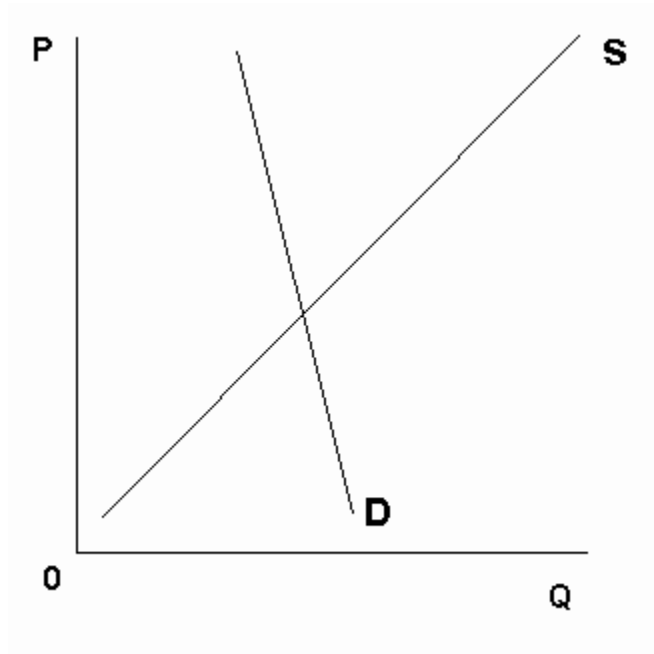
Bibliography

Most off the information was taken from a television programme about the coffee culture.

Another source was the official Starbucks website: www.starbucks.com

Appendix

Graph To show fairly inelastic good/ service



The Graph show how the demand changes very little even if the price is changed.