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# The Value Equation Continues To Add Up At Starbucks

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## Summary

- Starbucks implemented a price increase this week.
- The brand continues to offer a strong value proposition.
- Technology-enabled services, new products, and employee benefits strengthen the Starbucks value equation.

Regardless of your caffeine intake, you don't need to lose sleep over the price increases at Starbucks ([SBUX](#)) this week. A similar move might dampen the consumer appeal of a lesser brand, but Starbucks continues to work the value equation in its favor.

At its core, the value of an offering is determined by what you get (benefit) for what you pay (cost.) As long as the numerator of the value equation is perceived to be larger than the denominator, a brand enjoys a positive value perception. To Starbucks customers, the benefits of the brand (tasty product, pleasant environment, friendly service) outweigh the costs - that's why they're willing to pay \$5 for something that actually costs less than a dollar. And because Starbucks continues to increase the benefits it offers, they'll be willing to pay 5-10 cents more.

These days, the benefits Starbucks offers have less and less to do with coffee. Earlier this month in a select group of Boston-area stores, Starbucks introduced wireless smartphone charging mats. The mats, which are made by Duracell and embedded into tables and countertops, can be used for free. The San Francisco market is next up on the roll out, and Starbucks says the program will expand over three years to include 100,000 chargers in 7,500 stores. This convenient solution delivers a huge benefit to customers because it solves one of the most anxiety-inducing problems of smartphones -running out of battery power. And it's only the latest in the technology-enabled benefits that Starbucks now provides, including fast and free Wi-Fi and mobile payments.

Starbucks has also increased the numerator of its value equation through new non-coffee products. It has been rolling out an improved and expanded food menu, and last month it introduced a new line of chai teas co-branded with Oprah Winfrey. It currently is running tests of "Fizzio Handcrafted Sodas" as well as smoothies made with Dannon Greek yogurt "for added protein." These new products not only benefit the business by driving traffic and increasing visit frequency and average check. They also benefit the customer by offering people novelty and choice. As long as the additional options don't overload customers with information and decisions and don't complicate operations so that speed of service or accuracy slips, new products boost value perceptions.

A less obvious change to Starbucks' value equation came in its recent decision to pay college tuition for its workers. The chain will start picking up most of the tab for its "partners" to get a degree through Arizona State University online. On the surface, this may seem like a political move (if you're a skeptic) or an internal culture-building move (if you're not). Ultimately, though, it is a customer experience move. It enables Starbucks to attract better talent, reduce employee attrition, and enhance the performance of its people - all of which translate into better service, a real benefit for customers. Plus, many of today's customers want to support companies that make a positive social impact. Starbucks' extraordinary treatment of employees - which also includes giving them stock, health benefits, and free coffee - adds additional weight to an already top-heavy benefit/cost value equation.

The value proposition at Starbucks actually has very little to do with the coffee. As such, a small price hike on its coffee is unlikely to impact the company. You could say all the concerns about Starbucks becoming too expensive don't amount to a hill of (coffee) beans.



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