

Starbucks Mobile Payment and Reward Card Smartphone App Case Study

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SUMMARY

The purpose of this case study report is to examine the effect that a Mobile Payment and Reward Card Smartphone Application (*App*) has on the service offering of Starbucks Coffee Company in the US market. In particular this report will examine the effect of the App on Starbucks' customer relationship model, its relevance to Service-Dominant (S-D) Logic Theory in the context of Starbucks and the bearing on Roger's (1995) innovation characteristics and innovation adopter categories. This report will draw on secondary research consisting of academic books, journal articles, current news and marketing magazine articles, and industry reports and papers.

This case study report has found that the mobile payment App has value-added to Starbucks' service offering from a foundation in S-D Logic Theory. It is a means for developing customer loyalty through relationship bonds to move an otherwise low-involvement product into a high-involvement product so as to compete more effectively in a mature market. It has also found that the relative advantage of the App is to provide customers with convenience and time-saving benefits when deciding to adopt this particular App. Finally, this case study report has found that this App is targeting the early adopter and early majority categories to encourage the wider acceptance of mobile payment technologies.

From this case study, five key marketing lessons are learned. These include:

1. The importance of mobile marketing in strengthening customer relationships
2. The potential transferability of mobile payment technology
3. The potential for more intensive interaction and value creation
4. The need for the integration of online and offline marketing strategy
5. The limitations and risks of mobile payment technology in a general context and in the case of Starbucks

Mobile marketing will play a major role for future marketing strategies. These lessons may establish mobile marketing as an important channel to reach and interact with consumers and may give rise to a higher level of emphasis placed on the use of mobile devices in the marketing mix.

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Introduction

The Starbucks case study is interesting and relevant for e-marketing discussion because it raises the issues of how a mobile payment and reward card App can:

1. Strengthen the relationship between a customer and a company by value-adding to the company's service offering while also opening a new and direct marketing channel between a company and the consumer (Cooper, 2010; Patel, 2011; Shankar et al., 2010; Sultan et al., 2010).
2. Can bring about a change in the way consumers make purchases by implementing a more convenient method of payment. This case study will explore the relative advantage this technology possesses to enhance the convenience for customers to purchase coffee with Starbucks and thus create more value for the customer.

In 2010, Starbucks developed and implemented an iPhone and Blackberry mobile application called the 'Starbucks Card Mobile Application' for customers in the United States (Sande, 2011; Starbucks, n.d. 1). The main feature of the App allows customers to generate a 2D barcode on their mobile device to be scanned and used as payment in stores. The App is an extension of Starbucks' existing, tangible, pre-paid reward card for loyal customers (Starbucks, n.d. 1; Van Grove, 2011). The App is marketed based on its benefits in saving time and making purchases more convenient for the customer. Starbucks (n.d. 1) refers to the App as "the fastest way to pay".

Mobile payment and e-marketing

Many industries and large corporations are anticipating mobile payment as a future form of payment (Eichenbaum & Collins, 2010; Karif, 2011; NAB, 2009; Van Grove, 2011; Vivotech, 2008). The adoption of Smartphone mobile payments may lead to enhanced value-added service offerings, positive outcomes in product sales and the generation of higher levels of customer loyalty (Lawson et al., 2008; Mallat, 2007; Shankar et al., 2010; Sultan & Rohm, 2008).

Pagani (2009) has noted that Smartphone development, such as iPhone and Blackberry devices, can increase the usability, effectiveness and accessibility of services by downloading mobile payment applications. Pousttchi and Wiedemann (2007) states that

mobile payments can increase service satisfaction for consumers and improve relationship bonds between service providers and customers. On the other hand, Pavlou (2008), Shin (2009) and Varshney (2002) argue that the Smartphone payment option faces the challenges of a lack of customer awareness and the high level of perceived financial security risks associated with this form of payment.

Case study objective

There are four objectives for this case study:

1. To analyse how useful this Smartphone App is for Starbucks' relationship marketing and how it can create value for Starbucks from a S-D Logic perspective.
2. To examine the relative advantage for an individual to adopt or reject this method of payment.
3. To analyse which of the adopter categories this method of payment is most likely to appeal to and what effect that can have on the future success of the innovation for Starbucks.
4. To evaluate the opportunities, risks and challenges associated with the implementation of this Smartphone App.

Background and situation

A recent overview of the current US café bars industry has seen sales and the number of outlets both decline by 3% (Euromonitor 1, 2011). There has also been a rise in strong competition from fast food chains such as McDonalds and Dunkin Donuts that now offer premium coffee, which is threatening the market share of established players. Nonetheless, Starbucks, founded in 1971, is still well placed in the market and continues to be the dominant leader in the café bars industry. However, slow growth is expected for the coming years (Euromonitor 1, 2011). This data suggests the US café bars industry is in a saturated and mature life cycle stage.

In response to the competitive environment, Starbucks' marketing strategy emphasizes the establishment and maintenance of customer experiences and relationships through e-

marketing practices (Starbucks n.d. 1; Quenqua, 2010). Starbucks' marketing strategy comprises of the utilization of social networks, blogs and online stores. Furthermore, the webpage 'MyStarbucksIdea' provides customers with an online discussion board to upload ideas they would like Starbucks to implement (Starbucks n.d. 2). The in-store experience is advanced by a customized intranet with magazine articles and iTunes accessible exclusively in-store. Intranet pages are updated based on tracked customer behaviour (Shein, 2010).

The mobile payment and reward card application is an extension of the current direction of the Starbucks' marketing strategy (Starbucks n.d. 3). Based on a growth of 21% in the usage of reward cards from 2009 to 2010 Starbucks established the utilization of the mobile reward card application in 6800 stores across the United States (Birchall, 2011). By developing mobile marketing programs it seems to present a further opportunity for Starbucks to fortify the targeted long term relationships with its customers. Customers allow Starbucks to gain access to their mobile phones in exchange for improved experience and convenience. Thus, perceived benefits have to exceed perceived risks such as the safety of personal data as well as the security of financial transactions via mobile phones. To enhance the benefits on the consumer side, Starbucks enables customers to receive rewards for the usage of the mobile application by receiving a free coffee after a certain amount of purchases via the card. This also serves as a positive reinforcement for users of the mobile reward card (Alreck & Settle, 1999).

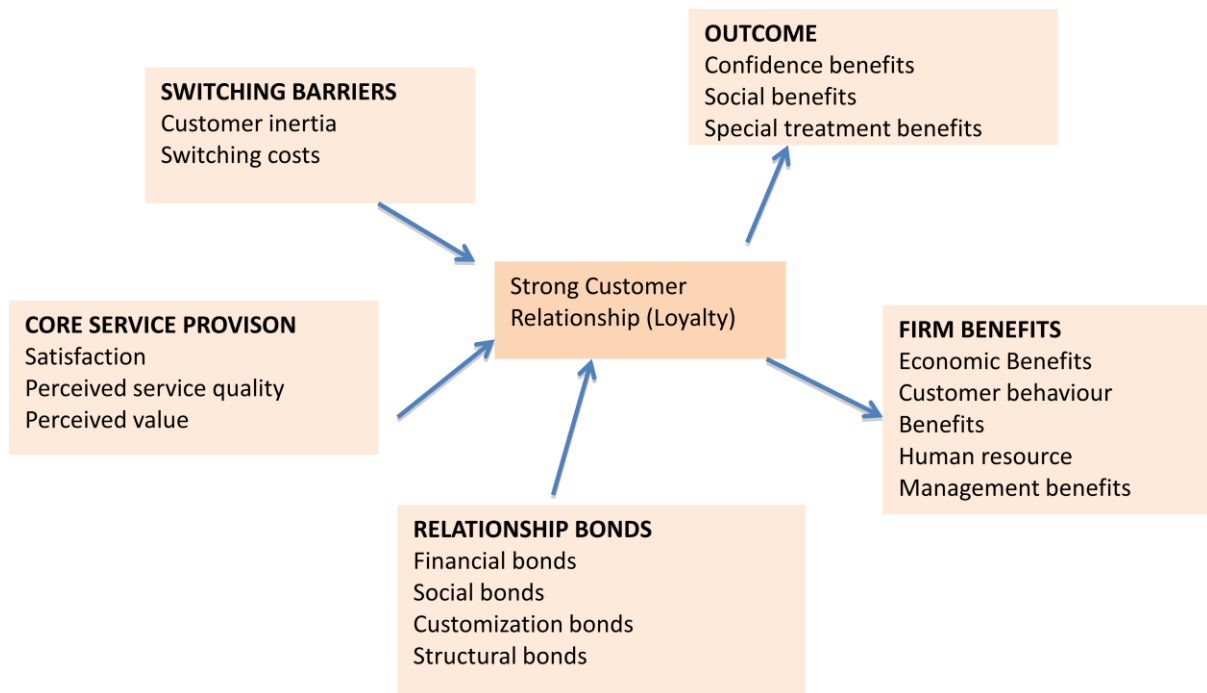
Application of marketing theories

This report will apply three theories to the Starbucks case study:

1. Customer Relationship Model (CRM) (Zeithamel et al., 2009:191-193)
2. S-D Logic Theory (Vargo et al., 2008)
3. Consumer Behaviour Theory – in particular, Roger's (1995) innovations characteristics and adopter categories.

The application of these theories demonstrates how the new App has built customer relationships by value-adding to Starbucks' service offering and that this service offering is fundamentally grounded in S-D Logic Theory. Then, the innovation adoption model is used to demonstrate how this App can spread and provide the aforementioned value-added service offering to more of Starbucks' customers.

The CRM is central to the analysis because it explains the need for a company to build bonds with its consumers to ensure its competitiveness. For a low-involvement product such as brewed coffee competing in the saturated US market, it is vital for Starbucks to protect their market share by moving towards a higher involvement product (Bhardwaj, 2007; Gruen & Hofstetter, 2010; de Madariaga & Valor, 2007). Starbucks are creating a higher involvement product by developing customer loyalty through value-adding to their service offering.



(Zeithamal et al. 2009, p. 192)

When applying the CRM, we can see that the Smartphone App is improving Starbucks' core service provision by making it more convenient for customers to purchase their coffee (perceived service quality, perceived value). Relationship bonds are also applied in the Starbucks case because the App utilizes volume and frequency rewards in its reward card feature. Social bonds are applied because continuous and personal relationships are encouraged with the App, by making the service accessible to each customer direct to their mobile phone. Customization bonds are applied by tailoring the App to fit the individual needs of the customer. Structural bonds are applied because this App incorporates the service delivery system of the customers' Smartphones to make the service offering more productive. This element in particular is related to S-D logic theory because there is an interplay between different service systems in value co-creation. These core service provisions and relationship bonds raise the switching barriers for consumers to move to competitors because they have now developed a stronger loyalty to Starbucks.

The CRM is supported by S-D Logic Theory through the view that in a low-involvement, almost commodity level product such as brewed coffee, it is service that creates value and ultimately differentiates one company from its competitors (Gruen & Hofstetter, 2010; Vargo et al., 2008).

When applying S-D Logic Theory, Starbucks shows value co-creation in service systems by integrating the resources of another company to create value for itself as well as for the other company. The other company in this case is Apple. Apple is helping Starbucks by providing the technical infrastructure and the platform to host the App, while Starbucks is helping Apple by encouraging its large customer base to adopt Apple products. The consumer is also involved in co-creation as they are required to use their own resources (their Smartphone and their skills in operating the technology) to actively set up and process their own transaction and service experience. In the case of the new App, Starbucks and Apple have co-created value in their service systems to allow customers to contribute to their own service offering. This makes it more convenient, time-effective and rewarding for a customer to choose Starbucks, which therefore adds value to Starbucks' service offering.

These benefits of convenience and saving time are elements of Roger's (1995) innovation characteristics of relative advantage. Relative advantage is the key factor in whether an individual will adopt or reject an innovation (Dann & Dann, 2011). This App saves time for the customer because they no longer have to wait in line to be served and they no longer have to be inconvenienced by carrying around a bulky wallet. It essentially combines a wallet and a phone in one convenient and time-saving package.

These kinds of benefits from the mobile payment App would most likely appeal to the early adopter or the early majority categories. On the one hand, the use of Smartphones and innovative Apps are seen as a status symbol among users (Euromonitor 2, 2011; Richtel & Holson, 2009; Sultan & Rohm, 2008). This is because Smartphones associate the user with being successful, fashionable, technologically savvy and upwardly mobile (Dolorfino, 2011; Ladner, 2008; Fordham, 2005; The Economist, 2004). The importance of this status appeals to members of the early adopter category as shown in Table 1. The App also satisfies the need for early adopters to broadcast their status as opinion leaders (Dann & Dann, 2011). However, the marketing of the Starbucks App tends to point towards the ease of use and functionality of the App, which align more with the calculating decision-making and moderate complexity levels of the early majority. Furthermore, the trialability of this App is designed as an upgrade to the existing free account tangible reward card (Starbucks n.d. 4). Therefore, it

seems as though this App is targeting the cusp between early adopter and early majority categories.

Table 1: Innovation characteristics by innovation adoption category

	Relative advantage	Compatibility	Complexity	Trial	Observability
Innovator	Novelty	Limited	Maximum	In the alpha and beta test	Noticeable if it works
Early adopter	Trend-setting	Leadership	Status symbol	In the invite-only beta test	Used to promote their own visibility
Early majority	Followership	Fashionability	Moderate	Upgraded from a free account	Important to be seen to be fashionable
Late majority	Compliance	Forced	Simplicity	Free account	Complains it's everywhere
Laggard	No advantage	Not compatible	Too complex	Signed up, couldn't see the point, left	Noticeable by their absence

(Dann & Dann, 2011:137)

Ultimately, it would be in the best interests of Starbucks to gain acceptance from the early majority because the goal of the App is to provide higher value service to more of Starbucks' customers and the early majority is reflective of an additional 34% of the population (Dann & Dann, 2011). However, in order to attract the early majority, Starbucks needs to manage the perceived risks of the App.

One of the highest risks that face the adoption of this App is the issue of security of customer's financial information (Pavlou, 2008; PR Newswire, 2010; Shin, 2009; Varshney, 2002). Starbucks addresses these perceived risks by incorporating a detailed information section on their website reassuring consumers that credit card information is not stored on the phone, but rather linked through an existing, external and secure online account. These accounts are already established as part of the previous long-running reward card program (Starbucks, n.d. 4). This restores confidence for customers that if their phone is lost or stolen no one will have access to their credit card information and the account can be cancelled by the customer at any time. Security is further enhanced by incorporating a personal username and password selected and known only by the customer (Starbucks, n.d. 4).

Marketing lessons

From this case study, five key marketing lessons are learned. These include:

1. The importance of mobile marketing in strengthening customer relationships
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Mobile marketing will play a major role for future marketing strategies. These lessons may establish mobile marketing as an important channel to reach and interact with consumers and may give rise to a higher level of emphasis placed on the use of mobile devices in the marketing mix.

1. The importance of mobile marketing in strengthening customer relationships

Service delivery through mobile marketing appears to be an important component in building successful differentiation in highly competitive and mature markets. Mobile technologies can help companies develop their customer relationships and create positive experiences for their consumers.

2. The potential transferability of mobile payment technology

Mobile payment technologies can be transferable to other industries such as public service and nonprofit organizations provided they have adequate resources. Trials in the banking and telecommunication sector in Australia (NAB, 2009) show that the transferability to other markets outside the United States and to other industries seems viable. In developed countries there appears to be a potential trend towards transferring customer's wallets into their mobile phones (Portio Research, 2010)

3. The potential for more intensive interaction and value creation

The agreed upon exchange for consumers to grant organizations access to their mobile phones to provide value-added services may be utilized for further marketing activities. This can establish a critical marketing channel direct to the palms of the customer without time or geographic restrictions. This may lead to a higher intensity of interaction between the

company and the consumer and may prove to be a step towards One-to-One marketing and eventually Real-Time marketing (Berthon & John, 2006) where the company and the consumer engage in the synchronous and multilateral production, exchange and consumption of information, and ultimately, value.

4. The need for the integration of online and offline marketing strategy

In order for an online-based technology, such as this App, to provide its value-added service it needs to be integrated with offline marketing components. Offline elements such as the baristas' skills in producing the coffee, the well-placed geographic locations of the stores, the physical promotional channels creating and maintaining brand equity, the tangible card-reader hardware and the sensory experiences of the in-store ambience needs to be combined with online elements such as the software platform hosting the App, web-based community forums and individualized online customer profiles. Even the nature of the mobile payment App cannot function without the simultaneous integration of its online and offline components. The customer is using the App to process the transaction online while at the same moment they are receiving the product in person (offline).

5. Limitations and risks of mobile payment technology in a general context and in the case of Starbucks

From this case study, six key limitations and risks have been identified. The first limitation is the accessibility of this technology. Currently this App is only available to iPhone and Blackberry users. So if a consumer does not own a Smartphone then they do not have access to the service.

The second limitation is that international transference may be restricted. Some countries may not have as extensive or substantial technological infrastructure to support this program and their consumers may not be as advanced in the adoption of Smartphones and progressive applications.

The third limitation is the trialability of the App. Consumers who have no experience with this method of payment can download the App for free, but in order to actually test it in-store they need to open an account and upload credit for the transaction. This may be asking a higher level of commitment than the consumer is prepared to give.

The fourth limitation is the high cost and increased risk associated with future developments. The next step in mobile payment is to utilize Near-Field Communication without the barcode, which requires the installation of embedded chips within the phone to enable the data transfer (Kharif, 2011; Patauner et al., 2007). This also requires specialist machine readers in each store, which can be expensive for a company to implement. Furthermore, a simple touch-on payment transaction without verification may raise even further the perceived risk of financial information security.

The fifth limitation is the lack of acceptance of mobile payment. Mobile payment in itself is currently limited as it is not a widely accepted practice in society, for consumers as well as businesses (Portio Research, 2010). However this may change in the future if more companies standardize the practice and consumers adopt the behaviour.

Finally, this technology is not unique for Starbucks since competitors may implement similar applications and create similar experiences. To remain competitive with value-added service, such as with the Mobile Payment and Reward Card App, Starbucks must monitor the effectiveness of innovations and utilize future technologies where applicable to satisfy customer needs before its competitors.

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