Twitter Thread by Trung Phan ■■



Trung Phan ■■
@TrungTPhan

“I spend too much at Starbucks” is a legendary meme.

It's also not an accident: the coffee retailer -- worth $120B -- uses many psychological hacks in its store and menu designs to get you to drop more cash.

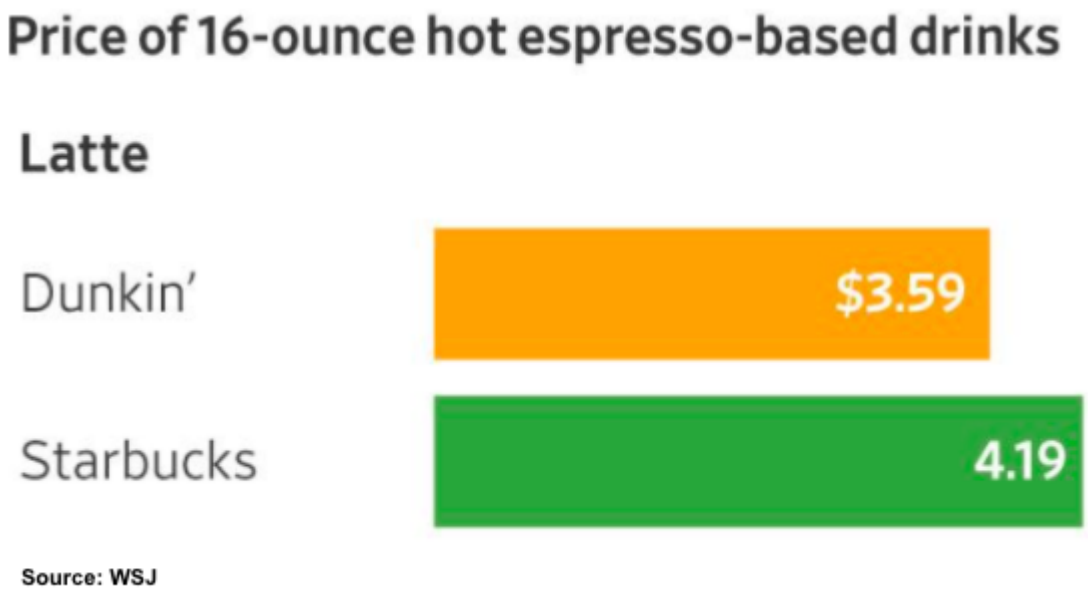
Here are 11 of them ■



1/ Starbucks is all about positioning

The chain has higher prices vs competitors. But that's the point.

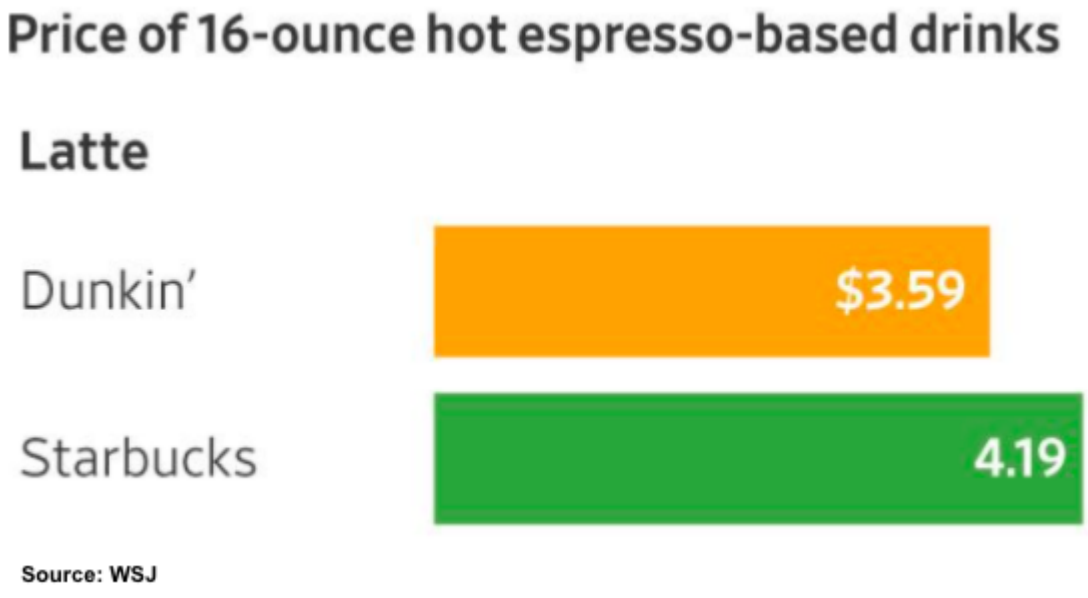
People typically assign higher value/quality to higher prices. Known as "irrational value assessment", this makes Starbucks an everyday luxury that people will pay for.



2/ Premium brand = premium customer base

By setting its prices higher, Starbucks attracts clientele that are relatively price insensitive.

Starbucks frequently raises its prices with little negative effect to its bottom line.



3/ "More than coffee"

Former Starbucks CEO Howard Schultz created the premium feel by emphasizing experience:

■■Positioned SBUX as a "third place" (b/t home, work)
■■Brought bean grinding in-store (for aroma)

■■Banned auto espresso machines (it took away from the barista craft)



4/ Lighting and visual cues

The Starbucks operations is about "flow", efficiently moving people around the store+ getting them to spend.

To form lines, it directs people to well-lit areas (usually the merchandise, which provides the added benefit of nudging products for sale).



5/ Shop layout

Across its 32k+ locations, Starbucks places its cashiers in the middle or back of the cafes. As customers work through the line, they're watching other patrons enjoy their beverages and bites.

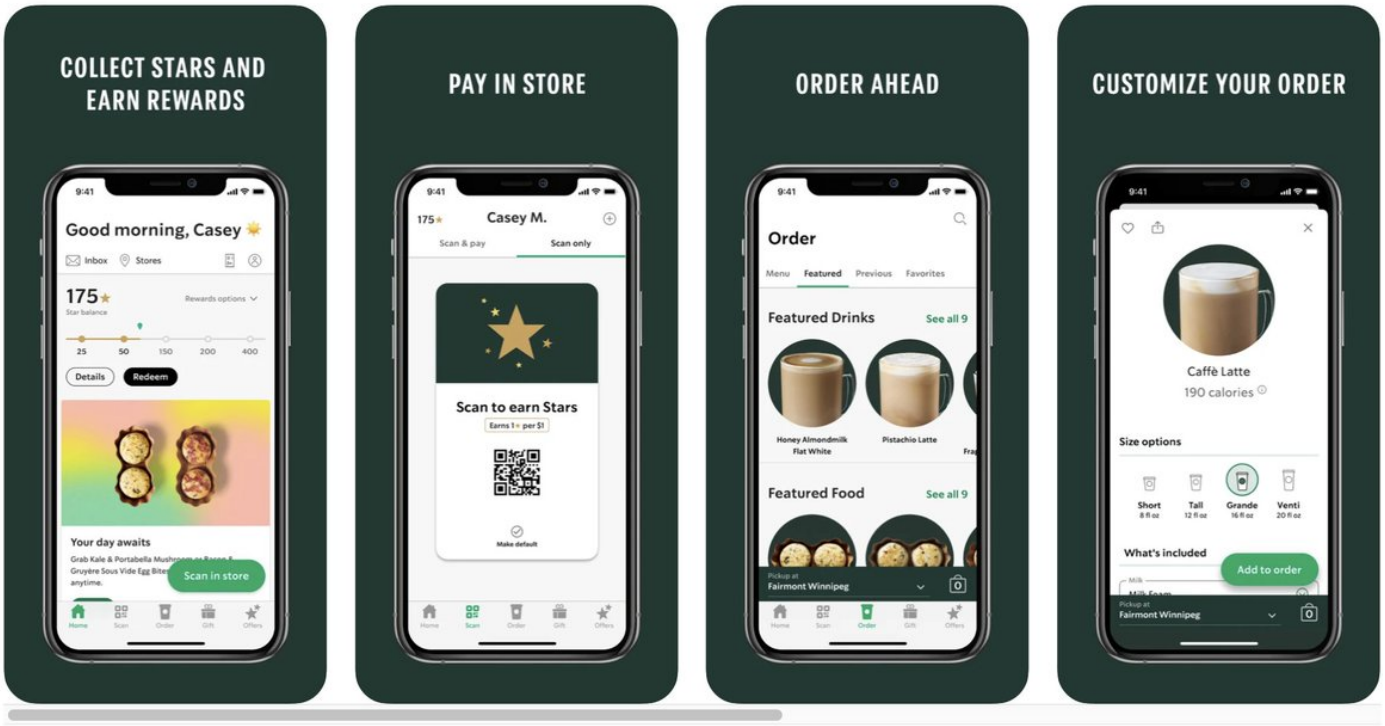
This is all priming them for their eventual orders.



6/ Mobile app

There's a psychological effect known as "peak-end rule": people remember experiences by the most intense part and the end.

The pre-order app takes away 2 of the most unpleasant parts (paying + waiting), improving the *whole* experience.



7/ Starbucks card

Customers have $1.6B+ on Starbuck's apps/cards (hence the joke "SBUX is a bank").

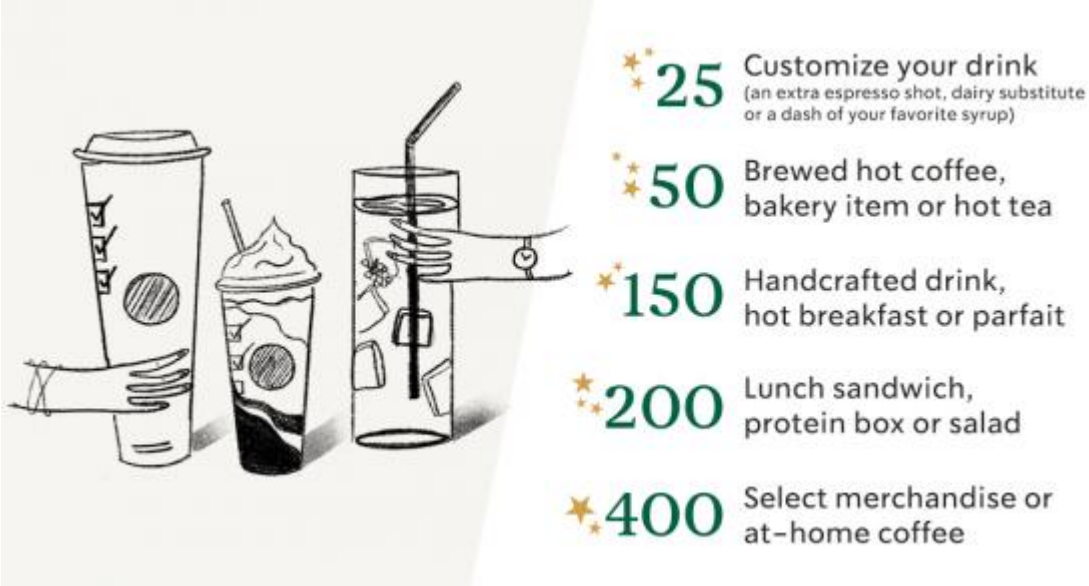
In a concept called "mental accounting", people irrationally classify money in different buckets and treat them differently. That SBUX money is way more *spendable* than cash.



8/ Loyalty program

Starbuck's Loyalty Program has 20m members and they contribute ~50% of the company's revenue.

The retailer takes all customer data and is able to provide individualized offers at scale. The freebies are habit forming and keep people coming back.



9/ Personalized orders

We all know the joke: "Starbucks mispelt my name". However, the very fact that the baristas write it down increases your affinity for the brand.

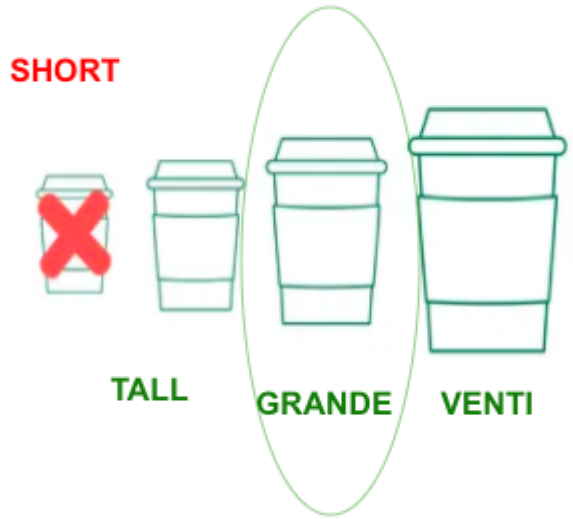
This is known as the "cocktail party effect": people focus (and assign more value) to info about themselves.



10/ Menu structure

Through the 90s, the 3 sizes that Starbucks listed were Short, Tall and Grande. It has since bumped Short (you can still order it but its not on menu) and added Venti.

Now, the most popular size is the Grande (the new middle option and larger than SHORT).



10/ Pricing

In addition to upping default sizes, Starbucks also uses pricing to steer you.

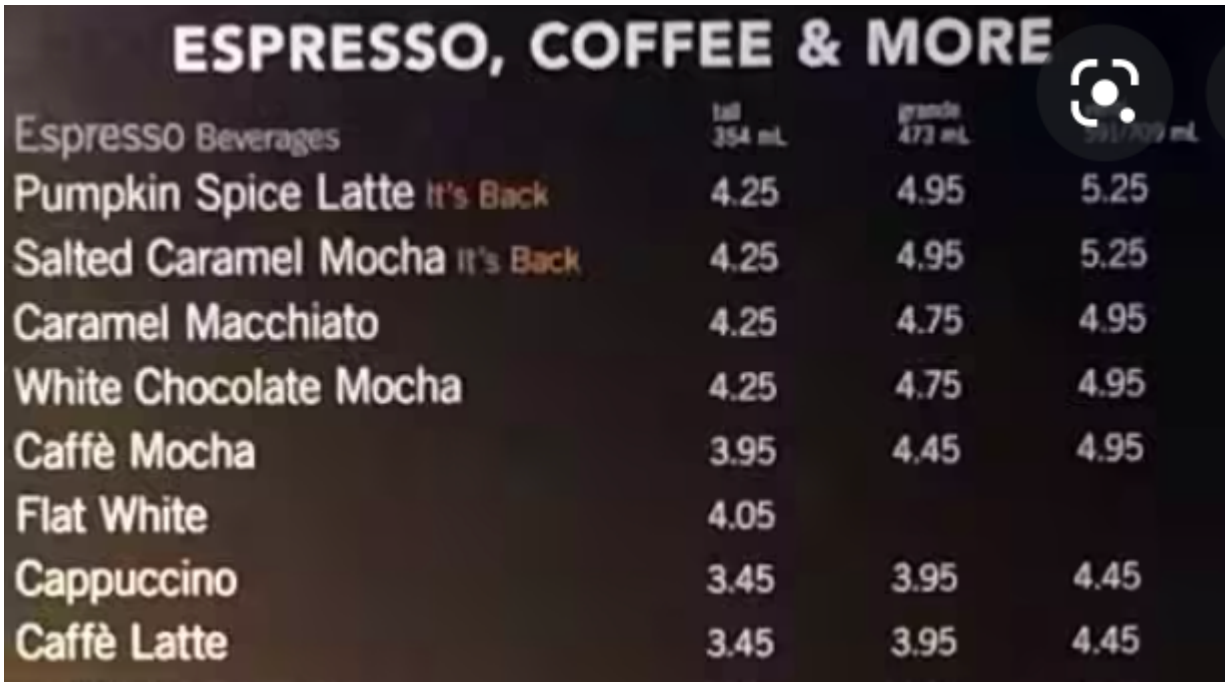
In what is known as the "attraction effect", your choice-set gravitates to the items that are "closer together". Here, the price b/t Grande and Venti is *closer* than Tall and Grande.



11/ No dollar signs on menu

Why? psychologically, a dollar sign triggers the idea of "price" and "spending...instead of "experience" and "what you're receiving".

Here IS a dollar sign: ~$29B, which is Starbucks projected sales this year.



12/ If you enjoyed that, I write threads breaking down tech and business 1-2x a week.

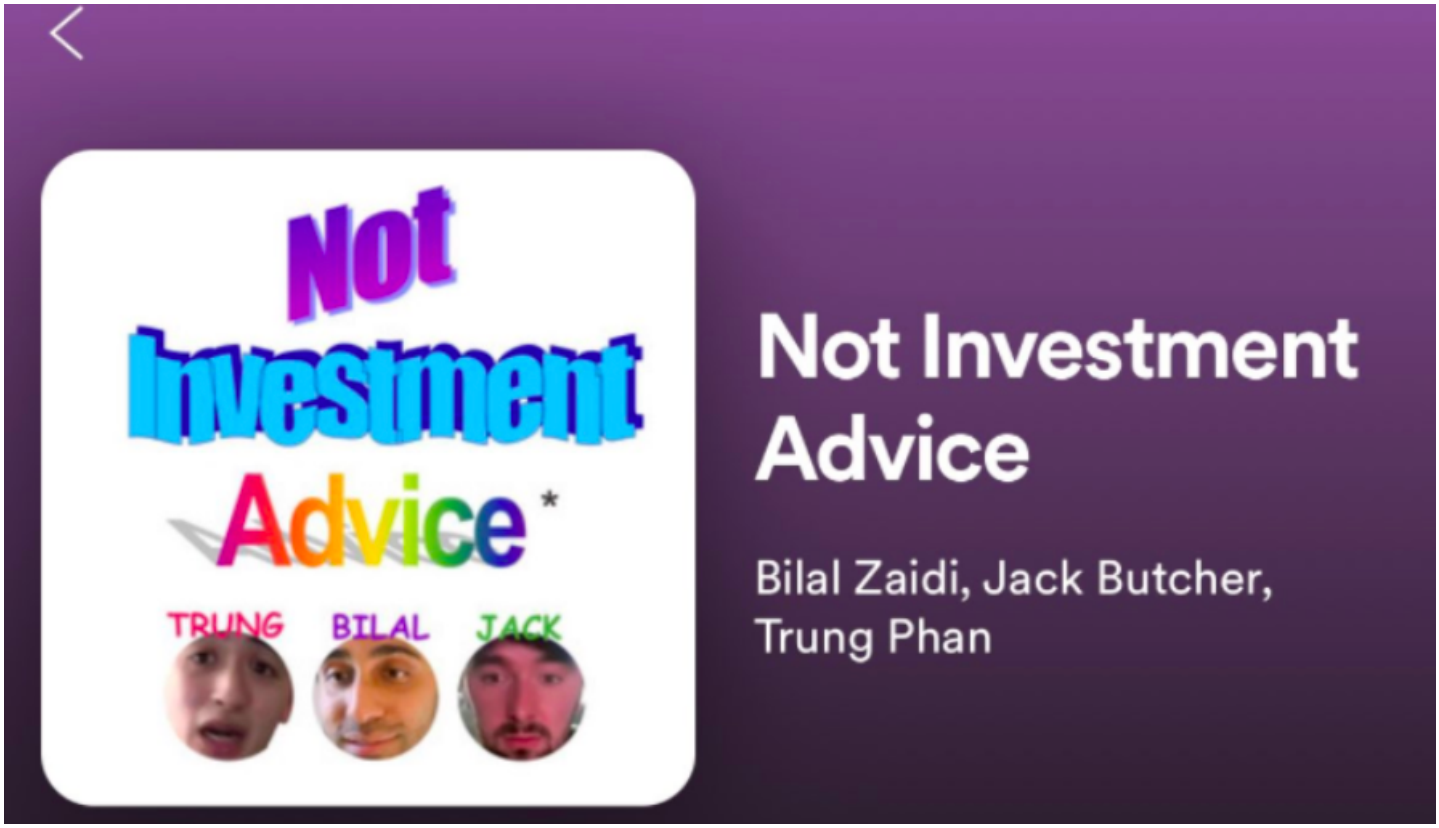
Def follow @TrungTPhan to catch them in your feed.

Here's one you may enjoy: https://t.co/GsnF25dBwj

> Huy Fong's Sriracha hit revenue of $150m+ a year...with no sales team, no trademark and $0 in ad spend.
>
> Its creator is Vietnamese-American David Tran, making the sauce's success a tale of immigrant hustle and a product that literally sells itself.
>
> Here's the story\U0001f9f5 pic.twitter.com/siEoK6UeLs
>
> — Trung Phan \U0001f1e8\U0001f1e6 (@TrungTPhan) June 27, 2021

13/ I discuss interesting topics like this once a week (with a healthy dose of dumb jokes) on the Not Investment Advice (NIA) podcast.

■https://t.co/WY6Xehj30C



14/ Sources

Formation: https://t.co/aqCrODYrof

Bloomberg: https://t.co/2EStUU7BLW

CNBC: https://t.co/99JjI8OlbH

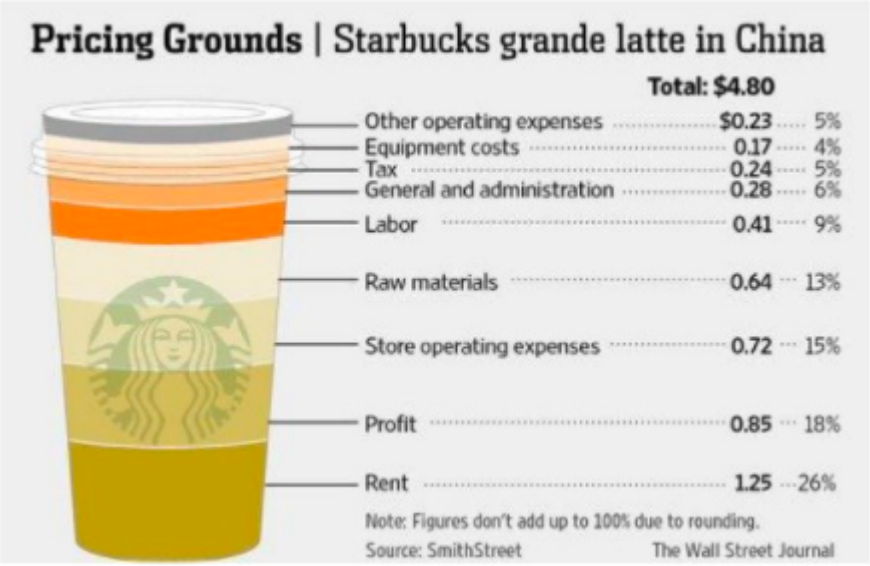
Medium: https://t.co/A4APLJQiBO

Brightside: https://t.co/wc1DAS8qAD

Price Intelligently: https://t.co/hz8FGpeqQv

Kent Hendricks: https://t.co/FtePg3mwJ2

15/ Here's an interesting WSJ price breakdown of a Starbucks drink:



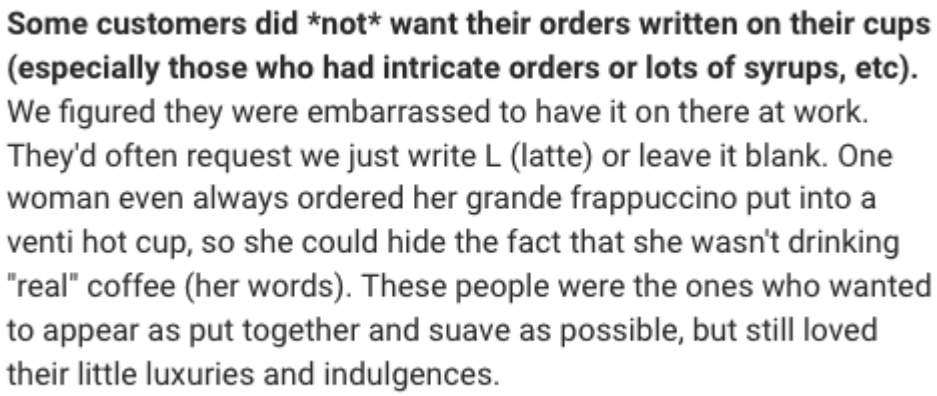
16/ Oh, also, a Starbucks barista one gave a famous answer on Quora explaining "what your drink said about you":

Certain drinks signaled to us that the drinker didn't necessarily like the taste of coffee, but did like the caffeine or the social status of drinking coffee or the green logoed cup. Single grande or venti anythings generally flagged this for us (the "normal" espresso beverage at starbucks - excluding iced drinks or americanos - had two shots for grande and venti sizes). White mochas signaled this to us (white mocha was, to our minds, the sweetest and most "disguising" syrup/sauce option). Any frappuccino order would get this kind of perception, with the exclusion of those who added a shot to theirs or ordered espresso frappuccinos. No judgement there (half my baristas didn't care much for coffee either!), it was just a common perception.

Sometimes, our drip coffee customers didn't feel as loved or as special. We took extra care to know their names (if they seemed amenable to that) and to start pouring their coffee as soon as we saw them and got a confirmation nod. We never wanted them to feel like second class citizens to the espresso customers. We also made sure that they got a complimentary cup now and again, too.

17/ One more of the Starbucks barista's insights

■https://t.co/rMfxx0pwVx



18/ Some Reddit comments from former Starbucks baristas...which are big if true https://t.co/mqcj0qUhmD

> 11/ Starbucks
>
> "I'll decaf someone if they are really rude to me. I only do it when the customer is being a REAL a-hole. You have to really earn those decaf shots from me."
>
> "The shops spend more on dairy ingredients than on coffee."
>
> — Trung Phan \U0001f1e8\U0001f1e6 (@TrungTPhan) June 13, 2021

19/ Last thing.

If you enjoyed this thread, you'll DEF like this one: https://t.co/WZZYWQhlzD

> Costco is the world's 3rd largest retailer by sales, notching $190B+ annually (behind Amazon, Walmart).
>
> The company is all about "value" and uses psychological hacks in its business model and store design to get shoppers to spend dough.
>
> Here are 14 of them \U0001f9f5 pic.twitter.com/mjtk7KRukO
>
> — Trung Phan \U0001f1e8\U0001f1e6 (@TrungTPhan) October 23, 2021