



# Starbucks, Bank One, and Visa Launch Starbucks Duetto Visa

## >Abstract

In the very mature financial services industry, it is rare for a new financial product to garner much attention, let alone be named one of *BusinessWeek*'s outstanding products of the year. But what started as a way for Starbucks to add value to its existing Starbucks Card program developed into a financial product that many other institutions are interested in exploring. This case reveals the research that was done to develop this new payment option for Starbucks customers.

[www.starbucks.com](http://www.starbucks.com); [www.bankone.com](http://www.bankone.com); [www.visa.com](http://www.visa.com)

## >The Scenario

Starbucks Coffee Company is the leading retailer, roaster, and brand of specialty coffee in the world, with more than 7,500 retail locations in North America, Latin America, Europe, the Middle East, and the Pacific Rim.<sup>1</sup> It has long prided itself on offering an enriched customer experience as much as on great-tasting, high-quality coffees. The company's prepaid stored-value card, known as the *Starbucks Card*, has been a tremendous success since its launch in late 2001. By 2002, Starbucks was looking to evolve the program. Colette Courtion, Director of Starbucks' global card services, indicates "We had been regularly enhancing the Starbucks Card with new benefits for its ongoing use—like protecting the Card's balance and adding auto-reload [a process whereby the customer has his or her selected credit card charged for reloading the Starbucks Card with spendable cash when the Starbucks Card reached a predetermined level], but we wanted to build on the Card's success in a way that would reward our loyal customers."<sup>2</sup>

Similar to other businesses' cards, Starbucks prepaid, stored-value card can be used in its stores to purchase food, beverage and merchandise. Many Starbucks customers reload their Starbucks Cards for ongoing purchases at Starbucks. "The success of the Starbucks Card gave us the idea of creating an entirely new payment product." This new payment product would marry the functionality of a Starbucks Card with the functionality of a major credit card. "With a dual function card we could reduce the number of cards our customers carry. It was also an opportunity to reinvent an industry that was mature and saturated and make it relevant and unique to our customers." Early secondary research indicated such a product did not exist in the credit services industry. The card would also be entry into Starbucks first formal loyalty program. "Consumers expect rewards from their credit cards. But we didn't want to be too prescriptive with our rewards structure. If something is expected, it doesn't feel special."

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### ➤ Finding and Assessing Card and Bank Partners

Starbucks set out to see if it could stimulate interest in a new financial services product in the mature credit services industry. “We didn’t want to offer a standard credit card.<sup>3</sup> We wanted to leverage the success we had already established with the Starbucks Card and provide our customers with something truly innovative in the market place. To do that, we had to find the right partners.”

The right partner would be one that could share the Starbucks vision and make a commitment to offering the top-quality customer service that a Starbucks customer had come to expect. “Starbucks is known for its innovation so we had to develop a product that would truly surprise and delight our customers,” explains Courtion.

Starbucks approached card services companies MasterCard, American Express, and Visa. It conducted interviews with bank executives, visited call centers, even listened in on phone calls to learn how each resolved customer credit card problems. “Visa and Bank One shared our vision and excitement about the new payment product, and our commitment to exceptional customer service,” claimed Courtion. Visa and Bank One also brought extensive knowledge of the credit card market and marketing expertise to the partnership. Visa cards are accepted by millions of establishments, in more than 150 countries; one in every eight dollars spent in the United States is spent with a Visa card.<sup>4</sup> “People who love Starbucks will love this card,” promises Carl Pascarella, president and CEO of Visa USA.<sup>5</sup> Bank One is the number-one Visa card issuer in the world, with more than 52 million credit cards issued; it handles more than 1.8 billion credit card transactions per year.<sup>6</sup> “Bank One is excited to be working with Starbucks to develop an innovative payment technology that makes life easier and more rewarding for customers,” shares Jamie Dimon, chairman and CEO of Bank One.<sup>7</sup>

### ➤ Concept Testing

Starbucks, Visa, and Bank One all have internal research operations. From the beginning this was a collaborative research effort among all three companies. Starbucks thought the idea of a dual-functionality card might be confusing. Bank One and Visa shared that concern. “We wanted to know if customers could understand the value proposition of the dual functionality,” shares Ajay Gupta, senior group research manager for Bank One. They tested the idea of a dual-functionality card with four focus groups, using the services of an independent moderator. They chose Seattle and San Francisco, both with good Starbucks coverage, for the focus groups, which involved two major groups of Starbucks customers who owned a credit card: those who used the Starbucks Card and those who did not. The purposes of the groups were to determine how well customers understood the dual-functionality concept—a credit card and stored-value card in one—identify areas requiring more clarification, and assess the appeal of monthly rewards and how they might be delivered. “The focus groups helped us refine the concept, and define what might comprise the ‘surprise and delight’ features of the card,” explains Gupta. “We learned that the concept of



dual functionality was difficult for some to grasp.” Being able to effectively communicate the value proposition of the card would be critical to the success of the program. From one group to the next, the research team refined the value proposition, until the participants understood they would need to carry only one card, not two. “Once they grasped the concept,” shares Gupta, “while some thought it was a great idea, others were not as receptive to the concept. They were not so sure that it would replace a current credit card in their wallet.” Overall, the findings from the focus groups were used to refine the concept and to restructure the communication of the idea to minimize confusion.

Beyond dual functionality, Starbucks initially had two objectives for the focus groups and later for the quantitative studies to follow:

- **Brand Fit**—Determine whether any negative connotations associated with past credit card experiences would have potential negative impacts on the Starbucks brand.
- **Benefits**—(1) Determine whether the customer valued the instant *rewards*<sup>8</sup> feature of the Duetto Visa card:
  - o Could Starbucks explain the feature so that it would be compelling enough for a Starbucks Duetto Visa card holder to use it rather than another card that promised perceived greater rewards, such as airline miles or hotel stays.<sup>9</sup>
- (2) Determine if the planned give-back-to-the-community component of the new payment program had value to the customer.<sup>10</sup>

Focus groups were followed by several quantitative studies. The first was a *product functionality* study through an online survey, with participants recruited from an online panel. The same groups as for the focus groups (Starbucks customer—user of Starbucks Card; Starbucks customer—nonuser of Starbucks Card) were used, and the sample size for each subgroup was between 200 and 400. The objective of this research was to understand which one of two credit card concepts (the dual-function version or two separate cards) consumers preferred. The survey was designed to determine the concept’s appeal and future-purchase likelihood, impact on the Starbucks brand, barriers to card usage, and specific attribute importance ratings. This study measured quantitatively the level of understanding of the dual-function card using the refined value proposition developed through the focus groups.

Once Starbucks and Bank One decided to proceed with the dual-function card, a *product optimization* study was conducted. This second online study comprised the concept evaluation/optimization as well as volumetric forecasting measurements. Again, the same parameters were used to stratify the sample, but a slightly larger sample size was used. The research addressed the following objectives:

- Estimate “take rates” and usage for the new Starbucks card
- Determine the impact of different card features/benefits including the “surprise and delight” features.



- Profile the most likely applicants for the Starbucks Duetto Visa based on demographics, Starbucks usage behaviors, and other targetable characteristics.

“We use a number of different standardized metrics when we test a concept,” explained Gupta. Bank One is interested primarily in a participant’s likelihood of applying and how the Starbucks Duetto Visa Card applicant envisioned using the dual-function card. One purpose of this study was to understand the impact of various features in driving application intent. “We wanted to know their sensitivity to those choices,” shares Gupta. A trade-off technique was used to understand the importance of the various features and the levels thereof in driving the purchase decision. Bank One also wanted to know which feature offered the greatest potential for “sales lift”—whether customers would not only apply for the new card but use it once they were approved. The results from this study were compared to norms that have resulted from more than 200 similar concept studies by Bank One, using performance against those norms to predict the likely success of the new payment product.

### >Measuring Early Intent to Participate

“We distributed a press release via Business Wire on February 21, 2003, announcing the strategic partnering of Starbucks, Visa, and Bank One.<sup>11</sup> In that release we directed people to information on the Web site,” describes Courtion. Starbucks also offered Web-site visitors the opportunity to comment on the new payment product and receive e-mail notification of the card’s launch. “The response was far beyond our expectations. Tens of thousands of people signed up [to be notified].”<sup>12</sup> And thousands of written comments confirmed that many of the Starbucks customers would embrace the new card. “We read every single comment; and while the themes were repetitive, it was exciting to see an idea receive such an overwhelmingly positive reception.”

### >Measuring Return on Marketing Investment

“The Duetto program is a large undertaking, with a high level of commitment to information technology and operational changes,” explains Courtion. At each Starbucks store, the payment system recognizes a Duetto Card differently and allows the purchaser to choose whether to use accumulated *Duetto Dollars* (the stored-value function of the card), charge the purchase to his or her Visa account on the card, or do some combination of both. In a business where speed of service is paramount, a system that can cut transaction processing time by two to four seconds per patron can significantly affect basic customer service. “When the patron uses their Duetto Dollars, just one swipe of the card is all it takes.”

The Starbucks Duetto Visa Card was launched in October 2003, and early indications show the program is headed for success. Starbucks plans to evaluate the program with data from each quarter. It has several criteria for success:

- **Brand enhancement.** Does the card enhance the Starbucks customer experience? How satisfied is each customer? Do customers feel appreciated?



- o Early feedback via customer comments was favorable.
- o Tens of thousands of *First Edition* cards (issued only to those who signed up via the Web site between February and October 2003 for advance notification) were issued as of the October launch date.
- o *Surprise and Delight*. An in-store *Customize Your Drink* booklet plus 7 to 10 Duetto Dollars were loaded on every Duetto card at the end of the first quarter, and each Starbucks Card Duetto Visa holder received a one-pound bag of Starbucks Organic Serena Blend coffee at the end of the second quarter .
- Can Starbucks give back to the communities in which it operates in a significant way?
  - o The program has generated funds in line with expectations for Jumpstart, Conservation International and Earth Day Network.
- Will the card prove valuable to all partners?
  - o Preliminary results indicate that the Duetto card has proved to be successful for all three companies. Metrics such as the number of cards issued, the percent of Starbucks Card Duetto Visa holders using it as their primary credit card, and the dollar value of purchases made with the card all are exceeding expectations.

Additionally, Bank One has a complete set of metrics it uses to measure return on marketing investment (ROMI) for all new products, including:

- **Number of accounts booked**—the actual number of applications approved as accounts.
- **Approval rate**—the ratio of approved accounts to applications.
- **Cost per account**—the total marketing cost of acquiring accounts divided by the number of accounts.
- **Number of activated accounts**—the number of accounts used to make actual purchases.
- **Spend per month**—trends related to dollar activity on the card per month.
- **Continuity of spending**—the pattern of spending activity on the account over time.

Starbucks and Bank One are coordinating the nature and timing of additional marketing ventures in their continuing efforts to market the Duetto card. Just six months after launch, a *brand tracking study* was completed to determine if the launch increased awareness and understanding of the card's benefits. This study was done through an online survey, measuring participant awareness of promotional materials, whether participants had applied or considered applying, and why or why not. "We considered an intercept study outside the Starbucks store, but since we don't own that space, it was discarded [as a methodology]," says Gupta.

Plans for the future include extensive research on customer brand loyalty, research on what role the card plays in customers' decisions, as well as metrics like whether they use both functions of the card or only one and whether they are





using the automatic reload feature of the card. “We want to understand the [Duetto card] user, who they are, their engagement with the loyalty program, and whether and how they are using credit,” elaborates Gupta.

Do preliminary results indicate this product has staying power? *Business Week* named the Duetto card one of the best products of 2003; it was the only financial services product recognized. The Duetto card was also named CardTrak’s top card of 2003. In addition, the public relations teams of Starbucks, Bank One, and Visa received the 2004 Silver SABRE (Superior Achievement in Branding and Reputation) award in the financial industries category for the Duetto card launch.<sup>13</sup> Additionally, the Duetto card is meeting the varying expectations of all the players. “It is performing as we would expect a retail affinity card to perform,” shares Mike Bordner, Bank One’s relationship manager on the Starbucks’ account. Inquiries from other businesses in developing a similar card is further evidence that research helped Starbucks, Bank One and Visa make some very effective decisions.

### >Discussion

1. What types of research were done at each stage? Discuss the strengths of each different type given the stage of the project.
2. Build the management-research question hierarchy for this project.
3. Discuss the choice of an online survey to assess Starbucks’ three objectives of functionality, brand fit, and benefits. What are the pros and cons of choosing this survey method?
4. The Duetto Card team turned to Greenfield Online to recruit a panel for one of its online surveys. How might you build a sample frame of appropriate participants for future online or phone surveys?
5. What measurement questions would you use to assess the effectiveness of the Starbucks Duetto™ Visa in a future customer survey?

### >Notes

<sup>1</sup> The store count and sections of the world are as of May 2004.

<sup>2</sup> Colette Courtion, director of Starbucks’ global card services, interviewed April 26, 2004.

<sup>3</sup> Visa and Bank One offer numerous cobranded cards; airline companies, oil companies, hotels, and specialty retailers are just a few of the categories of such cards. A cobranded partner, for example, an oil company, could have rewards associated with buying its brand of gas, and the cash rewards could be reflected on the customer’s Visa statement. But a dual-functionality card is very different. Think of it as being like multiple cards that look the same. Sometimes, when you hand it to the retailer, you specify that it is a credit card. Other times, when you are in a Starbucks store, you specify that it is a debit card, deducting the amount of your purchase from its preloaded value. No matter how it is used, it always serves as a loyalty card, tracking the purchases that earn you rewards.

<sup>4</sup> “Fast Facts,” Duetto Visa Press Kit jointly issued by Starbucks, Visa, and Bank One, October 2003 (<http://www.piranha productions.net/sbux/duettopress/>).

<sup>5</sup> “Starbucks Coffee Company, Bank One, and Visa Team Up to Develop the Next Evolution of the Starbucks Card,” Visa USA press release, February 21, 2003. ([http://usa.visa.com/personal/newsroom/press\\_releases/nr149.html](http://usa.visa.com/personal/newsroom/press_releases/nr149.html)).

<sup>6</sup> “Fast Facts.”

<sup>7</sup> Ibid.



- <sup>8</sup> Initially, new card holders each received \$10 worth of Duetto Dollars to spend on anything in a Starbucks store. Additionally, 1 percent of all purchases made with their Starbucks Duetto Visa cards would be immediately credited as Duetto Dollars to their Starbucks' accounts. Each quarter, each Starbucks Duetto Visa card holder receives a special gift based on his or her quarterly purchases.
- <sup>9</sup> Research provided by Starbucks' card partner, Visa, indicated that mileage card holders had a high perceived value for their cards, even though at average card charges of \$4,000 to \$6,000 per year, it would take the average customer four to five years to earn a single reward ticket.
- <sup>10</sup> Three percent of a card's purchase amounts are donated to the Starbucks Foundation.
- <sup>11</sup> Business Wire is a service that reaches most press rooms and news Web sites nationwide. While the press release was written in a way that would be of interest to the financial/business media, it generated stories in the general press as well.
- <sup>12</sup> Those innovators would ultimately be rewarded with a *First Edition* Duetto Visa card and special rewards that later adopters would not receive. The *First Edition* card would give the holder instant recognition as a special customer to every Starbucks 'barista'.
- <sup>13</sup> The SABRE awards, sponsored by the Holmes Group, recognize the best programs within specific industries with either reputation or branding objectives. The awards are judged by some of the most senior public relations professionals in the industry—in corporate communications and public relations agencies.

## >Source

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