

It Is Not About The Coffee

In 1990, Howard Schultz had a proposal for a small coffee wholesaler in Seattle called Starbucks. At that time, the average cup of coffee sold for 50 cents and Schultz wanted to help them sell the 50 cent cup of coffee for \$5. Of course, the people at Starbucks, and other players in the coffee industry, thought he was crazy. "No one will ever pay \$5 for a cup of coffee," they said derisively.

Fast forward twenty years. Howard Schultz was right. People willingly pay \$5 for a cup of coffee. Every day at hundreds of Starbucks stores people line up and gladly pay \$5 for a Starbucks cup of coffee.

How can this be? How do you get people to pay 10 times as much as they are used to paying for a commodity such as coffee? More importantly what lessons can you learn from Starbucks? How can you raise your prices 10 times and have people lined up outside your business waiting for you to open?

Most reading this will avoid expending the mental energy trying to come up with a creative answer to this question by using the lame excuse of, "my business is different and what Schultz did will not work in my business or industry and besides no one would ever pay 10 times the amount we now charge for our product or service. That might have worked for Starbucks, but it will never work for our industry."

So what about you? Are you selling a 50 cent cup of coffee? Here's how you can tell:

- You are selling a product and service that is perceived as a commodity;
- You are selling your product or service on price, and receiving a low margin on every sale;
- There is no discernable differentiation between you and the other competitors in your industry;
- Your marketing message is boring and doesn't inspire people to want to meet with you;
- You have no unique selling proposition in the marketplace
- The customer experience your customers have is boring and unpleasant.

If you analyze what Starbucks does you will realize that it is not about the coffee but about the experience. Schultz has called Starbucks the "third place". The place between home and work where people go to hang out and relax.

If you haven't been to a Starbucks lately take a field trip and spring for a \$5 cup of coffee. If you do you will discover beautifully designed stores with leather couches and fire places. Nice music. Cheerful, well trained staff. Three different sizes of coffee. Every conceivable kinds of coffee. Good locations. Fun atmosphere.

So what lessons are there to be learned from Starbucks?

- People will pay more, a lot more, for your products and services, if you package up something more valuable, entertaining, and fun. It is all about the customer experience.
- People are not always looking for the lowest price.
- The added value you create has very little to do with the core product, in this case, coffee. It has to do with the value delivered through the enhanced packaging which creates the customer experience.
- Enhanced packaging involves better stories, higher-level physical images, and improved and more interesting processes.
- The biggest value provided by Starbucks is emotional value. People are actually paying the additional \$4.50 not for better coffee, but for a better feeling. Think of that: People will pay a lot of money for a good feeling. Reread that again because it is huge.
- The investment in the packaging always comes before the sale. You have to invest the time, money and effort in packaging the \$5 cup of coffee before anyone will buy it.

So what about you? Are you going to hide behind the excuse that your industry is different or are you going to invest the time trying to figure out how to sell your own version of the \$5 cup of coffee?

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