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Starbucks vs. Its Addicts

The coffee chain bets you'll pay even more for your caffeine fix.

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For many Americans—at least those of us addicted to the national drugs of petroleum, nicotine, and caffeine—life is increasingly unaffordable. Crude oil topped \$50 per barrel. Cigarettes have become more expensive in many states thanks to new taxes. And this week, faced with sharp increases in the costs of sugar and coffee, Starbucks announced it would boost the price of its already-pricey espressos and macchiatos by an average of 11 cents.

The interaction of inflation and addiction makes for fascinating economic case studies. In New York City, where state and city tax hikes in 2002 pushed the price of cigarettes up to \$7.50 a pack, the number of smokers dropped 11 percent from 2002 to 2003, "the fastest drop in smoking rates ever recorded nationally," according to the city.

But Starbucks may be luckier than the cigarette makers. It is in the happy position of marketing coffee, a substance that, unlike gasoline, is physically addictive, and that, unlike tobacco, governments don't want to regulate.

For Starbucks to publicly announce its price increase is either an act of hubris or supreme confidence. Some people come to Starbucks for the bonhomie, others for the soothing music, still others for the wi-fi access. But pretty much *all* come for the liquid caffeine. And when a retailer loudly raises the price of its main product, it runs the risk of pricing some consumers out.

What's more, Starbucks already has a reputation for having the most expensive coffee in the marketplace. When I left Moneybox's New York headquarters to conduct research at the closest Starbucks (a block away), I passed a half-dozen other coffee vendors. There's the guy with the cart who sells the little Greek diner cups for 50 cents; the deli with the scalding 75-cent generic joe and the thin paper cup; the convenience store with \$1.00 faux gourmet stuff; and Cosi, where a latte costs \$3.59. Only after running this gantlet could I enter Starbucks, where a java chip Frappuccino runs \$4.75.

Starbucks must be banking on the theory that the people who buy its coffee don't just need coffee, they need Starbucks coffee, which packs a higher caffeine punch than many competitors. The *Wall Street Journal* earlier this year sent samples of coffee from Starbucks, 7-Eleven, and Dunkin' Donuts to Central Analytical Laboratories. The lab reported that a 16-ounce Starbucks house blend coffee contained 223 milligrams of caffeine, compared with 174 and 141 milligrams in comparable amounts of Dunkin' Donuts and 7-Eleven coffee, respectively. According to the *Journal*, the average Starbucks coffee drink contains 320 milligrams of caffeine. (This [chart](#) from the Center for Science in the Public Interest shows different measurement levels, including the scary finding that a 16-ounce Starbucks grande has nearly three times as much caffeine as a No-Doz.)

In fact, it could be that many of Starbucks' customers—I see them, lining up in the

morning, clutching the brew like a security blanket—literally need the stuff to get through the day. A recent survey of scientific literature by psychiatrists Roland Griffiths of Johns Hopkins and Laura Juliano of American University found that people who have a one-cup-a-day habit can become addicted. It's not so much the buzz—pleasant as it is—that keeps people coming back for more: It's the symptoms of withdrawal. In other words, Starbucks may not have to fret about the impact of raising prices because a goodly portion of its customer base may begin to feel sick without its products. Talk about a great business plan!

Of course, it could be that Starbucks consumers are motivated by rationality rather than impulse. If Starbucks delivers more caffeine per cup than its competitors, and if people buy coffee primarily because it is an efficient caffeine delivery, then Starbucks' high prices don't seem so high. You'd have to buy a lot more Coke, or coffee from the guy on the corner, to get the same rush you can get from a Starbucks. If one dose is enough to get you through the day, in other words, Starbucks' expensive brews could save you both time *and* money.