

# Analysis of Starbucks in China

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Since coffee is gradually becoming popular in China, the promising market prospect that China's coffee market has is appealing to multiple companies. Starbucks, a successful business magnate in the coffee market around the globe, occupies a huge market share in China's coffee market. Nevertheless, numerous competitors, especially domestic coffee brands in China, and the hit caused by the COVID-19 epidemic put great pressure on the company. Furthermore, the company itself also has some weaknesses currently, which can affect the corporation negatively. As a result, based on the background of China's coffee market and the enterprise's own situation, this article mainly pays attention to three vulnerabilities, giving an analysis of these problems, and some suggestions will be provided correspondingly.

*Keywords:* Starbucks, case analysis, organizational management

## Introduction

As a country with a large amount of population, China can be a market with huge potential for the coffee business. Starbucks, a successful company in the world, is one of the most competitive manufacturers in China's coffee market. From a little "mermaid" born in Seattle to a large enterprise with various stores in more than 40 countries and regions around the globe, Starbucks acquires praise from plenty of top magazines like *Forbes* (Wang, 2020). Since the corporation entered China's market in the 1990s, because of its rapid development of stores and operating efficiency, China's mainland had gradually become its second main business field (Wang, 2020). However, in recent years, the entrance of many brands into the coffee market, especially domestic brands like Luckin, makes the competition even keener, which brings great pressure on Starbucks. Moreover, because of the negative influence on the physical economy caused by the COVID-19 pandemic, the sales and profit of Starbucks' physical stores decreased, indicating the new challenges the company must face. Based on this background, Starbucks needs new strategies to adapt to the rapid changes in China's coffee market, in order to maintain its advantage in this field. Aside from the challenges brought by the current situation, the corporation itself also has some weaknesses, which can negatively affect the company. According to previous articles, some of the problems of Starbucks were already stated. However, some new weaknesses appeared in recent years, which may be meaningful for the company. This article mainly aims to analyze the problems that Starbucks has currently, and then give some useful suggestions. In this article, the situation of the recent coffee market in China will be analyzed at the very beginning, and then the author will give a brief introduction of Starbucks and its business model, using the "three elements model". After this part, the analysis of three main weaknesses that Starbucks may have and the suggestions provided by the author can be seen in the article.

## Chinese Coffee Market Analysis

### Promising Future

As one of the most significant beverages in the world, coffee has a wide market around the globe. China, a country with the world's 18% population, is gradually becoming a very important market for coffee corporations, bringing more opportunities for their business. After entering the 21st century, because of the development of the economy, the pace of life is speeding up and the living quality is improving, which makes the sales of coffee increase rapidly in China. Compared with the 2% growth rate of coffee consumption annually around the globe, it is reported that the coffee consumption growth rate in China is 15%, which is much higher. The statistics show that in 2025, the coffee market in China will probably reach 217.1 billion yuan. Therefore, for Starbucks, the coffee market in China can provide many opportunities, which may bring great benefits to the company.

### Various Competitors

Although the future of the coffee market in China is promising, the competition in this market is becoming fiercer. In recent years, with the expansion of the coffee market in China, various companies want to gain profit from this business. Except for some old brands like Starbucks, Costa, and Pacific Coffee, many new competitors such as Luckin Coffee and Manner appeared in this market. In addition, because of the huge market potential, various tycoons who are competitive in other business fields are developing their coffee brands. For example, China Post, a famous post corporation in China, opened its first cafe in Xiamen on February 14th 2022. Therefore, despite the appealing opportunities in the coffee market, the companies in this business field will face multiple challenges because of the intense competition.

### New Retailing Model in China During the Pandemic

The concept of the new retailing model was first proposed by Jack Ma, the founder of Alibaba in China (Yang, 2019). The line between online and offline was broken, and a superior shopping experience can be provided for customers with the use of big data and AI, technologies that can analyze consumers' requirements (Yang, 2019). During the COVID-19 pandemic, because of the isolation policy in China, people may reduce their time consuming offline. Under this background, this model is gradually developed. Many online platforms like Meituan appeared, allowing consumers to place their orders online. Plenty of restaurants and cafes, such as Luckin Coffee, also created their own online platforms in order to adapt to the change in retailing.

## Introduction of Starbucks

### Basic Information of Starbucks

Starbucks Corporation is a famous company that plays the role of the premier roaster, marketer, and retailer in the global coffee market. The company provides a wide range of products, which include ready-to-drink beverages, roasted coffee beans, and instant coffee. It also sells other related products such as cups, snacks, and food. The first store of Starbucks opened in 1971 in Seattle, and until 2020, it has more than 30,000 stores worldwide, becoming one of the most successful companies in the coffee business. According to its financial report, until October in the fiscal year 2021 (FY2021), the revenue has reached 29,060.6 million dollars, with a 23.6% increase over FY2021.

### Starbucks' Business Model

As one of the most successful coffee corporations in the world, compared with other competitors, Starbucks entered China's coffee market in 1999, which is relatively early. Since then, it occupied about 60% coffee market

share in China rapidly (Yang, 2019). The three elements model will be used to analyze the business model of Starbucks.

**Customer value.** Starbucks' target customers are people from the middle and upper class, especially white-collar workers who pursue fashion. With different kinds of quality products, Starbucks provides consumers with multiple choices in their consumption process. Additionally, since in cosmopolitan and fast-paced cities, home and workplace are two places young professional office workers would only stay every day, Starbucks created its "third place" for people to work, refresh, and socialize in the daytime (Tong, 2021), which acquires great success. Moreover, instead of only providing products and services at a relatively high price, Starbucks aims to show its unique brand value as well as satisfy its consumers' pursuits of high-end products and their vanity.

**Resource capability.** The first resource capability is its ideal location. The company can precisely find its brand position in different countries, and choose its locations wisely in order to appeal to more consumers. For example, in China and Europe, most stores are in large cities, but stores can be found in small villages in America (Haskova, 2015). Another unique capability is the excellent in-store experience for consumers. With the aim of building a "third place" for customers, Starbucks focuses on the design of stores. Having a group of professional designers and artists working in its dedicated design studio, every store has its unique layout (Xing & Mu, 2022). In the stores, people can not only enjoy delicious beverages and food, and attentive service, but they can also appreciate the tuneful music, stylish decorations, and the coffee culture atmosphere, which appealed to many loyal consumers of Starbucks.

**Profit model.** The first profitable point is the wide range of high-quality products. It can be identified three kinds of Starbucks' products, which are served drinks and food, coffee for home, and mugs that can be sold (Haskova, 2015). Aside from the huge profit brought by beverages, mugs with unique designs allow the company to create their signature product around the globe (Haskova, 2015), appealing to a large number of fans worldwide. The second key point is that as a famous coffee brand with a quite long history, Starbucks has plenty of loyal customers, which may continuously bring profit. With its success in targeting consumers and brand value instruction, it has become one of the most well-known high-end coffee brands, gaining a large number of loyal fans who have a deep emotional connection with the brand. These consumers not only have good purchasing power but may also contribute to Starbucks' publicity, which can benefit the company.

### **Weakness in China's Market**

**High price problem.** The main consumers of Starbucks Corporation are the middle and upper class. Therefore, the prices of Starbucks' products are relatively high. In America, a cup of instant coffee is about five to 25 cents, and with the service provided by waiters, the price can reach 50 cents to one dollar (Zhou, 2020). However, in Starbucks, a cup of coffee charges four to five dollars (Zhou, 2020). A similar situation also appeared in China. From the online platform Meituan, it can be seen that generally the cost of a cup of ready-to-drink beverage in Starbucks is between 30 and 40 yuan, and the price of cakes and food is quite the same. According to the brand positioning theory, in order to reflect its high-grade value, the company's pricing is quite high compared with its competitors, as well as never discounting, even with the sluggish economy and falling sales (Zhou, 2020). Although this strategy allows Starbucks to gain multiple loyal consumers, it may also have some drawbacks in the competition in China's coffee market. In recent years, because of the great market prospect in the coffee business, the competition is becoming even more intense. For example, as one of Starbucks' main

competitors, Luckin Coffee has a wider range of customers, and this is partly because of its more rational price in Luckin Coffee. In the same App Meituan, most beverages in Luckin charge 20 to 30 yuan, with tastes not second to Starbucks. In addition, various successful corporations like China Post and China National Petroleum Corporation also participate in the competition in the coffee business with their even lower price than Luckin. What should be emphasized is that although these companies provide coffee and cakes at a fairer price, the quality of their products and the environment of their cafes are likable. For most consumers, especially those who have relatively low incomes, these coffee brands can be more suitable than Starbucks. Although Starbucks still has a clear advantage in China coffee market until now, these competitors may bring multiple challenges in the future.

**Brand reputation damage.** Corporate reputation is a valuable intangible asset for enterprises. As a vital strategic resource, it is scarce, hard to imitate, and can bring continuous competitive advantage to companies (He & Luo, 2016). According to the three processes in self-regulatory mechanisms, which are appraisal processes, emotional reactions, and coping responses (The Self-Regulation of Attitudes, Intentions, and Behavior), after evaluating the company cognitively, consumers will have an emotional response and stimulate intentions and reactions (He & Luo, 2016). Therefore, when the corporate reputation is damaged, consumers' cognition of the enterprises may change, leading to loss of customers, and even bringing long-term negative influence to the company. Recently, some adverse events greatly damaged the corporation image of Starbucks. In December 2021, it was found by journalists that Starbucks in Wuxi used expired raw materials, which raised discontent on the internet. On February 14th 2022, the "ice expulsion" incident is the event that someone saw that Starbucks employees expelled four police who were having a meal in the outdoor area in Starbucks. Although Starbucks apologized and explained that it was a misunderstanding, its reputation was damaged. Moreover, after this incident, the growth of prices in Starbucks also caused dissatisfaction among many consumers. Because of the political conflicts between China and the USA and many scandals of other American brands such as Adidas and Nike in recent years, consumers in China are much less tolerant. With a relatively high price, Starbucks is regarded as a quite high-end brand in China's coffee market. However, these negative events may make various Chinese customers become disappointed about Starbucks, which can lead to the potential loss of the company.

**Challenges for the third place concept caused by COVID-19.** As One of the most successful coffee companies, Starbucks introduced the concept of "the third space" into their cafes. Distinct from home and working space, "the third space" means the communal space that can make people feel relaxed and delighted. This concept significantly influences the strategy of Starbucks, as well as brings great benefits to the corporation. Moreover, with the development of the economy in China, people's consumption level is growing rapidly, which makes the experience economy more popular in China. Instead of only gaining products, what consumers expect from consumption is enjoyable experiences, including satisfying products, service, environment, and other factors that can bring a good consuming experience. Since the concept of "the third space" agrees with this kind of new economy, it appeals to many loyal customers of Starbucks. However, during the COVID-19 pandemic, because of the epidemic prevention policy in China, the development of the physical economy was in difficulty. Compared consume in physical stores, people prefer to place orders online and enjoy food and beverages at home or in their workplace. As a result, although Starbucks can provide consumers with good consuming experiences, under the background of the COVID-19 pandemic, its strategy may require adjustments. In addition, compared with its competitors such as Luckin Coffee, the online platforms for consumption are relatively poorly developed.

According to a survey made by Cheng and Liu (2021), Z generations, who are born between 1995 and 2009, are not very familiar with the online consumption channel of Starbucks, or they relatively use these channels to place orders. Additionally, compared with the offline consuming experience, these youths are less satisfied with using online platforms to buy Starbucks' products (Cheng & Liu, 2021), indicating that improvements are needed for adapting to the pandemic time.

### **Suggestion**

#### **For High Price Problem**

One of the most significant problems of Starbucks in China is its high price. Although Starbucks use high price to position its brand, it should consider the consumers' satisfaction with its pricing. According to J. Liu, Zhang, and X. Liu (2021), most of the participants of the survey thought the price is too high to afford. Therefore, Starbucks may need some adjustments to its price, with the aim of not changing its high-end brand position at the same time. In order to solve this problem, firstly, when there are new products, Starbucks can sell a few kinds of beverages with discounts with limited numbers in a relatively short period, or confirm one day per week to sell some beverages and food with a special offer. Secondly, the company can also adopt the raffle mechanism, and consumers are able to win some prizes like coupons, small gifts, and half price of the second cup (Liu et al., 2021), which may reduce consumers' scruples about the price.

#### **For Reputation Damage**

Because of a series of negative events mentioned before, the reputation of Starbucks was damaged. With the aim of redeeming the image of the company, the company is suggested to improve its quality control and employee management. With a high price, good quality becomes a basic expectation of Starbucks customers. Therefore, if food security problems occurred, consumers may develop a strong sense of disbelief about the company, leading to serious loss of profit and a bad reputation. In order to solve this problem, Starbucks should pay attention to its quality supervision and conduct regular spot checks to guarantee the quality of its raw materials and products. As for the "ice expulsion" incident, Starbucks is supposed to improve its employee management. According to Starbucks' explanation, its employees had some verbal conflicts with the police, so the company should train the staff, allowing them to gain the ability to deal with such problems properly, with the aim of maintaining the company's good reputation.

#### **For Challenges of "The Third Place" Concept**

Since 2019, the COVID-19 pandemic strokes a serious blow to physical stores. As a company whose large amount of profit comes from physical stores, Starbucks is facing challenges in China during the pandemic. Therefore, the corporation is suggested to adjust its marketing strategies, using the new retailing model to cope with the difficulties brought by the pandemic. Aside from following the pandemic prevention policy, Starbucks should focus on the potential of online consumption. It can offer some specific discounts to new and old consumers online, as well as reduce or waive the delivery fee in the off-peak period, especially for new consumers (Cheng & Liu, 2021). Moreover, the corporation can also encourage consumers to release product evaluations online, and provide these customers rewards monthly according to the comments and likes their posts have (Cheng & Liu, 2021). Additionally, since WeChat is widely used, with the low conversion rate of WeChat users to Starbucks' consumers (Che & Wang, 2021), Starbucks can use creative promotional tweets, as well as encourage consumers to share with their friends with rewards to attract more customers.

## Conclusion

To conclude, this article focuses on Starbucks, a powerful competitor in the coffee market worldwide, providing some analysis about some problems that this company may face in China recently, as well as giving multiple pieces of advice. China's coffee business has a promising market prospect, which can bring various valuable opportunities for corporations like Starbucks to expand their business. However, competitors like Luckin and China Post make it more stressful for Starbucks to maintain its superiority in China's market. Moreover, the development of the new retailing model during the pandemic in China also brings both challenges and chances for the company.

Under this background, three main weaknesses that Starbucks has are given. The first one is its high price problem, which has been complained about by Chinese consumers for quite a long time. Limited beverages with a special offer or a "special offer" day can be put into effect, and a raffle mechanism should also be adopted in order to solve this problem. The second weakness is that its brand reputation and image are damaged currently in China. The enterprise is suggested to improve its quality control, especially the quality of its raw material, and its employee management to redeem its image. The last problem is the strike caused by the COVID-19 pandemic since one of the company's key business concepts is building "the third space" for people in offline stores. With the aim of adapting to the present situation of China's market, the corporation is supposed to adjust its marketing strategies, paying attention to the potential consumption online. Since China is a market with huge potential, Starbucks should modulate its strategies to grasp more business opportunities in China's coffee market.

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