

A strategic analysis of Starbucks expansion in China

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ABSTRACT

Ever wondered how Starbucks became so popular in China? This study explores how Starbucks, a famous coffee company, became a hit in a Tea-loving country. It attempts to find out how Starbucks changed its coffee shops to fit in with Chinese culture, why people in China like Starbucks, and explore the changes Starbucks made to its coffee shops to appeal to Chinese customers. This study narrates how Starbucks entered into the Chinese market and dominated the local coffee market. Additionally, it explores what makes Starbucks different from other coffee brands and what challenges it faces. This report also helps us understand why Starbucks has done so well in China. It gives us useful ideas for other companies wanting to grow in places of different cultures.

Keywords: Starbucks; China; Culture; Coffee shops; Market.

INTRODUCTION

Starbucks, a well-known coffee company that originated in the United States, has embarked on a remarkable journey in the vast and vibrant land of China. As a coffee giant, Starbucks has successfully planted its roots in this country, creating a unique blend of Western coffee culture with a rich tapestry of Chinese traditions. In the heart of China's bustling cities, Starbucks has become more than just a place to grab a cup of coffee; it has transformed into a cultural phenomenon. The aroma of freshly brewed coffee, the warm and inviting ambiance, and the familiar green logo have found a special place in the hearts of Chinese consumers.

The story of Starbucks in China began with a strategic approach to entering the market. Choosing key locations in busy urban centers, Starbucks carefully selected its first few spots to introduce Chinese consumers to the world of specialty coffee. This initial move laid the foundation for what would become a significant coffee culture shift in a nation traditionally devoted to tea.

There are over 34,000 Starbucks stores in 80 countries but in 1999 Starbucks opened in the world's largest tea producing country 'China'. Starbucks operates more than 6000 stores in over 230 cities in the Chinese mainland, it's the chain's second-largest market behind the US. Starbucks is expanding rapidly in China, a store opens every 9 hours and the company has plans to increase the amount of stores in their region to 9000 stores by 2025. So, how did the Seattle-based coffee giant find massive success in the country known for its love of Tea?

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. In January 1999 Starbucks entered the

Chinese mainland by opening its first store in China's World Trade Centre in Beijing. the company first entered the Chinese market through a licensing agreement with 'Beijing Mei Da Coffee Co', a wholesale distribution company that supplied coffee beans to hotels and restaurants, over the next few years the coffee chain operated in China through a combination of the licensed and joint venture business partnerships and company-owned operations another part of the company's strategy was to build rapport with communist party officials.

In 2014 Starbucks opened its first Starbucks Reserve, in the wake of a successful growth strategy, Starbucks expanded rapidly by opening a new store in China every 15 hours. In 2017 the coffee giant bought out its joint venture partner for 1.3\$ billion dollars. China is the only market where 100% of stores are owned and operated by Starbucks compared to 59% in North America. In 2019 Starbucks partnered with Nestle to bring in-home coffee options to Chinese consumers, this allowed them to further their market share in the region.

To ensure a smooth transition into China, the company collaborated with local partners and businesses, the chain also developed its domestic supply chain. Adopting local technology and building out its own has been an important part of the company's growth strategy.

Purpose of the research

The primary purpose of researching Starbucks' success in China is to gain a comprehensive understanding of the factors that have contributed to the coffee giant's achievements in this dynamic market. By delving into the strategies employed, cultural adaptations made, and challenges overcome, the research aims to uncover valuable insights into the Chinese market but also regards academic study

The research seeks to answer critical questions about Starbucks' approach to entering, establishing, and thriving in the Chinese market.

Market Entry

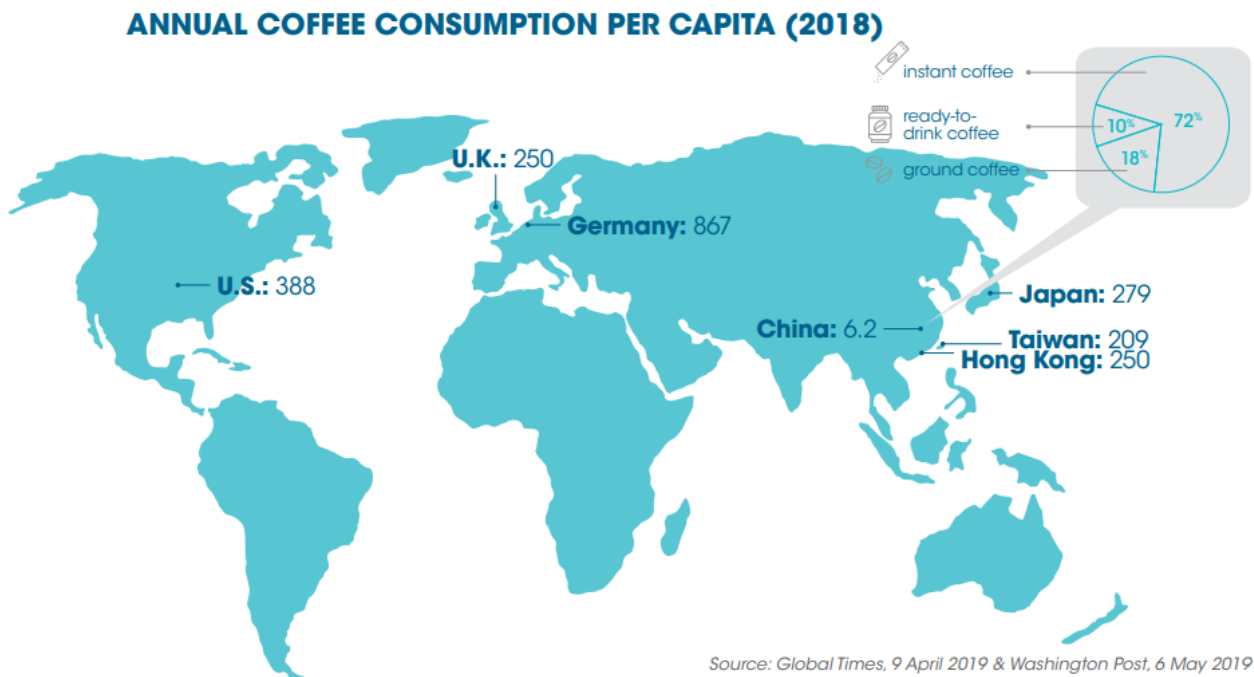
Entering China

Bright prospects:

As one of the most common beverages in the world, coffee has a huge market around the globe. China, a country with the world's 17.7% of population, is gradually becoming an important market for coffee manufacturers. The coffee market in China has witnessed a huge surge in recent years and is expected to grow in the coming future.

According to research firm Mintel, coffee sales in China are estimated coffee retail market in China is forecasted to reach a value of around 13 Billion US dollars by 2025.

(Source: Bloomberg, CNBC)

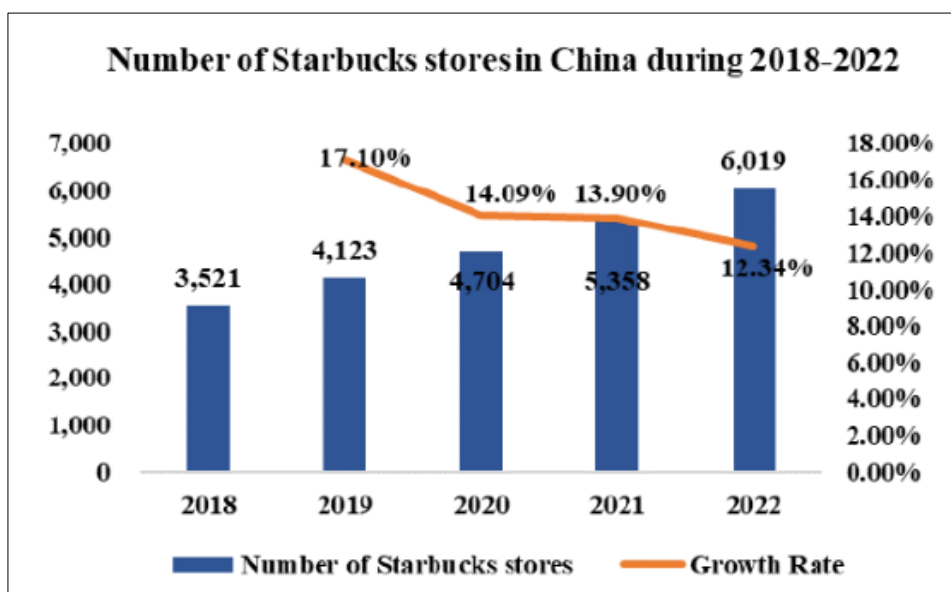


With an increase in the number of coffee chains, expanding consumer index, and a rising coffee culture, the future of coffee in China looks promising.

Market Positioning

Starbucks focused on China's large cities, economically developed coastal areas, and relatively developed secondary cities with higher education, the upper-middle class with higher income or coffee lovers, and coffee random consumers, this part of the population belongs to the pursuit of taste society Upper class and the pursuit of fashion in the middle class.

Starbucks's target market is the middle class as the mainstream, the pursuit of the taste of the social upper class, and the pursuit of fashion in the social middle class they are compatible with enterprising, warmth, tradition, creation, and feedback the values of the society, active personality and like to self-determination



(Data is from Starbucks's annual report)

By October 2022, Starbucks will have 35,711 shops worldwide and a global revenue of \$32,250.3 million, making it the largest coffee chain in the world.

China is the second largest market for Starbucks after the US, with 6,019 shops in 2022, accounting for 16.85% of Starbucks' total global shops presented.

Partnerships with local businesses and joint ventures

By January 2023, Chinese consumers accounted for more than 40% of the world's tea consumption, making the task of introducing and popularizing coffee quite challenging. However, since the early 1990s, more and more consumers started drinking coffee, with Starbucks playing a pioneering role in this trend inversion.

It took three more years for Starbucks to set up a shop in China through a combination of three different **joint venture operations**. Firstly, at the end of 1998, the US coffee shop chain cooperated with the **Beijing Mai Da Coffee Co.** to establish its first coffee bar in Beijing, which was subsequently opened in 1999. The same year, Starbucks opened a store in Shanghai in collaboration with **Uni-President Group**. This strategic partnership helped Starbucks gain traction in another key city in China, further solidifying its presence in the market. Continuing its expansion strategy, the US chain made significant strides in southern China in 2000. This time, the company joined forces with Mei-Xin International Ltd. to open various coffee shops, extending its reach and influence in the region.

Recipe For Success

❖ Cultural Shift Towards Coffee Consumption:

In recent years, China has witnessed a significant cultural shift towards coffee consumption. Traditionally, tea has been the preferred hot beverage in Chinese culture. However, as China opens up to the global market, Western influences and trends have permeated Chinese society. Coffee has become a symbol of modernity, and social status for the emerging younger generation. Millennials and Gen Z individuals are more inclined to drink coffee as part of their lifestyle and social culture.

This younger demo graph considers coffee consumption as trendy and a status symbol, particularly in major cities.

❖ **Premium Brand Image and Experience:**

Starbucks has positioned itself as a premium brand in China. Starbucks stores in China are designed to provide customers with a unique and immersive experience. The cozy ambience and personalized service contribute to the overall appeal of the Starbucks brand. The brand also ensures that each store is tailored to the local culture.

This commitment has enabled Starbucks to become one of the most recognizable and beloved brands in China.

❖ **Cultural adaptations:**

Starbucks adapted to China's culture by focusing on the country's strong values when it comes to family, community, and status. Since 2012 Starbucks has hosted an annual partner family form where its employees and their parents can together learn about the company and its future in China. In 2017 it announced the launch of the Starbucks China parent care program which currently provides critical illness insurance plans for the parents of its employees.

Starbucks implemented cultural adaptations by providing localized offerings that were similar to Chinese tastes and preferences. Starbucks worked with local partners to modify its menu to fit local tastes. they also localized the food items not just to a Chinese taste but regionally so you would find Shanghai specialties or Beijing specialties and Chongqing favorites in the different Starbucks stores.

Company's target consumer base is China's rising upper middle class and its westernized young population.

The stores are strategically located in business districts, urban centres and tourist attractions. China's Starbucks stores are designed to fit traditional Chinese architecture and have open.

layouts to welcome crowds and lounging, the spaces also tend to be a bit bigger than in the



U.S. the way that people were going to use Starbucks in China much in the way they were going to use the tea house, like going in large groups, hangout with your friends, might going out in a group of four six eight ten people everybody wants to order a drink, maybe a little snack and that's where they are going to socialize for the next two or three hours.

So, obviously if you have a small store with limited seating that's going to turn off Chinese consumers. Starbucks pricing is also different in China compared to the other parts of the world. It chooses high end locations for its outlets including luxury malls and office towers.

❖ Marketing and Promotion

To establish a strong presence in China, the company used varied approaches to its marketing and promotion, so instead of relying on traditional marketing and media approaches they let people spread the word instead of using regular ads. Customers liked how well the company ran things and were ready to pay more for the Starbucks name. Therefore, the urban youth in China visiting Starbucks or being spotted with a Starbucks cup became synonymous with social status. Young people in Chinese cities started to think that going to Starbucks made them look cool and important. Starbucks aimed to build its reputation based on good product quality, friendly service, and good relationships with its employees.

Similarly, Starbucks took varied steps to educate its customers about the different types of coffee and how to distinguish between flavors. They also made several variations of their menu to fit the preferences of Chinese consumers. The customers were given some samples to smell as well as sip and then describe their experience.

At times if the customers did not enjoy the sample, the store employees asked them to come back again later for another ‘tasting’ session or they offered them some other drink that they



enjoyed. They also spoke to the customers about the positive effects of drinking coffee. For example, they spoke about how drinking coffee helped to change their mood and how it was good to have coffee in the morning. They also provided people with free internet and wireless services that made people tend more toward their stores.

It was also observed that Chinese like to have some food along with their drink so they also started offering some popular Chinese foods like mooncakes and traditional cookies.

“We want our customers to recognize that we’re not coming to China just to make money, we are coming to China to build an enduring company that they can trust and they can view as one of their own”.

– Howard Schultz (CEO, Starbucks)

These are a few of the factors that made Starbucks recognizable and a fruitful brand in the Chinese market.

Competition

❖ Competitive Environment

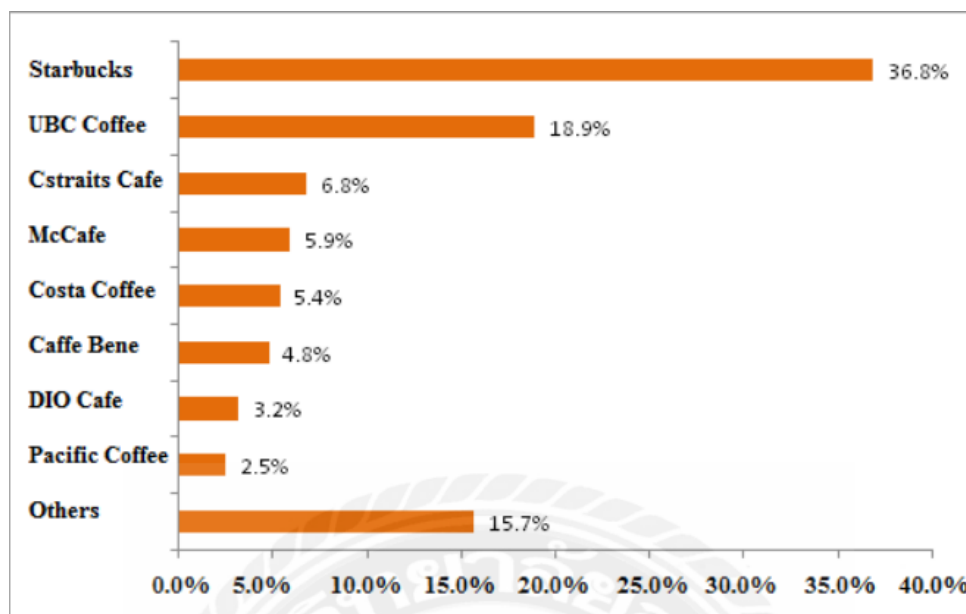
As the Chinese market continues to open up, the huge potential of the Chinese coffee consumption market is constantly explored.

In 2006, COSTA entered the Chinese coffee market with its first Shanghai outlet. However, its marketing is out of place and its product reputation is lacking due to COSTA's positioning in China has always floated The Secret of Starbucks' Success in the Chinese Coffee Market 573 in the upper echelons. Despite aggressive store expansion, it has never been as good as Starbucks.

Meanwhile, there is competition from brands such as Pacific Coffee and McCafé, and Starbucks felt threatened but failed to be shaken until the emergence of Luckin Coffee in 2017. With the rise of Chinese local coffee brands over the years like Luckin Coffee, not only have a more youthful and personalized brand positioning, but the price is also very pro-people. At Starbucks', the average price for a cup of medium coffee is 28 RMB, corresponding to around 4.30 USD. Compared to Starbucks coffee, the price advantage of Luckin Coffee is undeniable. It has accumulated numerous young groups over the years, especially students who do not have much income.

(Chinese coffee market share)

For Starbucks, the competition with local Chinese brands represented by Luckin Coffee has made it lose a large number of young customers, while an emerging Chinese coffee brand expanding its stores at an amazing speed is able to bring pressure.



❖ Pricing

Starbucks prices are much higher in China when compared to other parts of the world. Since foreign brands particularly in food and beverage are viewed as premium, Starbucks makes it a point to include which country its products are imported from. they've got competitors like Luckins Coffee and Tim Hortons many times they tend to slide down towards that value-driven segment of the market such as a 2\$ coffee on the way to work so they don't really compete in Starbucks sandbox.

With Starbucks' rapid growth in China in recent years, it has received public praise as well as

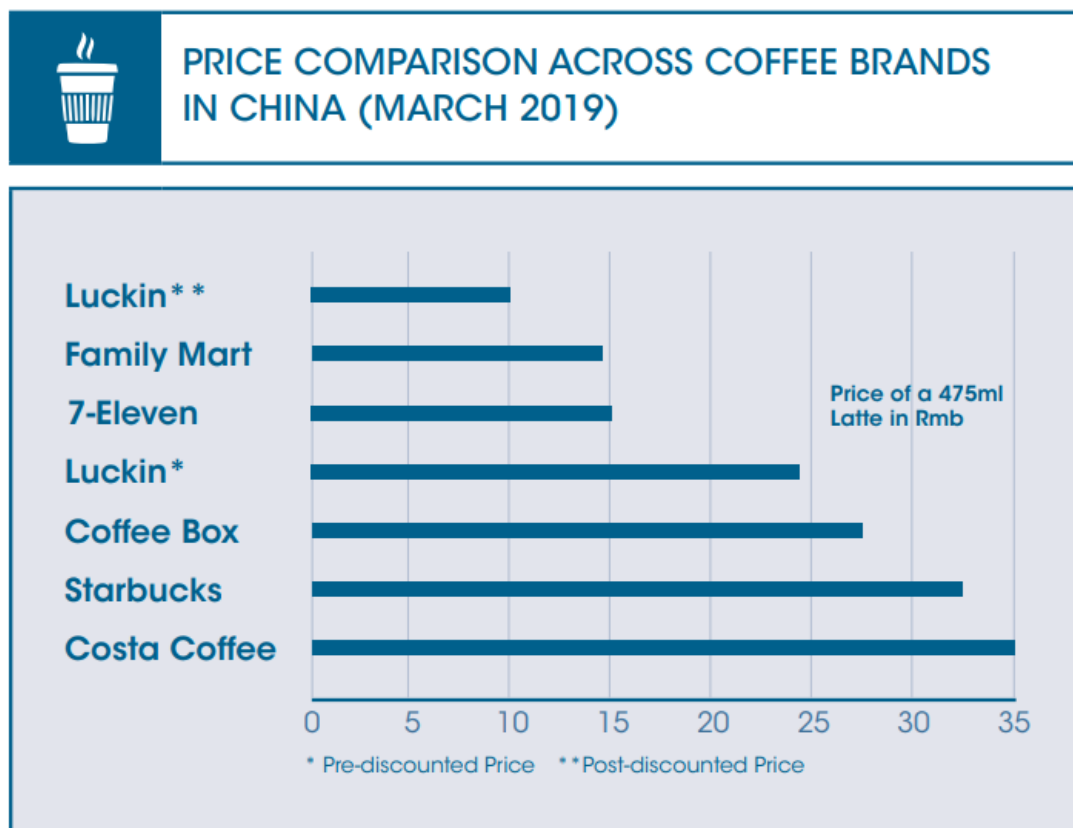


FIGURE 1

Source: Financial Times, 19 June 2019

many debates. In 2013, China Central Television (CCTV), a Chinese state-controlled broadcaster, pointed out that Starbucks is suspected of profiteering by selling a cup of coffee for tens of yuan, and this news has attracted widespread attention and discussion. According to the research, Starbucks' pricing in the Chinese market is indeed more expensive compared to other countries, but Starbucks' price discrimination, as a form of differential pricing, does not violate fair trade principles.

❖ Going Digital

Starbucks also undertook several steps to cater to China's highly digitized customers and an increasingly cashless society. Through its mobile app, the company allowed 'My Starbucks Rewards' members to manage their card balance, and also made it easier for them to earn and redeem rewards, and find a nearby Starbucks store with the store locator feature.

In early 2016, it launched a mobile payment feature on its app, enabling its members to e-pay for their purchases at stores nationwide.¹² The coffeehouse chain also partnered with WeChat Pay in December 2016, and followed up with a tie-up with Alipay in 2017—the two portals together held a 90 percent share of China's mobile payments market.

By 2018, almost 80 percent of Starbucks transactions in China were cash-free. Given the high penetration level of digital communication in China, the coffee chain promoted itself using local social media platforms. In 2017, it launched its campaign, 'Say it with Starbucks', which enabled about 826 million WeChat users to buy a beverage or a gift card through the app.

China leads in the global portfolio in terms of digital payment with 80% cashless payment.

Challenges

❖ Problems in China

First of all, it is the most important problem that cannot be ignored in the expansion business - localization issues.

Starbucks' more important issue is the localization in China. For any enterprise from abroad to the China enterprise, we must consider the problem of localization, Starbucks in China on the one hand takes into account the policy and market immaturity, imperfect laws and regulations, and domestic the social credit system has not yet been established. In addition, Starbucks focuses on the big cities in the Chinese market but ignores the small and medium-sized city markets, because our country the size of the city's economic strength gap is very big, Starbucks' price positioning is relatively high, which is a fatal flaw that Starbucks to gain a foothold in the small and medium-sized cities. This makes Starbucks unable to copy the successful experience in Europe and the United States to use in China's development model.

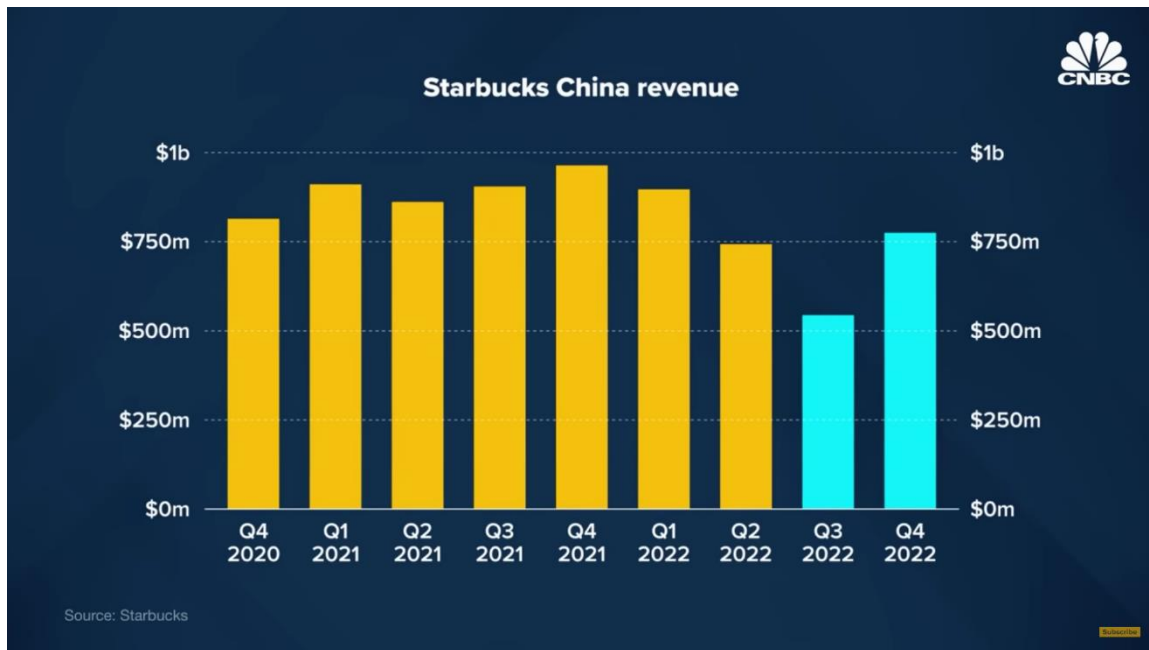
Another problem the company faced in China was cultural boundaries. China is an ancient country with a long history of culture. Culture is the mainstream of ancient China's moral norms, it deeply influenced the Chinese people's behaviorism and moral values, emphasizing the harmony between men. Starbucks, on the other hand, represents the American culture, which is deemed to be stronger, thus implanting the seed of an inevitable conflict.

❖ Covid-19

More recently, Starbucks sales took a plunge in the Chinese market, due to the country's strict COVID-19 restrictions. The pandemic and lockdowns caused Starbucks' same-store sales in China to sink 44% and 16% in the 3rd and 4th quarters respectively in 2022 compared to the year prior.

China maintained mobility restrictions and COVID-19 policy overall and to this effect if you look at Starbucks' fiscal third-quarter earnings, the same-store sales fell 44% in the quarter with the Shanghai sales lockdown for two-thirds of the period.

Driven by U.S-China tensions, lockdowns, and inflation Starbucks' operating income has declined 42% in the fourth quarter of 2022 compared to the year prior.



❖ Future Outlook

Starbucks plans to increase the number of stores in the region by 50% to 9000 stores by 2025. In other words, the coffee giant is expected to open a new store every nine hours for the next three years. It has also planned to double its sales and quadruple its operating income through store expansion, growth and omni channel and at-home and on-the-go coffee services. Starbucks China is betting big on digital, and investing \$220 million in launching its digital and technology innovation centre in the country to further its digitalization to store operations. To replace the interim CEO-Howard Schultz in 2023, Starbucks tapped Laxman Narasimhan a multi-national corporation veteran with experience in China.

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