



## **“The Analysis of Starbucks Marketing Strategy in China”**

Author: Minxiang Ling

Student ID: 5717190047

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Author: **Mr. Minxiang Ling**

Student ID: **5717190047**

MBA: **International Business Management**

**This is independent study has been approved to be partial Fulfillment of The Requirement for the Degree of Master of Business Administration in International Business Management**

Supervisor.....

**Dr. Vijit Supinit**

(Dean of Faculty of Master of Business Administration)

Siam University

.....  
Date.....

## Abstract

X Nitit Supriat  
May 31, 2017

With the rapid development of China's economy, nurturing a huge potential for development of coffee consumption market, also become the foreign companies to compete for the object, according to Boston Consulting Group estimates that China will become the world's second largest consumer market by 2015, Based on this expectation for the Chinese consumer market development prospects, Starbucks company has positioned the Chinese market in the most important overseas markets outside of the US market. However, Starbucks as a foreign brand, need to face the the risk of acclimatized. Solve these future needs to face the problem, become the key to Starbucks's development of the Chinese market, but also for the future development of Chinese enterprises to provide a reference. Therefore, this article will through the research of domestic and international marketing strategy for Starbucks, on the marketing strategy of Starbucks in China are reviewed and analyzed. In this paper, on the basis of previous studies, taking Starbucks as an example, describes the status of its sales, to summarize its successful marketing strategies, so as to give personal suggestions for Starbucks in China may encounter problems, and put forward practical and feasible marketing strategy for merchants.

Keywords: Starbucks; The third space; SWOT; Experiential marketing; Word of mouth marketing; Differential marketing;

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# Chapter 1

## Introduction

### 1.1 Research background

With the development of society and the improvement of people's living standard, when they face continuously improve the quality of products, prices continue to decline, the technical content rising, the choice of consumers not only based on product quality or service requirements, more attention in the process of their purchase and consumption, to meet their psychological needs and the specific feelings of personal preferences. Now, in the expansion of product diversification and customer choice, top quality and attentive service is no longer attracting customers, the pace of life is accelerating, consumers want is a kind of spiritual relaxation. Now most people face strong work pressure and life pressure, people's consumption concept has also undergoing tremendous changes, before the pursuit of fresh young people are now seeking the spiritual relaxation and rest, so as to promote the popularity of coffee. Starbucks also in such a context came into being, and the rapid development and expansion.

### 1.2 Research significance

With the continuous improvement of the quality of life in China, the Chinese people to accept the degree of coffee is also greatly improved. The feeling of coffee is no longer a drink, people drink coffee is no longer the purpose of refreshing, but to meet a spiritual enjoyment. Starbucks provides customers with a third space so relaxing site, so that more and more people like Starbucks. This article through the analysis of Starbucks marketing strategy, summed up the successful marketing strategy, and puts forward personal opinions and practical marketing strategies for



Starbucks' problems in China, hoping to have some enlightenment for domestic enterprises, this is the paper research significance.



## Chapter 2

### Marketing Strategy Overview

#### 2.1 Marketing

Marketing is through the similar enterprise design, product design, advertising design, promotion design, marketing activities and so on the external way, to stimulate consumer demand for our products, reduce sales difficulty or even cancel sales, directly make our products convert to the consumer's consumption, such a senior sales process called marketing. Because the traditional market can not meet the needs of customers, businessmen can't reach the maximum profit. Marketing involves its starting point, that is, to meet customer needs, but also related to what kinds of products to meet customer needs, how to meet consumer demand, namely, through the way of exchange, when and where to exchange products, who achieve connectivity products and consumers, in order to service future market.

#### 2.2 Marketing strategy

In 20<sup>th</sup> century, marketing into the booming period, when the change of the enterprise management concept, enterprise management to realize form old business management to new business management. 4P marketing strategy is made up of products, price, place, promotion, proposed by Macarthy, USA. It provides the best comprehensive marketing activities for the enterprise to realize the goal of marketing, also known as the overall marketing. With the development of economy and society, 4P theory has been unable to cope with the ever-changing market environment, 6P,11P and other emerging marketing strategy gradually into the eyes of entrepreneurs. Because of the general marketing strategy combination 4P ignore the business activities of enterprise can also affect the external environment, the contemporary marketers increasingly needed the political power and public relations skills to

eliminate barriers when product leading to the future market. Due to changes in time and the market, so marketing strategy also will change.

### **2.3 The development of Starbucks**

The name "Starbucks" earliest originated in the 19th century American literature outstanding master Herman Melville's classic "Moby Dick". The protagonist of the novel, Starbucks is a calm, charismatic chief officer, his hobby is to drink coffee.

On April 1971, it only a small coffee shop in Seattle, USA. to sell coffee beans. Starbucks making the main coffee, to provide tea, filling pie , cake and other products to supply consumers collocation, Make every guest came to Starbucks has a feeling of home, so Starbucks give consumers more is a kind of busy 's quiet ,iron and steel forest in the oasis of experience.

It is through this carrier of coffee, in order to maintain the integrity and consistency of Starbucks's global brand, Starbucks's style is to create a similar logo, then its official use this point, with the shop decoration - wooden furniture, dark sofas and wallpaper, all the time to give customers a comfortable. Also have to say is that Starbucks unique mermaid logo, its dark green contours and even sought after and follow the trend coffee entrepreneurs to follow. there are some businesses threats of litigation , with its former competitor Starbucks go to court.

### **2.4 The evolution of mermaids**

In 1971 ,The young designer Terry Heckler began to study the ancient maritime books, according to Scandinavia's two-tailed mermaid pattern, designed the Starbucks logo. She is actually a fairy tale 's siren, the legends siren in sitting on the rocks with a wonderful song attract passing ships and sailors, but never come back. From the beginning of the breast exposed to later two-tailed. The first major change was 92 version. Fishtail from there become two , like a crab clip, is often mistaken for a

mermaid's hand. It is said that even Starbucks employees do not know the crab clip is actually the tail. I think Mr. Terry Heckle chose the mermaid as a symbol, mainly intended for its ability to attract people.



Fig.2.1 The evolution of the Starbucks logo

## Chapter 3

### The Analysis of Starbucks Marketing Strategy

#### 3.1 Starbucks's current situation

Starbucks was founded in Seattle, Washington, on March 31, in 1971. Its overseas expansion plans surprisingly successful, at present, the number of overseas stores accounted for 20% of the share, and this number is still increasing. Starbucks entered the U.K. market in 1998 with the \$83 million USD acquisition of the then 56-outlet, UK-based Seattle Coffee Company, re-branding all the stores as Starbucks, has been expanded to 300. Today, Starbucks has more than 5,000 head offices in North America, Europe, the Middle East and the Pacific. Whenever and wherever, Starbucks opens a store, it's always a surprise to new customers. According to the "Business Week" Interbrand released in 2006 the world's top 100 and top brands list, Starbucks ranked 91st with a brand value of 3.099 billion. After 30 years of development, the company through the strong expansion strategy has been extended its business to many countries around the world the main blocks and major intersections. We can see Starbucks in a short period of 20 years, in addition to the rapid development in the country at the same time, the pace of expansion in the global market is obvious to all.

From the growth momentum, the Americas region is the company's main source of income; In 2015 the Americas region operating income reached \$13.293 billion, accounting for 69.4% of total revenue. Asia-Pacific region is the second largest source of revenue, Asia-Pacific region in 2015 operating income reached \$2.396 billion, accounting for 12.5% of the total revenue.

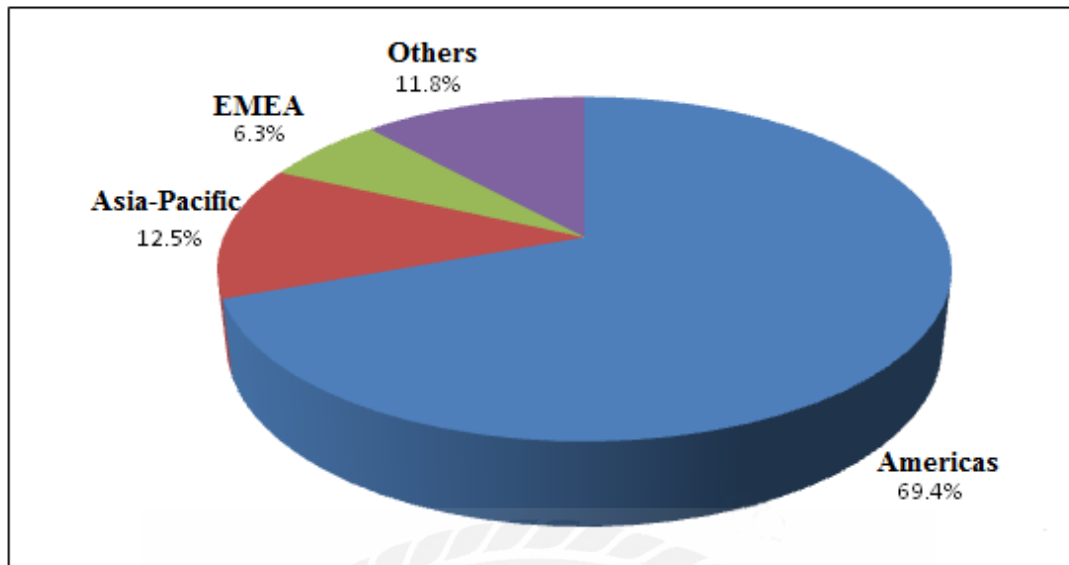


Fig.3.1 Starbucks company operating income regional composition in 2015

### 3.2 Starbucks's marketing strategy

#### 3.2.1 Marketing strategy analysis

Of course, Starbucks's success should be attributed to its several innovative measures in the coffee industry, these measures makes Starbucks has soared in the coffee industry, stores in every corner of the world developed areas, and standing.

First of all, customer experience is the Starbucks brand equity core demands. Starbucks to the typical American culture can be decomposed into elements of experience: the warmth of the visual, hearing the arbitrary, smell the aroma of coffee, etc. Imagine listening to light music, looking at the outside, gently sipping a cup of coffee, which is consistent with the "yuppie" feeling experience. As a result, the value of the product profits naturally be achieved.

Starbucks believes good employees can accurately convey all products and services to customers, so customers can understand the enterprises. In addition, they and the protection of the international strategic alliance for Starbucks to obtain better coffee .

Howard Schultz will not discard anyone , be kind to employees, Starbucks

business essence to make customers feel the coffee time, conversion mood, enjoy the atmosphere, make friendship. Chain operation management strategic alliance standard operation communication management chain operation market positioning: the family studio is independent of the family, the studio outside the "third space" target market.

In addition, Starbucks unbeaten recipe is "customer experience" and "loyalty", but the shop location choice is the decisive key, because people can not always patronize a "convenience" is not enough or too far from the coffee shop.

In the past few years, Starbucks advertising investment is less than 1% of sales, this on the basis of advertising cost make Starbucks among the top 100 global brands. And Starbucks using a different communication strategy - word of mouth marketing, consumer oral communication the way to promote Starbucks target customer base growth. For Starbucks, word of mouth is the best advertising.

### **3.2.2 Product catalog**

In addition, Starbucks uses geographic advantage of open new stores to distribute flyers with product menus. This menu gives customers all over the country to have the opportunity to contact a large package of Starbucks coffee beans. Therefore, the product catalog to Starbucks in the regional market to open up new stores to create a loyal customer opportunities.

### **3.2.3 Starbucks' s core competency-Employees**

Starbucks's core competency comes from the company's core values and values. Starbucks believes that the competitiveness of enterprises lies in the competitiveness of staff, to convey the enterprise enthusiasm and professional knowledge of the staff is the main resource, enterprises have to rely on such employees, in order to

accurately convey all products and services to customers, so that customers from the heart to feel the real quality of enterprises. From the point of view of Starbucks cooperation team, coffee staffs and other employees of the behavior is the most important element of Starbucks's success , behind the professional coffee technology. The success of Starbucks's trick is to create a unique corporate culture, and humanistic care, is also a "partner" culture, not only touched every Starbucks employee, but also touched countless Starbucks consumers. We are here to describe the partner culture contains two aspects, first, Starbucks internal atmosphere and organizational structure; the second are the employee compensation and benefits measures. This upgrade to become a partner, to establish employee loyalty and dedication.

#### **3.2.4 Quality control of Arabica coffee beans**

Starbucks continues to implement this plan to protect its supply chain. Leaving aside the special control of Starbucks in the specialty coffee industry, Starbucks has never directly used their market power to compete against their coffee suppliers. For the establishment the cooperation and development of the C.A.F.E. Ordinance (the Ordinance on the protection of coffee and agriculture) with the International League. One is the development of sustainable high-quality coffee beans from the hands of coffee growers who have stable resources but are not partners; and then to know that farmers' families are healthy, safe, and need to be funded or not. Starbucks invests a lot of money to growers and their communities every year , not only to manage risks with growers, but also to improve the stability and health of the coffee grower community, to achieve win-win situation.

The protection of the international strategic alliance to jointly promote the benefits of the C.A.F.E agreement, Starbucks through a positive external economic effect to expand their market. Starbucks through to the land price subsidies to protect the supply of high quality coffee beans . In the end, it makes Starbucks more transparent



in the supply chain of they bought coffee beans. Increased transparency enhances Starbucks' ability to understand supplier needs and better predict future supply shortage.

### **3.2.5 The third space**

The last one , but also Starbucks is able to attract sp many white-collar crowd is a crucial selling point, is his “the third space”, to develop social awareness. Starbucks to ensuring that supplier’s health is part of important content in the company’s expansion its public good. When the customer passing the store, Starbucks to convey to the public most of the content is a sense of social responsibility. Starbucks wants give customers feeling that this space has no noise and hostility in the city.

### **3.3 SWOT analysis**

Want to better judge Starbucks, the surrounding market and the future needs. A good analysis is SWOT analysis, strength, weakness, opportunity, and threat.

#### **3.3.1 Strength**

At least in the United States, most people know Starbucks, and put it and high-end coffee together. Moreover, people think Starbucks as the biggest and best enterprise. This is a big advantage for Starbucks, because Starbucks can naturally down some unknown competitors, and let the customers think that Starbucks is a company with high-end products quality and rich experience.

Starbucks huge number of stores so that it can be more close to the local market and the international market. This allows it to promote its new product more quickly through a large number of customers, and to ensure that its reputation in the customer .This also allows it to the people of other age enlarge their potential market.

When Starbucks's business in the international arena has not yet foothold, like McDonald's, its global business has a very big opportunity. Leaving aside the obvious advantages of scale, internationalization can also help to prevent increase competitors and establish sufficient cash. At the same time. This also gives the company a good public image, is conducive to generate social contradictions in favor of its deflection. Starbucks ranks first in the industry, both in size and sales volume.

Starbucks makes coffee price increase, compared with previous becomes more logical. Starbucks's purpose is to make their own stores in addition to the home and company to provides free network and comfortable seat "third space". This goal gives Starbucks a more fitting environment for their products. When Starbucks in the coffee industry make fast forward, its some weaknesses that make it more susceptible to changes in the market environment.

### **3.3.2 Weakness**

When most people think Starbucks coffee has become a luxury goods, no matter how much customer need to accept, some people think the cost of Starbucks products is too high the voice is increasingly fierce . These people who disagree do not have any common point in the geographical distribution. geographical distribution For example, whether you are in Los Angeles or Beijing, Starbucks's products are sold at the same price.

Basically, Starbucks's main problem is that their entire business surplus is placed in the coffee industry. If coffee became a fashion, taking into account other competitors, such as Donald, they must be diversified development. Starbucks in international relations, the lack of some small strategies. In Israel, because they do not understand the customs of the Jews, Starbucks spent a very difficult period. In general, Starbucks is very rigid and concentrated on the development of its business plan, rather than based on the local situation where the store to develop plans.

In addition, Starbucks offers only a taste of coffee, contrary to its competitors such as UBC Coffee and McDonald, they supply a variety of different types of Coffee. This

lack of choice of product sales so that Starbucks can not attract more customers to buy their coffee products

### **3.3.3 Opportunity**

By acquiring company, Starbucks to carry out their own business in different market groups. Compared to open stores, Starbucks is more inclined to use low cost to expand the market, for Starbucks also provides a series of products to sell to other companies, such as its bottled products Frappuccinos and other characteristics of goods.

Starbucks spent a very large part of their resources to expand their international business. This will undoubtedly generate more revenue for Starbucks, to help them expand their product visibility and brand image. One of Starbucks' great opportunities is to use its huge capital.

### **3.3.4 Threat**

Recently, the fierce competition has entered a white-hot state. Some companies have developed coffee products that can rival Starbucks. Some companies, like UBC coffee and Cstraits Cafe etc. have in some places with their own development foundation, and they have the comparable quality coffee as Starbucks.

Coffee raw material costs rise, if the price of raw materials to rise, for Starbucks is a very big blow. Failed to predict whether the coffee market will grow and retain customers, or the emergence of new varieties of drinks or leisure activities to replace coffee.

## Chapter 4

### The Marketing Strategy of Starbucks in China

#### 4.1 Starbucks in China's current situation

With the process of Starbucks global expansion, now, China has become the Starbucks's largest overseas markets, is Starbucks an important potential consumer market. To develop the business of Starbucks in China ,has become an important step in Schultz and Starbucks.

At Starbucks, often can see consumers on a laptop or holding a magazine, a sit for hours. Compared with other fast-food restaurants, Starbucks more expression is a way of life, this management concept is very promising. Analysts believe that Starbucks has many places are commendable. First of all, it has introduced leisure drinks to attract repeat customers; In addition, the coffee has increasingly become a lot of people's living habits. Starbucks overseas business highlights is the Chinese market. Today, Starbucks has more than 230 chain stores in China, and it is estimated that China's potential consumer population of about 250 million, which is equivalent to the total population of the United States. Therefore, So the future Starbucks market size in China may be close to its size in the US market, the total number of chain stores may reach 10,000.

Around the world, people are becoming more and more love to drink coffee. Followed by the "coffee culture" full of life every moment. Whether in the home, or in the office, or a variety of social occasions, people are tasting coffee, it gradually associated with fashion, modern life. According to the relevant report statistics, China's current coffee consumption is far below the world average, there is a huge commercial space. According to experts predict that China will become the world's largest consumer of coffee by 2020, Chinese people to drink a cup of coffee per person a day, only coffee beans market will reach \$50 billion a year, the whole

industry chain will produce hundreds of billions dollars in the market.

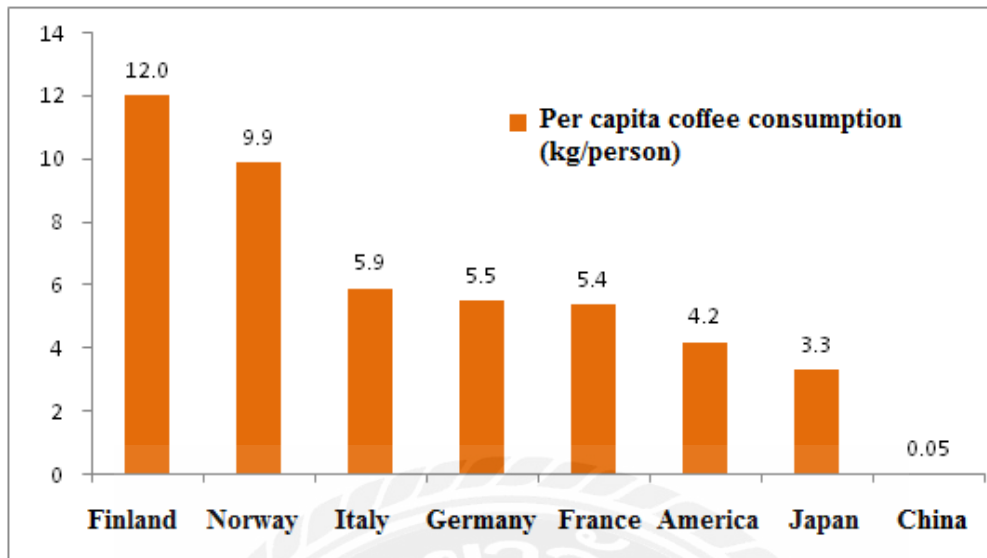


Fig4.1 Comparison of per capita annual consumption coffee in China and the rest of the world

But from another point of view, Starbucks in China's development is facing a lot of problems and troubles. First, the number of Starbucks stores in ten years from 1000 to 13000 is a substantial expansion of the "Starbucks experience" the main reason of decline. In China, Starbucks forced a major shake-up in the supply chain, the original import procurement model in recent months almost all replaced by domestic manufacturers, the quality makes old customers can not help but frequently frown; At the same time in the staff salary have been adjusted, Its service standards will be affected, is also attracting more and more questions.

China is in the process of rapid development, in China, a year after you go there again, you almost do not recognize the near road, so look for can reflect the place of this way of life ,more like gambling, rather than relying on scientific means. In addition, Starbucks stationed in the Imperial Palace, use BaoZheng photo do advertising and so on, in China undoubtedly set off a wave of protection their own traditional culture and whether foreign elements should enter the core of China's discussion wave.

## 4.2 Starbucks's competitors

China's mainland market has been UBC Coffee, Cstraits Cafe etc. Take Starbucks as their biggest competitor, "Coffee War" staged has been inevitable. The comprehensive analysis shows that Starbucks faces competitors more than these, can be roughly divided into four categories:

(1) Coffee industry competition: chain stores or franchise stores such as Seattle coffee, IS coffee, Dourot coffee and continue to enter the market of the coffee shop and independent open coffee shop.

(2) Convenience store competition: Convenience store have readily available canned coffee, aluminum cans packaging coffee, convenient brewing coffee.

(3) Fast-food restaurants to sell coffee: McDonald's fast food restaurants, Texas Hamburg, Kentucky Fried Chicken fast-food restaurants to facilitate the main coffee machine brewing coffee.

(4) Fixed-point coffee machine: located at the airport, rest station and so on ,with a cup of coffee soluble coffee, canned coffee, aluminum cans packaging coffee.

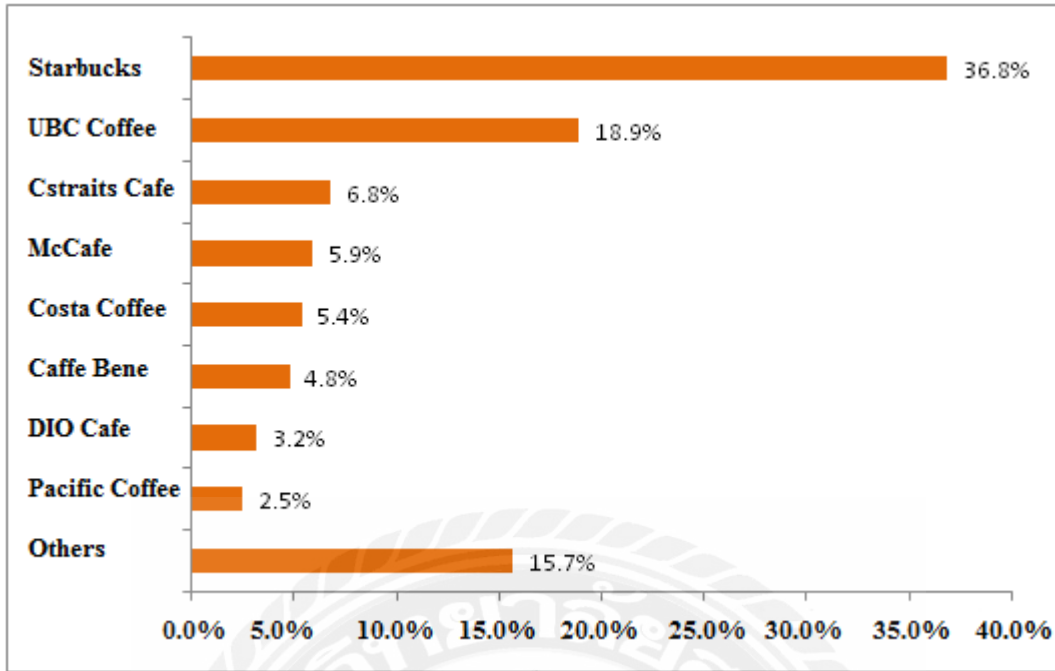


Fig.4.2 China coffee chain brand market share

Use McDonald's for example, McDonald's in five cities of the pilot "McCafe" format is not mentioned, the former is only its fast-food shop in the beverage list of a new product, The latter is the founder. In the past 10 years, Starbucks has been "motivated" by its beautiful financial statements, ample cash, and share price have gone straight up, from 1000 stores rapidly expanding to 13000 stores, led to "Starbucks experience" by over trivialization and commercialization. And, because the open shop is too dense, Starbucks in the United States repeat McDonald's in the eighties and nineties of the last century, there is a "they begin to attack themselves" situation, resulting in a lot of blind expansion of single store profit rate and sales fell. If there is no "frequent visitor culture", Starbucks and McDonald's coffee is no different, McDonald's in the cost and profit of the control is much better than Starbucks.

### 4.3 Starbucks marketing strategy in China

#### 4.3.1 Marketing strategy in China

Starbucks use franchise and joint ventures to enter the Chinese market, with the increase of the Chinese market profits, in order to seek the right to speak with control and in cooperation, Starbucks gradually shift its business model in China, this shift is worth exploring and reference.

Starbucks thinks that their products are not only coffee, but the experience of the coffee shop. In addition, Starbucks coffee is better at the "experience": such as atmosphere management, personalized interior design, warm lighting, soft music. Just like McDonald's has been advocating the sale of joy, like Starbucks, Starbucks make the American culture is gradually broken down into something you can experience.

In terms of products, Starbucks main sell coffee with its own coffee beans. In fact, Starbucks also sell a taste and feel, is also the so-called invisible atmosphere, which is the Starbucks and the general coffee shop in different places, Starbucks gives a very negative human fashion sense, this is different with other coffee shop.

In addition, Starbucks stores where more is given priority to with people in a wide range of shopping district, and at the edge of the station and so on the location of the foot traffic is also an important stronghold of Starbucks, because in addition to sell to people who want to drink, also can provide a temporary resting place.

In the form of business development, the branches are mainly distributed in large and medium-sized coastal cities, and large inland cities with a relatively concentrated population, and mainly use joint ventures as the main investment entry method, which not only reduces the financial risks, but also reduce the conflict with the local culture. Coastal type common characteristic of this kind of city is ,the commercial development is more developed ,the population structure has many is the white-collar class of high salary, the thought is more open. But this kind of person's life pressure is bigger, need more spiritual relaxation at the ordinary times. Starbucks China's development history tells us that the Chinese coffee market is very large, can not be ignored.

In July 2003, the Starbucks Group increased its shares in the Shanghai joint



venture, from the original 5% to 50%. In September 2006, Starbucks cooperates with Maxim's company established Starbucks in Chengdu, the Maxim's Starbucks Corporation in Guangzhou's shares increased to 51%. In October 2006, Starbucks to private offered equity H&QAsia Pacific and other shareholders to acquired ownership of HighGrown Investment Group (Hong Kong) Ltd, the controlling shareholder of Beijing Meida Coffee Co Ltd. Through the acquisition of shares, Starbucks made 90% shares of Beijing Meida Coffee Co., Ltd. and took back the operating rights of Beijing and Tianjin region . At this point, Starbucks in China completely give up the authorized operation, the beginning of comprehensive direct expansion in China .Thus, Starbucks in the China's rapid expansion has been imminent.

In the field of coffee chain, represented by Starbucks foreign brands rely on its brand image and differentiated competitive strategy come from behind, in the market occupy a leading position. China Business Research Institute data show that in 2015 the Chinese coffee chain retail sales reached 27 billion yuan, Starbucks to more than 1/3 of the market share to occupy the first in the industry. In recent years, a number of emerging coffee chain brand with precise market positioning and unique business model, driven chain coffee market towards a more diversified direction.

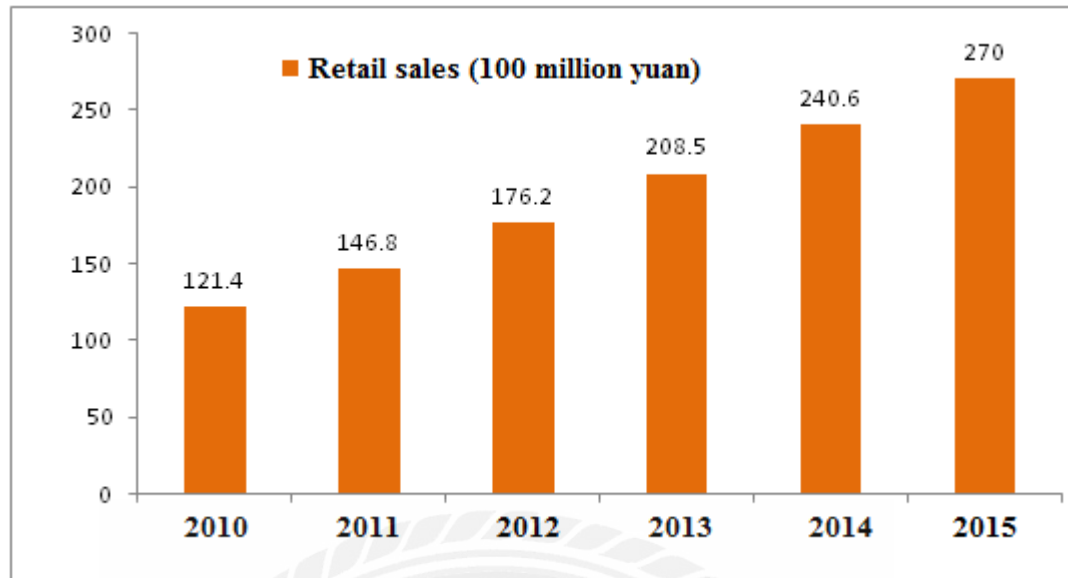


Fig.4.3 Chinese coffee chain retail sales in 2010-2015

#### 4.3.2 Market positioning in China

Starbucks focus 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 a middle class as the mainstream, the pursuit of the taste of the social upper class, 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 ;The pursuit of fashion, emphasizing the prominent self-style, love communication, advocating carpe diem, create value, personality is distinct, but also easily affected by a herd mentality.

Starbucks implements a differentiated market strategy for different sub markets to provide differentiated products and services. Starbucks to implement this differentiated target market strategy for different market segments customized

different products and services, and develop different marketing strategies to meet different consumer needs, to better expand the sales.

Starbucks price positioning is "most people can afford luxury goods", consumer positioning is the "white-collar class". Most of these customers are senior intellectuals, like boutique, food and art, but also a high income, high loyalty consumer class. Starbucks will position itself in the independent home and office the third space, Starbucks's goal is for the Chinese middle class for the mainstream upper-middle class provides a fresh style of fashion social place, people to buy coffee in Starbucks at the same time, also bought a way of life.

In the catering industry, build differentiated cost is very high, so want to attract customers through the product and the price is very difficult, and customers are identified with the after a service, for a long time will not change, will Long-term stability to use this service, this point is particularly evident in the white-collar workers, they always have a pursuit of a stable psychological tendency. Therefore, Starbucks to "Psychologically Oriented Strategy" to move customers, cultivate customer loyalty.

In 2010 Starbuck Corp operating income is more than 10 billion U.S. dollars, each year to maintain steady growth. In 2015, Starbuck Corp operating income and net profit increased by 16.5%, 33.3%, respectively, a record high growth rate in recent years, a new high of 33.3%. Moreover, according to the WPP group and Millward Brown released in 2015 top 100 list of the world's most valuable brands, Starbucks's brand value is \$29.3 billion, ranked twenty-ninth, an increase of ranked 29th, up 2 places.

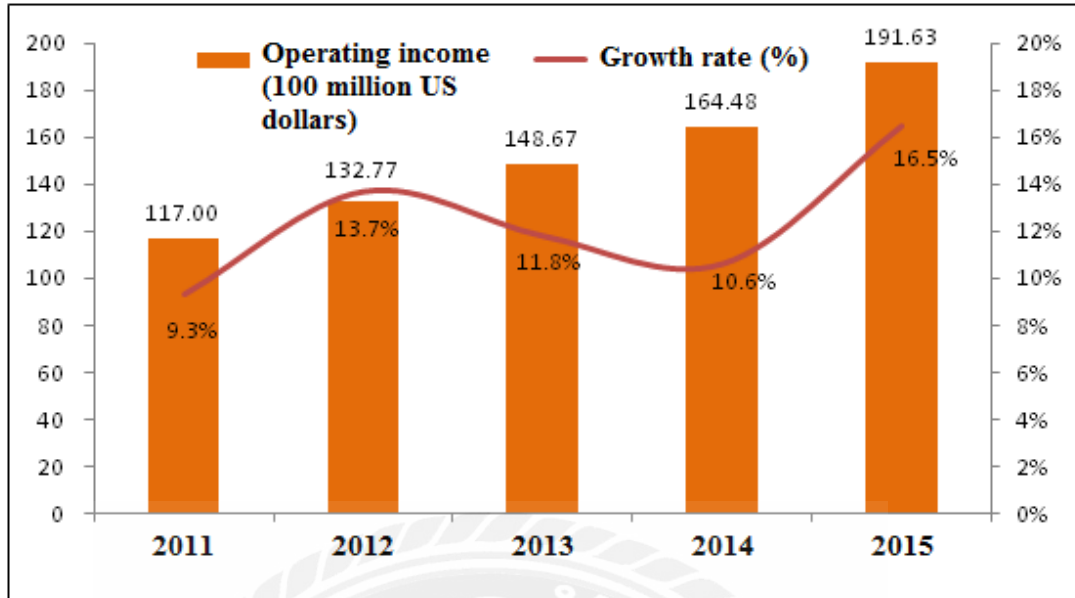


Fig.4.4 Starbucks operating income trend chart in 2011-2015

As of fiscal year 2015, Starbucks Corp coffee chain stores reached 23043, of which the number of Starbucks direct sales stores reached 12235, franchise stores number reached 10808. From 2011 to 2015 the number of Starbucks stores in China increased by about 2.65 times, the new opened more than 1300 stores, the total number of stores reached 1811. Over the past four years, the number of stores increased annually respectively were 204, 317, 350 and 444. Showing a gradual acceleration of the situation, from 2014 to enter open a new store every day the state. Starbucks CEO Howard Schultz has said in a media interview, very optimistic about the Chinese market, and intends to focus on promoting the development of the Chinese market. Howard also said that the number of stores in China in the future will exceed the United States, this idea is not surprised. The next five years, Starbucks plans to invest an additional 500 stores in China each year, is expected in 2019 Starbucks total number of stores in China reached 3,400.

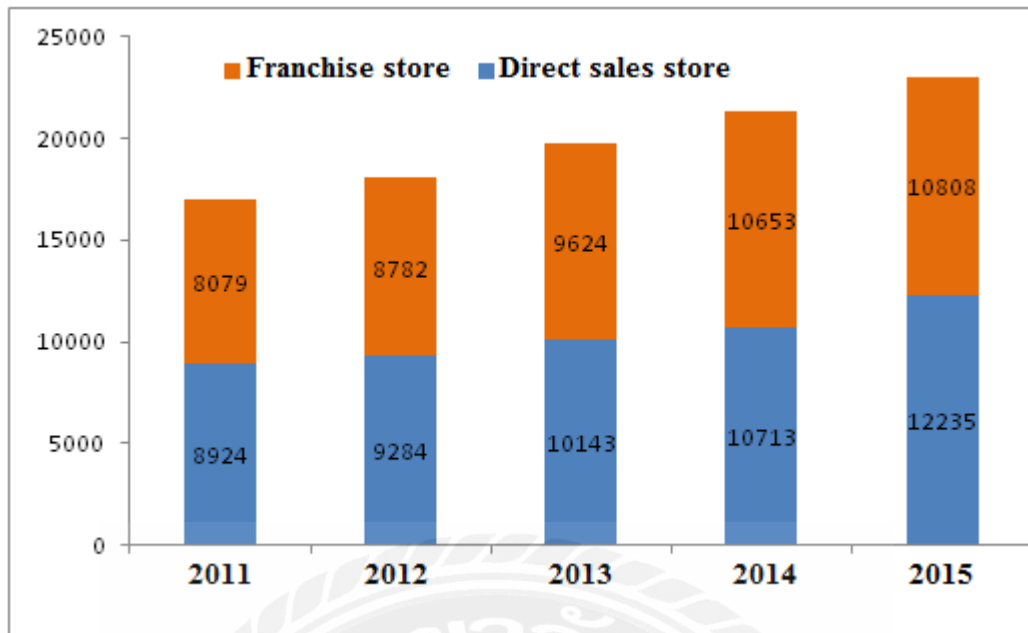


Fig.4.5 Starbucks the number of direct sales stores and franchise stores in 2011-2015

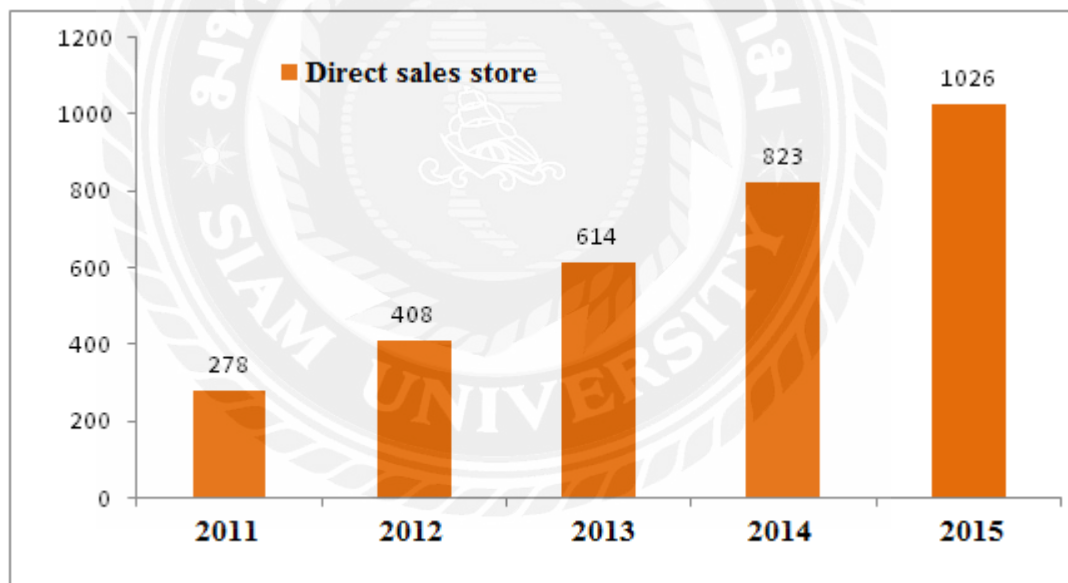


Fig.4.6 Starbucks the number of direct sales stores in China 2011-2015

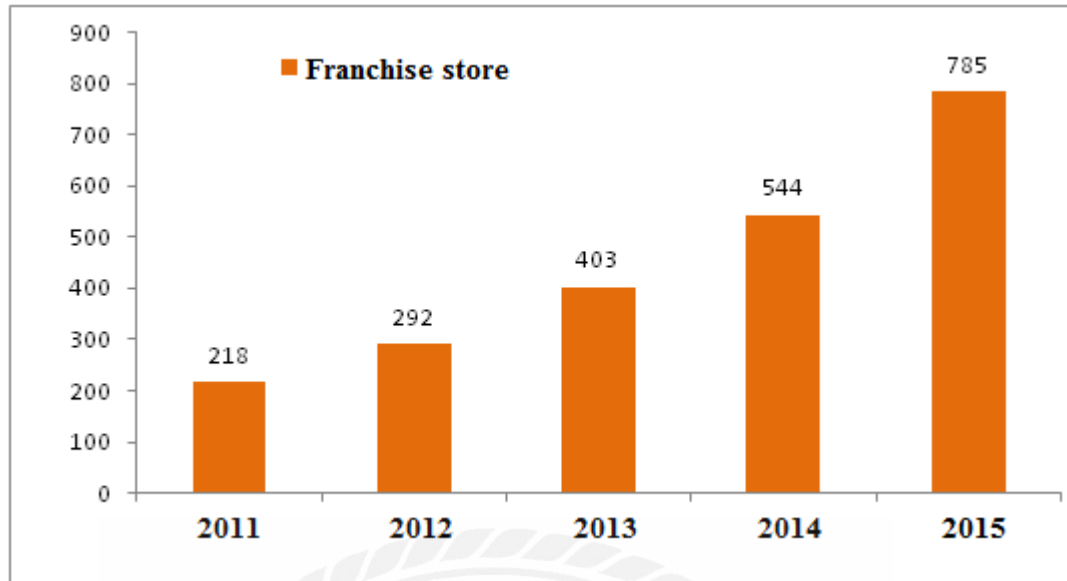


Fig.4.7 Starbucks the number of franchise stores in China 2011-2015

### 4.3.3 Face the problem in China

First of all, it is the most important problem that can not be ignored in the expand business - localization issues. The first put "ten thousand" of the huge number aside, now Starbucks is more important is the localization of China. Any enterprise from abroad into the China enterprise, we must consider the problem of localization, Starbucks in China on the one hand to take into account the policy and market immaturity, imperfect laws and regulations, and domestic the whole social credit system has not yet been established. In addition, Starbucks focuses on the big city in the China market but ignore the small and medium-sized city market, but because our country the size of the city's economic strength gap is very big, Starbucks price positioning is relatively high, 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.

For Starbucks, must be careful to find partners, carefully adjust the development strategy, choose their own localization model, including management mode, cooperation mode and product model, this is Starbucks need to concern. Moreover, in

the past ten years, Starbucks in order to pursue financial numbers, rapid expansion in the world, resulting in reduced brand value; The watering down of the Starbucks experience, the loss of corporate culture, service quality drop three problems lead to a decrease of Starbucks brand value.

Followed by the issue of funds whenever a little understanding of Starbucks people may have noticed a phenomenon, Starbucks store location always follow such a rule - the rent expensive city downtown area. As we all know, Starbucks is a luxury for the public, in order to ensure that Starbucks's customer source, so the site is also an equity . It is understood that Starbucks in Shanghai to open a new store needs 2 million, and take back direct-sale Starbucks plans to increase the number of stores to more than 500 in China , for Starbucks, need a lot of money to develop new stores. Starbucks can or not "single-handedly" open up the market, at the same time to solve the huge demand of funds, manpower and reserve resources, will become a difficult problem of Starbucks's future test.

Finally, and most important, China is an ancient country with a long history of culture. Confucian culture is the mainstream of ancient China moral norms, and this culture also deeply influence the Chinese people's individual behaviorism and moral values, this culture emphasizes the harmony between man and man, is advocated "harmonious" culture. Starbucks represents the American culture, it is well know, the United States culture is more strong, for the Chinese traditional culture is bound to occur in the inevitable conflict, so that the emergence of the Imperial Palace Starbucks event.

## **Chapter 5**

# **Enlightenment of Starbucks Success and Suggestions for Future Development**

### **5.1 Starbucks marketing strategy enlightenment**

First, differentiation. Differentiated marketing strategy let customers to continue to re-purchase Starbucks, and has had a loyalty to Starbucks, and later competitors is difficult for customers to buy their products and not to buy Starbucks products.

Second, continue to maintain the Starbucks experience and service quality. Starbucks's differentiation to customers not the same experience, high-end service quality let customers will not take the initiative to change other coffee shops. Starbucks is taking a dense development strategy in the most prosperous gold mile.

Finally, the cost advantage. Due to Starbucks's continuous research and innovate coffee, coffee making technology is becoming more and more mature, this cost advantage can resist the threat of new competitors;

### **5.2 Reasons for the Change of Starbucks' business model in China**

By Starbucks in China's failure and change, we sum up a few reasons:

First, profit-driven business model changes. After several years of development, China is rapidly becoming Starbucks's global business highlights. But in the franchise and cooperation model, Starbucks itself only from the operating income to extract a small amount of fixed percentage of commission, therefore, the huge profit temptation is Starbucks direct expansion the essential reason .

Second, China's franchise regulations are not perfect, to define the rights and obligations of the franchisee is not very clear, the franchise model will appear the franchisee does not comply with the requirements of franchiser the phenomenon. At the same time, the protection of intellectual property rights is also the franchise model can not be ignored problem. Starbucks 's brand value is considerable, under the



conditions of legal norms is not perfect, Starbucks for the franchise store constraints mechanism is not perfect, easy to breed a variety of problems, is not conducive to the development of enterprises.

In fact, sole proprietorship direct sales is not conducive to Starbucks's global brand expansion plan. Starbucks's ultimate goal is to increase the number of stores to 25,000, to become the world's coffee empire. Starbucks plans to be completed in 2007 in the world's 40 countries to set up shop, in 2011, in the United States outside the overseas market will over 54 countries and regions. Franchise chain model by maximum absorbing social capital, can rapidly expand the scale, namely "borrow chicken lay egg" direct chain to its own funds-based; financing is supplement, that is "Chickens lay eggs, hatch eggs become chicken". If implementation direct sales in China, high fund pressure the number of open shop also limited by the financing scale, the development speed slower than regional franchise. Chains reach a certain scale effect, in order to reduce costs and increase profits, therefore, the franchise chain may be more conducive to achieving Starbucks expansion plans.

Third, the need for national brand protection. Foreign brands want to enter the Chinese market, mostly through the form of franchise, in order to expand their scale and make a profit, but because of the equal shares with franchisee this part of the profits, which makes Starbucks only by increasing the number of stores to increase income. However, with the increase in franchisees, the authorized parties to choice of franchisee objects more and more cautious. Starbucks in Chinese market entry way Starbucks coffee shop with a license to operate and joint venture combination mode to enter china. In 1999, Starbucks and Beijing Meida Starbucks Coffee Co., Ltd. together to build China's first Starbucks store in Beijing. In 2000, Starbucks in collaboration with Shanghai unified Starbucks coffee co., LTD. into the Shanghai market; In 2002, Starbucks and Maxim Starbucks coffee Catering (South China) Limited cooperation in Guangzhou and Shenzhen market. With the rapid growth of Chinese customers' interest and love for high-quality coffee and Starbucks's unique in-store experience, Starbucks's business has also been

a leap. In China, one of the franchise development trend is the rise of regional chain company, that is, chain company choose a regional chain corporation in some large areas, the franchiser to assist with the franchisee training, management and promotion and so on should be exercised by chain headquarters functions. The collection of the franchise fee, part of the guidance fee for the regional chain company deserved compensation. Starbucks comprehensive turn to direct sales approach, and China's large chain development trends is inconsistent, is not conducive to the development of Starbucks in china. Finally, the autonomy of each branch is small, the enthusiasm of the staff, creativity, initiative.

Fourth, the staff is an important part of the Starbucks brand equity, and its brand communication - the main carrier of word of mouth, is between Starbucks and the customer-the communication medium. Employee performance directly affects Starbucks's revenue and brand image. Therefore, under the direct sales mode, each branch autonomous right diminish , the staff's enthusiasm, creativity and initiative are also limited. Due to the franchisees quality are mixed, lead to brand and culture understanding is not the same. Take back the franchise, regulate the market become necessary. Enterprises took back the franchise their own sole proprietorship operation, but also to protect their own brands from damage. In addition, it is difficult to implement the direct sales mode in some monopoly areas. Secondly, under the direct sales management mode, the operation and management activities are more complex and difficult.

### **5.3 Future development suggestions**

Know about the situation of competitors, we need to Starbucks future development direction and marketing strategies to make appropriate recommendations and changes.

First, the use innovative strategies such as sales for the Chinese traditional and characteristics ,to cater to the Chinese people taste the coffee. The Chinese traditional culture cleverly integrated into the Starbucks brand personality. Can set up according to the local customs of the stronghold in the country, invite people who like Chinese traditional culture and like to drink coffee into the store experience. Manage strategic alliance is also very important ,cooperation with Airlines let Starbucks to connect the market, and major markets in overseas can effectively create test mechanism. Frappuccino is Starbucks and PepsiCo co-production of a coffee cold drinks, both sides can achieve mutually beneficial cooperation. AEI music network and Starbucks to keep long-term cooperative relations, and for Starbucks recorded "monthly music tape" give the store to play.

Second, in China should not take all the direct sales mode, should take the area franchising and direct sales combined mode, to adapt to the Chinese market, to play area franchising and direct sales their respective advantages. Can strengthen the assessment and management of partners, each year for authorized cooperation partner evaluation, failure to meet the criteria for the assessment of partners, Starbucks has the right to terminate the partnership. First, to understand the actual situation of each region, adopt the direct sales and franchising combined mode, so as to reduce the mode changes brought manpower , material reserve resources pressure.

Third, Starbucks only sell coffee, the product structure is too single, lack of selectivity. Word of mouth effect, quantity advantages and personalized marketing make Starbucks has held the first in the industry. Through acquiring company, Starbucks can use the corresponding brand in different market groups to carry out their own business.

Fourth, Starbucks partners deal with the order, it is difficult to have the opportunity to talk with customers, and communicate with customers is Starbucks establish emotional connection with customers the most effective export, customers and Starbucks less a lot of close, Starbucks by the unique "way of life" degenerated into a commodity. So slow down their own pace of development, focus on improving the quality of their products, should be able to attract more new and old customers.

Fifth, should be based on different market situations around the world to take a flexible investment and cooperation mode, mainly to direct sales oriented. Make full use of "experience", let customers come to Starbucks think their products is not only coffee, and coffee shop experience. And Starbucks will change its past business model in China stop franchising, recycling stock equity, Starbucks will be transformed into a sole proprietorship direct sales in China. And plans to build China into Starbucks largest overseas market. However, due to the localization problem, Starbucks in China on the one hand should be more to take into account the policy and market immaturity, imperfect laws and regulations, selective looking for cooperator, adjust the development strategy, find the appropriate localization model, are the problems of Starbucks need to care about.

## **5.4 Marketing suggestions for the development of Chinese enterprise**

### **5.4.1 Differentiated marketing**

The success of Starbucks cannot do without its unique differentiated marketing strategy, Starbucks's experience marketing and word of mouth marketing are the most special marketing methods, also it is an indispensable part of firmly stood in the Chinese market.

It was pointed out that Starbucks created a center of consumer demand from product to service, from service to the era of experience, standard service coupled with high quality customer experience for Starbucks brings the competitiveness, also for the coffee industry has injected emerging power.

In the era of experiential marketing, good marketing is to make consumers form an unforgettable experience, the focus of experiential marketing should be found in the sales process and consumer contact with all points, to study these points and to design, through the experience of each point to establish the brand in the minds of consumers a good impression.

Word of mouth is an informal interpersonal communication with the perceptual information of the non-commercial Communicators and recipients about a product, brand, organization and service. Extend the influence of enterprises need to rely on the communication, the traditional way is to put ads, Starbucks spending on advertising investment is almost negligible, this is due to Starbucks successfully to carry out word-of-mouth communication strategy.

First of all, word-of-mouth communication begins with its employees. Starbucks employees as an important asset and partners, they are Starbucks coffee company concept salesman and educators, through employee Starbucks in the coffee industry gradually established their own prestige, and effectively promote the company's brand image.

Secondly, word of mouth communication also focused on the consumption experience in the store every customer.

Again, another way of word-of-mouth marketing is the active selection the opinion of the masses, leader or people who like new things and willing to preach their new findings. When they like Starbucks products, they will be happy to recommend Starbucks to their friends.

#### **5.4.2 Innovation strategy**

First, you can consider the introduction of a unique convenience consumption patterns and store decoration style features, so that consumers benefit from it. You can use the most popular wireless hotspot Internet, to provide a broadband Internet connection, make customers can use the network services to understand their own companies and their products information, even can provide related download services.

Second, as China's local enterprises, can have a better understanding the Chinese traditional and characteristic , can design and produce more cater to Chinese tastes, can also be combined with the current international popular

elements introduced many suitable for young Chinese products; The Chinese traditional culture and international popular cleverly integrated into the brand personality.

### **5.4.3 Brand extension**

With the more and more emerging industries and rise of enterprises, some of time-honored brand market has been squeezed, if you want to continue to occupy a place in the market, development, innovation is an inevitable way out. Brand extension is undoubtedly one of the solutions. The process of brand extension, the first problem encountered is the brand core value and extension brand are compatible or not, if not compatible, the core value of the brand must accordingly be extended, and the brand core value and brand positioning is closely related to the initial.

Of course, the reasons for the failure of brand extension can be found a lot, but the most fundamental reason is only one, that is: the extension of the characteristics of the product and the core values of the brand does not adapt. Brand core value in essence refers to a brand in the minds of consumers accumulated differentiation impression and its symbolic significance, rather than the specific use of the product. Brand extension improper caused by brand personality dilution, brand image is fuzzy, the extension product inferior image for damage to the brand image, its essence is because the extension of the product deviated from the core value of the brand, this is the root cause of the brand extension failure.

In the brand extension, to analyze the existing brand positioning is at which level, this level whether support the brand extension will be carried out, to what extent support this extension. In the brand extension, the brand core value determines the maximum extent of brand extension. If you have the same core value, even in the category of very different, different attributes can also be extended between the products, which is the successful use of new product brand extension strategy basis. From the front to clarify the five kinds of brand positioning, the brand core value of

strong extension can be divided into interest type, characteristic type, social type, concept type, cultural type and other types, and brand extension are weak the core value is located in the utility, product form, services, potential products, etc., belong to the long-term brand core value solidified in a very specific attributes, that time after the brand extension, not leaves room to imagination. Affect the consumer's recognition for the product, the brand has become a synonym for a product, and has irreplaceable. In contrast, the culture, society and concept for the brand of the core value, its extension ability is strongest; use the interests and product characteristics as the brand of the core value in the second; to proprietary technology or mysterious formula as the brand of the core value, its extension ability is third; once the brand as a synonym for the product, it has almost no extension ability. Extended products must meet the brand's core values, whether the brand can be extended to new products, mainly to see whether the core value of the brand can contain the new product. The core value of the brand positioning in the cultural, social and conceptual level is an effective way to enhance its inclusiveness, it is conducive to the brand realization to across class extension of the category of products.

To establish a unique position in the market, need to carefully select the target market, and create a clear difference advantage in the target consumer. This can be achieved in a variety of ways, such as brand name and image, services, design, etc.. The strength of brand market position is based on six factors: brand space, brand heritage, value, assets, personality and image. The first factor brand space relates to the choice of the target market; the other five factors for these target customers to create clear differential advantage provides a way.

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