Marketing Strategy Innovation: A Study on Costa's Brand Power Enhancement in China

Jue Gan[1,a,*]

[1]*Shanghai Ocean University, School of Economics and Management, Shanghai, 201306, China*
a. 2240206@st.shou.edu.cn
*corresponding author

Abstract: With the development of the times, Chinese people's demand for coffee has increased, which also makes the coffee industry develop rapidly. Tens of thousands of coffee shops are increasing their number every day. However, there is one coffee shop that is gradually disappearing from the Chinese landscape: COSTA. The purpose of this study is to take COSTA as an example to study the characteristics of the development trend of the coffee industry. This study analyzes the reasons behind the large reduction in the number of COSTA stores in China from the perspective of marketing management strategies, and further studies are divided into marketing and product sectors. This study concludes that the reason for the decrease in the number of COSTA stores is the lack of innovative and trendy taste designs and the adjustment of localized taste habits. The environment of offline stores does not have a local festival atmosphere and diversified service provision. At the same time, this study also puts forward suggestions for COSTA's future development, such as adjusting brand taste, localization of product design, and innovation based on hot topics in China. The study hopes to provide references for COSTA and other coffee shops in the same industry.

Keywords: COSTA coffee, China region, Management strategy

1. Introduction

With the development of society, more and more coffee shops have emerged in China, especially in Shanghai, with 673 new coffee shops in 2023. According to the International Coffee Organization in London, coffee consumption in China is expected to grow at an annual rate of 15 percent to reach 1 trillion yuan by 2025 [1]. This is well above the global average growth rate of 2% [1]. Whether the new opening is an independent coffee shop or a chain store, it is evident that this industry is currently experiencing rapid and robust growth. About 25% of consumers will choose to drink a cup of coffee or more per day, and the main consumer group is concentrated in young people. The reasons for drinking coffee include refreshment, life enrichment, and commercial socializing, which also encourages people to meet in a coffee shop when they have a business meeting. The more expensive coffee brands in the mainland coffee industry, led by Starbucks, highlight their comfortable environment, good service, and unique beans as their main selling points. All levels of the coffee industry, especially the number of shops in the upper and middle reaches of saturation, also make the development trend of coffee gradually begin to sink, emphasizing localized development.

Many relatively low-cost coffee brands have also been born, such as Luckin, Cudi, etc., to meet the requirements of working people for affordable and refreshing. Such coffee shops often lack elaborate in-store decor and are suitable for consumers to take away. Each store is constantly developing new products every day and it is difficult to resist the drainage of new stores, making many slow-development stores shut down. There is one establishment that has been gradually fading from public view and closing its doors on a large scale in recent years: COSTA. As a longstanding Italian coffee brand, it should have secured a prominent position in the market. Nevertheless, according to China Central Television (CCTV) finance report, the number of COSTA stores reduced by 10% nationwide in 2020 [1]. The current marketing status of COSTA Coffee lacks product localization optimization and the experience provided to consumers in the store. These two deficiencies cover both the drink itself and the dining environment, which is the current emphasis on the taste and emotional value of the coffee industry. In a practical sense, this study can understand the reasons behind COSTA's gradual slowing down of expansion in China in recent years with its acquisition by Coca-Cola and its tendency to be left behind by its peers. An analysis of the decline in the number of COSTA stores can help this study better understand the current situation of the coffee industry. As the first coffee shop was introduced, its current management problems are representative of the industry, and it can effectively study the problems existing in the current market. To investigate why the number of COSTA coffee shops has fallen so dramatically, this research needs to pay attention to the deficiencies and defects of its marketing strategy and put forward targeted suggestions, which can effectively help the company improve and is also worthy of reference for other stores in the same industry. This study draws upon various media reports regarding the reduction of COSTA stores and analyzes the underlying problems with its brand management strategy. The paper will examine these issues through the lens of brand positioning and product analysis.

2. The Brand's Operation Market Data

2.1. European Region Market Size

COSTA coffee has an objective development trend in European region markets and has a large number of consumers. From COSTA Coffee to Starbucks, coffee shops are set to spend a record amount this year, with sales growing by £1bn since 2015, according to research from Mintel. The hot drink in a traditional cafe is chosen by one in six consumers. Mintel studied the enduring popularity of high street coffee chains and found that nearly half (48%) of UK consumers bought a hot drink from COSTA coffee within three months last year [2]. Besides, COSTA is the largest player, with 2,625 stores, according to Allegra. It can be seen that when COSTA was founded, it was the favorite coffee brand of many people in the European region market. People who enter COSTA stores to enjoy coffee in foreign markets are mostly for daily drinking and business meetings.

2.2. China Regional Market Size

COSTA Coffee has reduced its presence in China in recent years, but it is still at the forefront of Chinese coffee brands. According to relevant surveys, in 2021, COSTA's sales reached a record high in the 15 years since it entered China, and accelerated the strategic transformation of Total Coffee Company (an all-around coffee company) to continuously expand new products. In the first half of 2023, the number of COSTA coffee stores in China was 452, mainly concentrated in Jiangsu and Shanghai. It can be seen that the brand has great potential to expand its influence in China, although the actual store is reduced, the profits obtained after the transformation of products are still considerable.

3.   Brand Management Status

3.1.   Brand Management Company

In 1971, today's COSTA Coffee was founded by Italian brothers Sergio COSTA and Bruno Costa (Bruno COSTA) based on establishing a coffee bean wholesale business to supply roasted coffee beans to the catering industry and Italian coffee specialty stores. As Italians, they and Sergio have experience mixing and roasting coffee beans in Parma, Italy, giving the COSTA Brothers' coffee shops their unique style of roasting coffee beans. Then, at the end of 2006, COSTA established COSTA (Shanghai) Catering Management Co., LTD in Shanghai. China's first COSTA coffee shop was built on the Nanjing East Road Pedestrian Street. At present, COSTA is adopting a "close-fitting" strategy in the Chinese market, which makes people see COSTA near almost every Starbucks. This not only saves on the various costs of market analysis and research, but also takes advantage of Starbucks' preconceived position in the minds of consumers. This increased the popularity of COSTA. Around 2018, Coca-Cola bought COSTA for $5.1 billion and began promoting the production of ready-to-drink coffee drinks.

3.2.   Brand Design Concept

COSTA claims to have originated in Italy and is "the aristocratic coffee of Europe." As a result, COSTA has positioned its product as "slightly higher than Starbucks." In addition, in the "global chain standardization" advocated by other coffee chains, the taste and aesthetic of COSTA's store locations will be used to modify COSTA's coffee. This allows COSTA coffee products to have different national and regional styles. COSTA's coffee is made from more than 30 years of Italian tradition, and perfect and high-quality coffee technology. Its coffee is made from imported beans picked from nine countries in South America, East Africa, Asia, and the Far East. COSTA creates a unique espresso with unique proportions. Producing the highest quality coffee is enshrined in COSTA's commitment. In their stores, coffee is hand-made on-site by baristas with professional Italian coffee-making skills. COSTA's launch of ready-to-drink coffee marks the beginning of the layout of China's ready-to-drink coffee market.

4.   Brand Management Problem Analysis

4.1.   Price and Raw Materials

COSTA's coffee costs around 40 yuan per cup, which claims to be Italian and European aristocratic, so it is priced on the high side. Coffee beans are imported from nine coffee-rich countries such as South America, East Africa, Asia, and the Far East. Arabica and Robusta coffee beans are used in a ratio of 6:1, so customers can choose a relatively simple variety of coffee beans. Compared with other coffee shops at the same price, COSTA's performance is not outstanding, so its price does not allow customers to easily access the "noble" service. In addition, product pricing is not flexible, and it is difficult to adapt to the changing requirements of customers, ignoring the changes in customer needs [3]. That has left some higher-priced products with less purchasing power and affecting the overall reputation and operating profits of coffee shops. Therefore, when people walk into COSTA to buy a cup of coffee, they will not feel that they have an aristocratic experience for a cup of coffee at this price, that is, the brand positioning does not match the product performance.

4.2.   In-store Environmental Issues

The in-store dining experience is also an important part of the brand positioning. If the customer experience is not enough, then the evaluation of the product will be reduced. Producing the highest

quality coffee is COSTA's commitment, so they chose a semi-automated coffee machine that allows baristas to brew pure espresso for customers. With time, personnel changes, many stores have received reactions, and the training level of baristas is different, resulting in uneven coffee quality, which brings bad experience to customers. As the daily third space, coffee shops need to have artistic and emotional communication experience, and bear the responsibility of restoring aesthetics in ordinary life [4]. Shop assistants and baristas carry out this responsibility. COSTA stores have different levels of staff training, which makes some customers have a poor experience and do not enjoy the "noble" experience of the brand. And the decoration of the store is relatively simple, cannot bring customers holiday mood, so that the customer experience is insufficient.

4.3. Product Development Problem

For a coffee shop with a long history, COSTA's innovation in products has not attracted too many new customers. This study believes that COSTA should pay more attention to the heat trend of the sales area and combine it with the product. The world's traditional coffee technology, after the traditional coffee instant (1940-1960), the traditional coffee refined (1966-2000), has further developed to a new stage of traditional coffee art [5]. While focusing on traditional flavors, it lacks new flavors, which makes consumers more willing to try the new flavors of other stores. At the same time, the development of dim sum served in coffee shops is also insufficient, and there is a lack of diversified dim sum types. The lack of innovation may be caused by the brand's emphasis on traditional flavor and only retaining the original style of the product without further research to explore the taste preferences of local customers.

4.4. Single Communication Marketing Channel

COSTA's publicity mode only stops at the announcement of basic products, and lacks the marketing means combined with its brand history, which fails to make customers think of COSTA when they see a certain product. Brand assets include tangible assets and intangible assets, but in the process of operation, enterprises tend to ignore the sustainable incremental profitability created by intangible assets [6]. The advertising capital depreciation rate is used as a measure of the life of intangible brand capital [6]. This also emphasizes that COSTA needs to update its brand advertising and dig deeper into the selling points of its products.

4.5. The Suitability of Brand Coffee in China

COSTA's aristocratic brand image will also make some white-collar workers feel that it is difficult to get close to COSTA and cannot be the best choice for them. It cannot adapt to the fast-paced life of first-tier cities. In addition, COSTA has no layout in the third and fourth-tier cities, and only focuses on the development of stores in first and second-tier cities, which also makes the brand seem not close to the people. COSTA products are mainly made of traditional Italian coffee, which is different from most coffee in the market at present and tastes more bitter, which may cause differences with the taste in China. In China, most of the views on coffee are still based on good taste, which can bring people a relaxing and refreshing feeling. But it has a foothold in foreign markets.

5. Brand Management Optimization Suggestions

5.1. Looking for Better Quality and Affordable Raw Materials

COSTA should reduce costs, improve product quality and marketing promotion, and give consumers a better experience. COSTA can look for high-quality coffee beans in consumer countries, change the assembly method during transportation, find out the waste phenomenon, adopt intelligent and

automated logistics equipment and systems, update inventory information in real time, and accurately calculate the distribution route and time, to reduce logistics costs [7]. When coffee prices are low, no matter how much cheaper, consumers tend to choose a store with brand recognition [8]. COSTA can also further promote consumer's cup coffee discount campaign to encourage consumers to bring their cups into the store and reduce product packaging costs. To attract more consumer groups into the store consumption, improve the store heat.

5.2. Improve the Overall Quality of the Store

Food and beverage consumption is reflected in four stages, namely, price, quality, service and emotional experience. Nowadays, people will comprehensively consider the decoration style, grade level, and service attitude of the dining space and other non-material factors, and attach importance to the "emotional experience" of the dining space [9]. COSTA emphasizes that to provide high-quality on-site coffee, it is necessary to improve the technical training of baristas and bring consumers a more professional consumption experience. At the same time, the centralized training of the clerk, so that consumers can feel relaxed as soon as they enter the door so that they can savor the coffee and enjoy the emotional value brought by a cup of coffee. Building an emotional bridge between consumers and brands can effectively increase the number of repeat customers, improve the comprehensive satisfaction of customers, and thus increase turnover [9].

5.3. Development and Promotion of New Things

COSTA can combine modern technology to carry out digital brand communication. Digital brand includes three dimensions, namely information experience, entertainment experience and interactive experience, which reduces the time cost and thinking cost of consumers in acquiring content and spreads information to cover various features of products, making consumers more willing to participate in the promotion of stores and improve brand image [10]. The brand can also choose to co-produce products and surrounding gifts with the current well-known local IP, or cooperate with stars to promote, and attract more people to the store consumption, and the brand can also give higher added value to the product. Brands can design integrated platforms with integrated resources to ensure a consistent brand image across different digital media channels [10]. By delivering a consistent brand story and values through a unified content strategy, consumers can feel the continuity of COSTA's brand history across all channels [10]. COSTA should make use of the data integration capabilities of digital media to collect and analyze user behavior data, better understand audience needs, and provide targeted guidance [10].

5.4. Enhance Brand Differentiation

COSTA Coffee should have its characteristics in many details. According to these characteristics, the differentiation strategy is developed [5]. For example, increasing the service facilities in the store, so that consumers can enjoy these value-added services with double the price of coffee. These value-added services will not increase the cost of COSTA coffee significantly, but can greatly improve consumers' consumption stickiness for COSTA coffee [5]. COSTA can also choose to build city brands with cities, all of which are committed to creating the best image in people's minds around the world [11]. For researchers, cities must first find attractive points and promote them, and COSTA can seize this opportunity to grow alongside them [11].

5.5. Localization of Product Taste

Under the background of globalization, the localization of marketing strategies of multinational companies is the key to improving the competitiveness of brands in different countries and regions, which can promote the faster and better development of brands [12]. COSTA should develop limited-edition products suitable for Chinese consumers based on Chinese characteristics and attract Chinese consumers with its brand influence [12]. Chinese traditional culture "tea ceremony" can be integrated into coffee drinks to launch regional specialty coffee; COSTA can also innovate with local cuisine when making in-store snacks. In the store decoration can also increase the connection with Chinese traditional festivals, to meet the cultural needs of Chinese consumers in the store consumption. In addition, COSTA can choose to pack food and coffee with Chinese characteristics, so that consumers have a sense of closeness when staying in the store.

6. Conclusion

By analyzing the brand management problems of COSTA coffee in culture, technology and other aspects, this study can find that the coffee industry is still promising. In this study, an in-depth analysis of COSTA coffee's business status is conducted to determine COSTA coffee's market positioning and strategies. First, the products and services currently provided by COSTA Coffee are not in line with the price, so the brand price positioning should be adjusted to enhance the service quality. Secondly, COSTA coffee lacks innovative drink design and localized taste improvement, so it is necessary to increase localized taste while retaining traditional flavor. At the same time, COSTA should improve the in-store dining environment and increase the local festive atmosphere decoration. In addition, COSTA Coffee brand's audience is relatively limited, so it can pay more attention to local real-time hot spots in new product design and store layout, and combine hot topics for product innovation and marketing. The significance and influence of this study lie in the analysis of the reasons why COSTA Coffee cannot keep up with the pace and gradually decline in the rapid development of coffee industry in recent years, and provides suggestions that can provide reference. There are some limitations in this study, but it is believed that it can be optimized in further market research.

References

[1] Sina Finance. (2020) Costa is Closing Stores and Even Coffee is Back, but Analysts Say the Industry is not Ready for a Shakeout. Retrieved on January 22, 2024, https://baijiahao.baidu.com/s?id=1677223944699901 828&wfr=spider&for=pc

[2] Fujiwara coffee Jun, (2023) COSTA is king, the trend of coffee consumption in the UK. Retrieved on January 22, 2024, https://baijiahao.baidu.com/s?id=1780870069603206562&wfr=spider&for=pc

[3] Mo, Y.T. (2023) Research on Service Marketing Strategy of Kunming K Coffee Shop. Kunming University of Science and Technology.

[4] Jaishikha, N. (2016) Aesthetic and Affective Experiences in Coffee Shops: A Dethis researchyan Engagement with Ordinary Affects in Ordinary Spaces. Education and Culture, 32 (2), 99–118.

[5] Song, R.S., Guo, Y.W., Lu, J.D. (2023) Analysis of COSTA Coffee Marketing Management in China. Modern Business Beijing Institute of Technology Zhuhai College.

[6] Bronnenberg, B.J., et al. (2022) Marketing Investment and Intangible Brand Capital. The Journal of Economic Perspectives, 36 (3), 53–74.

[7] Liu, F.Y. (2024) Study on the Influence of Logistics Cost Control on Enterprise Economic Benefit. Logistics Technology, 47(02), 20-26.

[8] Assmann, S. (2018) Consumption of Fast Fashion in Japan: Local Brands and Global Environment. Consuming Life in Post-Bubble Japan: A Transdisciplinary Perspective, edited by Katarzyna J. Cwiertka and Ewa Machotka, Amsterdam University Press, 49–68.

[9] Fu, L. (2023) Research on Dining Space Design Based on Emotional Experience. Nanchang University.

[10] Qin, X.J., Li, W.T. (2023) Research on the Innovative Application of Digital Media in Northeast Brand Design. Shanghai Packaging, 12, 126-128.

[11] Ahmad, A., et al. (2023) Significant Dimensions in the Process of Determining the City Branding: Case Study of Irbid City, Jordan. Theoretical and Empirical Researches in Urban Management, 18 (1), 27–51.

[12] Pang, W.Y. (2023) Research on Localization of Marketing Strategies of multinational Corporations -- Taking KFC as an example. International Brand Observation, 15, 34-43.