

# *Analysis of the Current Situation of Starbucks' Operation in Chinese Market*

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**Abstract:** With the gradual expansion of the Chinese coffee market, Starbucks has continued to increase its investment in the Chinese market, which has made China the largest overseas market for Starbucks in the world. With its unique corporate culture, Starbucks has maintained good relationships with its customers while ensuring the quality of the products, and there is much to learn from its success of Starbucks. This paper uses SWOT theory, comparative analysis, and strategic research to analyze the current situation of Starbucks in the Chinese market. The primary data for this paper is obtained from the Starbucks website and other journal papers. This paper will examine the current brand positioning and operations of Starbucks in-depth and provide analysis and recommendations. As Starbucks is proliferating in the Chinese market, certain previous studies may have issues such as untimely information, and there is still a need to update relevant information for this type of business to meet the accuracy of the information.

**Keywords:** marketing, coffee, supply chain, Starbucks

## 1. Introduction

Starbucks Coffee is one of the most recognizable coffee chains in the world. Starbucks currently has over 34,000 shops in over 82 countries worldwide [1]. Since 1999, when Starbucks opened its first shop in the China World Trade Center in Beijing, China has become the largest and fastest growing overseas market for Starbucks worldwide. According to Starbucks Reports Q3 Fiscal 2022 Results (2022), Starbucks has 5,761 shops in over 200 cities in China as of the third quarter of 2022 [1]. However, how Starbucks has managed to grow at a rapid pace while still completing tasks in an orderly manner is something we need to think about and learn from. This paper will focus on exploring the current situation of Starbucks in the Chinese market and giving relevant suggestions.

## 2. Analyze the Current Situation of Starbucks Using SWOT Theory

This study provides a reference for the development of Starbucks' future marketing strategy.

### 2.1. Strengths

According to the "In-depth Panorama of China's Coffee Industry," Starbucks has the most significant number of shops of any mainstream coffee chain in China. This large number of shops means that Starbucks will have higher market visibility and, to some extent, be more resilient to

shocks. For example, during the Shanghai outbreak in the second quarter of 2022 in China, most offline brick-and-mortar shops could not operate during this period due to the epidemic prevention policy. Although Starbucks had more than 800 shops affected in Shanghai, it could offset some of its losses through profits in other cities because of its large number of shops in other cities.

Table 1: Number of shops and overall share of mainstream coffee chain brands in first-tier cities in China.

Coffee brands	First-tier cities					Total share	Total number of shops
	Beijing	Shanghai	Guangzhou	Shenzhen			
Manner	11	117	/	14	94.36%	212	
Costa	103	106	11	7	58.06%	406	
Tims	31	128	7	4	71.67%	233	
M Stand	/	25	2	5	82.05%	39	
Starbucks	417	881	224	223	30.28%	5761	
Luckin	353	504	252	218	27.13%	5064	
%	7	11	2	4	48%	50	

## 2.2. Disadvantages

Starbucks shops are expensive to operate. The concept of "third space" was introduced by American sociologist Ray Oldenburg, who referred to the domestic living space as the first space, the workplace as the second space, and public spaces such as bars, coffee shops, museums, libraries, and parks in cities as the third space. The freedom to release oneself in a relaxed and convenient environment is the third space's main characteristic [2]. Because of this third space attribute, most Starbucks shops need a large customer area to meet customer demand. Starbucks shops are usually in densely populated city centers or inside shopping malls, meaning that rent is a significant expense for Starbucks. In addition, Starbucks in first-tier cities may open multiple shops in the same area to make the shops more competitive. Therefore, a large number of shops also means a higher demand for capital and a smaller talent pool, which is a significant challenge for Starbucks [3].

## 2.3. Opportunities

According to the Coffee Salon 2022 annual coffee research report, 53.22% of coffee lovers drink coffee as often as 1-2 cups per day [4]. Meanwhile, according to the International Coffee Organization in London, coffee consumption in China is growing at 15% per year, compared to a global average of 2%. The increasing demand in the Chinese market means that Starbucks will have better prospects for growth and higher potential profits in the future.

## 2.4. Threats

With the development of technology in recent years, instant coffee has improved significantly in terms of flavor. According to the "China Freshly Ground Coffee Industry Research Report" released by Avery Consulting in July 2022, instant coffee occupied 52.4% of the market share in 2020. Although the market share occupied by instant coffee has declined year by year since 2018, it still occupies more than half of the market. Compared to freshly ground coffee, instant coffee is characterized by its portability and convenience [5]. Moreover, in terms of price, buying a cup of instant coffee is much lower than buying freshly ground coffee. In addition, convenience store

coffee in first- and second-tier cities has been rising in recent years. Take the whole family convenience store's Surgeon's coffee, for example. According to public data, the sales of Surgeon's coffee exceeded 100 million cups in 2019, nearly ten times that of Starbucks. At the same time, the average price of convenience store coffee is usually in the range of RMB10-15, making it a good choice for consumers who are more price-sensitive or have lower quality requirements. Compared to these brands, Starbucks does not have a price advantage. The inability to capture this part of the market is a threat to Starbucks.

### **3. Starbucks Domestic Material Supply Chain Situation**

An efficient supply chain system has also laid a good foundation for Starbucks' development in China. Starbucks currently has nine regional distribution centers and 48 central distribution centers in China, ensuring that materials are delivered to each shop promptly [6]. At the same time, Starbucks has divided the cities where its shops are located into fresh and frozen markets according to delivery times and the radius of the distribution centers. The fresh food market offers a wider selection of food items than the frozen market. Starbucks has a comprehensive food safety system, with expiry dates for all ingredients and products used to make coffee, and beverages and a third-party testing company that regularly inspects the food safety and hygiene of the shops. This results in the need to discard materials that have exceeded their shelf life. In order to reduce the cost of discarded materials, the shop's material requirements are counted by a dedicated duty manager, forecasted based on past sales, ordered on the company's internal system, and delivered by a dedicated distribution company. At the same time, to ensure that there is no shortage of materials that would prevent normal operations, materials can be transferred between shops in the same city or nearby cities.

Starbucks announced in 2020 that it would build a "Coffee Innovation Park" in Kunshan, Shanghai, with a total investment of nearly RMB 1.1 billion to better serve the Chinese market. With the park's completion, Starbucks will no longer rely on other countries to roast its coffee beans in China, and China will become an essential node in Starbucks' global coffee bean roasting network.

### **4. Starbucks Shop Hierarchy and Positioning**

In order to meet the needs of different consumers, Starbucks has a variety of shop types, which can be classified according to different latitudes.

In terms of product line, they can be classified as:

First, core shops. Core shops are the most significant number of Starbucks shops and are the roots of the tree that generate profits to support Starbucks' operations and growth. At the same time, core shops can be divided into hand-pumped shops, ice cream shops, and so on, according to their products.

Second, Starbucks Reserve. Starbucks Reserve has better quality coffee beans, which can provide a better consumption experience for customers who are more demanding in terms of taste. Starbucks Reserve stores are divided into the following categories: High profile stores, which have a separate selection bar; High profile plus stores, which usually have a separate reserve bar and higher-end Victoria Arduino coffee machines.

Third, reserve only. RO shops have a distinctive urban design element and sell only regular products.

Forth, flagship shop. The shops have the same types of drinks as RO locations, but the business environment is usually a single building or the heart of a giant commercial complex.

Fifth, Starbucks Reserve Roastery. Starbucks needs to expand its roasting of all select coffee beans in China, with a broader product line of bread, tea, and more. The open environment allows customers to get up close and personal with the process of handling and roasting coffee beans.

For the average customer, a core shop will suffice. However, for customers who are more interested in taste and experience, a reserve shop will not only provide a better tasting coffee, but also increase the customer's buying experience because the baristas in the selection shop have better coffee-making skills and more professional coffee knowledge.

From the latitude of development, these can be divided into the following six types:

The first is business district stores, which are located in shopping malls.

The second is office area stores, which are located in office buildings.

The third is uptown stores, which are located near community stores.

The fourth is transport station shops, which are shops located in transport hubs such as airports and train stations.

The fifth is the scenic shop, these shops are located in the scenic area

The sixth category is mobile stores, which have no fixed location and provide mobile ordering services.

The last category is special venue stores, which are located in other categories and special venues such as hospitals, art galleries, university campuses, etc.

## 5. Starbucks Main Products

Starbucks products can be divided into beverages, foods, and coffee equipment. For coffee lovers, Starbucks offers the most mainstream coffee drinks, such as lattes and Americanos. For the traditional Chinese, Starbucks also offers tea and Chinese tea. In addition, Starbucks' special frappuccino is very popular in the summer. Each season, Starbucks offers a variety of seasonal specialties that are more innovative than traditional coffee.

In 2020, Starbucks joined forces with plant-based innovators in China, Beyond Meat and Oatly. Today, nearly all stores across the market offer new plant-based food and beverage menus and new merchandise made from recycled content [7]. Starbucks also introduces many different styles of cups each year, often with a specific theme to meet the needs of its customers.

## 6. Conclusion

Since Starbucks entered the Chinese market in 1991, it has become a household name in just 21 years, and most coffee lovers have tasted Starbucks coffee. This paper uses SWOT theory and other methods to analyze the current situation of Starbucks in the Chinese market. Starbucks is currently the coffee chain with the largest number of shops in the Chinese coffee market, but it should be noted that a large number of shops means that the company will need to invest more manpower and capital, and the current price of Starbucks drinks is much higher than instant coffee and convenience store coffee, so how to gain this part of the market is still a problem for Starbucks to think about. Starbucks' efficient logistics and distribution network and the many different levels of shops are major advantages for Starbucks. As the world's largest coffee chain, Starbucks' success is inextricably linked to the company's own special marketing approach. Today, Starbucks has partner coffee estates in most of the world's coffee-producing regions and has several coffee roasting sites around the world. There is no doubt that Starbucks has created a coffee empire, and this success deserves to be studied and learned from.

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