

# *Analysis and Research of Starbucks' Marketing Strategy in China*

Rongjin Cheng<sup>1,a,\*</sup>

<sup>1</sup>*School of Management, Tianjin University of Technology, Tianjin, 300384, China*

*a. crj030219@outlook.com*

*\*corresponding author*

**Abstract:** Starbucks is a multinational coffee chain in the United States and the largest in the world. The brand has always emphasized providing customers with high-quality coffee and unique coffee experience, and is committed to becoming a social gathering place and delivering a warm and caring coffee culture. At present, the competition in China's coffee market is increasingly intensified, and the trend of consumption downgrade is prominent. However, after Starbucks became the first professional coffee company to go public in 1992, the brand still maintains its top position. To explore the Starbucks brand based on the background of the Z era of marketing strategy, this paper adopts the literature analysis, and case analysis, to elaborate on the development status of Starbucks and brand advantages and disadvantages, put forward the brand in the "third space" substitutability and brand selling point, and the lack of marketing direction, in order to provide reference and reference for other brands. Through the comparison and collation of relevant data, this study finds that Starbucks has a strong brand advantage and a unique marketing strategy, but also faces the threat of seizing market share in the industry.

**Keywords:** Starbucks, Marketing strategy, The third space, SWOT analysis.

## **1. Introduction**

With the change in consumption concept, more and more office workers begin to get used to and enjoy drinking coffee. Starbucks is to seize the consumer psychology of this group, quickly expand the market and grow stronger. This paper mainly studies the unique marketing strategy of Starbucks, and uses STP strategy analysis and SWOT analysis to explain the development status and brand advantages and disadvantages of Starbucks, and puts forward suggestions on the shortcomings of its marketing direction. The STP strategy was proposed by marketing guru Philip Kotler in the 1990s, Also known as the market positioning theory, It consists of three parts: market segmentation, market targeting, and market position, Used to analyze the competitive advantages and market characteristics of enterprises, It is conducive to enterprises to formulate and adjust the marketing combination strategy; The SWOT analysis rule was proposed by professor Heinz Weihrich at the University of San Francisco in 1980, Is the idea of systematic analysis to match various factors, Based on the situation analysis under the internal and external competitive environment and conditions, The conclusions drawn from this are usually certain decision-making. The thorough research on the marketing strategy of Starbucks in China is of great significance for other enterprises to learn from each other and develop more effective marketing development plans; and provides a beneficial

exploration for future research on the marketing strategy under a consumption degradation environment.

## **2. The Current Development Status of Starbucks Industry**

### **2.1. Market Size**

The proportion of Chinese coffee in the world coffee production and market is very small, but in recent years, the development is gradually accelerating, and the scale of coffee planting is also expanding. In 2012, the area of coffee in China reached 31,300 hm<sup>2</sup>. The total output value reached 1.175 billion yuan, which proves that the overall penetration rate of coffee in China is relatively low, but the overall scale is growing by [1]. Secondly, the Chinese mainland coffee market is dominated by instant coffee. With the improvement of coffee awareness and the maturity of related industrial chains, the proportion of freshly ground coffee in China has increased by 21.5 percent from 2017 to 2020. However, at the present stage, the proportion of freshly ground coffee in major consumer countries such as the United States and Japan is 87.0% and 63.1% respectively, so it is speculated that freshly ground coffee will become the main increment of China's coffee market.

### **2.2. Industry Overview**

The coffee industry chain is mainly divided into three stages. The first stage is the supply of coffee beans, including planting, harvesting, rough processing, grading, selection, weighing, packaging, the farm is all over the country, and difficult to integrate; the second stage is the finishing of coffee beans, including baking, extraction, the domestic roaster mode is relatively concentrated, the production capacity and quality echelon is clear; the production and sales of instant coffee, ready-drink coffee and freshly ground coffee is the downstream of the industrial chain, accounting for more than 90% of the value of the whole industrial chain.

Starbucks is one of the most supply-chain catering companies in the world. The number of coffee beans purchased by the company accounts for 3% of the global production, and the procurement cost is far lower than the competitive cost, and it has a certain bargaining power. Starbucks has also set up farmer support centers around the world to produce quality coffee, and the relatively low raw material costs give Starbucks a big advantage in the coffee market.

### **2.3. STP**

#### **2.3.1.S: Demand Hierarchy and Consumer Portrait Segmentation**

In the process of industry development, the rich demand level of coffee, high stickiness and the consumption characteristics of the long life cycle of coffee have been fully reflected. The newly brewed coffee sold by coffee chains has both functional and scene attributes, providing a "third space" for people to socialize or be alone. On the other hand, the culture and attitude of coffee brands have become the social fashion of consumers, which to a certain extent meets the spiritual needs of consumers for identity.

As the consumption habit of mass-market coffee, especially freshly ground coffee, is still in the cultivation stage in China. At present, Chinese coffee consumers are still mainly white-collar workers aged 20-50; The per capita intake increases with the increase of consumption years, with extensive users and long life cycle.

### **2.3.2.T: Target Consumer and Geographical Distribution**

Starbucks is aimed at highly educated and high earners, including the working class, middle class and coffee lovers. Starbucks consumers are willing to try new flavors and have a strong affinity for coffee. They aim to achieve leisure and relieve work pressure by drinking coffee.

The target market of Starbucks is mainly concentrated in the cities with developed economy and strong consumption power, and it adjusts the types of stores and service models to meet the needs of consumers in different cities. Starbucks has 1,115 stores in Shanghai, second only in Beijing and Hangzhou to Shanghai, and this distribution reflects Starbucks' strategic layout in the Chinese market.

### **2.3.3.P: High-quality Consumption Experience**

Starbucks' market positioning focuses on providing high-quality coffee and a unique consumer experience. Starbucks is a high-end coffee chain brand. Different from traditional homes and offices, Starbucks focuses on delivering the "third space" concept of comfort, casualty and fashion through high-quality products and services [2].

From the perspective of the price system, Starbucks belongs to the middle and high-end route; from the perspective of the consumption scene, Starbucks takes the "slow coffee" scene emphasizing the environment, space and atmosphere as its biggest selling point. Starbucks offers high-quality coffee drinks to meet coffee lovers' high requirements for coffee taste, while for Chinese consumers who prefer traditional drinks, Chinese tea and other products are provided to satisfy their tastes.

## **3. SWOT Analyse**

### **3.1. Strengths**

#### **3.1.1.Strong Brand Image**

The core competitiveness of Starbucks lies in its unique coffee roasting technology and quality assurance. Starbucks pays attention to the shaping and promotion of its brand image. Through unique store design, unified store decoration and visual elements, Starbucks has created a comfortable, comfortable and fashionable coffee consumption environment [3].

Starbucks "offline stores, as the" third space ", actively convey the brand culture and unique coffee experience. The store display design, interactive creativity, product experience and other products intuitively connect coffee with the life concept advocated by the brand to enhance consumers' sense of identity. In addition to expanding its stores, Starbucks will continue to try exhibitions, markets, pop-up stores and other forms.

#### **3.1.2.Multi-channel & Differentiated Marketing Strategy**

Starbucks' front-end positioning in the middle and high-end market, focusing on the three elements of "product + consumer + store". By creating a rich product matrix, launching hot products such as Frappuccino and cold brew coffee, and developing new categories such as VIA free coffee; targeting high frequency and high-end consumers, clear consumer positioning; actively building the concept of "third space", to ensure that the company style can be reflected in all stores.

Starbucks' back-end builds deep industry barriers with "supply chain + digitalization". Starbucks has built an integrated supply chain "from coffee beans to coffee drinks" to support the all-round layout of the industrial chain, which is crucial to product quality control, store expansion and cost control [4]. Starbucks adopts the mode of "farmer support center + long-term supplier" in the upstream coffee planting industry, and operates 10 coffee growers support centers in major coffee producing-countries/regions in the world to obtain stable raw materials and lock the lowest price of

coffee beans; baking factories in the midstream coffee processing industry to ensure the quality and timeliness of raw materials; and distribution centers and logistics suppliers in the downstream coffee retail industry to ensure timely supply of stores. At the same time, we will accelerate the digital transformation. After using the "feikuai service" to make online payments, 85% of the stores will provide the "special star delivery" delivery service, and full access to the Ali platform [5].

### **3.2. Weaknesses**

#### **3.2.1. Alterability of the "Third Space"**

In the 1990s, Starbucks founder Charles Schultz created an early dining "third space" with coffee aroma, music, lighting, and sofas, allowing Starbucks to expand rapidly. But in recent years, more physical brands have begun to redefine the concept of a "third space". For example, Nai Xue's Tea, its brand founder publicly said that "space" is also Nai Xue's products. How to make "space" a "product" for consumers to buy for a long time is testing the wisdom and strength of retailers. In the future, whether local retailers can reshuffle the "third space" is one of the major challenges that Starbucks will face.

#### **3.2.2. The Weakening of the Brand's Selling Points**

Starbucks has long been known for the concept of "third space", and its busy "workers", such as negotiating business cooperation in Starbucks, have become the unique label of Starbucks. This is also the biggest brand marketing feature of Starbucks. Secondly, Starbucks focuses on high quality, exquisite stores, various peripherals, cups and other derivatives, which are the unique brand culture of Starbucks [2]. Starbucks focuses on American cultural brands with typical scenes, and the publicity focus of such brands is also on creating a high-end lifestyle. However, Starbucks' "atmosphere group" has also begun to become stale, with many stores becoming more and more noisy and crowded. Therefore, compared with emerging coffee brands such as Luckin, the cost of stores will bring more pressure on Starbucks to generate revenue.

### **3.3. Chances**

#### **3.3.1. "Post-90s" Market**

Driven by the quality of life of consumers, the domestic coffee market has developed rapidly. Although the proportion of freshly ground coffee is low, the growth rate is obvious. Young white-collar workers have become an important segment and growth market of the coffee market. The post-90s generation is the main consumer group of freshly ground coffee. Consumers in first-tier cities are slightly older, coffee enlightenment is earlier, and more consumers are of higher age groups. Paying attention to the new vitality and vitality brought by the younger generation to the consumer market, the brand youth has become the strategic adjustment direction of most beverage brands.

#### **3.3.2. Digital Development**

Social attributes have been deeply embedded in the whole chain of consumers' shopping process. Consumers enjoy the happiness brought by social interaction in obtaining information, making decisions and sharing experiences, and take it as a part of the shopping experience. Based on the current situation, the importance of digital development in the future brand development has been very obvious. The brand should strengthen the global consumer operation, create a unique brand experience, make the public and private domain of Starbucks achieve mutual benefit and

collaborative growth, enhance the brand value in the global scope, optimize the marketing efficiency, and maximize the consumer life cycle value.

### **3.4. Threats**

#### **3.4.1. Industry Competition**

Fierce industry competition leads to the market share being seized. For example, Luckin became the largest competitor of Starbucks in China with rapid expansion, price advantage and convenient delivery, but the rising e-commerce coffee brands Sinloy, three half and fast coffee brands with more price advantage are still competitive; Tim Hortons invested by Tencent may join the Chinese market. At the same time, new tea brands such as Tea and xi tea are rising rapidly; more cost-effective coffee brands such as Manner and M Stand, as well as convenience stores and fast food restaurants with more price advantages are seizing the market.

#### **3.4.2. Consumption Downgrade**

At present, the global and domestic consumption environment is undergoing a profound change, one of the core features is the pragmatic consumption concept. With the improvement of information transparency and the increase of life pressure, more and more consumers are no longer just attracted by the halo of the brand or gorgeous marketing means when choosing products and services, but focus more attention on the cost performance of products. In such an environment, many domestic catering brands are also lowering prices, choosing to reduce the cost, and profit to consumers, this trend indicates that the future catering market will pay more attention to the matching degree of cost performance and consumer demand [6].

## **4. Shortcomings and Suggestions**

### **4.1. Improving the Online Community Operations**

As consumers become more inclined to do online transactions, Starbucks highlights the shortcomings of building a "fourth space", --a digital community, to attract a new generation of young consumers. To this end, Starbucks is advised to accelerate the digital transformation and the creation of a "fourth space", improve the appeal of social media through storytelling, interaction, and optimizing membership systems, and use accurate data management to increase user engagement. With these measures, Starbucks is able to enhance the user experience on its online platform, and consolidate its leadership position in the market competition, while increasing brand loyalty and market share.

### **4.2. Rethinking the Store Expansion Issues**

The rapid expansion makes Starbucks with a high price premium and high-end cafe positioning face commercial risk [7]. Starbucks relies more on sustained high revenue growth to cover large annual investments, including fixed costs, while global expansion poses greater challenges to Starbucks' supply chain management and internal management. According to its financial report in 2022, its transaction volume, customer unit price and other data have declined year-on-year, and it is facing the problems of a vague brand image, the highest loss of customer sentiment and declining profitability. At the same time, due to the brand positioning and direct mode of Starbucks, Starbucks cannot reduce the price of products, and the site selection, operation, leasing, store opening and so on also directly increase the brand cost. As a result, Starbucks should start improving its GIS system and store opening strategy, control the pace of opening new stores in already saturated markets, and consider closing underperforming stores to reduce operating costs. In addition, Starbucks could

consider making more use of its digital strategies and innovative technologies to improve the efficiency and sales of its existing stores.

## 5. Conclusion

This paper mainly analyzes the marketing strategy of Starbucks in China under the background of the Z era, aiming to take the strong brand advantage, unique marketing strategy and current threats as the case orientation, so as to provide a reference for other enterprises. This paper analyzes the advantages and disadvantages of Starbucks "third space", explores the relevant characteristics of Starbucks' main target consumers, and proposes the conclusions of improving the online community operation and reconsidering the trend of consumption downgrade, aiming at the disadvantages of store expansion and the weakening of brand selling points. This paper does not use the method of questionnaire survey, which may be relatively one-sided in terms of information collection channels. In the future, on the basis of this paper, we can conduct more in-depth research on how to market the localization strategy of the brand and under the new trend of consumption downgrade.

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