

# *Starbucks' Path to Success in Developing the Chinese Market*

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**Abstract:** Starbucks has become one of China's most popular coffee brands in recent years, and its operations in the Chinese market have been highly successful. The reasons for this are worth investigating. Starting from Starbucks itself, this study investigated and sorted out the basic information of the brand and some related features based on the data on its annual report and relevant official website, and analyzed the success factors of Starbucks in developing the Chinese market by means of statistical data analysis, comparison of competitors and various evaluation methods. Through the analysis, the study discovered that Starbucks has continuously expanded the market occupied by its brand and stood out from numerous competitors, and still has some market potential by utilizing its brand strengths and integrating the local situation in China. This study analyzed the success case of Starbucks in the Chinese market. As one of the leading coffee brands, the success of Starbucks is of inspiration and reference value for the development of other brands in the Chinese market, and can also bring benefits to the development of the entire coffee industry in China.

**Keywords:** Starbucks, freshly ground coffee industry, competitors comparison

## 1. Introduction

Starbucks is a famous coffee brand that is committed to making cafes a social place and a casual “third space” for its consumers, attracting them with great service and ultimate experience. Starbucks was born in 1971 and has spread over more than 70 countries, with 35,711 shops (2022) currently. In this study, we will explore the current development and reasons for Starbucks' success in the Chinese market, with a view to providing some reference for companies in the freshly ground coffee industry to study how multinational companies can increase their market share and brand value in new foreign markets and later achieve brand expansion.

## 2. Development

By October 2022, Starbucks has 35,711 shops worldwide and global revenue of \$32,250.3 million, making it the largest coffee chain in the world. China is the second largest market of Starbucks after the US, with 6,019 shops in 2022, accounting for 16.85% of Starbucks' total global shops presented

in Figure 1, and revenues of \$3,008.3 million, accounting for 9.33% of global revenues as shown in the Figure 2.

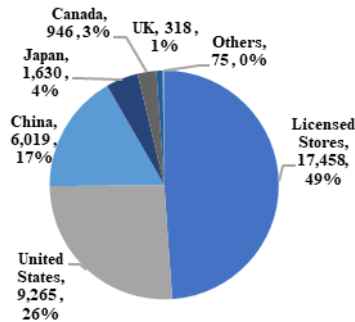


Figure 1: Starbucks global store number and proportion in 2022 (Data is from Starbucks Annual Report).

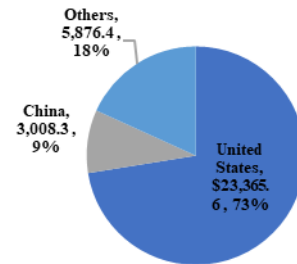


Figure 2: Starbucks' global operating revenue and proportion in 2022 (Data is from Starbucks Annual Report).

## 2.1. Number of Starbucks Stores and Distribution

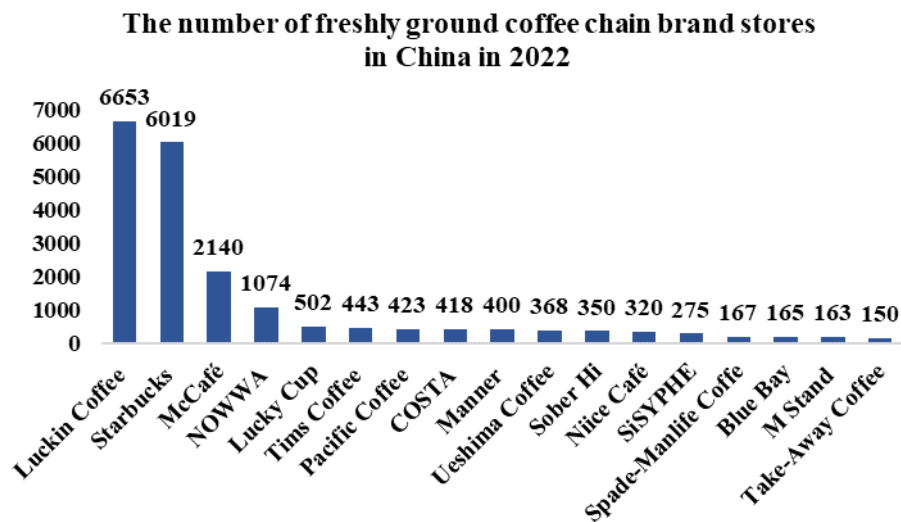


Figure 3: Statistics as of 25 June 2022 (Data is from iResearch).

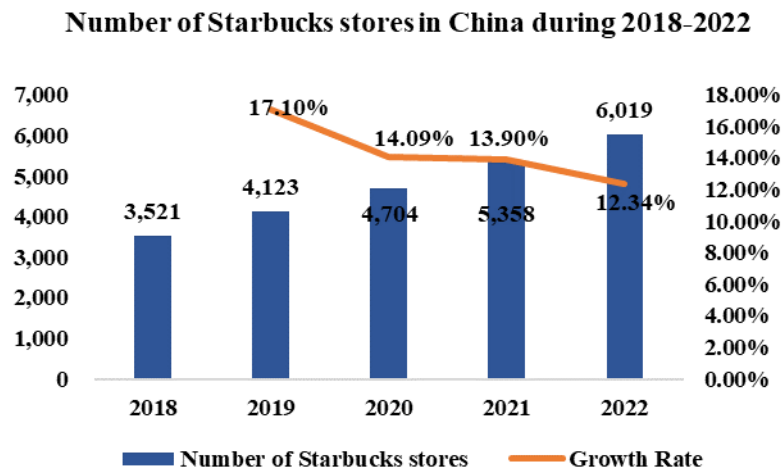


Figure 4: Data is from Starbucks Annual Report.

Table 1: Number of Starbucks stores in China during 2018-2022 (Data is from Jihai Data).

City Level	Number of stores (%)	Number of cities covered	Urban coverage
First-tier cities	2009 (33.5%)	4	100%
New First-tier cities	2073 (34.6%)	15	100%
Second-tier cities	1110 (18.5%)	30	100%
Third-tier cities	533 (8.9%)	67	96%
Fourth-tier cities	191 (3.2%)	69	77%
Fifth-tier cities	76 (1.3%)	50	31%
<b>Total</b>	5992 (100%)	235	—

According to incomplete statistics from iResearch, there are 733 freshly ground coffee chain brands in China in 2022, with 17 of them having more than 150 shops (Figure 3). In 2022, the number of Starbucks shops in China exceeded 6,000 for the first time, reaching 6,019, an increase of 12.34% compared to last year seen as Figure 3 and Figure 4. The number of shops in First-tier cities accounted for 33.5% of the total number of shops nationwide, 34.6% for New First-tier cities and 18.5% for Second-tier cities seen as Table 1 Starbucks achieves full coverage in first and second-tier cities in China.

## 2.2. Starbucks China Revenue and Growth Scale

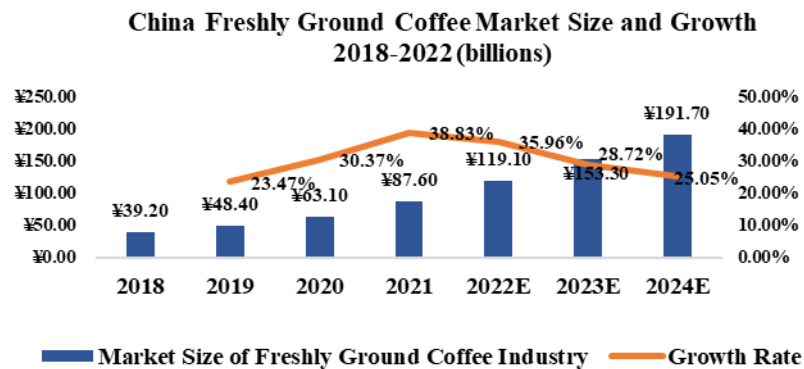


Figure 5: Data is from Starbucks Annual Report.

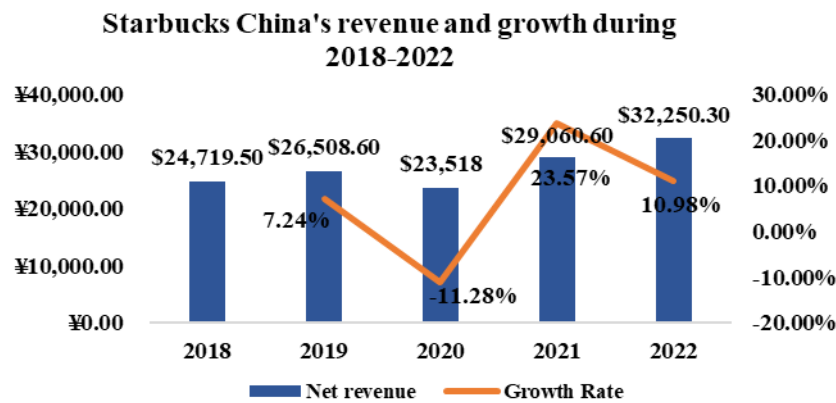


Figure 6: Data is from iResearch.

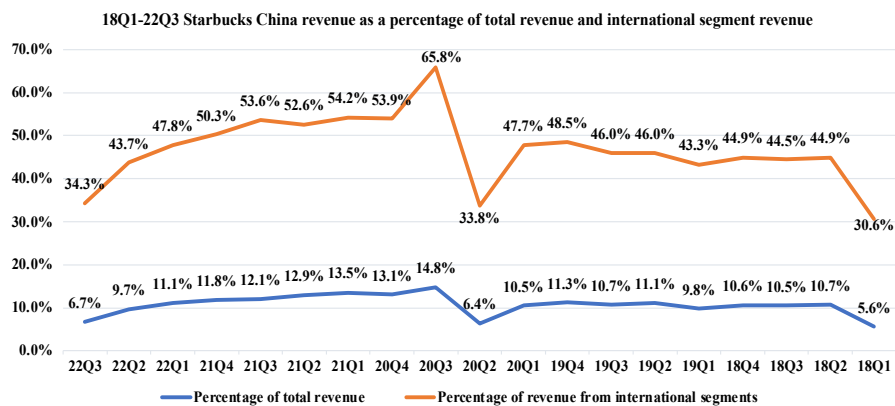


Figure 7: Data is from Ping An Securities Group (Holdings) Limited.

Starbucks China revenue in 2018-19 is \$24,719.5 and \$26,508.6 respectively seen as Figure 5 and Figure 6, accounting for approximately 10% of the company's total revenue and 40%-50% of the international segment revenue (Figure 7). Due to the impact of international outbreaks in 20Q3, Starbucks China revenue fell to 6.4% of the total revenue and 33.8% of the international segment revenue, resulting in Starbucks China revenue being 11.28% lower in 2020 compared to last year. In

2020-2022, Starbucks China revenue rebounded, but due to the restrictions of epidemic policy, Starbucks struggled to achieve its rapid revenue growth. In 22Q3, Starbucks China revenue declined again because of the impact of the domestic epidemic. According to Ping An Securities' forecast, Starbucks China revenue share will increase in the post-epidemic era as the China market is a market where Starbucks is focusing on increasing its investment and the revenue growth effect from Starbucks shop expansion under the epidemic has not fully emerged [1].

### 2.3. Brand Awareness & Customer Loyalty

Table 2: Number of Fans in Taobao and Jingdong (Data is from yilantop).

	Taobao	JD	Total
Starbucks	1,060,000	1,636,000	2,696,000
Luckin Coffee	374,000	2,982,000	3,356,000
Lian Coffee	481,000	1,074	482,074
Seesaw	172,000	1,005	173,005
Manner	88,000	—	88,000
Tims Hortons	58,000	570	58,570

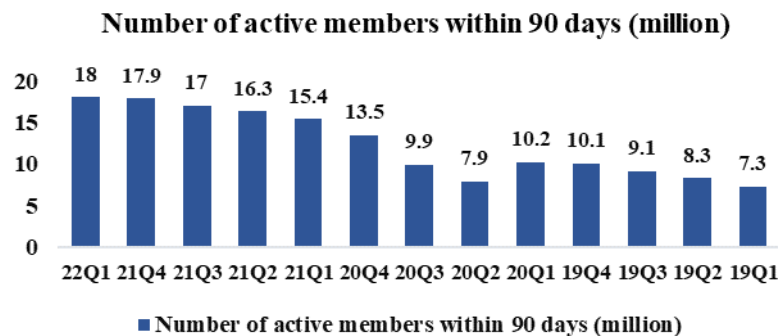


Figure 8: Data is from Ping An Securities Group (Holdings) Limited.

According to statistics from yilantop, some offline coffee brands have acquired a large fan base in Taobao and JD (Table 2). For example, Starbucks and Luckin Coffee have a large fan base of over 2.5 million. In addition, according to Ping An Securities, Starbucks registered 85 million members in 2022, with 18 million active members within 90 days in 22Q1, contributing to 75% of Starbucks' revenue in China (Figure 8). This indicates that Starbucks China has a high level of customer loyalty, providing Starbucks with a strong performance guarantee [1].

## 2.4. Business model & Position

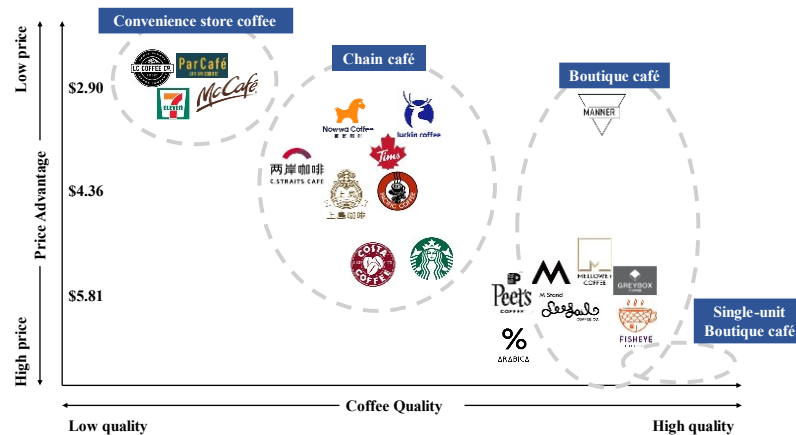


Figure 9: The business model and positioning of freshly ground coffee in China (Data is from Ping An Securities Group (Holdings) Limited).

The freshly ground coffee industry is divided into four main categories: convenience store coffee, chain café, boutique café and single-unit boutique café. Three dimensions of measurement in the freshly ground coffee industry - price, quality and shop size - often cannot be achieved simultaneously [2]. According to Figure 9, convenience store coffee has a price advantage and a larger number of shops, but there is still room to improve the quality of coffee. For large-scale coffee shops, they need to find a balance between quality and price, which is hard to achieve both at the same time. Boutique cafes are characterized by high quality and high prices, and they struggle to achieve scale in terms of the number of shops [2].

Representing a member of the chain coffee brands, Starbucks has found its own balance in between the three dimensions. According to statistics, Starbucks China has 6,019 shops in 2022, ranking second in China coffee market after Luckin Coffee but its price is 1.5 times higher. In addition, its official fan base is also on the same scale as that of Luckin Coffee, and the quality of coffee is comparable to that of boutique cafés. As a result, Starbucks has successfully implemented its expansion strategy in the China market, achieving the optimization of price, quality and shop size.

## 3. External Environment Analysis -- Porter's Five Forces

In the highly competitive modern economy, it is very important to understand the external environment for the survival and development of a company. Porter's Five Forces is an effective tool for analyzing the industry environment. It attributes the complex environment faced by a company to five competitive forces. As a leader in the coffee industry, Starbucks naturally faces opportunities and challenges from various aspects. The following will use Porter's Five Forces to specifically analyze how Starbucks deals with the five competitive forces and stands out in the industry.

### 3.1. Threat of New Entrants

After the 21st century, the demand for coffee in the Chinese market shows an increasing trend of development year by year (see Figure 10). The industry is optimistic about China's coffee market, and it is likely to become the world's second-largest coffee consumption country [3].

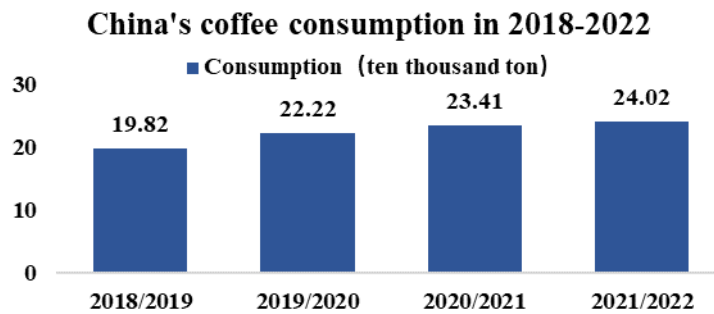


Figure 10: Data is from INSIGHT AND INFO.

In the coffee industry, from a few tens of thousands to a few million can open a cafe, and the technology to make coffee is not difficult. The industry has a low market entry barrier, while the return on investment can be maintained at a high level of 20%-30% [3]. Faced with such a promising industry, Starbucks creates barriers for entrants in several ways.

- **Raise the customer switching costs:** Starbucks' differentiation strategy continues to bring innovative products and unique experiences to customers, which increases the cost of switching.
- **Occupy a favorable location:** Starbucks chose to locate its stores in downtown areas or busy commercial roads, making it difficult for competitors to get better locations.
- **The technology that is difficult to imitate:** Starbucks has been committed to new product development and innovation, and has accumulated technological advantages in coffee extraction, which can effectively resist the threat of new entrants.

### 3.2. Bargaining Power of Suppliers

Starbucks' suppliers are fragmented and difficult to form a scale effect, so Starbucks is able to buy high-quality coffee beans at a lower price [4].

At the same time, Starbucks has a high brand value and a huge business scale, and its coffee beans are in high demand, so suppliers are willing to form long-term stable relationships with Starbucks [5].

### 3.3. Bargaining Power of Customers

Starbucks consumers are not heavy coffee lovers, but mainly white-collar workers and the middle class. They have strong social needs, paying more attention to the quality of coffee and the experience. So, they have relatively low price sensitivity [3].

After more than 20 years of market cultivation by Starbucks, the coffee brand has a high reputation, a wide range of people and a large coffee sales volume. It has a certain voice and influence in the Chinese freshly ground coffee market. Consumers are willing to pay a high price for the "quality".

### 3.4. Threat of Substitutes

Tea drinks are the biggest substitute for freshly ground coffee. During 2020-2021, the market size of tea drinks is about 10.9 times that of freshly ground coffee (see Figure 11). As an addictive functional drink that also contains caffeine, tea enjoys higher acceptance and mental status among Chinese consumers than coffee.

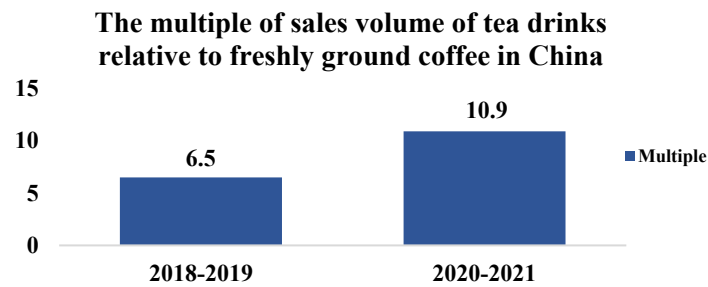


Figure 11: Data is from iResearch.

However, it may have limited appeal to the high-frequency consumer group of boutique coffee lovers. The main purpose of tea brands to launch coffee products is to supplement the existing product portfolio and meet the diversified needs of consumers. However, coffee may obscure the brand's positioning as a "new tea drink". So, coffee is less likely to be its main product.

### 3.5. Industry Rivalry

#### 3.5.1. Competition among Freshly Ground Coffee Internal Brand

In "large stores", Pacific Coffee, COSTA and NOWWA Coffee have far fewer stores and city coverage than Starbucks. Moreover, Starbucks is the earliest established brand and has formed great commercial value and brand effect. In "small stores", Luckin Coffee is the biggest competitor of Starbucks, but Starbucks is different from Luckin in consumer positioning, product positioning and store layout, so it will not pose a big threat to Starbucks at present (see Table 3).

Table 3: The information about the representative brand of freshly ground coffee in China (Up to 2022.07) (Data is from iResearch).

		Brand Name	Establishment time	Number of stores	Covering city	Average customer unit price
Coffee Shop Chains	Large Shops	Starbucks	2005.03	6491	245	¥40.0
		Pacific Coffee	2006.03	423	62	¥35.4
		COSTA	2008.01	418	40	¥38.2
		S. ENGINE	2013.12	4	3	¥28.5
		Coffee Box	2014.05	42	6	¥40.3
		Peet's Coffee	2016.08	80	10	¥46.2
		%Arabica	2017.05	55	19	¥43.2
		Tims Coffee	2018.02	443	24	¥29.9
		NOWWA	2019.06	1074	28	¥18.5
	Small Shops	Manner	2015.10	400	11	¥22.2
		M Stand	2017.06	163	15	¥43.6
		Luckin Coffee	2017.10	6653	224	¥19.3
		Algebraist Coffee	2019.07	90	11	¥27.1
Boutique coffee		Seesaw	2012.08	92	9	¥37.3
		Blue Bottle Coffee	2022.02	1	1	¥40.0
Fast food coffee		McCafé	2010.11	2140	31	¥20.0
Tea & Beverage Coffee		Lucky Cup	2017.09	502	103	¥7.9
Convenience store coffee		Sober Hi	2016.11	350	10	¥12.5



### **3.5.2.Competition with Instant Coffee and Coffee Drinks that can be Drunk Directly**

The most significant advantage of instant coffee is that it is convenient and inexpensive. For competition on price, Starbucks has adopted a differentiation strategy to improve coffee quality while adding a unique customer experience. For competition on convenience, Starbucks locates stores in busy commercial areas and convenient locations. In fact, Starbucks has entered the instant coffee market through a brand extension that leverages Pepsi-Cola distribution channels in China to bring Starbucks coffee into supermarket sales.

## **4. Internal Environment Analysis -- Value Chain**

Company creates value through a series of activities, and these activities constitute the value chain. Value chain analysis, as an important method to examine a company's capability, divides activities into primary activities and support activities to help the company find key value-added activities and better analyze their competitive advantages. As a multinational company expanding at the rate of opening one store every day, Starbucks has developed from a store specializing in coffee beans into a top coffee chain company in the world. Its unique value chain is definitely an important reason for its success.

### **4.1. Primary Activities**

#### **4.1.1.Inbound Logistics**

Starbucks places the quality of its coffee beans as the primary prerequisite for selecting suppliers, and a large company like Starbucks usually has numerous suppliers to choose from. It can ensure the quality of its coffee beans. With the development of the Chinese market, Starbucks has established coffee bean farms in Yunnan province. It can save a lot of money on transportation costs.

#### **4.1.2.Operations**

Starbucks insists on direct marketing. Franchise operators often aim to make a profit by joining a big brand. In order to protect the reputation of Starbucks, its management decided to reject the opening of the franchise.

#### **4.1.3.Marketing & Sales**

Starbucks has developed diversified sales channels, including experiential consumption in stores, convenient consumption online and public welfare poverty alleviation programs. Starbucks has some great sales strategies, such as promoting products and offering discounts on holidays.

#### **4.1.4.Service**

Starbucks has created a unique "Third Place". It has a dedicated design studio at its US headquarters. All shops are designed to combine American style with local culture to make customers more comfortable [6]. Starbucks has launched a series of customer benefits and membership systems to attract customers and improve customer loyalty (see Figure 12).

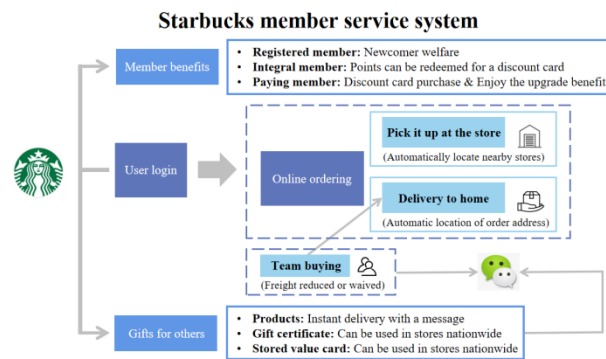


Figure 12: Data is from iresearch.

## 4.2. Support Activities

### 4.2.1. Firm Infrastructure

Starbucks has a complete infrastructure, including a management team adapted to the expansion of the business, a world-class baking facility, and a powerful information management system [6].

### 4.2.2. Human Resources Management

Through Starbucks University and the internal employee training system, Starbucks has successfully cultivated a lot of excellent employees.

### 4.2.3. Technology Development

Starbucks has a dedicated research center in the USA. The staff worked on how to make a better-tasting, more nutritious and more popular coffee. In addition, it has a large pool of coffee tasters. They evaluate the taste and fullness of the coffee in pursuit of continuous improvement [4].

### 4.2.4. Procurement

Starbucks selects and evaluates suppliers strictly. To choose suppliers better and more correctly, Starbucks has established a complete evaluation system, which evaluates suppliers from various aspects, such as production capacity, distribution logistics, and reputation [6].

The value chain of Starbucks is basically terminal oriented. With the improvement of the monopoly degree, the link closer to the consumer becomes more profitable. Primary activities increase the barriers to entry into the industry, helping to consolidate their monopolies. Support activities have played an important role in its rapid expansion around the world. The link that creates the most value is marketing and sales.

## 5. Marketing Policy

### 5.1. Global Marketing Policy

As one of the largest coffee brands in the world, Starbucks has a number of appropriate marketing strategies to help it generate profits and establish its brand position, of which global marketing policies are an important part. These policies have been developed based on Starbucks' own circumstances and goals, and they are the foundation of Starbucks' global success and an important factor in strengthening its brand power.

### (1) Stores

Starbucks stores are in first - and second-tier cities with high per capita disposable income, and mainly cover business districts, high-end office buildings, and airports with relatively dense human flow. Recently, Starbucks is sinking significantly at the city line level, with its stores covering more than 230 cities.

As consumers focus on the quality and convenience of coffee, Starbucks has gradually begun to develop online sales channels, using its developed delivery network and widely distributed stores to meet the needs of the low-tier urban population in pursuit of high-quality coffee.

### (2) Products

Starbucks has a full range of products, including freshly ground coffee, tea drinks, baking and simple meals. The unit price of its products is high and the purchasing convenience is insufficient. It mainly takes high-quality coffee and experiential services as carriers to meet the social needs of consumers in the “third space” [7].

With the popularity of mobile payment and online shopping, Starbucks has introduced express pickup and takeout services to enhance the “high convenience” of the brand [7].

From physiological needs to self-realization, Starbucks can fully meet consumer needs and solve consumers’ pain points.

### (3) Consumers

The brand appeal of Starbucks tends to be white-collar workers and the middle class, who are 25 to 40 years old, who have the financial strength and coffee consumption habits. In recent years, the per capita disposable income of Chinese residents has been increasing, and the number of middle-class consumers in third - and fourth-tier cities has been booming (see Figure 13).

Meanwhile, with the rise of the Internet economy, the number of under-25s drinking coffee has grown rapidly, spawning a “new retail group”. They generally have received secondary and higher education and have higher family incomes. So, they pay more attention to the realization of self-worth. Starbucks’ brand image and values resonate strongly with those consumers [7].

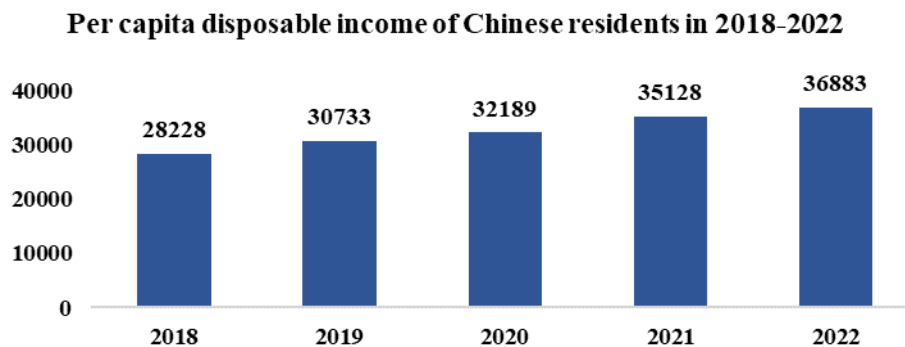


Figure 13: Data is from the National Bureau of Statistics.

## 5.2. Localization Marketing Policy

Starbucks was born in the United States. When it develops the Chinese market, it will face great challenges and fierce competition. See Figure 14, as China is a country mainly based on tea culture, Starbucks have to appropriately change its strategy and products, combining them with Chinese market conditions and traditional culture, so as to improve Starbucks’ position in the Chinese beverage industry and increase its profits [8].

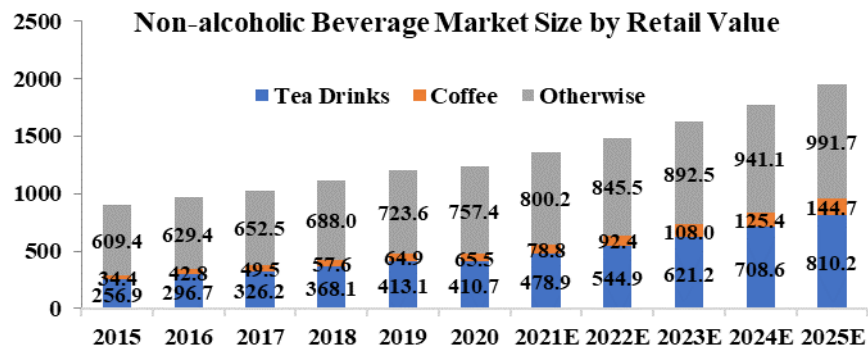


Figure 14: Data is from CQVIP.

At the same time, Starbucks also needs to consider costs. If most of the raw materials still come from the original channel, there will be a huge outlay for domestic stores in China. On the basis of the above, Starbucks's localization policies for the Chinese market are very important, and these policies have enabled Starbucks to gradually succeed in developing the Chinese market.

#### (1) Policies

**Coffee Culture.** In the 1990s, a growing number of large international coffee chain brands began to focus on the development of the Chinese market. This trend was dominated by Starbucks which entered China in 1999. As one of the leading coffee companies, Starbucks has made great efforts to spread coffee culture in China. By increasing the number of stores and promoting coffee culture, the influence of its own brands and related policies have contributed to the commercialization of coffee in China at an early stage.

The number of Starbucks stores in China has grown rapidly since 2010. At an early stage, Starbucks led the spread of coffee culture in China by increasing the number of its stores. In the later period, coffee culture became popular in China, so Starbucks opened more stores to make profits.

**Products & Store Environment.** In recent years, Starbucks has been committed to exporting high-quality coffee in China, constantly introducing new products to attract customers, selling coffee with dim sum, innovating new businesses such as breakfast and afternoon tea, and developing more potential markets [9]. And they are also working to integrate indigenous American culture with local Chinese culture. For example, during Chinese festivals, limited special products and peripheral products with Chinese characteristics are introduced. During the Mid-Autumn Festival, Starbucks-style five-kernel mooncakes were introduced. In the Dragon Boat Festival, the innovative flavor "Starice Zongzi". Starbucks is beloved by customers for its variety of concept products and unique decorating style atmosphere.

At the same time, they create a soft and comfortable environment with the aroma of coffee, thereby forming economies of scale, maintaining the brand image and increasing the profit from sales.

**Supply Chain.** Yunnan is the largest coffee bean-growing region in China. In the past, Yunnan beans were used only as commercial beans in the international market due to their crude processing methods and unstable quality, with international coffee giants such as Nestle and Starbucks buying them in bulk for as little as 10 to 20 cents [10]. Starbucks now includes Yunnan beans in its premium Starbucks Selection line, and a growing number of boutique cafe operators are heading to Yunnan's coffee roots in search of a specialty bean for their stores.

Yunnan produces 98.8% of the country's coffee, and Pu'er produces 57.8 percent of Yunnan's total. In December 2012, Starbucks China's first "Coffee Grower Support Center" was officially completed and put into operation in Pu'er, Yunnan Province. Over the past 10 years, 43,000 tons of Yunnan coffee beans have been exported to Europe, the United States and Asian countries through

Starbucks. Yunnan beans are also used in Starbucks' own coffee production. The quality and taste of Yunnan coffee beans are improving year by year. At the same time, lower labor and transportation costs have made Yunnan coffee beans less expensive than other beans. As a result, Starbucks has saved a lot of raw material costs through its coffee bean growing base in Yunnan.

## (2) Influence

Through many successful localization policies, Starbucks currently holds a large share of the Chinese coffee market and is still developing. Starbucks is also making huge profits in the Chinese market, especially when it introduces some new products with Chinese characteristics and local tastes, which will lead to a significant increase in product sales. In addition, Starbucks will also conduct promotional activities, product launches or cultural promotions during traditional Chinese holidays, which will effectively boost profit growth.

Starbucks products are also popular among Chinese consumers. Currently, Starbucks is one of the most popular coffee brands in China. Consumers have a high level of satisfaction with Starbucks due to their high-quality products and the store designs that incorporate many traditional Chinese elements.

Starbucks' efforts to integrate traditional culture with Chinese characteristics and catering to the tastes of Chinese customers are among the indispensable factors for Starbucks to successfully develop the Chinese market.

## 6. The Future Outlook

### 6.1. Opportunities — Huge Market Potential in China

The coffee market in China has great growth potential. Firstly, the per capita consumption of coffee in China in 2020 is 9 cups as presented in the Figure 15, while the per capita consumption in Japan, the United States, and South Korea is 280, 320, and 367, respectively. The global per capita consumption of coffee is 130 cups, and the penetration rate of coffee in China is less than 10%. Secondly, coffee consumption is more likely to be addictive. Once consumption habits are formed, coffee consumption tends to increase with age. Thirdly, the middle-income consumer group in the US is about twice as large as the middle-income consumer group in China, as shown in the Figure 18. As China's economy grows, the middle-income consumer group is expanding and the demand for coffee in China has further increased.

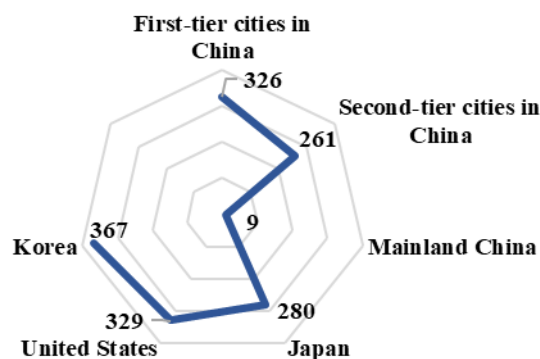


Figure 15: Comparison of coffee consumption per capita by country or region (cups per year) (Data is from iResearch).

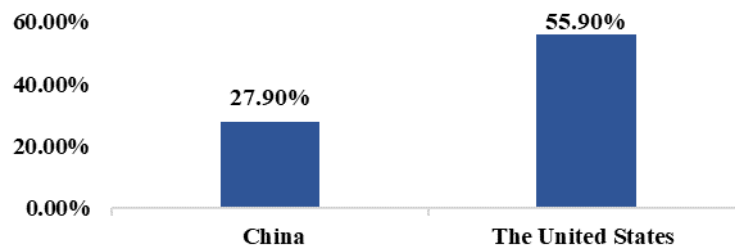


Figure 16: Comparison of middle-income groups in China and the United States (Data is from iResearch).

## 6.2. Threats and Challenges

### 6.2.1. Threats from tea drinks in China's non-alcoholic market

In China's non-alcoholic market, tea drinks (including freshly made tea drinks and other tea products) and other drinks (carbonated drinks, juice, dairy drinks, functional drinks, etc.) occupy a dominant position as shown in Figure 14, while coffee market is relatively small. Tea drinks quickly penetrate the student and young groups to meet the needs of recreation. Since 2016, the new tea drinks represented by Hey Tea, and, etc., have upgraded the raw materials of the original milk tea. Tea drinks, to a certain extent, become the substitute for dessert and freshly squeezed juice. In addition, the tea beverage industry has a lower threshold. The number of high, medium, and low-price suppliers is huge in the present market of China, which caused a fierce competition with coffee as well.

### 6.2.2. Threats from Luckin Coffee in China's coffee industry

In the current market of China, there are three main models: large store integrated model, small store model, and boutique chain. The large store model represented by Starbucks has high capital expenditure, barriers to entry, and more mature operating patterns. On the contrary, the small store model represented by Luckin has a relatively low market entry barrier. Until December 2022, the number of stores of Luckin reached 8,077 in China, and the number of stores of Starbucks reached 6,093, as is shown in Table 4. In terms of distribution, Luckin mainly focuses on first-tier and second-tier cities but sinks the market at a faster pace. The coffee in this small store model is more affordable and relatively more cost-effective, while the high price of Starbucks discourages many Chinese consumers. Moreover, from the current average customer unit volume, Starbucks has some advantages in terms of monthly revenue and gross margin, but the challenges from Luckin cannot be ignored.

Table 4: Comparison between Luckin and Starbucks.

	Luckin Coffee	Starbucks
Daily Order Quantity	350-400	330-375
Customer Unit Price(RMB)	15	40
Store Scale(Until Dec. 23, 2022)	8077	6093
Monthly Revenue	160000-180000	400000-450000
Gross Margin	66%-71%	70%-75%

Luckin is targeting at high-quality commercial coffee for price-sensitive and general office workers. For office workers, who have a higher demand for convenience and cost performance, the primary purpose of drinking coffee is to refresh themselves. Comparing with exquisite stores of Starbucks, the stores of Luckin are usually small without elaborate decoration. In addition, Luckin

centered on self-service takeaways and has a lower management and labor costs, corresponding to a low coffee price.

In terms of store distribution present in the Figure 17, Luckin has many stores located near office buildings. However, the main stores of Starbucks locate at shopping malls, serving for recreation and business negotiation. With the accelerated pace of life, the “fast coffee” represented by Luckin and MANNER coffee is developing rapidly. The proportion of fast coffee consumption is gradually increasing as well.

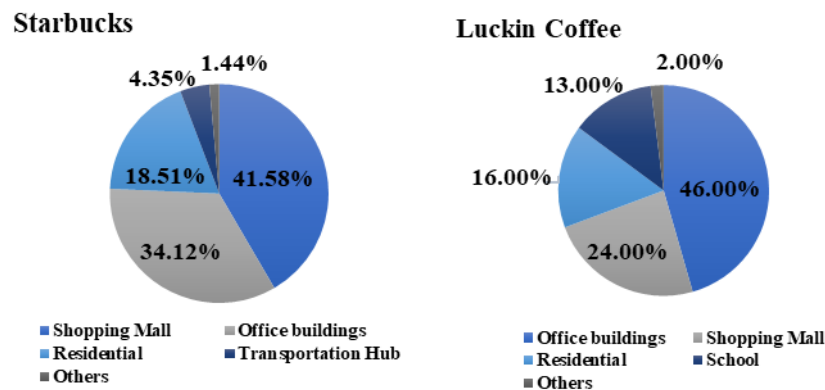


Figure 17: Location Distribution of Starbucks and Luckin (Data is from Ping An Securities Group (Holdings) Limited).

The R&D and innovation capabilities of Luckin's products continue to grow. With the launch of the raw coconut latte series in 2021 and a product matrix with nine product lines as the core and over 60 SKUs on sale, new products of Luckin have always become internet celebrities. As is shown in the Figure 18, Starbucks is not as frequent as Luckin. The products of Luckin are more and more competitive.

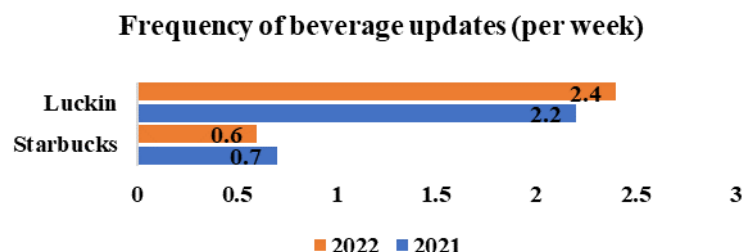


Figure 18: Data is from Ping An Securities Group (Holdings) Limited.

In short, although Starbucks is different from Luckin in consumer positioning, product positioning and store distribution, Starbucks will not be replaced by Luckin at present. However, Luckin has a large number of stores, and the product update frequency is higher than Starbucks, which still cause a threat to Starbucks.

### 6.2.3. Challenges from financial matter

Starbucks' store expansion requires huge financial support. Firstly, unlike McDonald's, which entered the Chinese market by direct operation and then authorized operation, Starbucks initially entered the Chinese market by franchising [11]. As the stores developed, Starbucks adopted the direct operation approach to create a sophisticated experience and ensure the quality of products. However,



the straightforward operation approach requires a large amount of operating capital. Secondly, As Starbucks' shop locations are always located in busy areas with high population mobility, Starbucks requires significant financial support to pay the rent and wages. As a result, Starbucks needs to consider whether its capital, staff and reserve resources can meet its expansion needs in the face of expanding business scale. Besides, due to the generally high and fixed prices of Starbucks' products, Starbucks has struggled to attract the same high volume of fast-paced working youth and customers who prefer trying something new as Luckin Coffee. Therefore, Starbucks needs to pay more attention to pricing flexibility in the face of an extremely competitive market and increasing challenges.

## 7. Conclusion

This paper elaborates on the reasons for Starbucks' success in the Chinese market from the aspects of Starbucks' own advantages, the localization policies adopted, and the comparison with competitors. Through the analysis, it is clear that Starbucks has become the absolute leader in the coffee industry by virtue of its high-quality coffee, high-level service system, strategic store location, and experiential marketing strategies. This kind of success deserves our in-depth study and reference.

With the expansion of the demand of the Chinese coffee market and the continuous deepening of coffee culture, Starbucks will hopefully realize its further expansion and penetration in the Chinese market to ensure its market share. However, simultaneously, the impact of various alternatives on the coffee industry and the financial pressure brought by market expansion are huge challenges for Starbucks in China. Through the analysis of the Starbucks case, it is not difficult to find that enterprises should not only attach importance to the value of the product itself but also attach importance to the connotation of the product extension, so as to improve the added value of the product and promote the long-term development of the enterprise. At the same time, with the emergence of the "new retail" model, enterprises need to make appropriate adjustments and changes according to their own conditions, and actively adapt to the changes of the times.

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