

Comparative Analysis of the Success and Challenges of Starbucks' Marketing Strategies in China

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Abstract: Starbucks Corporation is an American coffeehouse chain founded in 1971. It is currently the biggest and one of the most well-known coffeehouse chains in the world, with over 35,000 stores worldwide. China has been ranked the second-biggest market for Starbucks after its home country since its first appearance in 1999. As a foreign brand, Starbucks' marketing strategies in the Chinese market have been fundamental to the brand's success. This paper analyses how Starbucks China's localisation of its product, placing strategies, and digitalisation of its marketing strategies have led the coffeehouse chain to succeed in the market. Then, this paper looks at the challenges Starbucks faces from local and international competitors and challenges arising from economic instability. Finally, the paper also provides recommendations to the company regarding its marketing strategies. It is believed that Starbucks China will need to continue strengthening its efforts to diversify its products, adjust its pricing strategy, and optimise its customer experience to succeed.

Keywords: Starbucks, China, marketing strategy, products, promotion

1. Introduction

1.1. Company Overview

Starbucks was founded by Jerry Baldwin, Zev Siegl, and Gordon Bowker in 1971. The Seattle-based coffeehouse was quickly expanded into a coffeehouse chain in North America in the 1980s by Howard Schultz. Starbucks Corporation was formed in 1987. Less than a decade later, Starbucks opened its store in Japan, which was the first store outside of North America [1]. By 2005, stores worldwide reached over ten thousand for the first time. Currently, Starbucks is the largest coffeehouse chain in the world, operating in 84 markets and employing over 400,000 people. As of 2022, the number of stores has reached 35,711 worldwide [2]. America remains the biggest market in the world, with almost 16,000 stores nationwide, of which less than 10,000 stores are company owned and more than 6,000 are licensed stores [3]. The company's mission states, "To inspire and nurture the human spirit – one person, one cup, and one neighborhood at a time". Starbucks not only provides a wide range of products, including coffee; handcrafted beverages; fresh food; and consumer products, it emphasises its positioning of providing a "Third Space" for its customers between home and work.

1.2. Starbucks in China: History and Developments

The first Chinese Starbucks store opened in the Beijing China World Trade Building in 1999 [4]. Nowadays, China is the second-biggest market right after the brand's home country, with over 6,000 stores operating in the country, and all the stores are company-owned [3]. Starbucks stores can be found in over 230 cities across China. According to Starbucks China's 2025 strategic plan, it aims to reach 9,000 stores across 300 cities in China by 2025, which means a new store is expected to open every 9 hours. The company is expected to have an additional 35,000 employees, reaching over 95,000 staff within the country. Starbucks China has projected an increase in sales by 4 times its current sales [5]. Starbucks in China has not only played a role in providing coffee to its consumers, but it has influenced the culture of coffee consumption in China.

2. Starbucks China's Marketing Strategies

Marketing strategy is essential to business management, and it involves products; price; place; and promotion, known as the 4Ps. A company is required to change its marketing strategy to suit its market over time, and thus many international companies often deploy various marketing strategies to accommodate their local markets. Starbucks has always strived to provide its customers with a "Starbucks experience". Customers can purchase a cup of coffee made and served by passionate and attentive staff, and they can spend some quality time in an artistically designed coffeehouse where relaxing music is played and a variety of food is also being served, known as the "Third Space". Besides food and beverage, many Starbucks stores also have coffee mugs and merchandise printed with the company's logo for sale. Moreover, it is identified as a quality coffeehouse chain due to its enormous efforts to maintain its coffee quality by developing and having quality controls over its coffee bean supplies. Although the Chinese market was completely new to Starbucks, given its traditional tea-drinking culture and the country's political, cultural, and economic background, Starbucks China had first deployed a similar branding strategy but added more localised elements and subtlety. Starbucks China's marketing strategy has changed significantly throughout its years in China. In recent years, Starbucks China has successfully enhanced its marketing strategy through digitalisation.

2.1. Placing Strategy

Starbucks China mostly has adopted its strategy to create and provide their customers "experiences" with coffee tasting despite its deeply rooted tea-drinking culture. Therefore, it quickly identified the upper-middle class as the primary consumer group due to its higher salary and relatively better educated. More importantly, the upper-middle class was deemed to be more interested in experiencing Western culture. According to Statista, 2022, about one-third of Starbucks China outlets are located in the first-tier cities: Beijing, Shanghai, Guangzhou, and Shenzhen. Moreover, around 54 percent of the stores are located in second-tier cities such as Chongqing, Chengdu, and Nanjing. Primarily, Starbucks China stores are located in commercial districts and tourist attractions where they target "white-collar" workers, expats, and tourists.

Moreover, Starbucks stores in China have also followed the brand's design, often using warm lighting, Jazz and Lounge music to be played in the background, and open space for coffee-making stations. It is worth noting that many stores in China tend to be spacious; the company has aimed to create a place for customers to gather and socialise over coffee.

2.2. Pricing Strategy

Starbucks China has set the price of the beverages from CNY 30 and above, which is considered expensive for a cup of beverage. David Wolf, an expert in Chinese business public relations, explained that due to the high logistics cost, including taxes, fees, and middlemen handling, the costs were passed onto consumers [7]. Moreover, the target consumers often belong to higher-salary groups; there is a common belief that price is often equivalent to the quality of the product. Thus, holding a cup of Starbucks coffee is a status symbol that is a way to show off among the young and affluent groups. Starbucks China has wisely adopted a pricing strategy to support its branding of a good quality coffeehouse chain.

2.3. Products Strategy

One of the most recognisable marketing strategies taken by Starbucks China has been the company's effort in localisation. The most prominent approach adopted by the company is integrating local elements into its products and store designs. For instance, the company rolls out seasonal and festival food and beverages, such as coffee-flavored mooncakes sold at the Mid-Autumn Festival and Zongzi for the Dragon Boat Festival. Themed coffee mugs based on the operating cities are sold in the according cities; hence Shanghai city coffee mugs are sold in the Shanghai Starbucks stores. Moreover, stores have further incorporated elements of the operating cities into the store designs.

2.4. Collaborations with Digital Platforms

Digital marketing has become an essential marketing strategy for many companies as they can engage with their customers and carry out promotions through digital platforms anytime and anywhere. Starbucks China has partnered with two of the country's biggest digital platforms, Alibaba and Tencent. The mini program on WeChat provides its users with information on store locations and access to its menu. The applet has further added a function that allows customers to place orders for pick-ups and delivery from the nearest outlet. Starbucks China further expanded its collaboration with the country's top digital shopping and food delivery platform, Meituan.

3. Analysis of Starbucks China's Success and Challenges

China has the second-biggest economy in the world, and many international companies have tried to set their footing in the Chinese market. Starbucks is recognized as a rare example of success because of its ability to incorporate its global strategies and adapt them to cater to the local market. This study believes the company's success in the Chinese market comes from Starbucks' adaptability and agility to create a brand that the locals. Another key success is related to the company's proactive and innovative strategy in digital marketing. However, Starbucks China still faces internal challenges, such as competition from local and international food and beverage brands, and external challenges, such as global and local economic instability.

3.1. Success: Knowing What the Locals Like

Many foreign businesses, such as Amazon, Google, and Mattel, have tried to explore the massive Chinese market. However, many of them have failed to succeed in China. Many are believed to fail to grasp the complexity of China's political, economic, and social environment. Marquis and Yang noted some companies had failed to introduce suitable products for the local markets, whereas some failed to comprehend the cultural differences [6]. When Starbucks first entered the Chinese market, the coffee-drinking culture was almost absent among the population. Starbucks China did not rush things through; instead, the company slowly made adjustments to its products by adding tea-flavored

coffee and food onto its menu, such as green tea lattes, oolong tea, and chili mocha being sold in the Chongqing stores. Festival food such as mooncakes has been seasonal special during the Mid-Autumn Festival, and Zongzi during the Dragon Boat Festival [7]. Although Starbucks' festival food line does not intend to expand into the traditional food market, it demonstrated the brand's agility and adaptability to cater to the Chinese market. Besides adjusting its food and beverage menu to cater to the local taste, the company has also put effort into its store designs. Many believe that the "Starbucks experience" is linked to the atmosphere of their stores, where the use of lighting and music usually reflects the Western café culture. Instead, Starbucks China has deployed exterior designs blended into the surroundings smoothly. The stores' interior designs also incorporate traditional Chinese paintings, motifs, and murals. Besides adding Chinese elements into the store designs, food, and drinks, Starbucks China has made its internal practice family-friendly. In 2017 the company introduced the "Starbucks China Parent Care Program". The program was the first-ever critical illness insurance provided by the company for employees and their parents. The initiative was regarded as the company's way to reflect and respect the country's family values and culture.

Starbucks China's efforts in branding have successfully resulted in public perception of Starbucks being a Western company with great respect for Chinese culture. Its strategies have helped the brand to fuse Western culture into the local communities softly without too much of a cultural clash. Thus, this is one of Starbucks China's keys to success.

3.2. Success: Making a Great Share in Digital Commerce

Digital marketing has quickly become fundamental to many enterprises' marketing strategies. China's E-commerce is the largest in the world, where over \$2.29 trillion in transactions were made, and there are an estimated 710 million digital buyers in China [8]. Thus, Starbucks China quickly grasped the opportunity to expand its sales in the digital market. The partnership with Tencent started in 2016 and made Starbucks available to 827 million WeChat users. In 2017, 29 percent of purchases were made through WeChat, and 1.2 million gifts were sent and redeemed at stores [9]. The coffeehouse and tech giants deepened their collaboration by launching an order and delivery service on the mini-program in 2020. Besides optimizing digital platform sales, Starbucks China has revamped its loyalty program by launching the Starbucks Rewards App. The company's Chief Marketing Executive, Emily Chang, once explained the importance of "online-merge-offline" for customer experience [10]. Starbucks Rewards App has provided its registered members with both online and offline engagement, for instance, registering for a coffee-tasting workshop via the App. The company expected to push the number of registered rewards program members to 170 million in China [5].

3.3. Challenge: Local and International Competitors

There is no doubt that coffee consumption has been on the rise in China since Starbucks' first appearance in the country in 1999. Starbucks China, however, is currently and will continue to face threats from local and international competitors. Starbucks China's competitors may pose various challenges to the brand and mostly arise from prices and products.

In 2018, Starbucks China experienced its first sudden downturn, with a recorded negative growth in the third quarter due to the rise of its China-grown rival, Luckin Coffee. Luckin Coffee was founded in 2017 and has rapidly expanded, opening its 10,000th store in June 2023 [11]. Luckin has brought consumers' attention to its low fixed price and flexible discount strategy. Tactics such as free first drinks, free drinks by following on social media, two-for-three, and free delivery upon a certain amount had brought down its selling price to the lowest of the market at around CNY 10 for a 475ml Latte [12]. Moreover, Luckin offers both beverages more adapted to the Chinese taste and non-

traditional ones that target consumers who want to experiment with new things. Li also highlighted that Starbucks and Luckin have adopted different approaches to promotion [11]. Luckin has invested more in advertising by having celebrities, whereas Starbucks has moved from its reliance on “word of mouth” promotion to advertising on social media. Moreover, international coffeehouse chains have aimed to explore the Chinese market, brands such as K-Coffee by KFC, Blue Bottle and Tim Hortons can now be found across the country. Finally, Starbucks China is not only facing threats from other coffeehouse chains, Heytea, a Chinese beverage brand. One of the reasons why Heytea is another big competitor to Starbucks China in the food and beverage market is that Heytea’s main product is tea, which is traditionally favoured by the Chinese. Heytea offers quality beverages at a more affordable price ranging from CNY 15 to CNY 25 [11].

3.4. Challenge: Market and Economic Instability

Throughout the Covid-19 pandemic, the global economy was severely hit, and China’s extreme health measures, such as lockdowns, travel bans, and border closures, had caused unprecedented impacts on its economy. Starbucks China recorded a 50 percent fall in its sales in the second quarter of 2020, and around 80 percent of its stores were closed or opened at a restricted time during the outbreak’s peak [13]. Despite China has decided to loosen the Covid-19 restrictions since the end of 2022, its economy has been on a slow recovery. According to New York Times, 2023, China’s economy is troubled by its significant export decrease, the population’s weak spending, and falling housing prices. As a result, Starbucks China expects a slow recovery for its sales to return to pre-Covid.

In conclusion, Starbucks China’s strategies to localise and digitalise have allowed them to maintain its strong footing in the market. With its vast customer base and long-time branding, competitors may not pose significant threats to Starbucks in China. However, the company must react proactively by enhancing and innovating more marketing strategies to keep up with China’s ever-changing food and beverage market. Moreover, China’s economy is undergoing a phase of instability, and this is an external factor that Starbucks China has to be cautious with.

4. Suggestions

Since Starbucks China is facing challenges from competitors in terms of pricing and products, this study believes that diversifying its products, changing its pricing strategy, and increasing the number of operating locations will be able to support the company’s growth in the market.

4.1. Product Diversification and Personalisation

Starbucks has been seeking ways to diversify its products through utilising partnerships and acquisitions. It is no doubt that coffee consumption is on the rise in China, yet consumers still actively look for varieties when they choose beverages. Starbucks China may consider introducing its innovation into festival drinks like its festival food.

Starbucks offers customers to personalise their drinks as they can add or take away syrup, condiments, and espresso shots and choose their preferred type of milk. The idea of personalizing the beverage purchase is appealing to many customers. Since Starbucks also offers a variety of coffee beans available for purchase, the company may consider offering their customers to choose the type of coffee beans for their coffee while they make the orders.

4.2. Pricing and Promotion

Although some may argue that price is not a main factor for Starbucks customers because they believe that purchasing Starbucks coffee is a status symbol. However, Starbucks China should recognise the

price is still a major factor for consumers, and it is expensive. With the rise of niche coffee boutiques, more quality coffee is available to coffee lovers. Since Starbucks China has already set up a mature loyalty program, promotions or complimentary drinks may still seem an option to “thank” their members. Thus, Starbucks China may consider adding more ways to attract people to register for the loyalty program. For instance, giving members complimentary “anniversary” drinks as a celebration of membership.

4.3. Optimising Customer Experience

Starbucks China will continue providing the “third space” where customers can stop at a Starbucks store between home and work. Starbucks China opened its first roastery in Shanghai in 2017, offering customers unique in-store experiences. The company has further teamed up with Meituan offering users coffee workshops, which has gained popularity among many coffee lovers. Starbucks China may consider rolling out more personalised in-store programs, such as opening a designated area inside a store as an event venue, where members can rent to hold events or parties.

5. Conclusion

5.1. Findings

Since Starbucks’ entrance into the Chinese market in 1999, Chinese consumers have developed a special bond with the Seattle-based coffeehouse giant. Starbucks China has wisely adapted and used marketing strategies suitable for the market. It is understood that the company has significantly shown its respect to the Chinese culture has been the key to its success, Starbucks China has been continuously adding and adjusting elements of its products to cater the local tastes. Moreover, the company has kept up with the fast-paced digital commerce. Notwithstanding its success in the market, internal challenges posed by local and international competitors will require Starbucks China to adapt and develop initiatives to attract new customers while maintaining current ones. Economic instability has also resulted in concerns about Starbucks China’s sales. Finally, it is believed that Starbucks China will need to continue strengthening its efforts to diversify its products, adjust its pricing strategy, and optimise its customer experience to succeed.

5.2. Limitations and Future Study

This study has some limitations due to its lack of primary data as it only mentions the marketing strategies used by Starbucks in China, analysis is made based on reports and findings from other contributors. As a result, the study’s findings may only reflect the basis of the topic. Future studies may be conducted by focusing on the changes in the numbers of sales in association with its marketing strategies made by Starbucks China which may be able to provide quantitative evidence to corroborate the findings. Finally, implementing surveys and interviews with customers may also be able to provide qualitative insights.

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