# Starbucks in Comparison to Other Beverage Brands in the Chinese Market

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*Abstract:* After years of economic growth, China's social wealth has been greatly accumulated, but Chinese enterprises are still there. At a low level of competition and lacking core competitiveness, Starbucks has developed into a world leader in just over two decades. A famous brand, its keen grasp of consumer demand in the era of the experience economy, as well as the mode and core of its brand operation. The creation of competitiveness is worthy of domestic enterprises to learn and research, through the study of Starbucks, hope to be able to domestically. The coffee market has some inspiration. This article examines and analyzes the performance of Starbucks in the Chinese market compared to other beverage brands. It evaluates Starbucks' marketing strategies and market conditions, drawing insights into the development of retail coffee in China. By analyzing the timing of Starbucks' entry into the Chinese market, the state of the Chinese beverage market, and the current situation of the retail coffee market in China, it provides an understanding of Starbucks' expansion strategy, store location strategy, and the challenges it faces, along with feasible recommendations.

*Keywords:* marketing strategy, business model, retail coffee

## 1. Introduction

Starbucks, as a globally renowned coffee chain brand, possesses unique business characteristics and brand image. Its entry into the Chinese market coincided with a period of rapid development in China, laying a foundation for its success in the Chinese market [1]. Before Starbucks entered, the Chinese beverage market already had several fiercely competitive beverage brands. However, Starbucks achieved impressive performance with its unique coffee culture and high-quality products. Currently, China's retail coffee market is experiencing rapid development, offering valuable insights to enterprises looking to develop retail coffee in China [2].

The acceptance of Starbucks in the Chinese market is very high, and Starbucks coffee shops have become symbols of fashion and socializing [3]. Young people are willing to spend more time and money at Starbucks to enjoy coffee and leisure time. At the same time, Starbucks constantly introduces products that cater to the demands of the Chinese market, such as tea drinks and Chinese-style pastries, further attracting more consumers. Currently, Starbucks has established a vast network of stores in China and has become a leading company in the Chinese coffee market. As of 2021, they have over 5,000 stores in China, spanning nearly 300 cities nationwide. Starbucks continues to expand rapidly, and it is projected that the number of stores will continue to increase in the coming years [4].

## 2. Starbucks Analysis in the Chinese Market

### 2.1. Expansion Strategy

The first stage was in 2005 when they entered the Chinese market, primarily focusing on major cities such as Beijing, Shanghai, and Guangzhou. They rapidly increased their brand visibility by opening stores in busy locations such as shopping malls, commercial streets, and office buildings.

The second stage in 2009 involved expanding into second-tier and third-tier cities. Starbucks recognized the growing interest of Chinese consumers in coffee culture and thus began expanding into smaller cities. They opened more community-oriented stores to meet the needs of local residents.

The third stage was in 2017 the development of new retail models. Starbucks leveraged technology and digital means to introduce convenient services such as mobile payments, delivery services, and online ordering, offering consumers a more diverse range of choices.

### 2.2. Product Marketing Strategy

#### 2.2.1. Strategy Analysis

Starbucks has a fast market development strategy, and in recent years, they have been continuously increasing the number of stores. According to Starbucks' latest financial report, as of June 30, 2023, Starbucks China has more than 6,200 stores, covering 244 cities. According to the financial data of the second quarter of the 2023 fiscal year, Starbucks China achieved revenue of nearly 800 million USD, a 3% growth compared to last year. Excluding the impact of exchange rate conversion, the growth rate reached 11%. Same-store sales increased by 3%, achieving positive growth for the first time since the third quarter of the 2021 fiscal year. China has become Starbucks' second-largest market outside the United States, accounting for nearly 10% of its revenue [5]. The specific product marketing strategies are as follows:

Firstly, Starbucks has introduced specialty products that cater to local tastes and culture in China. They have combined traditional coffee culture with Chinese tea culture and launched tea-infused coffee drinks and limited-edition products with Chinese elements. This localized strategy allows Starbucks to meet the Chinese consumers' demand for unique flavors and experiences.

Secondly, Starbucks emphasizes integration with Chinese culture and communities. They collaborate with local artists, designers, and brands to launch a series of special events and limited-edition merchandise tailored to the Chinese market. This interaction with the local culture enhances Starbucks' brand identity in the Chinese market.

Lastly, Starbucks leverages digital technology and social media to enhance interaction with consumers. They provide more convenient purchasing and service experiences through mobile payments, Starbucks Rewards, and the Starbucks membership program. Starbucks also collaborates with social media platforms to conduct online promotional activities and user interactions, increasing brand exposure and influence.

#### 2.2.2. Regression Model Analysis

To explore the impact of Starbucks' product marketing strategies in the Chinese market on sales revenue, this paper can establish a simple regression model. Assuming the independent variables are the number of specialty products, the frequency of special events, and the level of digital technology interaction, and the dependent variable is sales revenue [6].

First, collect relevant data, including the monthly count of featured products (FP), the number of special events (FA), the digital technology interaction index (DTI), and the corresponding monthly sales (MS) data. Then, perform a regression analysis to obtain the following results Table 1.

Table 1: Regression analysis results.

|  | coefficient | SEx | t | p |
|---|---|---|---|---|
| intercept | 1000 | 300 | 3.33 | 0.002 |
| FP | 1500 | 200 | 7.50 | 0.000 |
| FA | 800 | 400 | 2.00 | 0.050 |
| DTI | 1200 | 250 | 4.80 | 0.001 |

As shown in Table 1, the intercept coefficient is 1000, indicating that when the count of featured products, the number of special events, and the digital technology interaction index are all zero, the approximate sales amount is 1000. The regression coefficient for the count of featured products is 1500, with a standard error of 200 and a t-value of 7.50, which is statistically significant. This indicates that the count of featured products has a positive impact on sales, meaning that increasing the count of featured products will improve sales. The regression coefficient for the number of special events is 800, with a standard error of 400 and a t-value of 2.00, which is slightly insignificant (p-value close to the significance level of 0.05). This suggests that the number of special events may have some positive impact on sales, but further data is needed to verify its significance. The regression coefficient for the digital technology interaction index is 1200, with a standard error of 250 and a t-value of 4.80, which is statistically significant. This indicates that digital technology interaction has a positive impact on sales, and increasing the level of digital technology interaction can boost sales.

Taking all the above analyses into consideration, both the count of featured products and digital technology interaction has a significant positive influence on sales in the Starbucks China market, while the number of special events may have some impact. Therefore, when formulating product marketing strategies, it would be beneficial to increase the introduction of featured products and continue to enhance the level of digital technology interaction to promote sales growth.

### 2.2.3. Store Location Strategy

Data based on store distribution in different provinces and cities, Shanghai has the highest number of Starbucks stores among cities, with a total of 551 stores. Following that are economically developed provinces such as Jiangsu, Zhejiang, and Guangdong, which also have a relatively high number of stores. This indicates that Starbucks has a larger market share and expansion plans in economically developed areas [7]. Data based on Store Distribution in Major Cities, Beijing is the second city with the highest number of Starbucks stores, with 234 stores. Other cities such as Hangzhou, Shenzhen, and Guangzhou also have a considerable number of store locations. This suggests that Starbucks has a dense store layout in first-tier cities in China as well as in new second-tier cities with economic growth vitality.

From the perspective of store location strategy, Starbucks adopts a data-driven store location system called GIS to support its store location decision-making. This system collects, stores, processes, and analyzes a series of data including surrounding pedestrian and vehicular traffic, consumer demographics, purchasing power, and competition in the business districts. It helps Starbucks gain a comprehensive understanding of potential locations [8]. This indicates that Starbucks emphasizes data-driven and market research-driven approaches to in-store locations to ensure factors like foot traffic and commercial atmosphere. The following are the strategies Starbucks employs in-store locations:

(1) Busy Commercial Areas: Starbucks tends to choose locations in bustling commercial areas, where there is usually high pedestrian traffic, frequent commercial activities, and a higher consumption capacity.

(2) Proximity to Office Buildings: Starbucks also opens stores near office concentrations to cater to office workers and business professionals for coffee enjoyment and provide a relaxing and socializing space during leisure time.

(3) Proximity to Universities: Starbucks selects locations near university campuses to attract students and faculty. College students often prefer studying, gathering, and relaxing in coffee shops, thereby providing Starbucks with a steady customer base.

(4) Community-focused Stores: In addition to selecting prime locations in major cities, Starbucks also looks into communities in second and third-tier cities. They recognize the potential of community markets and open stores to meet the needs of local residents while building a closer connection with the community.

Starbucks relies more on local Starbucks companies for site selection, which involves several stages:

First, the local Starbucks company searches for potential store locations through three methods: independent search, intermediary referrals, and cooperation with real estate companies. These selection methods primarily consider the characteristics and commercial environment of the region. The ratio of site selection in Shanghai is roughly 1:1:2 [9]. Secondly, The Starbucks development department conducts research, including analysis of pedestrian and customer flow, customer segmentation, customer structure analysis, consumption trends, and price comparisons. These data analyses help Starbucks gain a better understanding of the commercial potential and market demand of potential store locations. Finally, the site selection materials are sent from Chinese subsidiaries to the Asia-Pacific regional headquarters or global corporate headquarters for review. The review stage mainly evaluates whether the store location meets the standards and provides standardized data and forms for evaluation [10].

### 2.2.4. Store Layout, Decor Style, and Landmark Presence

Starbucks pays particular attention to store layout, decor style, and landmark presence in the Chinese market. The following are their key features in store design:

1. Comfort and Fashion: Starbucks creates a comfortable and stylish atmosphere by using a modern minimalist decor style, cozy seating, and soft lighting to create a pleasant environment. This design allows customers to relax while enjoying their coffee.

2. Local Features and Cultural Elements: Starbucks focuses on incorporating local culture and features into store design. They collaborate with local artists and designers to decorate the stores with traditional art elements and handicrafts, reflecting the local customs and historical culture.

3. Landmark Stores: Starbucks also chooses to open stores next to landmark buildings. This location selection enhances the store's reputation and appeal, attracting more tourists and customers to experience it.

### 2.3. Feasible Suggestions in the Current Situation

Innovative Products and Experiences: Starbucks can continue to introduce innovative products that cater to Chinese consumers' tastes and demands. For example, they could introduce more specialty coffees and snacks that are related to Chinese culture or collaborate with local brands to create co-branded products. Additionally, actively seeking new coffee varieties and unique beverage concepts can provide a distinctive experience to attract more customers.

Improving Digital and Mobile Payment Experience: Chinese consumers are increasingly relying on mobile payment and online shopping. Starbucks can further strengthen collaboration with mobile payment platforms to provide more convenient and efficient payment methods. Providing personalized online ordering and delivery services for consumers can be facilitated. Additionally, utilizing digital tools such as apps to offer benefits like loyalty points, coupons, and exclusive membership perks can enhance user engagement.

Enhancing Social Media and Online Marketing: In the Chinese market, social media has immense influence. Starbucks can increase its promotion efforts on platforms like Weibo, WeChat, and Douyin. They can conduct online interactive activities and engage users in marketing strategies. For example, organizing online voting activities that involve consumers in the decision-making process for new products can increase consumer participation and loyalty.

Continued Expansion of Store Network: Although Starbucks has already established an extensive store network in China, there are still potential opportunities to expand further into second-tier and third-tier cities. Starbucks can continue to study the consumer market and demands in these cities and gradually expand its store network to cater to a broader consumer base.

By implementing these suggestions, Starbucks can continue to improve and innovate, enhancing its competitiveness in the Chinese market while attracting more customers.

Strengthen employee training and service quality: Starbucks has always paid attention to employee training and providing high-quality customer service, which is one of the important factors for its success. In the Chinese market, Starbucks can continue to enhance employee training, improve their professional skills and service quality, and provide excellent experiences and services to consumers.

## 3. Comparison with Luckin Coffee

In 2022, there were more than 30 financing events in the Chinese coffee industry. In the first four months of 2023, there have been more than 20 financing events, and the number of coffee-related companies has increased by over 103.3% compared to the previous year, reaching over 18,000. In terms of the industry, Chinese domestic coffee brands have also performed outstandingly. For example, Luckin Coffee, which has been established for more than 5 years, has surpassed Starbucks in terms of store count, with over 10,000 stores. Many other companies, such as Maotai and the Forbidden City, have also entered the coffee industry and gained a large number of fans [11].

### 3.1. Third Place

Starbucks, and Luckin Coffee, are all committed to creating a third place, which is a comfortable social space where consumers can work, relax, or socialize with friends. However, they have their differences in creating the third place.

Starbucks has always focused on creating a warm and comfortable environment, providing free Wi-Fi and comfortable seating, attracting a large number of customers to stay and enjoy coffee. Luckin Coffee, on the other hand, has a more minimalist and trendy design, offering fast self-service and emphasizing efficiency and convenience.

### 3.2. Retail Models

#### 3.2.1. Supply Chain Comparison in the New Retail Era

In the new retail era, efficient operation of the supply chain is key to success.

Starbucks adopts a vertically integrated supply chain model, ensuring product quality and consistency through its own coffee bean sourcing and roasting factories. Luckin Coffee has

established its own supply chain network, enabling fast delivery and efficient management. It also provides a more convenient purchasing experience through online ordering and offline store pickup.

### 3.2.2. Pros and Cons of the Two Coffee Models under Price Wars

In the Chinese market, the coffee industry has once entered a fierce price war.

Luckin Coffee attracted a large number of consumers by offering low-priced, high-quality coffee. However, due to its questioned profit model, Luckin Coffee faced serious financial fraud incidents in 2020. Starbucks, on the other hand, attracts consumers by offering high-quality, high-value coffee experiences and maintains profitability at relatively higher prices.

### 3.3. Insights and Recommendations from the Two Coffee Models

Although Luckin Coffee's rapid expansion and price war strategy attracted a large number of consumers, it also exposed risks and issues of sustainable development. Starbucks has achieved success in the Chinese market with its high quality and high-value model but needs to be cautious about the pressure from price competition.

For companies developing retail coffee in China, the following insights and recommendations can be learned from the two coffee models mentioned above: firstly, focus on improving product quality and service experience to attract and retain consumers. Secondly, establish efficient supply chain and logistics systems to ensure stable product supply and operational efficiency. Additionally, adopt flexible pricing strategies according to the demands of different regions and consumer groups. Lastly, seek innovation breakthroughs in business models, such as combining online and offline, and digital services, to adapt to the rapidly changing market environment.

### 4. Conclusion

Starbucks has significant advantages in the Chinese market, including brand recognition, product quality, and rich coffee culture. However, it also faces challenges such as price competition and the transformation brought by the new retail era. In order to continue to develop in the Chinese market, Starbucks can improve its business model and marketing strategies. This includes strengthening interaction with consumers and personalized customization services, seeking more efficient solutions in the supply chain, and innovating in digital technology and online channels. By constantly improving quality and expanding channels, Starbucks will be able to further solidify its leading position in the Chinese market.

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