Research on the Current Situation and Development of China's Coffee Market

Tianxun Zhu[1,a,*]

[1]*Suzhou Experimental High School AP Center,Suzhou,China*
a. 1811000119@mail.sit.edu.cn
*corresponding author

Abstract: With the rapid growth of the Chinese economy, the improvement of people's living and consumption standards, and the popularization of coffee culture, many new coffee shops have emerged in China, forming a huge potential consumption market for coffee in China. And with the popularity of coffee drinks, coffee has made significant development in China. This article will study the current situation and future development of the Chinese coffee market, and provide suggestions on how to better build coffee brands in the future. The research results indicate that the coffee market is thriving in major cities in China. But in the sinking market of China, coffee is still a new type of beverage. Coffee brands should have strong product research capabilities to attract more consumers. In the future, businesses should focus on in store design, service customization, brand image, and marketing to create better coffee brands.

Keywords: coffee market, coffee consumers, coffee shop

1. Introduction

1.1. Background

Coffee, tea, and cocoa are collectively known as the world's three major beverages, with about one-third of the world's population drinking them. Coffee has a huge global sales volume, with an annual production of approximately 170 million bags. Due to its rich cellulose, protein, caffeine, and unique refreshing and stimulating effects, it has gradually been accepted by modern people and has become an irreplaceable beverage.

China is regarded as the hometown of tea, with a prevailing trend of drinking tea and a relatively late formation of coffee culture. In the 1990s, Nestle instant coffee entered China and ushered in a new era. At the beginning of the 21st century, many coffee brands have entered the Chinese Mainland market. With the rapid growth of the Chinese economy and the continuous improvement of people's quality of life, coffee has gradually combined with fashion and modernization, forming a huge potential consumer market and achieving significant development in China. Based on the above background, this article will study the current situation and development of China's coffee market.

1.2. Related Research

As a well-known Chinese coffee brand, Starbucks' business model, business philosophy, and brand itself have attracted the attention of many scholars: Cao and Qiu studied Starbucks' business model and industry development by analyzing its product management, customer relationship management, culture and brand management, ethical marketing and corporate social responsibility. The authors found that Starbucks is a successful project because of its outstanding financial performance and operational output. However,due to Starbucks' higher prices, there are also some risks in its business [1]. Chen and Liang studied the current situation of Starbucks' supply chain through case analysis, summarize and comment on relevant articles, and 3A(Agility, Alignment, Adaptation),3S(Substitution effect, Scale effect, Structural effect)model. And through the conclusions drawn, provide experience for more enterprises' supply chain management. The author found that excellent supply chain management can optimize the operation of the supply chain and meet all processes of the end customer with the minimum cost [3]. Wen et al. analyzed a questionnaire survey consisting of four main aspects of brand equity, designed a conceptual framework, and assumed the correlation between brand equity and purchase intention to study the impact of brand equity on Starbucks consumer purchase decisions. The authors found that brand equity has a strong positive impact on consumer purchasing decisions [5].Xu compared and analyzed the differences and changes of Starbucks' four logos, as well as their business philosophy, to study the role of the three changes in Starbucks' logo in the evolution of brand culture and the development of corporate culture. The author found that the change in logo further enhances its brand culture without changing its brand DNA. In addition, the changes in the logo have also promoted the development of Starbucks' unique corporate culture [7].

The unsuccessful experience of the Starbucks brand, the competition it faces, and the optimization aspects it requires have also attracted the attention of many scholars: Barnea studied Starbucks' mistakes and unsuccessful experiences in Israel by analyzing its strategy in Israel ,customer value, why Starbucks cannot gain a competitive advantage in Israel, results of the survey questionnaire, peripheral vision. The author found that the poor results achieved by SI were mainly a consequence of the lack of peripheral scanning and an incorrect reading of the market signals from the early stages of considering entering to the Israel market [2]. Adamu analyzed its PESTLE, porter's 5 forces, capabilities through three levels (national, industry and organizational) to critically analyze the competition Starbucks faces in the Chinese market. The author found that the challenges of fierce competition are distributed at all three levels, but most of the sources of problems are at the industry level .[4]. Nair et al. studied the impact of Starbucks' marketing activities on customers through different channels by analyzing 110 questionnaires filled out by people from India and Malaysia on the impact of Starbucks' environment on purchasing decisions, as well as detailed observations of Starbucks in Malaysia. The authors found that Starbucks' marketing activities need to be optimized to promote products and services, directly connect with customers' emotional aspects, and expand their influence [6]. Pandey et al. analyzed the survey questionnaire filled out by Starbucks loyal customers to study whether Starbucks' brand image, experience, quality, and service can bring customer loyalty from customer satisfaction. The author found that most customers are satisfied with the product quality and customer service provided by Starbucks. However, a small number of people are not satisfied with the price because it is too high. Therefore, Starbucks should maintain product quality and appropriately lower prices in the future to attract more customers and bring in greater sales. [8].

1.3. Objective

This article will study the current situation and future development of the Chinese coffee market, as well as how to better build coffee brands. The second part will analyze the current situation of the Chinese coffee market from four aspects, and the third part will analyze the future development of the Chinese coffee market from three aspects.

2. The Current Situation of China's Coffee Market

2.1. Market Size

In 2022, the scale of China's coffee industry reached 2007 billion yuan. There are a total of 733 coffee chain brands, of which 28 have over 100 stores. As of 2023, the number of existing stores of 21 chain coffee brands has reached 25352. Shanghai is the number one representative of Chinese coffee cities, with 8530 coffee shops, ranking first in the world in terms of quantity. Shanghai has an average of 3.45 coffee shops per 10000 people and 1.35 coffee shops per square kilometer [9].

2.2. Price and Consumption Characteristics

Through investigation, it was found that 65.82% of coffee prices range from 20 to 35 yuan, 29.94% range from 20 yuan to below, 1.59% range from 50 yuan to above, and 2.65% range from other prices [10]. From the perspective of consumer coffee consumption time (Figure 1), 22.5% choose to drink coffee from morning to lunch, 44.3% of consumers choose to drink coffee from lunch to dinner, 17.2% choose to drink coffee from dinner to bedtime, and 16 % choose to drink coffee at any time.
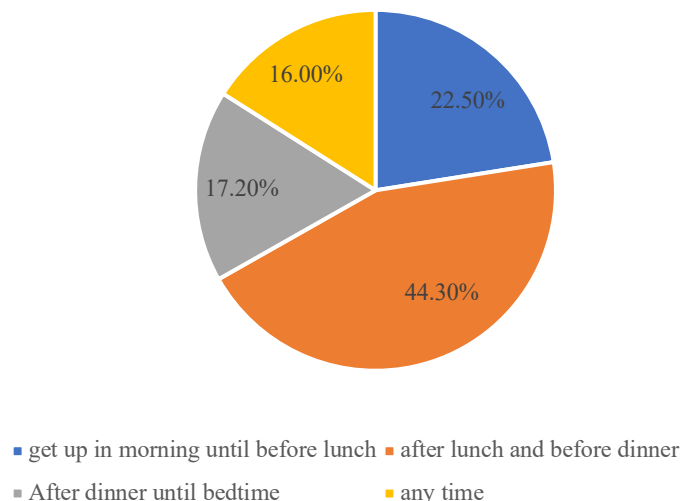

Figure 1: Distribution of coffee consumption time periods among the surveyed population.

2.3. Consumer Preferences

Based on hot data from Sina Weibo, coffee brands have become an important focus. In addition, the flavor, price, function, and taste have also attracted attention. China's top brands of freshly ground coffee are mainly comprehensive products and large chain brand products. From this, it can be seen that when consumers choose coffee, brand is one of the important factors that affect consumers' choices [10].

Consumers are increasingly valuing the quality and service experience of coffee. Although takeout is now convenient and fast, the charm of freshly ground coffee and its social culture still makes most coffee enthusiasts choose to eat in the cafeteria [10]. The survey results show that the reasons why consumers choose to enter a coffee shop are as follows: the interior design of the coffee shop, such as lighting, tables and chairs, and sockets (68%); The taste of coffee (55%); Coffee shop culture and cultural and creative products (53%); Reasonable coffee price (50%); Is it convenient for work and study in the store (33%).

2.4. Views of Cities of Different Sizes on Luckin and Starbucks

Coffee relies heavily on market demand. For a long time, it was difficult for coffee to penetrate deep into the market. Coffee is a beverage with a threshold and requires more market penetration.

There are approximately 108000 coffee shops nationwide, mainly distributed in second tier and above cities, accounting for 75% of the total [10]. The number of coffee shops in a city is closely linked to its GDP level, and the coefficient of determination R^2. It can even reach 0.87 (R^2 The closer it is to 1, the closer the relationship between the two is). A value above 0.8 can be considered highly correlated, which means that the demand for coffee in cities with more developed economies is also higher. In second tier and above cities, both market development efforts and the financial, material, and human resources invested by merchants are unparalleled in third and fourth tier cities. Therefore, the acceptance and love of coffee in first and second tier cities are much higher than those in third and fourth tier cities [11].

For consumers in first tier, new first tier, and second tier cities, drinking coffee is a very daily activity. According to statistics, 33.8% of consumers go to coffee shops every day to purchase coffee, and 60.2% of consumers go to coffee shops 2-4 times a week [10]. However, relatively speaking, the demand for coffee in third tier and below cities is mostly due to the fact that coffee shops are convenient places for socializing and leisure, rather than focusing on the coffee itself. In third tier cities, a very interesting phenomenon can be found. Starbucks is the guarantee of high-quality coffee in third tier cities, and wherever there is Starbucks, there must be a boutique coffee shop [12].

For the entire coffee industry in China, in first tier, new first tier, and second tier cities, it is more important for consumers to understand the essence, flavor, coffee making methods, coffee roasting, coffee bean varieties, etc., in order to continuously broaden the cognitive threshold of coffee consumers and cultivate more professional coffee enthusiasts. However, in third tier cities, there is more blind pursuit of so-called premium coffee, with very little understanding of coffee itself and insufficient popularity [12].

3. The Future Development Trends of China's Coffee Market

3.1. Further Expansion of the Coffee Industry in Major Cities in China

As a new first tier city, Suzhou, while pursuing the essence and taste of coffee, has launched cross-border new consumption such as coffee+Kunqu opera, coffee+bookstore, coffee+flower gardening, forming a "coffee+economy" model. Coffee brands should rely on user consumption data, continuously focus on consumer preferences, iteratively optimize product and service experiences, and provide precise services to the consumer group.

In developed cities, it is also necessary to build a good coffee consumption scenario and promote flexible and diverse secondary consumption. The so-called social space and scenes do not simply exist in physical space, because "human social interactions will occur more on the mobile internet". Therefore, coffee brands should focus on "putting people first" and restructure around "time, place, and communication" to build new consumption scenarios between business and consumers, achieve "finding people for coffee", and promote flexible and diverse secondary consumption [10].

3.2. Penetration Opportunities in Sinking Markets

In most sinking markets, coffee is still a new type of beverage. People in a sinking market are not able to quickly develop coffee drinking habits. Compared to tea drinks such as milk tea, the market promotion of coffee faces the problem of some people feeling uncomfortable with the taste of coffee. The bitterness of coffee is inconsistent with the taste demands of consumers, especially young consumers, which requires coffee brands to have strong product research capabilities. The well-known coffee brand Ruixing has launched a product called "Milk Coffee", which effectively solves the problem of palatability at the product level. Focusing on the taste of young people is the key to the success of the coffee market sinking into third tier cities.

3.3. How to Better Build Coffee Brands in the Future

3.3.1. New In-Store Design

More and more well-known coffee brands are choosing open operations in their stores. They changed the table in the store to a low bar, with seats arranged around the bar and the overall height below the waist, which can keep consumers' sight at a comfortable height. This design allows customers to watch all the steps from roasting coffee beans to serving coffee. This open operation not only enhances consumers' sense of participation, but also creates a close connection between the brand and consumers, enhancing the connection between the two.

3.3.2. Service Customization

With the continuous development of society, standardized coffee making services have become difficult to meet consumers, and some customers are beginning to crave the emergence of customized services.

In the future coffee market, being able to accurately blend coffee according to customer requirements, making each cup of coffee match their taste preferences, can effectively enhance customer brand recognition. In addition, personalized coffee customization can also enhance the brand value and positioning of coffee shops.

3.3.3. Strengthen Brand Image and Marketing

There are many coffee brands in the market, and their products and services are often similar. Strengthening brand image and marketing can help differentiate brands from competitors. Through unique brand stories, designs, and corporate culture, coffee brands can establish a unique image in the minds of consumers, thereby standing out in the fiercely competitive market.

Strengthening brand image and marketing can also enhance consumer loyalty to the brand. When consumers strongly identify with a brand's culture and develop emotional connections, they will become loyal customers of the brand and consume there for a long time. This creates a competitive advantage for the enterprise, enabling it to maintain a stable position in the market.

4. Conclusion

This article studies the current market size of coffee in China, coffee prices, consumer consumption characteristics, preferences of coffee consumers, and the views of cities of different sizes on Luckin and Starbucks. This article also examines the future development trends of China's coffee market, including the further expansion of the coffee industry in major cities in China, penetration opportunities in sinking markets and how to better build coffee brands in the future. The author found that the coffee market is thriving in major cities in China, and consumers in developed cities have a

much higher acceptance and love for coffee than in third and fourth tier cities. The brand, taste, and service experience of coffee are things that consumers attach great importance to. The author believes that in developed cities in China, coffee brands should continue to pay attention to consumer preferences, iteratively optimize product and service experiences, provide precise services to consumer groups, and promote flexible and diversified secondary consumption. To develop a sinking market in China, coffee brands need to have strong product research capabilities. In order to better build a coffee brand in the future, businesses should pay more attention to store design, service customization, brand image, and marketing.

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