

The Adaptability of Costa Coffee's Organisational Management in Its Sinicization Operation

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Abstract: The research aims to understand the difficulties that Costa Coffee is facing during its development in China. Key research findings indicate that marketing strategy, low brand awareness and high turnover are the main issues for Costa Coffee. Furthermore, Costa Coffee's current challenges could result in financial losses, failed market share acquisition, and eventual failure to grow in the Chinese market. Hence, it is critical to address the issues raised in this study related to Costa Coffee. This research demonstrates two suggestions based on organizational behavior theory related to solve the existing issues. With the help of Maslow's hierarchy of needs and McGregor's Theory X and Theory Y, Costa Coffee's current challenges in the Chinese market can be effectively solved.

Keywords: Costa Coffee, SWOT analysis, organizational behaviour, motivation theory.

1. Introduction

While tea remains the most popular beverage in China and is expected to continue to do so for the foreseeable future, coffee's popularity is on the rise as a status symbol and after-dinner beverage. A rapid and sustained increase in coffee consumption over the past four years may be seen in China. The Chinese coffee business is expanding at an unexpectedly rapid rate thanks to the opening of the Chinese market to the rest of the globe in the 1980s [1]. Since Chinese consumers started to appreciate the coffee brand, style, and purity and learned how to enjoy the enjoyment of coffee, instant coffee could no longer be used to symbolize Chinese coffee consumption [2]. In China, there are now roughly twice as many coffee shops as there were five years ago. Only 4% more Chinese tea establishments were opened during the same time period. In order to compete with the emergence of café chains, teahouses have targeted higher-end clients with pricey teas, food, and service, yet they lack distinctiveness and have few strong brands. Young professionals who are Westernized are the primary target market for coffee, according to manufacturers. Returnees are another significant consumer group that affects coffee consumption. According to the International Coffee Organization, annual coffee sales in China increased by more than 15% from 2009 to 2019, which is eight times the global average. Other research states that roughly 15 coffee-related funding events, involving Manner Coffee and other new coffee businesses entered a heated market fight in the first half of 2021. To sum up, China's coffee sector has enormous potential for expansion. Both domestic coffee consumers and the consumer market have demonstrated a significant growth trend in recent years. It is expected that China will become the world's largest coffee consumer

equivalent to Japan. High-quality coffee will be the mainstream of consumption in China in the future.

Although Costa Coffee is considered as one of the leading coffee brands in China, it has also suffered numerous issues during the Chinese market's expansion. A large number of stores of Costa Coffee in China have been closed as of mid-2020. The causes for this could be severe competition amongst these famous coffee companies, as well as organizational management issues. The research gap in the field is that previous literature does not provide a systematic analysis of the organizational management issues of Costa Coffee's operations in China. Hence, the research objective is to analyze the development of Costa Coffee in the Chinese market by using organizational behavior theory and to give reasonable suggestions for its future development.

This paper will first show brief introductions of current Chinese coffee industry and Costa coffee, and then Problems and difficulties encountered by Costa Coffee in the development of the Chinese market will be demonstrated, and finally the suggestions based on organizational behavior theory will be provided.

2. The Current Situation of the Chinese Coffee Industry and Introduction of Costa Coffee

2.1. The Current Situation of The Chinese Coffee Industry and The Current Status of Costa Coffee

Although national coffee consumption in China is still significantly lower than that of Europe or the United States, it is growing rapidly in urban regions, especially in large cities [3]. Rising disposable incomes and increased international travel among Chinese citizens have both played a role in the country's burgeoning coffee culture. Education level, household income, and coffee consumption frequency all have positive correlations. Western beverages like coffee are more frequently seen as representations of prosperous lifestyles than as actual beverages. Chinese coffee market growth and consumer interest in western culture are closely related. The vast majority of China's coffee consumption normally occurs in the country's major metropolitan areas, particularly in Beijing, Shanghai, and Guangzhou. Recently, coffee has been popular among intrepid young, wealthy, and urban customers. This is simply due to the fact that the majority of Chinese customers initially view coffee as a Western concept. However, China is now becoming more and more familiar with the coffee culture. Chinese coffee drinkers are increasingly exposed to Western influences and frequently aspire to live a life like those in the West [4]. Despite a slow start, coffee has been increasingly popular in China, with cafes springing up in both major and secondary cities. Costa Coffee is a chain that has succeeded in penetrating the high-end of the Chinese coffee market. Compared to Starbucks' sixteen-year existence in China, Costa just required eight years to attain a 25 percent market share. In the future, having an excessive number of partners to split its revenues can be problematic. Thus, it remains to be determined how to construct an effective platform in which each party has a fixed presence and how to design a system to prevent future confrontations.

2.2. Introduction of Costa Coffee

Although largely unknown in the United States, the company has earned a reputation as the leader in the U.K. coffee market niche during the previous 50 years. Costa Coffee was founded in 1971 by Italian-born brothers Sergio and Bruno Costa with the intention of making high-quality, delicious coffee available to all coffee enthusiasts in England. And, as the company's history demonstrates, it did so while adding a touch of flair to its diverse beverage and food selection. With the help of Whitbread, Costa Coffee expanded from nearly 40 coffee shops to become the largest coffee shop chain in the United Kingdom. Since 2006, the British coffee shop business Costa Coffee has substantially expanded on the Chinese market. Its goal is to make China its "second home" by

gaining a one-third share of the coffee shop market based on the Starbucks model and the construction of coffee shops adjacent to Starbucks locations. Every Costa Coffee location is equipped with its own roastery and blend. The company now has more than 3,800 locations worldwide. As of mid-2020, Costa only has nearly 300 shops in China. The cause may be the fierce competition among these renowned coffee chain businesses. Starbucks dominates the Chinese coffee market. Coca-Cola acquired Costa Coffee in 2019. As a result, Coca-Cola grew into an expanding market niche. Coca-Cola can expand its offering by leveraging Costa Coffee's coffee expertise, from sourcing to distribution. The Costa Coffee brand, on the other hand, acquired the marketing and distribution resources of a major international corporation. Additionally, because of Coca-brand Cola's recognition and marketing networks in Asia [5], Costa Coffee was able to establish itself in China, one of the fastest-growing economies. This would be the next stage for the Costa Coffee brand in becoming an international powerhouse. Costa Coffee relies heavily on local Chinese shops to set itself apart from Starbucks and other global giants in the coffee market. The signing of a contract with the Beijing Hualian Group, a multinational retail conglomerate, was one of the most recent developments. Costa Coffee also delegated a lot of power to its franchisees, which increased productivity. Costa Coffee carefully studies the regional market and is flexible enough to adapt its offerings to suit the preferences of the people living there. In response, several Chinese customers have commented that the strategy has resulted in a somewhat different flavor to Costa Coffee in different cities. Costa Coffee has also observed that Chinese clients like to sip coffee while seated in a more secluded area. In order to make every customer feel more at ease, Costa Coffee has been emphasizing an intelligent table and chair arrangement. Similar to its competitors, Costa adopted a localization approach by adding iced green tea to its stores in southern China and a hot beverage to its outlets in northern China.

2.3. SWOT Analysis of Costa Coffee

SWOT analysis will be used in this chapter to demonstrate the current business pain point faced by Costa Coffee.

Strengths of Costa Coffee One of the most important strengths of Costa Coffee is brand recognition. Costa Coffee is an internationally renowned brand with a solid brand reputation and brand identity. The coffeehouse chain brand has a network of more than 3,000 locations in over 30 countries. Secondly, it has pleasant atmosphere. The coffee shop chain has established a large network of loyal customers who regularly shop at the company's stores because of the great quality of the products they sell. Coffeehouse shops are successful because they provide an inviting space where customers want to linger. More time spent in the coffee shops by customers is correlated with higher profits for the company. Additionally, its service quality attracts more customers. Costa Coffee uses only farms that have earned the Rainforest Alliance certification when sourcing and processing its coffee beans. It reflects the company's commitment to ethics, business, and its clients.

Weaknesses of Costa Coffee One of its main weaknesses is premium prices. Coffeehouse pricing are significantly greater than those of similar but smaller brands. In the end, it is still simply coffee, no matter how high of quality or service you provide. Customers who are watching their wallets will not pay a lot for a cup of coffee. Secondly, High sugar coffee is also its weakness. Numerous health-conscious clients do not perceive the company's products to be healthful, particularly its high-sugar coffee. Sales of sugary coffee have plummeted as people switch to less unhealthy brands in response to the growing popularity of healthy eating.

Opportunities of Costa Coffee Firstly, acquisition and alliance can be one of its opportunities. Plan for long-term partnerships with complementary food and drink companies. It would help the company in a number of ways, including breaking into new markets, adding to existing portfolios, and gaining new insights. The brand should also explore offering comparable products at reduced

costs. Secondly, expanding portfolio can also be considered as opportunity. The coffeehouse's product line should be expanded by adding healthier caffeine-containing goods. It would allow the corporation to target customers with dietary restrictions. Additionally, the company can provide coffee-brewing equipment, coffee beans, and other such items.

Threats of Costa Coffee Its competitors can be considered as one of its main threats. In the last few decades, it has gotten increasingly difficult to manage a coffee shop. Caffe Nero, Starbucks, and others are among Costa Coffee's key rivals. Meanwhile, they are recognized all over the world and invest heavily on advertising. Because of them, it is hard for the corporation to keep its current foothold in the market. Price competition is also the threats for Costa Coffee. There are both the major companies in the world and smaller brands that provide their products at far more reasonable pricing. As a result, they now enjoy a sizable share of the budget-conscious consumer market.

According to the findings of SWOT analysis above, the main external threat that Costa Coffee is facing is competitor. Hence, Costa Coffee's current dilemma is determining how to grow itself in order to be more competitive than its competitors.

3. Problems and Difficulties Encountered by Costa Coffee in the Development of the Chinese Market

3.1. Marketing Strategy

In internationalization circumstances, it is crucial for businesses to consider specific facts about local communities. By focusing its partnerships on local partners and its own value, product, and brand, Costa risks losing insight into the preferences and needs of Chinese consumers. Whitbread's wholly-owned subsidiary from the United Kingdom, Costa Coffee, entered China in 2006 and controlled nearly 10% of the country's coffee market by 2013. In China, Costa had 350 locations as of 2017 [6]. Initially, Costa was quite reliant on its partner, especially to push the business. In order to develop into high-end commercial complexes through shops, supermarkets, department stores, and shopping centers, Costa also entered into a joint venture arrangement with Beijing Huilan Group, a major Chinese retailer. This could cause the majors to lose sight of market developments. While purchasing coffee from a coffee shop may be a common activity in Europe, it is still a luxury good that is out of the price range of the average worker in China. Many customers are turned away by the high cost of coffee at many multinational coffee shop chains, yet domestic coffee shops may benefit. Luckin Coffee, as one of Costa's strongest domestic competitors, is far below Costa in terms of pricing. Take the unit price of the smallest cup of coffee as an example. Luckin Coffee has only one cup type, which is known as the large size. Its single cup costs 27 yuan, while Costa's single cup costs 36 yuan. In other words, Luckin Coffee is 75% less expensive than Costa Coffee. As coffee prices rise and wages stagnate, fewer individuals can afford it on a regular basis, leading many to switch to cheaper alternatives like bottled teas and juices. These results suggest that Costa Coffee could seek to expand its product line in order to attract a more diverse clientele.

3.2. Low Brand Awareness in China

Costa Coffee, the most recognized coffee brand in Britain, ultimately prevailed in its conflict with Starbucks for dominance of the UK market. But Costa Coffee was initially compelled to take a backseat in the battle for the Chinese market. While Starbucks first entered the Chinese market in 1998, the firm did so in 2007. As a result of Costa Coffee's incorrect assessment of the future development of the Chinese market at the time, Starbucks was ultimately able to successfully enter and take control of the Chinese market. Despite the fact that Costa Coffee has steadily given the Chinese market a lot of attention, its markets in China are mostly centered on Beijing, Shanghai, and other major cities due to Starbucks' enormous popularity in the country. While Starbucks has

more than 1,000 coffee shops in China, including more than 700 on the mainland, Company has more than 200 [7]. Therefore, single goods, a lack of stores, and a slow rate of business growth were the problems Costa Coffee encountered in the development of the Chinese market. According to DATA100 consumer research, Starbucks leads the domestic freshly ground coffee market in both brand recognition and purchase rate. However, the popularity of Costa is lower than that of professional chain coffee brands such as Luckin and Pacific Coffee, and the purchase rate of Costa is also lower than that of fast-food coffee brands such as McCafe and K COFFEE [8]. The main reason for its low brand awareness is lack of marketing promotion. From January to September of 2022, Starbucks has released 14 times with 28 new products. In other words, on average, Starbucks has a new product on the shelves every 8-9 days. In the same period, Costa Coffee only released six times with 15 new products. Not only Starbucks, but also Pacific Coffee is actively attracting young consumers by launching co-branded products with hipster brands Pop Mart and Fluffy House [9].

3.3. High Turnover

The employee turnover rate of Costa coffee is 10%, and it is due to two main reasons, including workload and salary. The shift arrangement is set, as are the tasks for personnel in the morning, middle, and evening. Employees on the early shift have light work due to lower passenger traffic. The burden of employees in the middle and evening shifts is greater than that of those in the morning shift. Overwhelmed by amount of work can leads to high turnover in Costa Coffee. Feeling overburdened at work increases the chance that an employee would look somewhere else for job. [10]. Employees occasionally experience this, which is common, but if it becomes a regular part of their working lives, it can be too much. To keep up with the burden, they might need to work longer hours, which could seriously disrupt their ability to balance work and life. Additionally, poor compensation can also cause high turnover. Especially for younger employees, wages and benefits are a crucial factor in employee turnover. The average salary of costa Cafe is 4,491 yuan/month, of which 33% are within the range of 5,000-6,000 yuan/month, and 22% are below the range of 3,000 yuan/month. Meanwhile, the average salary of Starbucks is 5,318 yuan/month, of which 36% are in the range of 4,000-5,000 yuan/month and 25% are in the range of 3,000-4,000 yuan/month. Which means that the salary that provided by Costa Coffee is much lower than salary provided by Starbucks. Higher base salary has a significant impact on employee retention for several reasons. First, paying individuals properly is a concrete approach to demonstrate that the organization values their contributions. And it reduces the likelihood that a competitor seeking to steal high performers may entice them away with monetary incentives alone.

4. Application and Suggestions Based on Organizational Behavior Theory

4.1. Maslow's Hierarchy of Needs Theory

Maslow's hierarchy of needs is a framework for comprehending the causes of human behavior. Each level corresponds to a distinct human need. These include physiological needs, safety, love and belonging, esteem, and self-actualization. Maslow's hierarchy of needs can help to reduce high turnover of Costa coffee and improve its marketing strategy. Motivation is the consequence of the interplay between the individual and the situation, and the fundamental motivational drives of individuals vary [11]. To achieve employee's physiological needs, Costa coffee can provide a stable income, a pleasant place to work, and basic amenities, including a tea and coffee maker at work. Having formal work contracts and benefits like sick pay, retirement plans and safety in the workplace can meet employee's safety needs. Group cooperation across teams, departments, and organisational levels, as well as team growth through social activities, are common practises in the management of employees' social requirements. This, however, might be challenging due to the

prevalence of people working from home. Utilize communication platforms such as Microsoft Teams, Skype, and Zoom so that employees can socialize and collaborate, and ensure that management holds regular meetings and check-ins with their team. Regarding self-esteem, it is critical to value praise and respect for others. A peer-to-peer or social recognition program will honour employees' accomplishments and bestow respect and prestige, while a 360-degree feedback and appraisal system might be helpful. Employers can also award employees for their contributions. Staff members can perform at their highest level thanks to personal development plans, training, secondments, mentoring, and the chance for advancement. Regular talent planning meetings between managers and HR, career dialogues with workers, and fast-track management programmes can help the firm satisfy employees' desires for self-actualization and fill future opportunities.

In addition, Maslow's hierarchy of needs can also help Costa Coffee to raise its brand awareness in China and improve its marketing strategies. Nowadays most people have already fulfilled their physiological needs, safety, so they are looking for achieving love and belonging, esteem, and self-actualization. In China, coffee represents wealth and prestige. Chinese consumers often opt to indulge in pricey, foreign-brand coffee as a symbol of their social standing and economic success and to fulfill their Esteem needs. Maslow's hierarchy has four levels, and the fourth level is esteem needs, which include respect, self-worth, and accomplishment. Maslow divided esteem requirements into two categories, which are esteem for oneself and the desire for reputation or respect from other, status, prestige are included in the desire for respect from other. To arise its brand awareness, Costa Coffee should focus on attracting potential customers and selecting suitable locations. In order to satisfy customer's esteem needs, Costa Coffee needs to position itself as a premium coffee brand and maintain its high prices. Costa Coffee could put more ads on TV and social media to raise its brand awareness. Instead of concentrating their marketing efforts on establishing partnerships with Chinese businesses, Costa Coffee may decide to instead select shop locations and conduct consumer preference research. The typical Chinese coffee drinker is a young urban professional who is open to trying something different. For this reason, Costa Coffee and a well-known Chinese milk tea company could team up to produce a co-branded product, so that more customers would be attracted and its brand awareness would be raised.

4.2. McGregor's Theory X and Theory Y

McGregor stated that Theory Y managers are more effective than Theory X managers because they create a better work environment by encouraging teamwork while still providing employees with many possibilities for personal development. Which means that the use of McGregor's Theory X and Theory Y would help Costa Coffee to reduce its high turnover. Building a positive workplace culture, in which workers feel valued and appreciated for the contributions they make, is crucial to the growth and prosperity of any business. Managers can help foster a positive work environment by, among other things, hosting company retreats, promoting opportunities for staff training and personal development, fostering an atmosphere where employees value and appreciate each other's contributions, and rewarding exceptional work performance. In the absence of such a culture, employee engagement may deteriorate. Staff engagement refers to the extent to which employees believe that their job matters and that they are valued for completing particular duties. Without such high levels of engagement, productivity and revenues could decline. To sum up, the use of McGregor's Theory X and Theory Y can improve employee's satisfaction and productivity, so that employee's turnover could be decreased.

5. Conclusions

Although Costa Coffee has a large market share in the Chinese coffee market, it has faced numerous challenges in the growth of its Sinicization. If the issues are not addressed properly, Costa Coffee may fail in the Chinese coffee industry. The analysis of this paper reveals that the most difficult problems Costa Coffee is facing are related to its organizational management, and the three main issues are marketing strategy, low brand awareness and high turnover. Further suggestions have also been provided in this paper, it stated that with the help of Maslow's hierarchy of needs and McGregor's Theory X and Theory Y, all three issues can be properly solved.

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