



Starbucks VS Chinese Tea—Starbucks Brand Management Strategy Analysis in China

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Abstract

As the world’s largest coffee retailer, Starbucks coffee is the leading roaster and retailer of specialty coffee. Since it entered Chinese market in 1999, Starbucks’ trademark of a green and white mermaid has been featured in more than 1700 outlets in China. Starbucks puts the customers’ feeling and experience at the top of priority. It promotes a ‘Starbucks Culture’ value and emphasizes on “culture oriented” influence. Starbucks’ success in China—a country with five thousands year’s history of tea drinking is a classic profile of the international brand localization management.

Key words: Starbucks; Chinese tea; Marketing strategy; Brand management; Culture cognition

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INTRODUCTION

According to the Mintel consumer research-Teahouses and coffeehouses-China report in 2012, the coffeehouses in China have doubled in the past 5 years. From 15898 in 2007 increased sharply to 31783 in 2012 while the teahouses raised 4% only with the number of 50,000 (Mintel, 2012). Though the teahouses are superior in numbers, the main consumers are the elders, which can be predicted that teahouses will experience recession in the future.

The report shows, the market target of tea houses

mainly focuses on the wealthy class. They offering expensive tea drinks, food and service (Mintel, 2012). The lacking of features will endanger their places in the market and cannot compete with coffee shops. Meanwhile, the loss of brand image cognition is a critical defect.

1. THE SUCCESS OF STARBUCKS

Established in 1971 in Seattle, Washington, U.S.A. It started its first small coffeehouse ‘Tea and Spice’ owned by three men—Jerry Baldwin, Zev Siegel, and Gordon Bowker, which mainly offered professional coffee knowledge, and taught customers how to make fine coffee at home. The company took the name of the chief mate in the book Moby-Dick: Starbuck, after considering “Cargo House” and “Pequod” (Time Out, 2011). Howard Schultz bought the original Starbucks franchise in 1987 and named as Starbucks Corporation (The Daily Telegraph, 2011). From then on, Starbucks changed into a coffee chain from being a small coffee bean retailer. Now Starbucks Coffee Company is North America’s leading roaster and retailer of specialty coffees. Sales have climbed an average of 20% annually since the company went public in 1992 with total stores of 162 while profit bounded ahead average of 30% per year (Wu, 2009). As of June 28, 2015, Starbucks owns 22,519 store worldwide, and was awarded most ethical company 2015. (Starbucks, 2016a)

The company has demonstrated rapid growth for over a decade, and is continuing to grow profitably through the current recessionary environment. In January 1999, Starbucks entered Beijing, and in May 2000, many of its branches began to appear in the financial capital of China, Shanghai. It has become the leading brand in inland China coffee industry currently.

2. THE DEVELOPMENT OF STARBUCKS IN CHINA

It is well known that China is the origin country of tea.

There is a long history of tea drinking in China. Although it is difficult to ascertain when the tea-drinking culture started exactly, there are evidences showing that the habit of tea drinking in many countries was spread from China.

Since the beginning of China boom in the last decade, foreign drinks such as coffee and coke are becoming popularity among youth in China. Coffee is gradually relative to taste and fashion, and it becomes a way to show social status. This country has represented an attractive potential market for international coffee chains. Nowadays, the omnipresence of coffee shops on the streets of many Chinese cities mentioned as an example of China's growing taste of foreign food and drink. Young people become fans of coffee. For many Chinese, coffee is an inseparable part of life now.

In some large cities like Beijing, Guangzhou or Shanghai, the coffee consumption can be amazing. China, with its strong tea culture is becoming a huge potential market for coffee brands.

Starbucks's China has experienced a notable growth since opening its first store in Beijing's China World Trade Center in the year of 1999. Now, Starbucks' trademark of a green and white mermaid has been featured in more than 1,900 outlets in 99 cities with 30,000 staff in China (Starbucks, 2016b). Starbucks saw a 30% year-over-year jump in revenues from its Asia-Pacific region, lifted by outstanding sales in China, according to its quarterly report in 2013 (Zhu, 2013). "The very strong sales volumes prove that the coffee concept can succeed in traditional tea-drinking countries, its resonating very well with inland cities" said R J Hottovy, director of consumer equity research at Morningstar, Inc. (Zhu, 2013).

The company revealed Starbucks China is planning to open a further 1,400 cafes by 2019, which means the overall store in China will be 3,400 by then. Schultz said: "As Starbucks' second largest and fastest growing market globally, China represents the most important and exciting opportunity ahead of us." (Wahba, 2016)

To many Chinese people, who grow up in a tea-drinking culture, coffee is still a nouveau fashion statement. Although China has a quarter of the world's population, it consumes less than 1 per cent of the world's coffee. Coffee consumption has been growing at over 10% annually since 1998 and is expected to grow from 1.1 million bags in 2012 to 2.8 million bags by 2020. Coffee demand in China is increasing at a rate of 15% to 20% per year compared to a world average of mere 2% (ICO, 2014). Coffee is just an excuse for people to come to the store. Nowadays people get together more often. They need places where they can chat or just relax. That is also why Starbucks has been promoting the idea of "The third place". Starbucks became a symbol of fashion in China in quite a few years only; it transfers more than a coffee, but brand and culture.

With the expansion of China coffee market share, many other competitive coffee companies like Costa Coffee, Uegashima Coffee, Nestle, Maxwell, Columbia began to realize the huge potential of this cake. Definitely,

Starbucks is not the best tasted coffee, and it adopted fast food restaurant like McDonalds chain shop in management module, but how to make it different from these famous companies with rich marketing experience, Starbucks has its own characteristics-it claims to be the first to introduce the so-called "coffee culture" to fashionable crowds in major Chinese cities. Starbucks coffee shop offers a cultural atmosphere distinguished with advocating knowledge, respecting ego and a little bit westernized mood.

3. STARBUCKS BRAND MANAGEMENT STRATEGY ANALYSIS IN CHINA

3.1 Starbucks Corporate Culture Strategy

The function of the marketing is to gain profits based on the satisfaction of customer wants and needs. In order to understand and influence people's requirement, marketers have to follow the entry market culture, especially in an international environment. In a society meaning, culture embodied religion, history, language and education etc. that affect human behavior like the consumers selection of goods and services (Jeannet & Hennessey, 1995). Each key market has its own cultural heritage. (Terpstra & David, 1985)

Starbucks put the customer's feeling at the top of priority and emphasizes on "Culture" influence, it promotes a "Starbucks Culture" value and provides a "third space" to consumers (Dollinger, 2008). And there is a certain group of people here who really crave for such a lifestyle and way of relaxation, and this group is growing larger and larger. Its target customer is the city white collar who enjoy life, leisure and trendsetter. Many young white collars, college students, SOHO indulge in the environment Starbucks store created, working, reading, surfing the internet etc. Customers experienced another life style while they enjoying the coffee. Through coffee, Starbucks expressed an extraordinary spiritual experience, customers care about the atmosphere, feeling and culture rather than the high coffee price.

Starbucks corporate culture stresses on "people" and "knowledge", reflecting in the concern for customer and staff. "Customer-oriented"; "take seriously each and every customer, one customer was only cooking a cup of coffee". The business concept taken from the spirit of the Italian old coffee shop runs through the rapid rise of Starbucks (Liu & Yang, 2015). Focus on 'one at a time', emphasizes on immediate experience in daily work, life and leisure. Starbucks attaches importance to the communication with customers, every staff is trained to be acquainted with marketing skills and coffee knowledge before taking the post.

Starbucks regards staff as partners, "equity" made every partner work in Starbucks feel "more human". "Humanity comes first" is the belief of Starbucks China. All partners are through professional training to ensure the high quality coffee. The Starbucks China University found

in 2012 is aiming to improve the partners' demand for study and personal career development, to better promote Starbucks coffee culture (Starbucks, 2016c). Besides, every branch store has to guarantee the good condition of network connection and power which is convenient for customers to bring their laptop to work or study.

3.2 Co-operative Localization

China was never considered a single and homogeneous area. There are also large difference in North China market and the South; even the consumption ability of inland cities is incomparable with those of coastal cities. Starbucks selected three regional partners to deal with the complex market. In the north, Starbucks and Meida Beijing Coffee Company set up a joint venture company; in the middle, Starbucks works with Taiwan President Company; in the south, Starbucks cooperates with Hong Kong Maxims Group (Zeng, 2015). Each partner has its own advantage which is helpful in better understanding local consumers' taste and preference.

Besides, Starbucks insists on cooperating with business partners than area franchisees in China market, and requires the business partners must approve its brand perception. For over 30 years, Starbucks adopted direct marketing, refusing franchising in order to maintain brand image. Furthermore, business partners can be useful in assisting coffee shops operation.

Michael E. Porter proposed competitive advantage theory, and he further developed diamond model. In Porter diamond, factor conditions and demand conditions are keys in affecting the competitiveness of one company. Favorable factor conditions include physical resources such as land, minerals and weather, human resources such as skills, motivation, price and industrial relations, knowledge resource, capital resources and infrastructure (Porter, 1990). See Figure 1 for details.

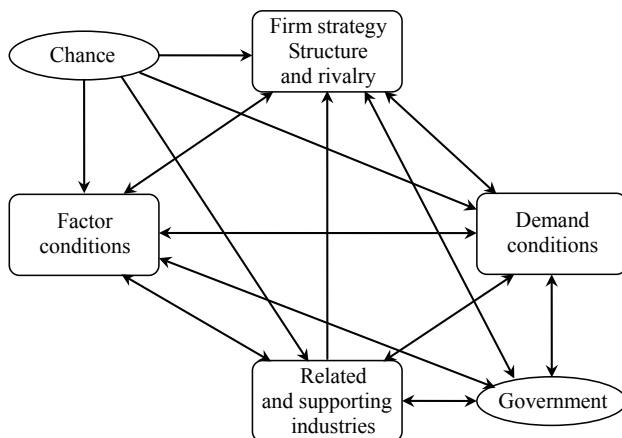


Figure 1
The Porter Diamond Model

Note. Adapted from "Competitiveness in the food industry" by B. Traill and E. Pitts, 1998, by Springer.

From the physical resources aspect, the inland China lacks of coffee bean production hub, which most commonly

found in Yunnan Province and Hainan Province. Yunnan Province is the major coffee growing region, accounts for 98% of the coffee bean production in China. Hainan Province is the major producer of Robusta coffee with an annual production of 300 tons (Chen & Zeng, 2011). After abundant investigation and experiment, Starbucks started to cooperate with Yunnan Coffee bean manor. In celebrating the ten years anniversary of entering China market in 2009, Starbucks launched a brand new drink-South of the Clouds Blend. This is first time Starbucks introduced Chinese coffee bean. Since then, Yunnan is involved in Starbucks purchase system formally.

3.3 Product Localization

Coffee is a kind of fast food in western countries. But in most Chinese perception, it is a fashion or westernized drink. Starbucks offers an exotic taste and brand new feeling that Chinese consumers have never experienced before.

Starbucks adopted localized marketing strategy in China market, it developed localized drinks to cater to Chinese consumers' taste and approved by the local. It made a lot analyses on Chinese consumer's taste and mixed oriental and western flavor, match different various drinks creatively to satisfy local consumers.

In 2010, Starbucks extended its products to tea drinks, launched nine tea drinks including Chinese tea and exotic tea etc. This commercial strategy connected tea and coffee successfully, the culture clash can be changed to creative advantage. Moreover, Starbucks developed a series of Chinese traditional food to match its drinks, as mooncake, rice-pudding, Chinese Zodiac to match Chinese festival like Spring Festival, Mid-autumn Festival, Dragon Boat Festival. With perfect integration of Chinese and western tastes, Starbucks motivated the emotional connection with consumers and improved their experience.

Starbucks headquarter in the U. S. set up a design studio, responsible for its global branch store design. The designers will take every detail into consideration, like neighboring buildings, urban features etc., and try the best to merge Starbucks store into local buildings. In China, Starbucks integrated Chinese elements in branch store design. In every Starbucks China chain store, the interior design combines Chinese and western style perfectly. The traditional Chinese ancient style furniture matches the elegant western style bar counter, small like coffee maker and drinking facilities with the background of Chinese paintings and decoration, elegant curtain, dainty ancient mug and post card, staff dressed in Chinese style uniform. Every detail expresses a strong flavor of oriental culture, and attracting quite a lot Chinese consumers.

4. STARBUCKS DEVOTION TO PUBLIC CAREERS IN CHINA

Since entering China market, Starbucks is committed to repaying the society and pushing the development

of Chinese society. From 2011, Starbucks China called on nearly 100,000 partners and volunteers devoted to community service over 270,000 hours, which greatly strengthened their connection with communities and customers. (Starbucks, 2016a)

In June 2014, Starbucks fund launched a 3-year public project invested 3,000,000 US dollars totally, among which 1,500,000 US dollars will be used in a new project—Starbucks Chinese Youth Leadership Development Scheme. This scheme aimed at young people's improvement in leadership, social responsibility etc. It is estimated that 1,500 college students from cities and countryside will get benefit from it. (Starbucks, 2016b)

CONCLUSION

Starbucks successfully made coffee, the world's oldest commodity to a high value-added brand, and built a "green giant" image globally. Only in ten years, Starbucks has becoming a representation of fashion, it is not a cup of coffee anymore, but a symbol of brand and culture.

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