



Strategic Change and Effectiveness of Starbucks Coffee in China

Sajjad Nazir, Amina Shafi, Nadia Nazir

Abstract— This study suggest a comprehensive investigation on the close down of a Starbucks coffee, a overseas organization, and its infiltration in the Chinese market. By way of an examination, this research is qualitative and quantitative. We collected the data through questionnaire and from several different networks, containing journal, Google search engine, official websites Starbucks China, and appropriate Web sites and online forums in China. AS a result it was found that the Chinese customer still giving preference to the Starbucks coffee even it is very expensive. It was found that Starbucks in Chinese market is measured as the strongest developing and the furthestmost influential marketplace in the world in relation to massive population Therefore, a SWOT analysis was utilized to recognize the key organization policies to increase the Starbucks plan in Chinese market.

Keywords— Starbucks, SWOT, Analysis, Market, Factors Estimate Matrix, China

I. INTRODUCTION

Starbucks first established its store in 1971 at Pike Place Market in Seattle. It was initially called Starbucks Coffee, Tea and Spices. The company mainly initiated its operations by providing coffee to different restaurants and espresso bars. Later in 1980s, at that time executive of retail operations and marketing Howard Schultz presented the idea of a coffeehouse to the company's founders, a concept he got from his visit in Milan, Italy. However the previous CEO Jim Donald expressed that "" we would prefer not to manage the world ", in the 1990s and early 2000s, Starbucks was opening, overall, no less than one store for each day [1]. In 2008, guaranteed to be the opening stores of seven days a week around the world. As anyone might expect, Starbucks is currently the biggest operator in the global espresso chain, with more than 15,000 stores in 44 different countries, and in 2007, was responsible for 39% of total sales in the world [1] [2].

Starbucks Coffee Company's accomplishment, victory in the coffee business reverberated clearly all over the world. The organization had the capacity to appeal many customers regardless of its expensive coffee. [3] The coffee-chain was able to draw the consideration of investors as well, as they

found in the Starbucks a beneficial speculation. Starbucks is well-known for its expensive coffee and its incredible stores decorated with relaxed couches and pleasing music. Starbucks promoted itself as the "Third Place" – a place where individuals can go beside home and the place of work (CEO Howard Schultz).

II. LITERATURE REVIEW

The rapid growth of Starbucks has turned into an example of overcoming adversity in the business world and numerous individuals are stupefied by the organization's business approach. Who could have envisioned a coffee outlet, offering expensive coffee with extravagant Italian names, can influence individuals to purchase its products, and can make happy with these individuals? Certainly, the rapid success of Starbucks is a secret in the coffee industry business. Starbucks' competitors were not able to compete with the quick development of the organization. For less than two decades, Starbucks was capable of 10, 000 of stores around the world. The worth of its shares and dividend in the stock market also improved quickly, an indication of its attraction to stockholders.

Moreover, somewhere around 2012 and 2013, Starbucks opened 500 new stores across the China, to some degree more than the total in the chain's first 12 years in the mainland market [3]. The Previous fall, Starbucks accomplished its 1,000 store objective with a leading cafe in Beijing's central business region. It's on track to include another 500 areas this year. Given such quick growth, China is anticipated to overwhelm Canada as the second biggest market by year's end. What stays to be seen is if such aspiring growth is sustainable [3]. The average Chinese get paid \$500 per month and drinks just three cups of coffee a year. How many people \$4.5 cups of coffee do they really need or would they be able to afford? From now, Starbucks coffee costs 10 to 20 percent expensive in China than in the United States. That powerful evaluating provoked a late assault by China's state media, which blamed the Seattle organization for profiteering

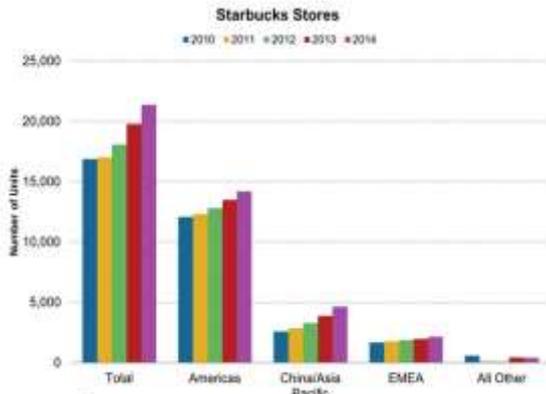


Figure 1. Total No of Store by Starbuck's around the World

This statistic shows the number of Starbucks stores in China from 2005 to 2014. In 2014, there were 544 licensed, operated and 823 company-operated Starbucks stores in China.

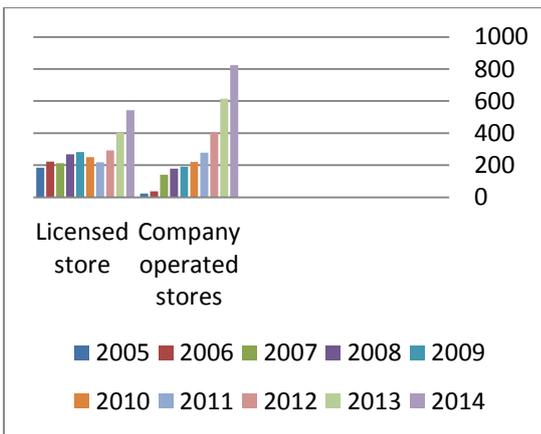


Figure 2. Total No of Starbuck's Store in China

From this figure, it can be seen that how Starbucks's enter into Chinese market into five different regions.

5C Analysis - Company

Starbucks store entry

Market	Time	Region	Mode
Beijing	1999	Beijing, Tianjin, etc.	License (Changed to wholly owned in 2006)
Shanghai	2000	Hong Kong, Shanghai, Nanjing, Hangzhou, Suzhou, Wuxi, etc.	Joint Venture (Increased shares to 50% in 2003)
Southern China	2002	Guangzhou, Shenzhen, Dongguan, etc.	License (Increased shares to 51%)
	2005	Chengdu	
Other Secondary Cities	2005	Qingdao	Wholly Owned
	2005	Dalian	
	2006	Xian, Chongqing	

Figure 3. Starbuck's entering into China

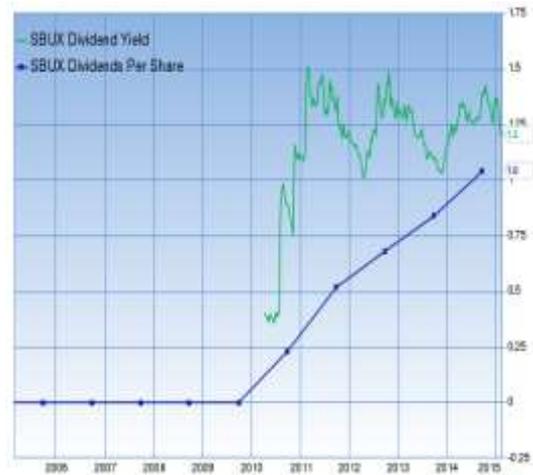


Figure 4. Starbuck's market share

In the period of 2010-2014, the value of the company's stocks also jumped dramatically. By the start of the year 2011, the Starbucks stocks dividend per share was worth at \$0.25 per share, then the stocks climbed to its highest at \$1.2 per share in 2015.

The Starbucks "magic" was on a great level led by the organization core competencies and a strategy of focus and differentiation, which directed towards the organization achievement. Primary between these strategies is the organization's emphasis on a specific segment of the market. Starbucks has proven personal association with its target clients. Its coffee outlets are designed to have a cool, comfortable feeling. The cheering experience that the customers can have at a Starbucks store founds its great attraction to the community. Customers are attracted by the luxury design of the shop. Every Starbucks coffee outlet shows a sense of luxury. The coffee store is evidently a high-end coffee shop that appeals the young professional and also middle age and a number of seniors who can put some dollars for a cup of an impressive coffee.

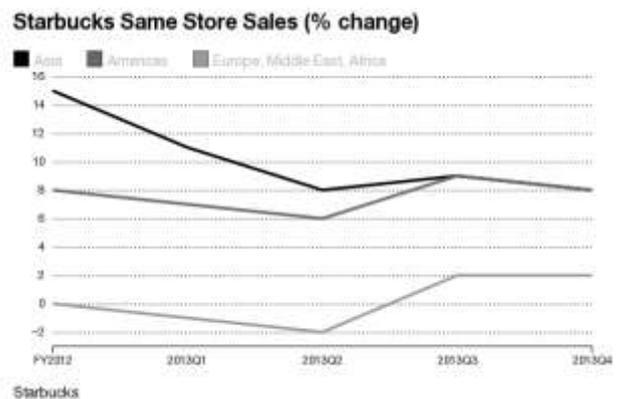


Figure 5. Starbuck's Store sales

Starbucks founder Howard Schultz said:

“I think we have managed to, with a simple cup of coffee and a very unique and distinctive experience, boost the lives of millions of individuals by building a sense of

Community, by bringing individuals together and identifying the significance of place

in individuals lives. In the last few years, I think its turn into properly evident that we’re having this influence everywhere in the world” [4] [p. 136].

1. Competence-based strategy

The organization competences on market leadership, outstanding outlet locations and their supply chain operations certified Starbucks to stand separately from its competitors and other organizations in the coffee industry [5]. Starbucks be able to offer a place for tired and stress people to hang out and relax; and solution to a dull and uninteresting culture and individuals [4].

[6] Identified that only few organizations have recognized themselves to be expert and practiced at discovering new markets, rapidly entering developing markets and fundamentally changing the performances, behaviors and priorities of their customers in well-known established markets. Additional they suggest that the significant task of businesses is to make an organization that is competent of instilling products with desirable functionality or producing products that customer want but have not yet even recognized. Starbucks is certainly one of these organizations. Core competencies, defined by [6] is “the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies” [p. 81]. Starbucks’ core competencies are manifest in its ability to go with its capability in superior location, outstanding marketing plans, management abilities, operational effectiveness and human resource management for hiring competitive professionals.

2. Focus Strategy:

[7] There are three basic strategies, which organizations can utilize to develop itself in an industry; these are cost leadership, differentiation and focus strategies. Cost leadership includes the strategy of creating low-cost but superior quality products and decreasing operational costs at all departments of the organization. Differentiation strategy involves the making of distinctive products or services, with the consumers identifying such products/services should be distinctive and adding value to it, so allowing the organization to put top prices on its products / services. The basic strategy of focus, in the meantime, is focused toward a particular segment or section of the customer, and in mixture with one or the other the strategy of differentiation or cost leadership.

Starbucks utilized the basic strategy of focus inside its specific target consumer segment, with a highlighting to and in mixture with the basic strategy of differentiation [5]. Starbucks’ target customer base is mixture of the rich and educated coffee drinkers who are ready to pay high prices for quality products and services [5]. The organization purposes at a very narrow and particular portion of the customers in the coffee industry. Therefore, the organization strategy is concentrated on this segment and its products and services are specially designed to meet this specific customer segment’s needs or wants.

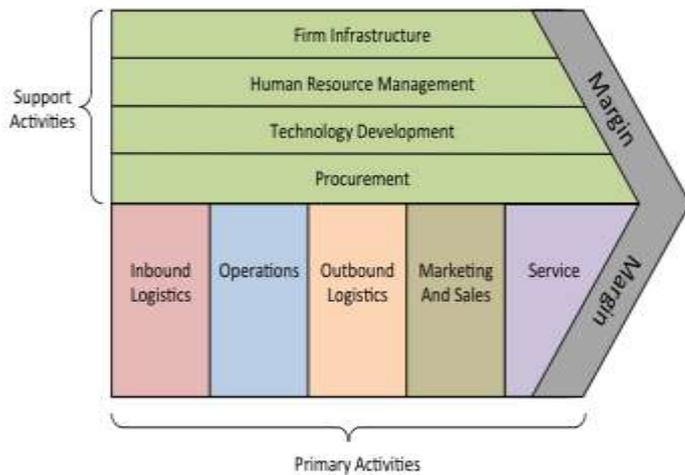
As described by [8], being a good marketer I initiated to take note of the particulars that Starbucks make distinctive. These are the soft and comfortable chairs and sofas; soft, well-focused track lighting; best planned retailing; and other atmospheric accoutrements. But the real differentiators, in my observation, are those particulars associated to the approach the place is managed (p. 2).

3. Distribution and Location Strategy:

An additional prominent strategy of Starbucks is its excellent real estate management and the superior location of its coffee outlets. Originally, the organization strategy in seeking for a superior location for its outlets was by trial and error [4]. Although, when their trial in Canada was successful, where a Starbucks coffee outlet was opened at cross of the street where one more Starbucks coffee outlet was located, the organization went on to open outlet either literally a stone’s throw away with each other or in close proximity to another Starbucks outlet. This strategy is concentrated on traffic outlines and demographic measures [9], in which Starbucks coffee outlets are put on areas where numerous of its targeted customers normally go. In all Starbucks location, all the facts are wisely planned, like the weather conditions, the customer preferences, favorites and behaviors [5].

4. The Starbucks Value Chain Analysis

[10] Describe that obtaining competitive advantage can be complete through an investigation of the organization value chain. A company value chain is “a system of interdependent activities which are related by linkages” (p. 78). The value chain is surrounded in the organization superior streams of activities, which are associated in linked when one activity influence the effectiveness or costs of the other activities. Organizations can achieve competitive advantage when the value chain is improved by managing these activities to produce value for its products or services that surpasses the costs of carrying out the value activities [10]. In another way, organization can produce additional value for its products or services without certainly increasing the total costs of creating such products or services, and the customers are ready to pay for the added value.



Adopted from Lynch 2003

Figure 6. Porter's Value Chain Analysis Framework

In the Starbucks value chain, its primary activities include raw materials (coffee beans) procurement from suppliers, preserving the coffee to keep it fresh, and an inventory system to maintain stocks and distribution to all different outlets whereas preserving the freshness of the beans. Furthermore it contains the management of stores/coffee outlets, promotional and marketing activities, sales and delivery and customer service and customer relations. These activities related to the primary activity in the value chain in that it includes the formation of the product, selling, marketing and distributing the product to the customers, and confirming the ongoing association with customers and consumers through service activities such as installation of equipment in stores/coffee outlets, repair and advancement of these equipment's and handling inventory to guarantee constant supply of the materials (coffee beans). All of these include the physical activities that are required to carry out in producing and selling its products to customers and improving its brand image/reputation.

On the other hand, the secondary activities contain the organization infrastructure to support these activities. These are business management functions (i.e. management or administrative planning), accounting and legal work. Also included in the secondary activities are human resource management (such as personnel skills development and training), purpose of employee remunerations, benefits and other compensations, technological development (research and development activities, design, automated processing system, etc.) These are secondary activities that are necessary to support the primary activities and to give inputs and services to manufacturing the products.

Another gap in the Starbucks value chain is the administration's failure to give consideration to strategic marketing. In the framework of the value chain, non-coordination among two activities can effect into the non-creation or decrease of value to the product or brand / image. In this manner, the Starbucks management's failure to establish a

marketing plan has also influence on the organization current downfall. There is no evident strategic marketing plan for Starbucks. In reality in its operational costs, marketing gets little in the way of budgeting [4]. This mistake is now distressing the organization brand image/recognition. With very little amount of money to spend on marketing, which is an vital part of any business, and little or no consideration has been given to strategic marketing, the organization cannot assume to sustain its leadership for the long period.

Therefore, it is hypothesized that,

Hypothesis 1: To display that Starbucks customers are looking for quality over the prices of coffee.

Hypothesis 2: To display that Starbucks did not make any major enhancement in the past year in terms of increasing the "Starbucks experience."

III. METHODOLOGY

A self-report survey was carried out with the purpose to identify what the customer's philosophy about Starbucks and to collect their concepts and opinions are regarding the activities of Starbucks in recent times in China. The survey consist of different questions about pricing strategy, the impact of the current global economic crisis to their coffee consumption, or more specially, coffee consumption at a Starbucks outlet. Total 100 questionnaires were distributed to the respondents to the survey, mostly from Nanjing China and Shanghai. Only few respondents from North of China took part in the survey.

In collecting information and data for this study, then we utilized numerous resources about the organization and online forums in China. These contain the organization website, online newspapers, magazines and articles gather primary data about the organization contextual and financial position. Moreover, we collected information on online journal articles and editorials that reveal the views and insights of the business, stockholders and specialists on the present situation of Starbucks in China. A key source of data was also taken from Taylor Clark's (2007) book detailing Starbucks history. We analyzed these resources intensively to recognize a clear design of the development of the SWOT and value chain analysis.

To Calculate SWOT analysis each factor's final score, its weight was multiplied by its score.

- Once each factor's total score was calculated, they were summed to calculate the total final score of IFEM.
- If this value was less than 250, it meant that the strengths were less than weaknesses; if it was more than 250 strengths were more than weaknesses.

- The former was tabulated in the internal factor estimate matrix (IFEM) and the latter was tabulated in the external factor estimate matrix (EFEM). Next, these factors were weighed and scored by a panel of experts and the final score was calculated. The following section elaborates the scoring process for S and W:

- These steps were repeated for EFEM as well. If this value was less than 250, it meant that the opportunities were less than threats; if it was more than 250, opportunities were more than threats [11] [12].

According to Hypothesis 1, the majority of the respondents (69%) expresses the quality of the coffee is more imperative to them than the price of the product. Whereas 83% of the respondents consider that coffees in Starbucks are very expensive. On the other hand 66% respondents are still ready to visit Starbucks more frequently if the prices of the coffees are dropped. The majority is still ready to pay an additional \$0.50 for a cup of coffee if the product should green or environmentally friendly. Furthermore, 43% of the respondents also express that the current economic crisis did not affect their purchasing and drinking coffee

Concerning about Hypothesis 2, total 67% the respondents said that there are no major enhancements in the Starbucks outlets since last year. However, 85% of the participants believed they did not observe any improvement since 2012. However, 67% of the respondent's express that Starbucks is slightly better than its competitors, 41% of the responded said that Starbucks is of superior quality and 53% evaluated Starbucks as having the same taste and quality with other competitors. Only 17% valued Starbucks with having somewhat inferior quality than its competitors. Among the competitors, Costa Coffee has been preferred by 41% of the respondents to choose instead of Starbucks and finally 39% of the respondents express that they would prefer to go to the local coffee maker in their region.

IV. SWOT ANALYSIS OF THE STARBUCKS

After concluding the external forces and situations surrounding the company, an investigation of the internal organizational features and external factors are essential with the purpose of having a stronger view of the Starbucks organization's abilities and place in the industry. An assessment of the organization's strengths and weakness organization future activities and strategic changes. Table 1 shows a summary of the SWOT analysis on Starbucks, in addition to the opportunities and threats fronting it will help in deciding the organization future actions and strategic changes. Table 1 shows a summary of the SWOT analysis on Starbucks.

TABLE 1: STARBUCKS SWOT ANALYSIS

Strengths • Good Brand reputation and image	Weaknesses • Grossly overpriced coffee
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<ul style="list-style-type: none"> • Access to quality raw materials • Favorable access to distribution channels • Pays its staff well 	<ul style="list-style-type: none"> • Image as a high-end coffeehouse is diminishing
Opportunities <ul style="list-style-type: none"> • Global consumer products segment is doing well • International market is showing a good promise 	Threats <ul style="list-style-type: none"> • Entry of new competitors • Economic crisis

Moreover, Starbucks' main strength is its perfect brand reputation and image. The organization is known to deliver superior quality products and customer service. Notwithstanding its excessively priced cup of coffee, prepared using great quality Arabica beans, most of its customers keep return to the store to feel the "Starbucks experience" the has promised to its customers. Thus, the price of its coffee is not the problem but the quality of service the organization provide to its customers. As one of its consumers have specified, "The coffee is exceptional and tasty, but it is not the only cause I like to come every day. The place has energy and it is well run" [8].

One of the weaknesses of Starbucks is its exceptionally expensive coffees. Whilst the company objectives the rich managers, young and old, as its primary market, the recent economic conditions make the consumers turn into sensitive to prices of supplies and products [13]. The rate of recurrence of consumer visits may be less because of the recent economic situation. Therefore, Starbucks' current price strategy may give the impression to be inappropriate and needs to be changed. To one side from the pricing strategy, the Starbucks coffee outlets' image as luxurious "Third Place" seems to be disappearing. With stores exactly in front of each other, the luxurious experience the consumers desired seems to be lessening [13]. It is progressively becoming like a fast-food chain, only one reason that the prices of its products are considerably higher.

Even though the current economic chaos, there are particular opportunities that are existing for Starbucks to grow and develop. Its speculation on customer products appears to be doing better than its other parts, US domestic part and international segment in 2014 second Quarter Report, the organization increased its operating income to 7% percent in spite of a 3.2 percent drop of income, related to the same period the past year. Its other parts have considerably much declines in incomes and profit. This means that the company can capitalize more on the worldwide customer products part whereas improving from the other two business parts.

The entrance of two big competitors and their quick growth in the specialty coffee offerings the most sound threat to Starbucks' power. McDonald's and Costa coffee are challenging rivals to Starbucks. These two organizations have the competence to compete with the Starbucks' delivery channels and marketing strategies. These chains can equivalent Starbucks in regards of financial resources. Furthermore, Starbucks still is undergoing the criticisms about its expensive coffee. Therefore, its image is being threatened, particularly now that the economy is not getting better.

TABLE 2: PORTER'S FIVE FORCES MODEL FOR STARBUCKS

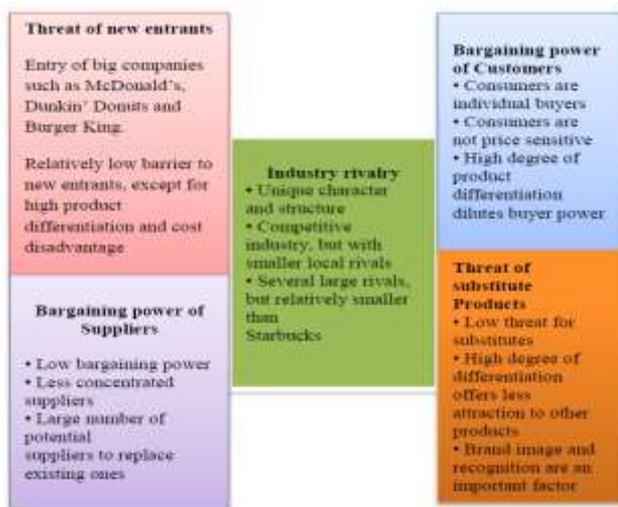


TABLE 2: STARBUCKS INTERNAL FACTORS ANALYSIS

Factors	Weight	Effectiveness score	Final Score
STRENGTH			
Multiple suppliers to reduce the cost	9	4	36
Superior quality coffee and outstanding customer service	6	3	18
Strong research and development capabilities	8	4	32
Good reputation	9	2	18
Satisfactory access to distribution set-ups	6	1	6
Attracted professional employees	10	5	50
Extensive store network 1300 outlets	9	3	27
Accomplishment of huge buying volumes	4	4	16
WEAKNESS			

Coffee is a western product	9	3	27
Starbucks High prices	6	4	24
Lack of copy right protection	7	2	14
“Starbucks is overriding on Chinese culture”.	7	4	28
Habit on coffee and coffee products	5	1	5
Heavy operating costs	6	2	12
TOTAL	100		313

TABLE 3: STARBUCKS EXTERNAL FACTORS ANALYSIS

Factors	Weight	Effectiveness score	Final Score
OPPORTUNITIES			
Increasing the product ranges	9	4	36
Innovate products and services	9	4	36
supplier range	8	3	24
Fastest growing market	9	5	35
distribution channels	7	3	21
Increase of retail operations	8	3	24
THREATS			
Customer preference for more healthy life style	8	3	24
High amount of competition among other	8	3	24
Chinese preference Tea over Coffee	9	4	36
Improved value presented by local coffee	7	2	14

Political & economic changes	5	1	5
Technological changes	6	1	6
Supplier changes	7	2	14
TOTAL EFFECTIVENESS			299
S	100		

The value of external factors comes to 299 suggesting that the opportunities were less than strengths. The value of internal factors was 313 therefore; it means that Starbucks have more strength rather than the weaknesses.

V. CONCLUSION

This research investigates core strategy and the strengths, weaknesses, opportunities and threats of Starbucks coffee in China. Strategic change is the appeal of the day for Starbucks. Possibly, this is the time that the Starbucks will must to come back to its existing business models, practices and strategies to identify whether these models still follow to the situations of the market. The key problems which effect management improvement in the Chinese market have been recognized by SWOT analysis. As a result, Starbucks has an excessive potential for China customer desirability. Therefore, it was suggested that Starbucks should emphasis on its marketing strategy in China, whereas improving its operational efficiency. Marketing has been the misplaced element in the Starbucks exercise in recent years. Consequently, Starbucks

has been introducing new products and services. These outcomes can support Starbucks managers to examine the issues of Chinese market and decide the possible enhancement activities.

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