

Analysis of Starbuck's Future Development

Meiyi Chen*

Suffield Academy, Connecticut, USA

*Corresponding author: 24mc-1@suffieldacademy.org

Abstract. China's coffee market continues to expand. China has become the largest overseas market for Starbucks in the world, and Starbucks China has entered a new stage of development. The company recently released the strategic vision of Starbucks China 2025, which boosted the company's development potential. Starbucks will continue to increase its investment in the Chinese market. It plans to open new stores in 300 cities in China by 2025, including 2500 green stores, to practice the concept of sustainable development of the brand. In addition, multi-channel strategies including takeout and e-commerce will also be accelerated. This paper studies the development of Starbucks by analyzing the company's background through SWOT and looks at the future development of Starbucks through the analysis of pandemic influences.

Keywords: Starbucks, SWOT, China, COVID-19.

1. Introduction

1.1. Background

Founded in 1971, Starbucks Coffee Company, headquartered in Seattle, Washington, USA, is committed to business ethics procurement and baking of high-quality arabica coffee in the world. In 82 markets worldwide, with more than 32,000 stores, Starbucks is the world's leading professional coffee roaster and retailer. Since entering China in 1999, Starbucks has been committed to developing into a distinctive company which is to inherit the classic coffee culture while caring for its partners and providing customers with distinctive Starbucks experiences. Starbucks opened its first store in mainland China at Beijing, China International Trade Center in January 1999. At present, Starbucks has opened more than 6000 stores in more than 230 cities in mainland China and has more than 60,000 Starbucks partners. This demonstrates that China has become the fastest-growing and largest overseas market for Starbucks. Ever since it entered China, Starbucks has been committed to giving back to society, making contributions to local social developments, and carrying out corporate social responsibility projects in different regions and cities of China. Since 2011, the partners and volunteers of Starbucks China have contributed more than 1.5 million hours of community service which enhanced the brand's connections with the community and its customers [1-4].

1.2. Related research

Kato identifies four factors that have possible contributions to Starbucks' customer loyalty which are concept, product, place, and staff. From doing the online survey, the result revealed brand concept as the most important factor to attract customers. Therefore, Kato suggests Starbucks put more effort not only into product quality but also into a brand concept to form a better brand image [5]. Liu identifies that Starbucks has many competitive factors based on its concept, product, and management. To maintain optimistic company growth in the future, Starbucks still needs to make sure to limit its budget. Based on the DCF model, it is shown that Starbucks is currently being undervalued and its share price may increase in the future [6]. Haskova examines Starbucks' marketing strategies by talking about its targeted customers because of its wide range of beverage choices. Starbucks also has a distinctive logo design that can easily impress its customers. Moreover, Haskova talks about Starbucks' social responsibility through both the aspect of environmental protection and social media. Lastly, Haskova has suggested a few extending marketing goals in the research to help Starbucks to become more successful in the future [7].

Zhu and Zhang use Starbucks as an example to illustrate the importance of a company having competitive factors. The authors emphasize Starbucks' competitive factors by stating its core concepts, caring towards employees, comparisons with other companies, and customer evaluation. These are the ways to evaluate a company for being competitive [8]. Wang introduced Starbucks through different sections. She analyzed Starbucks based on its marketing strategies, comparisons with Luckin Coffee, the impact of COVID-19, effective measures, and the company's recovery after difficult times [9]. Tong revealed Starbucks' success in the Chinese Market by stating its targeted customers, concepts, and partner. Furthermore, Tong talked about the influence of COVID-19 and Starbucks' actions during the pandemic. Lastly, Tong stated Starbucks' competitive advantages about the loyal customer base, customer appeal, and brand presence [10].

1.3. Objective

This paper will study the problems and opportunities that Starbucks has encountered since COVID-19. Chapter 2, uses the SWOT model to analyze Starbucks' situation, and Chapter 3, is analyzed in combination with the pandemic situation. Finally, the conclusion is given in Chapter 4.

2. SWOT Analysis

2.1. Strength

Starbucks puts its employees as its priority. They want to share trust, sincerity, and respect between the employees so the employees will convey the same idea with great service to their customers. This concept leads to one of the main competitive factors that Starbucks has which is personalized service. Personalized services in Starbucks can be classified into tangibles and intangibles. When a customer buys a cup of Starbucks coffee in-store, it is a tangible drink that they can enjoy. Besides that cup of coffee, customers will see their name written on the plastic cup and sometimes accompanied by a smiley face. This kind of interaction would make the customers feel well-served and special. Another important reason for Starbucks to be competitive is that they have been following the highest standard in the coffee industry. From picking coffee beans to roasting and brewing, the company wants to ensure each customer gets a cup of perfect coffee every time they are trying to find a place to relax or to work. Starbucks coffee beans are from a wide range of countries such as Brazil, Central America, Africa, and Vietnam. Starbucks requires each coffee bean to end up with the same shape and depth. This strict standard is the reason to make their coffee perfect. Coffee is the key that unlocks the lock between customers to customers, and employees to customers. Starbucks not only has a perfect cup of coffee waiting for each customer but also provides a "third living space", that is besides home and office, connecting people together.

2.2. Weakness

One of the most impactful weaknesses of Starbucks is its price range. Many customers have complained that the coffee prices were being set too high. According to Starbucks' menu for 2022, one cup of grande cappuccino costs \$5.45, one cup of grande hot chocolate costs \$4.65, and most bakery items cost around \$4. Customers especially from China are very unsatisfied with the pricing range of the food and drinks and believe that they are overpriced. Starbucks has taken two pricing adjustments within four months in 2022 to support their employees' salaries. However, the consequence of increasing product prices cannot be ignored. According to Liu, after the pricing adjustments same-store sales in the Chinese market fell 14 %, average customer unit prices fell 9 percent, and transactions fell 6 % [2]. Another possible disadvantage for Starbucks is that with many more stores opening every year worldwide, it is hard for Starbucks to keep up its concept of individual service. Instead, Starbucks became more like a fast food store which would cause the customers to lose many consumptive experiences. It is obvious that if Starbucks cannot find new ways to keep on track with its services, it would contradict its unique and competitive idea and ends up losing a group of customers.

2.3. Opportunity

Many opportunities are waiting for Starbucks in the future. Firstly, they have a massive amount of customer market and product choices that suit customers of different ages. Starbucks has different kinds of coffee beans, creative drinks, bakeries, and beautiful mugs which can all be opportunities to attract new customers. Starbucks also has more product lines that they can explore in the future. For example, they can start developing their coffee machines. That way, customers will not only buy the Starbucks original coffee beans but also match them with the Starbucks exclusive coffee machines. Today, with coffee culture being more prevailing globally, Starbucks has an increasing amount of opportunities to operate new stores at campuses, cities, and countries. Since Starbucks is a long-aged brand, customers would always trust the quality of its products. Therefore, Starbucks does not need to worry too much about the future because there will always be a group of loyal customers waiting for Starbucks coffee.

2.4. Threaten

As several coffee companies start to develop technologies for coffee machines to use at home, Starbucks has not taken a move towards it, which could cause a threat to the company. One of the very well-known companies Nestlé has developed their coffee machine line named Nespresso, which provided them more opportunities to sell coffee pods and coffee machines. If many more customers find it convenient to make coffee at home, then Starbucks' "third living space" would no longer be attractive. Therefore, the company has to think about developing other businesses other than just the in-store coffee experience to be distinctive from other coffee companies and to keep up customer loyalties. Numerous coffee companies have emerged in recent five years and are operating similarly to Starbucks, even fast-food restaurants such as McDonald's have developed business on coffee by creating McCafé. Low-cost coffee and similar operation mode are huge threats to Starbucks. If Starbucks only considers promoting its unique servicing mode as one of its few advantages, then it is undoubtedly that Starbucks will soon be exceeded by other new grownup coffee companies.

3. Starbucks' Development In China During the Pandemic

3.1. The Convenience of the Starbucks App

At the end of 2019, an unexpected pandemic—COVID-19 started prevailing around the world. This pandemic was a huge hit to many industries. Starbucks also could not avoid being impacted by COVID-19 and experiencing lockdowns. However, thanks to the Starbucks app, customers still got to enjoy Starbucks drinks during harsh times through Starbucks delivery or placing orders in the app and picking up their drinks in-store. Launching these two new features helped customers to safely receive their orders while following the social distancing regulations. Orders from the start of March 2022 revealed that Starbucks App orders accounted for 80%—30% of delivery and 50% of pick-up orders—of the orders overall. The data shows that this app contributed a lot to Starbucks' revenues during the pandemic, which is the key that fostered Starbucks to go through this difficult period. The CEO of Starbucks Kevin Johnson has said: "In every industry, there are periods of disruption that create a great opportunity for those businesses that adapt to the disruption, invest in relevant ways, and strengthen their differentiation and competitive advantage" [5]. Just like what Kevin said, Starbucks took this awful time and turned it into a new opportunity and minimized the impact the pandemic could have brought to the company. The development of Starbucks App features not only created convenience for customers during the pandemic but also brought convenience to people from now on.

3.2. The Impact of Service

Although Starbucks tried its best to satisfy the customers' needs, the occurrence of the pandemic still impacted Starbucks' service which was supposed to be one of its marketing advantages. The

services got impacted because Starbucks listed out many safety protocols for considering their customers' health and safety. One of the protocols was to have a "Contactless Starbucks Experience". This protocol unavoidably made Starbucks give up its concept of individualizing service which conflicted with their advertisement that had been working for years. The protocols also conflicted with Starbucks' "third living space" concept because every store had to limit seating and lobby service so people could keep social distancing. It is understandable that there had to be adjustments in operation, but this caused customers unable to enjoy a perfect experience. The impact of service forced Starbucks to drop many of its core values which is regrettable for the company.

3.3. Revenue

On November 4, Starbucks (SBUX) disclosed the fourth quarter and full-year results of the fiscal year 2022. The data shows that in the three months that ended on October 2, Starbucks achieved an operating income of 8.41 billion dollars in the fourth quarter, up 3.3% year on year. Net profit was \$878 million, down about 50% from \$1.76 billion a year earlier. Meanwhile, Starbucks' revenue in the fiscal year of 2022 is 32.25 billion US dollars, up 11% year on year. Net profit was USD 3.282 billion, down 21.9% year on year. Among them, Starbucks' revenue in the Chinese market in the fourth quarter was 776 million US dollars, down 20% year on year. By October 2, 2022, the number of its stores had increased by 12% year on year to 6021. Starbucks said in its financial report that, as of the end of the fourth quarter, the stores in the United States and China accounted for 61% of the company's global portfolio, with 15,878 stores and 6021 stores respectively. It is worth noting that in September this year, the number of Starbucks stores in China reached 6000.

This year, Starbucks, which has always been a stable company in China will continue to change. Data shows that Starbucks' revenue in the fourth quarter was \$8.41 billion, up 3.3% year on year, while its net profit was \$878 million, down 50.2% year on year. In the fourth quarter, the sales of Starbucks' same stores in China fell by 16% year on year. However, Starbucks is still going to thrive by continuing to operate new stores in China. In 2022, Shanghai became the first city in the world with more than 1000 Starbucks stores. On September 27, Starbucks China announced that the store is grande opened at Lippo Plaza, Huaihai Road, Shanghai which is the 1000th Starbucks store in Shanghai and the 6000th Starbucks store in China. This exciting news indicates that Shanghai will continue to lead in the Starbucks China market from now on.

4. Conclusion

The coffee market in China, especially the freshly ground coffee market, has huge potentials, a limitless customer base, broad growing space, high standardization of chain stores, and is easy to be imitated. It is judged that brands such as Starbucks will be the lead in the future. The Matthew effect is becoming obvious since customers will pay more attention to the cost-performance ratio. The market space of "fake boutique" brands which simply rely on low-price marketing or having product quality that does not meet with the set high price will be squeezed out, causing the industry concentration to increase.

It can be seen from the success of Starbucks that for mature chain coffee enterprises, products and services are the core concepts of building brand strength. A reliable supply chain system, stable product quality control standards, and efficient store operation and management are the keys to scale expansion, as well as brand building. Strong brand power will also improve the bargaining power of the upstream and downstream, thus improving the enterprise's operation and profitability, stabilizing the enterprise's basic market, and forming a positive cycle. Excellent enterprises should have an open mind, a keen market insight, and have flexible business strategies to cope with the changing market. Under the premise of understanding the characteristics and needs of an enterprise, it is important for a company to seek cooperation, explore new opportunities and new growth curves, achieve mutual benefits and win-win results. Actively adjusting product categories, unique in-store services, and attractive company concepts are factors directing corporations to success.

References

- [1] Starbucks. Starbucks in China.
https://baike.baidu.com/reference/1063/20bbMIsP04tSZFCUfv52v6VNZOSEZm532trZxI1-Ez29QU5eIUpk2K__oymgYZ9c5WRueGZx4DxLau1gzanzNw
- [2] Global Network. Starbucks is bullish that China wants to seize development opportunities and increase investment in China in the future.
<https://baike.baidu.com/reference/1063/7218ylTwajCvAD96s3mv21HO9-4SEysqJkJGbazwVfKpmMBjiEYIaz9W9mGFYU8GV9PZBO1OBfNkTYLnlqkiSqaatWjS0VepOkwvXYg15eo>
- [3] China News Network. The largest overseas productive investment of Starbucks in the United States landed in Kunshan, Jiangsu.
<https://baike.baidu.com/reference/1063/c6b5DmjCSV4Gql7uxrnIgsRuafELgFz0heLerKROWH5z7cxXdN7fE76URFnYOKGXkvfFV-67IM7zuOsOWzQCidJoTOiCTyhNcU9KQUMhHGEWIH-qgirJSs0tiP6nCnyUeJL>
- [4] Inner Mongolia News Network. Coffee Fragrance "Grassland Cloud Valley" Ulanqab Starts a Star Journey - News Center
https://baike.baidu.com/reference/1063/1955We0T7kUNlxnqoAnfH4b39FjpLgNijj-IRUv5hC8bTyix3lJw7YofDpUIciUovd7IuqRNet4LSPniRxwom0kRabvU1cxuzkk-4S5Zg_Hvuo8ykfB0CPgC
- [5] Kato,T.(2022).Brand Concept Drives Loyalty Toward Starbucks: Concept, Product, Place, and Staff in Japan. *Central European Management Journal*,30(1) 70-90.
- [6] Liu X. Exploring the Future Value of Starbucks[C]//2022 2nd International Conference on Enterprise Management and Economic Development (ICEMED 2022). Atlantis Press, 2022: 793-800.
- [7] Haskova, K. (2015). Starbucks marketing analysis. *CRIS-Bulletin of the Centre for Research and Interdisciplinary Study*, 1, 11-29.
- [8] Zhu Yanting, &Zhang Chunhong (2009). On the Core Competitiveness of Enterprises -- Take Starbucks as an Example Modern commercial industry, 21 (3), 2
- [9] Wang, S. (2021, June). Different Marketing Strategies Between Starbucks and Luckin Coffee and the Impact of the Epidemic. In 2021 International Conference on Enterprise Management and Economic Development (ICEMED 2021) (pp. 1-5). Atlantis Press.
- [10] Tong, H. (2021). The Competitive Advantages of Starbucks in the Chinese Market and the Success in Recovering from the Coronavirus Outbreak. *ECON-Journal of Economics, Management & Business*, 9(1).