SWOT Based Analysis of the Impact of Prepayment Business Model on Brands and Consumers-Starbucks as an Example

Chenyi Li [1,†], Ruiyuan Sheng [2,*,†]

[1] Shanxi Tongbao Yujie School, Taiyuan, China

[2.]Finance Harbin Harbin University of Commerce Harbin Heilongjiang, 150028 China, Harbin China

* Corresponding Author Email: 160705204@stu.cuz.edu.cn

[†]These authors contributed equally.

Abstract. The prepayment business model means that customers give retailers credit first, make payments in advance, and put off using the goods or services. This business strategy acquires clients by means of discounts on prepaid consumer cards, which is advantageous to the firms to withdraw cash and lock in customers. The limited edition prepayment physical card may be collaboratively customized with a variety of artistic and cultural works, promotional campaigns can be jointly launched using the prepayment business model.However, because this business model uses credit to advance product or service fees, consumers are in a weak position after payment and are vulnerable to infringement and fraud by bad businesses, so the reputation of this business model is polarized. Businesses typically offer significant discounts on prepaid consumption. In order to analyze the SWOT technique and the good and negative effects of the prepayment business model on enterprises, this article will use Starbucks as an example. According to the report, prepayment business models are used by retailers with solid financial standing and excellent company credit to build customer loyalty, secure a steady cash flow, and maintain a deposit pool. Under this consumption model, consumers might profit from the discount.

Keywords: Payment in advance; starbucks; SWOT analysis; marketing.

1. Introduction

Some businesses fled the outbreak because of subpar management and other factors. Consumer losses have resulted from the liquidation issue brought on by the prepayment business model utilized by these companies. The prepayment model's long-term stability is unstable in the absence of a mechanism guarantee. According to this assumption, Starbucks Coffee Company adaptably employs the prepayment business model to assure the flow of its capital chain and gives customers the confidence to use the prepayment model to purchase its goods and services for an extended period of time. Using Starbucks Coffee Company as an example, this article applies the SWOT analysis approach to evaluate the nature and substance of the prepaid business model, sustainability, and other factors from advantages, disadvantages, opportunities, and threats.

2. Background

2.1. Business Introduction of Starbucks

Starbucks Coffee Co., Ltd. was established in 1971 and has its headquarters in Seattle, Washington, in the United States. It is dedicated to acquiring and roasting the best arabica coffee available worldwide. Starbucks is the largest professional coffee roaster and retailer in the world, operating in 82 markets and having more than 32000 shops. As an extension of the front porch of the family living room, Starbucks coffee shops throughout the world have progressively evolved into an essential "third space" for locals, that is, an important rest and social spot apart from work and family [1].

2.2. Prepayment Business Strategy

The term "prepayment business model" describes a situation in which customers give retailers credit by making prepayments before actually using their goods or services and delaying the consumption of such goods and services. As part of this business strategy, retailers typically purchase VIP cards, gold cards, silver cards, and other prepaid consumer cards with various rights and interests to take advantage of various degrees of discounts and discounts in order to draw in customers. Withdrawal of cash and client lock-in are made possible by this business model, which also enables customers to gain significantly from discounted prepaid card and coupon sales.

2.3. Introduction to Starbucks Prepayment Mode

Starbucks prepaid card coupons include (1) paper beverage coupons (2) electronic beverage coupons (3) electronic coupons for specific products (4) physical prepaid cards (5) electronic prepaid cards. There are three types of Starbucks prepaid card coupons: paper beverage coupons, electronic beverage coupons, and electronic coupons for certain goods. (5) electronic prepaid cards (4) physical prepaid cards. Prepaid cards are bearer cards that don't record losses, exchange money, or allow cash withdrawals. They also don't have an overdraft feature. The cash on the card cannot be moved to a bank account or an online payment account and do not earn interest, dividends, or any other type of revenue. The prepaid card is good for three years once it is activated (or three years from the date of the last recharge). The cardholder can travel to the authorized location to acquire a new prepaid card once the paper beverage coupon's validity has expired, however they must pay 1 yuan as the service charge for the coupon exchange. After the expiration of the validity period, the extension will be automatically extended for 30 days, and the extension management fee will be deducted from the prepaid card account on the first working day of the month after the extension period's expiration date. The deferred management fee shall be charged at 1 percent per month after the extension period's expiration. It will be assumed that a paper beverage voucher has been used if the barcode is destroyed or becomes invalid after being read by a Starbucks location, hence the issuer will not offer replacement service.

3. Literature Review

Currently, academic study on Starbucks mainly falls into one of the following five categories:

First, a thorough analysis of Starbucks' marketing approach in the Chinese market was conducted. Jia Can (2008) and Zhang Xinrui (2014) talked about Starbucks' most popular marketing tactic, experience marketing [2,3]. Huang Ning (2015) also covered Starbucks' online marketing in-depth, including the marketing promotion of WeChat, microblog, and other new media platforms, and examined Starbucks' online marketing techniques in the context of the Internet era. This is in addition to the experiential marketing study [4].

The second is to research Starbucks' regional business plans. Wu Xiaohui (2009) concentrated on the examination of Starbucks' Shanghai-specific marketing strategy. He offered an improvement plan for the marketing and operation strategy of Starbucks, which has a strong reference meaning, based on the discussion of the operation and development of Starbucks in Shanghai as well as the development trend of the coffee chain sector in Shanghai [5]. Hu Jincan (2016) carried out a more in-depth investigation, using the Starbucks Guangdong Dongguan Tianhong Store as the research subject. He studied the operational issues unique to this Starbucks store and suggested remedies [6].

The third is a brand strategy examination of Starbucks. Zha Xingru (2006) performed a thorough analysis of Starbucks' brand management strategy starting with an overview of the coffee industry. She divided it into four categories—brand positioning, brand experience, brand equity accumulation, and brand communication—and discussed each one in detail. She also identified any current issues with Starbucks' brand strategy and made specific recommendations [7].

Fourth, learn about Starbucks' experience marketing approach. In their analyses of the experience marketing approach, Wu Siyuan (2012) and Kang Peipei (2015) classified experience marketing into

four categories: service experience, sensory experience, emotional experience, and extended experience. The two studies' respective focuses, meanwhile, are distinct. Wu Siyuan is particularly interested in examining the difficulties and coping mechanisms in Starbucks' experience marketing [8]. Kang Peipei, on the other hand, emphasizes the benefits of experience marketing and offers motivation to pertinent Chinese businesses [9].

Fifth, study of Starbucks' financial situation. In a case study he conducted on the Starbucks Chengdu Branch's financial status, Deng Yi (2014) came to a conclusion after discussing the significance of financial statements for the operation of the business and the techniques used to analyze them [10].

Starting with Starbucks' prepayment system, this article applies the SWOT analysis approach to precisely study the benefits and drawbacks, possibilities and difficulties of its prepayment business model. It also examines Starbucks' financial, marketing, and other factors from a broad viewpoint.

4. Models, Variables, and Samples

What advantages and disadvantages do prepayment business models have over conventional payment methods for merchants? In order to explore and evaluate Starbucks' online marketing strategy, this article integrates the following research techniques based on economics, corporate finance, marketing, and other relevant theoretical knowledge:

(1) Literature review

This study examines the benefits and drawbacks of Starbucks' adoption of the prepayment business model by reviewing pertinent domestic and international literature, sifting and evaluating the economic and financial theories linked to the prepayment business model.

(2) Comparative analysis

We evaluate the many influencing elements of company strategies under various payment methods by contrasting the differences between the prepaid business model and the traditional payment business model.

(3) SWOT evaluation

The SWOT method is based on situation analysis of the internal and external competitive environment and competitive conditions of the enterprise, that is, to analyze the four dimensions of S (strengths), W (weaknesses), O (opportunities), and T (threats) of the merchants in the prepayment business model compared to the merchants in the traditional business model.

5. SWOT Analysis

5.1. Strengths

The prepayment model has several traits with the membership system and the financial sector. It can increase consumer loyalty and repurchase rates while also providing very low-cost access to future cash flow. In this manner, Starbucks creates a sizable cash flow by taking advantage of the delay between payment and consumption and then leverages this cash flow to generate profits. With the significant cash flow created by the prepayment mode, it increases not only its profitability but also its capacity to resist risks.

According to official statistics from Starbucks, as of the end of 2020, there were 1.28 billion dollars in gift card balances and 180 million dollars in gift card scraps, which together accounted for 4.3% of Starbucks' entire fiscal year 2021 revenues. In terms of customer loyalty, Starbucks reported total revenue of $29.06 billion in the fiscal year 2021, with gift cards accounting for 42.7% of that total. A fresh $12.56 billion gift card was issued in the fiscal year 2021, and $12.4 billion was spent for normal consumption and trash. Starbucks had distributed prepaid cards worth $1.45 billion, but they had not been used by the end of the fiscal year in 2021.

The UGC method (User Generated Content) can be used with the prepayment business model to coordinate activities, collect videos, pictures, and text works related to the enterprise from customers,

invite fans to share their consumption experience, and encourage users to display their preferred information related to the prepayment business model, physical prepaid card face, and other content to other users through social media, video sharing, blogging, and others.

5.2. Weaknesses

Some customers may not have read the prepaid card type contract at all or may not have read it sufficiently. Under these circumstances, the use of the prepaid business model frequently results in customer conflicts and has an adverse effect on goodwill.

A user discovered that his Starbucks gift card (a prepaid consumer card from Starbucks) had been charged a management fee of 2 yuan a month in November 2021, and he questioned the fee. However, his attempt to negotiate with Starbucks customer support ended in failure.

The consumer had concerns and queries regarding management costs. The opinions mostly center on: 1. The actual star gift card's back states that "The card is valid for three years from the date of activation," however neither the activation date nor the precise duration of validity are indicated. The "activation date" is typically understood by customers to be the day the card's secret compartment is unlocked, not the day the card is sold, which is thought to be deceiving them. 2. There is no actual administration cost, however the Star Gift Card extension has a significant management price. 3. The prepaid card's validity has to be reset, and the deferred management charge that was paid cannot be reimbursed. Forcing someone is unreasonable.

It is clear that the prepayment model has the danger of creating contractual conflicts between companies and their clients, and sloppy handling runs the risk of negatively influencing public opinion and harming goodwill, increasing the likelihood that the financial situation will deteriorate. Prepaid card management fee collection procedures should be tailored according to local laws and ordinances where the company location is located.

The adoption of the prepaid business model necessitates the creation of an emergency plan mechanism in advance since both positive and bad customer experiences can spread swiftly online. When a client has a bad experience or even files a complaint, the special team should assist them right away, maintain open lines of communication with them via email, instant messaging, etc., and offer suitable remedies quickly in order to move forward and prevent repeating the same mistakes. To prevent the negative effects of platform operators' operational faults on the reputation of the brand, professional training for platform operators must be conducted, and the veracity of information releases must be rigorously examined. Additionally, we will manage sensitive unfavorable material quickly, govern online public opinion, guard against public praise being influenced, and stop the spread of negative public opinion.

5.3. Opportunities

The prepayment business model supports stable and high-level cash flow operations, and on this foundation, creates long-term partnerships with banks and other financial institutions, receives investment and financing support, enhances the effectiveness of capital utilization, and lowers the proportion of idle funds.

Through upfront payment, Starbucks generated a profit of $12.4 billion in 2021. Numerous banks have partnered with Starbucks to help Starbucks advance its payment business model through point exchange and preferred card opening (including Industrial and Commercial Bank of China, Agricultural Bank of China, China Construction Bank, Bank of China, Bank of Communications, China Guangfa Bank, Ping An Bank, Everbright Bank, etc.).

Starbucks uses discounts to lower cardholder consumption levels under the prepayment mode and then uses this to withdraw money in advance, boost customer stickiness, draw in new customers, keep existing customers, and give customers the option to apply for cards in advance to receive preferential treatment. This helps Starbucks to secure the future cash flow mode, maintain customer loyalty, increase activity, and improve customer groups.

By using physical and digital prepayment cards and coupons to create limited edition prepaid cards or recharge activities in accordance with significant events, anniversaries, and other public issues, the prepayment business model may be utilized to implement "viral marketing." The term "viral marketing" refers to the use of public interpersonal networks and zeal to directly impose material or spiritual rewards on viral actions, encourage consumers to forward information so that marketing information can spread and copy quickly on the Internet like viruses, so that promotional information can spread to a large number of audiences in a short amount of time at a geometric growth rate, and because viral marketing operation mode relies on spontaneous confabulation. For instance, customers may send their family and friends an eGift star sharing card worth $5 when they contribute @ tweetacoffee content on Twitter as part of a promotion Starbucks introduced in the United States in 2013. In the two months following the event, up to 27000 individuals used eGift to purchase coffee, and more than 30% of the customers who attended the event purchased several coupons. This information was later discovered by the research organization Keyhole. During the event, Starbucks made $80,000 and attracted more than 500 million Twitter users.

5.4. Threats

The financial statements produced by an enterprise's cash basis and accrual basis accounting differ significantly under the prepayment business model. In one situation, it is simple to create large accounts payable. Greater losses than those caused by the conventional company model will result if the capital flow fails at a specific point.

The future cash flow obtained in advance should be handled carefully, the portion allocated for investment and the portion used to maintain liquidity should be handled appropriately, the investment risk of the portion used for investment should be handled well, and the loss reserve should be withdrawn, which puts forward higher requirements for the financial treatment and financial capability of the enterprise.

To prevent the capital chain from breaking down and financial troubles brought on by the significant growth in prepaid card refunds, businesses need to focus more on maintaining goodwill. This is because the prepayment method advances future cash flow.

Customers who use the prepaid business model must create their own accounts so that businesses may quickly acquire their names, mobile phone numbers, and other personal information. Consumer protection should be prioritized, and personal information about customers should be appropriately stored. To prevent negative consequences from consumer personal information leak, the information is exclusively utilized internally to service customers.

The implementation of the prepayment business model necessitates enhanced post-sale services as well as the guarantee of product quality. Increase customer trust and brand identification while fostering the marketing industry's overall growth.

6. Proposal

(1) To C end enterprises can lock cash flow in advance by adopting prepayment method, such as big and medium-sized chain retail restaurants with excellent goodwill and good operational circumstances.

(2) To minimize consumption disputes and goodwill losses, we should pay attention to the modification of the format conditions of the prepaid consumption contract when adopting the prepayment business model and perform a good job of advertising and interpretation. To prevent legal concerns, consideration should be given while amending the basic contract to the pertinent laws and regulations, management fees, service fees, and other important aspects of the enterprise's location on the prepayment business model.

(3) Strengthen the rewriting of the prepaid physical card's description information, clearly state consumers' rights and duties as well as merchants' exemption terms, and prevent discrepancies between customers and merchants.

(4) Improve the control of liquidity risk.

(5) A significant portion of accounts payable, which is basically a type of corporate debt, has been created through the prepayment technique. To prevent wasteful use of expensive funds brought on by passive over borrowing, the percentage of prepaid card sales in total income should be carefully calculated.

7. Conclusion

Customers' brand loyalty may be increased by using the prepayment business model, which can be used by merchants with solid financial standing and excellent company credit. In order to adopt the prepayment business model, it is important to do a good job of revising, publicizing, and interpreting the pertinent standard terms, listing the information in the entity prepayment card, paying attention to the use of funds obtained through the prepayment model, and practicing risk control, in order to avoid excessive passive borrowing, idle funds, or a broken capital chain. To prevent losses brought on by information leak, the prepaid business model should correctly store and handle the personal information of consumers. Promotions may be executed through recharge activities or the creation of actual prepaid cards with a small card face, and viral marketing can be executed through collaboration with KOL in conjunction with UGC mechanisms.

The prepaid business model also offers discounts to customers, however it should be emphasized that dishonest companies exploit it to commit fraudulent infringement.

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