

Research on the Marketing Strategies of Starbucks in the Chinese Market

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Abstract:

Coffee has become an indispensable part of modern life, with Starbucks emerging as the preferred choice for many consumers around the world. As a successful U.S.-based brand, Starbucks has aggressively expanded into foreign markets, and China, its second-largest market after the U.S., has become a key focus. While the brand has achieved notable success in China, several challenges remain. High prices, difficulties in fully localizing its offerings, and the ongoing effects of the COVID-19 pandemic have hindered Starbucks' ability to retain and attract customers. In response to these challenges, Starbucks needs to adopt tailored strategies to strengthen its presence in the Chinese market. First, discount programs, including loyalty rewards and seasonal promotions, can help mitigate concerns over pricing and make the brand more accessible to a wider audience. Second, further blending of Chinese cultural elements—such as integrating traditional flavors or launching region-specific beverages—could enhance localization efforts and foster deeper connections with Chinese consumers. Additionally, enhancing the digital experience, particularly through online ordering and delivery services, would cater to evolving consumer habits shaped by the pandemic. With growing competition from both domestic and international coffee brands in China, Starbucks must act proactively, embracing these strategies to maintain its leading position and continue its growth in this dynamic market.

Keywords: Starbucks; Chinese Market; Marketing Strategies

1. Introduction

1.1 Research Background

Drinking a cup of coffee has become a daily routine

for many people around the world. In such a fast-paced life now, a coffee retail store is the first option that people go to. Upon different choices in this market, Starbucks is the leading retailer that was founded in Seattle in 1971 [1]. From there on, Starbucks grew

as a multinational company that opened over 32,000 chain stores and capitalized over \$100 billion in the market [2]. In 1999, Starbucks entered the Chinese market and opened its first store in Beijing [3]. China has one of the biggest populations in the world, and the market provided an opportunity for such a foreign coffee company to expand and maintain a high status in the country. Currently, Starbucks operates more than 6,500 stores across over 250 cities in China [3]. Not only coffee itself but also the brand is embedded in the culture and loved by Chinese consumers.

Nevertheless, the coffee market has always remained competitive as it can be substituted easily. Regardless of Starbucks' brand recognition, new competitors have also emerged in the Chinese market. The direct threat comes from a new local coffee brand called Luckin, which was founded in 2018 [4]. Offering great discounts to eliminate the high price standard of coffee in the market has attracted many Chinese consumers to purchase Luckin instead of the high-priced Starbucks [4]. In a similar industry, Hey Tea is another threat. By providing detailed customization to each drink and putting forward new products in the short term, Hey Tea attracted many consumers in the market [5]. Although Starbucks still holds a high position in the global market with its unique advantages, improvements in the marketing strategies targeting the Chinese market are necessary in order to compete with other brands.

1.2 Literature Review

Many existing researches have examined both the strengths and weaknesses of Starbucks in the market. According to Wang, Starbucks has successfully created a "third place" for the targeted middle to upper working population to have a new atmosphere outside of the office and home to refresh themselves [6]. Besides such a concept, every Starbucks store is uniquely designed so that consumers can experience the modern style of coffee culture while enjoying the drinks and desserts [6]. People with high standards of taste would appreciate Starbucks and gradually form brand loyalty.

In another research, Liu et al. proposed that Starbucks has a high competitive advantage since its brand scale is enormous, which allows the establishment of "selection shops" [5]. In these "selection shops", consumers can experience new products outside the ordinary menu, attracting more coffee lovers to visit and purchase. Nevertheless, the authors also criticize Starbucks for setting high prices while neglecting consumers' feedback [5]. Starbucks rarely offers discounts on s, which are already higher than the market price. During special seasons, consumers are dis-

satisfied with the tastes of the limited products; however, Starbucks never made changes to them.

Focusing on the brand value, Kang & Bi claimed that Starbucks has heavy foreign culture labels that can contradict traditional Chinese cultures, which can cause a loss of consumers when encountering differences in opinions [1]. Moreover, since tea is another major drink in China that correlates more with the culture, it is challenging for Starbucks to reach other types of consumers [1]. If Starbucks doesn't put effort into localization, then it can gradually lose its portion in the market to cultural differences and competing industries.

1.3 Research Gap

Most research focuses on analyzing the strengths and weaknesses of Starbucks in the market while pointing out real-life problems. As a leading coffee store, Starbucks has high brand recognition, which has made many consumers remain loyal. However, in foreign markets, Starbucks has to adapt to the local market, or other domestic brands will be at a greater advantage. Few researchers provide specific advice to Starbucks in different local markets; rather, most of them examine the market as a whole.

1.4 Research Framework

This research will first give an overview of Starbucks in the market while mentioning the pros and cons referenced from other findings. Then, the focus will shift to the Chinese market and analyze the specific problems that exist in such markets. Finally, suggestions for improvements will be provided so that Starbucks can better suit the market.

2. Case Study

After its entrance to the Chinese market in 1999, China has now become the second largest market after the United States [7]. In the beginning, China didn't allow any foreign business to open retail stores, and Starbucks had joint ventures with other Chinese companies [7]. It wasn't until 2017 that Starbucks finally took over all the shares and directly owned the stores in China [7]. From then on, Starbucks started to expand its influence in the market by bringing high-quality coffee brands to the public. It also became a symbol of high status that people wanted to own.

Additionally, Starbucks created new employment opportunities for the population and supported local coffee bean businesses. Every new store opened will need new people to be employed, and Starbucks' large and large-scale stores in China have already boosted the employment rate. In working with Alibaba, Starbucks has also initiated the

digital store “Starbucks Now”, providing more jobs in the delivery and software development sections. Furthermore, Yunnan, benefiting from its ideal geography for coffee beans to grow, is a province in China that is responsible for 95% of the Chinese coffee bean supply [8]. Starbucks has worked with farmers in Yunnan to supply coffee beans, bringing more profit to local farms [7].

In keeping up with the trend in China, Starbucks has already made some adaptations. One example is that all the stores allow digital payment via WeChat and Alipay since the public rarely uses cash or cards anymore and relies heavily on these two methods. Moreover, Starbucks also sells limited products during Chinese holidays. For instance, there are mooncakes during the Mid Autumn Festival and Zongzi in the Dragon Boat Festival [2]. Such localization also expanded to the mugs that Starbucks sells, and many designs included Chinese elements to attract more consumers.

Despite the efforts already made by Starbucks in the Chinese local market, problems still lie with the brand, threatening its future development. With the top competitors of Luckin and Hey Tea offering low prices and more customized products in the market, Starbucks needs to implement new strategies to maintain its position.

3. Analysis on the Problem

3.1 Problems

3.1.1 High price

Since the target consumer population is the middle to upper class, Starbucks uses high prices to position its brand [6]. In China, Starbucks charges 30-40 yuan for each different drink and dessert [6]. While people who can afford such a price might be attracted to Starbucks and become loyal consumers in the future, most of the population in China will not be willing to pay such a high price. If there is no pursuit of high-quality taste, then consumers can easily turn to other brands for substitution. In Luckin or Hey Tea, one drink only costs 15-25 yuan, and the price can even be lower in certain situations when discounts are offered. Despite the low prices, these brands also work hard to create better tastes that are no second to Starbucks [6]. When drinks with similar tastes are offered at the same time, more people, especially those with low income, will definitely choose the cheaper one to purchase. Moreover, the Chinese economy has encountered slowdowns, in which many people are more cautious about spending and refuse high-priced products.

3.1.2 Localization

Starbucks has already made adaptations to its products in the Chinese market by offering special desserts during holidays and tea-flavored drinks. However, such efforts can't fully satisfy the public's preference. Since all the drinks and food items are still based on Western style, some consumers, especially the older population, might prefer more traditional local flavors. The preference for taste is different, with coffee being too bitter while Frappuccino might be too sweet. Another major threat to Starbucks is the cultural difference. Unlike the United States, which has a habit of drinking coffee, China has a tradition of drinking tea. The process of boiling the tea and drinking while chatting with others is also a unique atmosphere that Chinese people value. While Starbucks might remain popular in big and better-developed cities in China, small cities with few acknowledgments of Western coffee will not appreciate Starbucks. Starbucks is usually viewed as a luxury and symbol of high status; therefore, it will not be a daily option for people.

3.1.3 COVID 19

Due to COVID-19, many companies across different industries have been impacted, and Starbucks is no exception. Many Starbucks stores had to be closed during the pandemic due to the requirement by the Chinese government during that time, which caused a great loss in the company's revenue. Such circumstances have also affected the idea of “third place” in China [9]. Even if the stores were opened, no one was there to experience the unique atmosphere provided by Starbucks in stores since people were all quarantined and had to stay at home every day during that period. Such changes in life have also affected the way that people acquire drinks, and people rely more on online deliveries with no contact. Although more people stayed in the store after the pandemic, many people continued to enjoy the online experience, which is the opposite of what the “third place” is trying to create.

3.2 Reasons for the Problems

3.2.1 High price

As Starbucks positions itself as a premium brand, it wants to provide not just a simple drink of coffee but also its special experiences of comfortable stores and a “third place” atmosphere. Looking at Starbucks' business model, the operation also creates high costs that can only be covered with a high price. First, high-quality drinks require expensive and specific raw materials that Starbucks has to pay for supply in order to maintain the taste that people look for in its brand [10]. Next, Starbucks' stores are usually located in crowded city centers, where they have to pay high rental fees [2]. The rental fees are especially high in

big cities such as Beijing and Shanghai, and the price can increase each year. Nevertheless, these places are where Starbucks owns most of its stores and has the majority of consumers. Starbucks also spends its budget on employee benefits by providing health insurance and training tuition in addition to the wages to their “partner” (the name that Starbucks refers to its employees). Moreover, with the creation of the digital store, Starbucks has to invest in maintaining the technologies and future updates.

3.2.2 Localization

The deep-rooted cultures serve as a main barrier for Chinese consumers when choosing a foreign brand like Starbucks. People are more willing to choose a drink that they are familiar with instead of an introduced drink that doesn't resonate with history. People also prefer a more refreshing taste from tea than the bitter taste of coffee. Furthermore, people in China are concerned about caffeine, and coffee is not a common drink recommended by the public. More people in bigger cities such as Beijing and Shanghai might prefer Starbucks as these places are more open to Western style. Nevertheless, people in small cities with low income will not accept a foreign brand they never knew with such a high price. Starbucks' stores in these places will only receive more losses. The perception of Starbucks as a luxury brand also hinders many potential new consumers as they would label Starbucks as drinks for elites only, thus making them afraid of trying in the first place.

3.2.3 COVID 19

Recovering from the loss due to the closure of stores during COVID-19 is challenging for Starbucks in the Chinese market as not only the revenue lost but also the cultures that the brand is trying to implement are harmed. The expansion plans and adapted operation models are also interrupted. First, opening new stores in China will definitely be delayed, which means reaching smaller cities will also be more difficult. Next, Starbucks has to make adjustments to its online platforms as people prefer a more digital style. While making new adaptations to suit the latest Chinese market better, Starbucks also has to find a way of maintaining its own culture and ideas.

4. Suggestions

4.1 High Price

High prices have always been a barrier for more consumers to drink Starbucks in the Chinese market. Moreover, when there are other cheaper substitutes for the beverages in the market, people tend to consider other brands first

rather than Starbucks. However, a contrary point exists, as Starbucks uses high prices to position itself as a high-quality brand [6]. Therefore, it is necessarily for Starbucks to find the balance between its price and position in order to attract and maintain consumers. One approach to solve this problem is to offer better discounts. Starbucks could set limited-time discounts on certain products each month, giving consumers a chance to purchase the products at a low price. Moreover, Starbucks could also set up different promotion programs targeting different consumer groups. For example, the student body is a major consumer group in the Chinese market, so Starbucks could offer students discounts on beverages during special time periods, such as the start of the school day each year. Short-term discounts could encourage repeat consumers and attract more people while Starbucks still retains its high-end brand position.

Another way to address this issue is to lower the operational costs from the very beginning. Starbucks could open smaller stores in suburban areas with simplified products at lower prices. While the rent fee could be lowered, cheaper products in those areas could also make Starbucks more accessible to more people. Starbucks could also implement self-service or automatic stores, which would cut labor costs. When the expensive costs from different sections are lowered, the price could also become cheaper.

4.2 Localization

Cultural differences also prevent many people from trying Starbucks as they still prefer a more Chinese-style brand. Although Starbucks had made efforts to localize by designing products that target the Chinese market, that was not enough. For advertising, Starbucks should focus on traditional Chinese elements that resonate more with Chinese consumers in their campaigns. For example, Starbucks could use symbols such as family and union for campaigns around the Chinese New Year. Starbucks should also be more active on Chinese social media such as Weibo, WeChat, Xiaohongshu, and Douyin (Chinese TikTok) in order to spread its influence through major online platforms.

Focusing on localized products, Starbucks should incorporate more. For example, Starbucks could add Chinese food, such as steamed buns and congee, into its breakfast options. Moreover, many cities in China also have their famous traditional desserts, which Starbucks could add to diversify its current dessert options. Introducing such flavors would appeal to more Chinese consumers who prefer traditional Chinese-style products.

Starbucks could also incorporate Chinese style into its

store design by using traditional colors, motifs, and materials that reflect the culture. Since Starbucks has a unified design across all the places, stores that present cultural aesthetics could be attractive to consumers. More people would also be willing to gather in such a space and enjoy a Chinese-style “third space”. By localizing the advertisement, food items, and store design, Starbucks could better blend such an international brand with the Chinese locals.

4.3 COVID 19

After the pandemic impact, Starbucks should know that online consumption also weighs a heavy part of its brand. Although the physical store experience is restored, better online strategies should also be implemented. For example, Starbucks should offer discounts for online consumers, such as no delivery fee charged, especially for new consumers [6]. Starbucks should also encourage online evaluation posts and reward those with the highest likes and views on different social media platforms, as they are also a way to spread and advertise the brand [6]. Since the “third place” is an essential concept for Starbucks, after the pandemic, Starbucks should also try to bring the idea online. Starbucks could initiate an online chat room for people to communicate and share their current thoughts with Starbucks and other consumers, creating a feeling of warmth, connection, and belonging to people even if they are not physically in the store.

5. Conclusion

5.1 Key Findings

In the coffee industry, Starbucks is a very successful brand with a high position in the market. As Starbucks expanded into foreign countries, the Chinese market became a major consumer place. However, Starbucks still faces problems in such a market and needs to implement specific strategies to address those issues. As a top brand, Starbucks charges a high price for its products due to its high-quality image and the operational costs. In the Chinese market, when other cheaper substitutes exist, many Chinese consumers would not choose Starbucks. Therefore, in order to maintain and attract consumers, Starbucks should offer discount programs or lower operational costs, providing lower prices that consumers are willing to pay. Next, Starbucks also needs to adjust itself to align with Chinese culture. Since coffee is not a traditional drink in China, many people would prefer a more familiar taste, such as tea. Starbucks should introduce actual traditional Chinese food into its menu to diversify its options while appealing to the taste of Chinese consumers. Moreover, Chinese

culture can also be reflected in the design of stores by incorporating Chinese architectural style. The impact of COVID-19 is also another major problem that caused Starbucks to not only lose revenue but also hurt the idea of “third place”. After the recovery, Starbucks should focus more on its online experience as well. Starbucks could encourage online consumers by providing no delivery fee, rewarding high-quality posts, and creating an online “third space”.

5.2 Research Significance

As a famous international brand, Starbucks’ marketing strategies have been referenced by many other brands. Nevertheless, in such a competitive market, Starbucks still stands in the top position. By entering the Chinese market, Starbucks spread its influence into broader places. Starbucks soon gained its reputation in China and expanded into thousands of chain stores. Although the local brands in China are still young, they are growing at a fast pace, and they are gaining their unique advantages and competing with Starbucks. As a foreign brand, Starbucks needs to implement specific strategies targeting the Chinese market in order to stand in its place.

5.3 Limitation

This research paper is mainly based on secondary data by referencing other research in which there is a limitation on the use of primary data. In future studies, more primary data should be used through surveys and interviews. In such ways, the data used can be more accurate and better reflect the true situation since they are collected firsthand.

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