

The Strategy of Starbucks and its Effectiveness on its Operations in China, a SWOT Analysis

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ABSTRACT---- *This study offers an in-depth analysis on the closedown of a Starbucks café, a foreign firm, and its penetration in the China. As an analysis, this study is qualitative in society. We collected all available materials from various channels, including science direct journal, Google search engine, official websites of Starbucks and Starbucks China, and relevant Websites and online forums in China that reported and discussed the case. We also collect primary data from some Starbucks café in China. There were 6 factors pertaining opportunity increasing product ranges (brand extension) include the Chinese market is measured as the fastest growing and the most powerful market in the world in terms of huge population and the overall rising economic growth and expansion of retail operations and new distribution channels. Thus, a SWOT analysis was used to identify the required management strategies to improve the Starbucks strategy in China.*

Keywords ---- SWOT, Starbucks, China, Factor Estimate Matrix, Analysis

1. INTRODUCTION

Founded in 1971, Starbucks' first store was in Seattle's Pike Place Market. By the time it went public in 1992, it had 140 stores and was expanding at a breakneck pace, with a growing store count of an extra 40–60% a year. Whilst former CEO Jim Donald claimed that "we don't want to take over the world", during the 1990s and early 2000s, Starbucks were opening on average at least one store a day (Palmer, 2008). In 2008 it was claimed to be opening seven stores a day worldwide. Not surprisingly, Starbucks is now the largest coffee chain operator in the world, with more than 15,000 stores in 44 countries, and in 2007, accounted for 39% of the world's total specialist coffee house sales (Euromonitor, 2008a). In North America alone, it serves 50 million people a week, and is now an indelible part of the urban landscape.

But just how did Starbucks become such a phenomenon? Firstly, it successfully Americanised the European coffee tradition – something no other coffee house had done previously. Before Starbucks, coffee in its current form (latte, frappacino, mocha, etc.) was alien to most US consumers. Secondly, Starbucks did not just sell coffee – it sold an experience. As founding CEO Howard Schultz explained, "We are not in the coffee business serving people, we're in the people business serving coffee" (Schultz and Yang, 1997). This epitomised the emphasis on customer service such as making eye contact and greeting each customer within 5 seconds, cleaning tables promptly and remembering the names of regular customers. From inception, Starbucks' purpose was to reinvent a commodity with a sense of romance, atmosphere, sophistication and sense of community (Schultz and Yang, 1997). Next, Starbucks created a 'third place' in people's lives – somewhere between home and work where they could sit and relax. This was a novelty in the US where in many small towns café culture consisted of filter coffee on a hot plate. In this way, Starbucks positioned itself to not only sell coffee, but also offer an experience. It was conceived as a lifestyle café. The establishment of the café as a social hub, with comfortable chairs and music has been just as important a part of the Starbucks brand as its coffee.

All this came with a premium price. While people were aware that the beverages at Starbucks were more expensive than at many cafés, they still frequented the outlets as it was a place 'to see and be seen'. In this way, the brand was widely accepted and became, to an extent, a symbol of status, and everyone's must-have accessory on their way to work. So, not only did Starbucks revolutionise how Americans drank coffee, it also revolutionised how much people were prepared to pay.

By 2008, consumer awareness of Starbucks in Australia was 90% (Shoebridge, 2008), with each outlet selling, on average, double the number of coffees (270 a day) than the rest of Australia's coffee shops (Lindhe, 2008).

Expansion into China

Half the international stores Starbucks plans to operate in the next decade will be in Asia (Euromonitor, 2006; Browning, 2008). Indeed, Starbucks has done well in international markets where there has not traditionally been a coffee drinking culture, namely Japan, Thailand, Indonesia and China. In effect it has been responsible for growing the category in these markets.

The first Starbucks outside the US opened in Tokyo in 1996, and since then, Starbucks' Japanese stores have become twice as profitable as the US stores. Unsurprisingly then, Japan is Starbucks' best performing overseas market outside North America. More than 100 new stores open each year in Japan, and coffee is now more popular than tea in terms of both volume and value (Lee, 2003; see also Uncles, 2008). As opposed to their entry into the Australian market, Starbucks made small changes to its formula for the Japanese market; for example, the invention of a green tea frappuccino, and the provision of smaller drinks and pastries to conform to local tastes.

Starbucks arrived in China in 1998 and by 2002 had 50 outlets, and 165 outlets by 2006 (BBC News, 2006), quickly becoming the nation's leading coffee chain. Starbucks now sees China as its key growth market due to the size and preferences of the emerging middle class. The total market for cafés in China grew by over 135% between 1999 and 2004 to reach US\$2.6 billion. It is projected to grow another 144% by 2008 to reach US\$6.4 billion in sales. More specialty coffee shops are opening across China as a middle class with strong purchasing power emerges, although this rise in coffee consumption is highly concentrated in large cities such as Beijing, Shanghai and Guangzhou. Starbucks has said that it expects China to become its biggest market after the US and the plan is to open 100 stores a year (Euromonitor, 2006).

Significantly, certain Western brands are valued by Chinese consumers and Starbucks appears to be one of them. A growing number of China's 500 million urbanites favour Starbucks for its ambience, which is seen as an important signal of service quality, and Starbucks' design concept rests easily with China's consumers, who tend to lounge with friends while sipping coffee. Its outlets in China frequently maintain larger seating areas than average outlets in other countries, and plush chairs and davenports are provided to accommodate crowds that linger.

However, success for Starbucks in China is not a given, and they will face several challenges in the coming years. China's accession to the WTO has led to the gradual relaxation of the policy governing foreign-owned retail outlets, and this will lead to more foreign investment and thereby competition (Lee, 2004). Several multinationals are engaged in selling coffee (including KFC, McDonald's, Yoshinoya, and Manabe), and a number of local brands have recently emerged, some even imitating Starbucks' distinctive green and white logo and its in-store ambience (notably Xingbake in Shanghai). Furthermore, the reduction of import tariffs on coffee will also encourage foreign investment in coffee.

2. LITERATURE REVIEW

SWOT analysis

A SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis is a research method to analyze a certain status-quo. SWOT analysis, also known as SWOT matrix, has often been used in field of business and extended to that of natural resource management in order to assess a given decision, project or policy directive in a systematic manner (Schmoltdt, Kangas, Mendoza, & Pesonen, 2001). It has also been used in assessment of sustainable tourism (NOAA, 2011).

This method is based on two tiers of analysis which are conducted separately:

1. First step is to analyze the internal factors (local analysis) which contain a discussion on strengths and weaknesses according to the aims of the SWOT;
2. Second step is to analyze the external factors (global analysis) which contain a discussion on relevant opportunities and threats (positive/negative framework conditions, potential chances and risks) (Harfst et al., 2010).

Scanning the internal and external environmental factors is an important part of a strategic planning process which in turn is a component of sustainable development. Such an analysis of the strategic environment is instrumental in formulation and selection of a strategy. In this study, the SOWT analysis was conducted on BNP to examine the sustainable tourism development. First, the internal environmental factors of the park were classified as strengths (S) or weaknesses (W) and those external were classified as opportunities (O) or threats (T). Accordingly, a list of Ss and Ws and a list of Os and Ts were drawn.

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:

1. The factors were given a coefficient between 0 and 1, standing for “not important” and “most-important”, respectively. This coefficient represents the relative significance of the factor in success rate and is represented by this term; weight in the IFEM. Despite the fact that each factor is considered an internal strength or weakness, the more effective the factor in sustainable tourism development, the higher the allotted weight will be.
2. Each factor was scored between 1 and 4, 1 standing for fundamental weakness, 2 for minor weakness, 3 for strength and 4 for great strength. These scores were based on the activities taking place in the park, coefficients used in the above stage and park's status.
3. To determine each factor's final score, its weight was multiplied by its score.
4. Once each factor's total score was calculated, they were summed to calculate the total final score of IFEM.
5. If this value was less than 2.5, it meant that the strengths were less than weaknesses; if it was more than 2.5 strengths were more than weaknesses.

These steps were repeated for EFEM as well. If this value was less than 2.5, it meant that the opportunities were less than threats; if it was more than 2.5, opportunities were more than threats (Monavari, Karbasi, & Mogooee, 2007).

3. METHODOLOGY

As an analysis, this study is qualitative in society. We collected all available materials from Starbuck China outlet, various channels, including science direct journal, Google search engine, official websites of Starbucks and Starbucks China, and relevant Websites and online forums in China that reported and discussed the case. We examined these materials intensively to identify a clear pattern of the development of the SWOT.

Table 1

Internal

	Weight	Effectiveness score	Final Score
Strengths			
Multiple small scale suppliers low bargaining power, lower cost of coffee bean	0.09	3	0.27
Strong brand equity with high quality coffee and excellent customer service “The Starbucks Experience” lends a competitive edge	0.12	4	0.48
Strong research and development capabilities ensure product quality	0.09	3	0.27
Good reputation among customers	0.05	3	0.15
Favorable access to distribution networks	0.06	2	0.12
The atmosphere in coffee bars provide customers with a feeling of sophistication, style and sense of knowledge. This has turned into a Starbucks culture.	0.07	2	0.14
Have attracted employees who are well educated and eager to communicate the message of their product.	0.04	3	0.12
Extensive store network 8500 shops are owned by Starbucks directly. It has developed excellent skills in franchise management.	0.02	3	0.06
Due to its specialism in all things coffee, it achieves high buying volumes, scale economies and international sourcing, some from fair trade suppliers.	0.07	4	0.28
Weaknesses			
Coffee itself is a western product for the middle class	0.06	3	0.18
Starbucks is a premium brand commanding High (premium) prices	0.11	4	0.44
Heavy restructuring and store operating expenses	0.04	3	0.12
Lack of patent protection	0.03	2	0.06
Starbucks is seen as an “American Global”, possible perception that big American chains are trampling on national cultures, “Starbucks was trampling on Chinese culture”.	0.02	1	0.02
Over dependency on coffee and coffee related products	0.05	3	0.15
Total	1		2.86

Table 2
External

	Weight	Effectiveness score	Final Score
Opportunities			
Increasing the product ranges	0.11	4	0.44
Innovate products and services	0.06	2	0.12
Chinese market is measured as fastest growing and the most powerful market in the world in term of huge population and the overall rising economic growth.	0.11	4	0.44
Extend supplier range	0.06	2	0.12
New distribution channels	0.03	1	0.03
Expansion of retail operations	0.04	2	0.08
Threats			
Consumer trends towards more healthy life style	0.01	1	0.01
High intensity of rivalry among competing firm	0.15	3	0.45
Most Chinese still has stronger preference of tea over coffee	0.12	2	0.24
Dio Coffe & Mc Cafe which competitors over Starbucks offering lower prices	0.11	1	0.11
Better value offered by local coffee	0.04	2	0.08
Raw material cost rising-starbucks is exposed to rises in the cost of coffee, labour, and dairy products, and adverse changes in exchange rates.	0.10	1	0.10
Recession or downturn in the economy affects consumer spending with less disposable income to spend. Consumers defect to lower prices venues and competitors.	0.04	2	0.08
Supply disruptions due to political economical and weather conditions	0.03	1	0.03
Total	1		2.33

4. RESULTS

After primary and secondary data collection, SWOT analysis was performed.

Internal Factors Estimate Matrix.

Regarding strengths, 9 factors were identified .The weight allocated to these factors amounted between 0.02 and 0.12 and the effectiveness score ranged between 0.06 and 0.48.

When considering weaknesses, 6 factors were detected. Starbucks is a premium brand commanding high (premium prices),had the highest weight that is to say, 0.11 the lowest weight was 0.02.The effectiveness score ranged between 0.02 and 0.44.Totally the final score was 2.86.The result of this stage are shown in table 1

The value of external factors equaled 2.33 implying that the opportunities were less than strengths. The value of internal factors was 2.86 so, it means that the strengths were more than the weaknesses.

External Factors Estimate Matrix

There were 6 factors pertaining opportunity increasing product ranges (brand extension)and the Chinese market is measured as the fastest growing and the most powerful market in the world in terms of huge population and the overall rising economic growth had the highest weight while expansion of retail operations and new distribution channels had the lowest weight. The effectiveness score ranged between 1 and 4.

In case of threats, 8 factors were recognized. The highest weight allocated to those 8 factors amounted to either 0.01 or 0.15 and the effectiveness score ranged between 1 and 3.Ultimately the final score was 2.33 .Table 2 summarizes the process and the outcome of external factor analysis

The SWOT matrix is shown below:

S-O strategies are proposed opportunities that fit well with the Chinese Starbucks strengths.

W-O strategies to overcome weaknesses to suggest opportunities.

S-T strategies to identify the ways that can be used to reduce vulnerability to the external threats.

W-T strategies to establish a defensive plan to prevent the Starbucks weaknesses from making it highly susceptible to the external threats.

WO Strategies

1. Considering coffee being a western product for the middle class Starbucks in china should develop flavors such as green tea flavored coffee drinks that appeal to local tastes.
2. Considering the Chinese tea culture Starbucks should not over depend on coffee and coffee related products they should consider on expanding it's product range for example serve tea.
3. Due to the bad publicity of the poorly treated coffee farms Starbucks should try to ensure and restore good relationship with the suppliers.

WT Strategies

1. The average coffee sold in China is far more expensive than in the U.S this is due to the importation of its coffee beans, Starbucks should consider growing its own coffee beans.
2. Negative publicity .The corporate continuously receives negative publicity over its poor efforts of becoming a greener company, tax evasions and trademarks infringements.
3. Size (Lack of internal focus (too much focus on expansion)Franchise stores margins, meaning that higher profit margins are not necessarily the result of improved performance.

SO Strategies

1. Considering extending suppliers range, Starbucks should grow its own coffee beans for it to ensure critical supplies for its operations in Asia which ,reduces the dependence of good or bad harvests in South America ,Africa and in turn saves on shipping costs .
2. Expansion to emerging economies there are great opportunities for coffeehouses in other countries for example in India given their high population rate which gives Starbucks a niche market target .
3. Considering brand extension Starbucks could expand the number of coffee houses that offer wine and beer , plus adding some new products and reaching a broader customer group.
4. Given that Starbucks does not only manage coffee houses and franchise but sells some of its products through other retailers ,they should form more of such partnerships and offer to sell its coffee for example in supermarkets. New products and services that can be retailed in their cafes such as Fair Trade fairs.

ST Strategies

1. For increased competition from local cafes and specialization of other coffee chains .Starbucks should borrow a leaf from the local cafes that offer much lower prices and more suitable menu for its customer. In case of the big coffeehouse chains that specialize, Starbucks should carry on promotions offering after sale services to lure new costumers and keep their loyal ones too.

2. Saturated markets in the developed economies. Coffee markets in the developed economies are already saturated and with intensifying competition, Starbucks will find it hard to grow in these markets.
3. Supply disruptions. Due to political, Economic and weather conditions, Starbucks may experience supply disruptions, adding significant costs to the firm.
4. Coffee price volatility in developing countries.
5. Cooperate behemoth image.
6. Cultural and political issues in foreign countries.
7. Copy-cat stores.

5. CONCLUSION

This study examines the strengths, weaknesses, opportunities and threats of Starbucks in China. The main issues which influence management development in the China have been identified by SWOT analysis. The current and future situation of Starbucks in China is criticized by means of quantified SWOT analysis. Accordingly, Starbucks has a great potential for China consumers attraction. The strong points are the strong brand equity with high quality coffee and excellent customer service “The Starbucks Experience” lends a competitive edge, existence of valuable developed excellent skills in franchise management, and Favorable access to distribution networks. However, Starbucks is seen as an “American Global”, possible perception that big American chains are trampling on national cultures, “Starbucks was trampling on Chinese culture”. Therefore, Starbucks has been doing innovate products and services. These results may help Starbucks managers to analyze the problem of market in China and determine the potential improvement actions. Consequently, this paper provides an important alternative for further research projects on implementation of sustainable Starbucks strategy in China.

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