

ABOUT STARBUCKS

Headquartered in Seattle, Washington, Starbucks was founded by Jerry Baldwin (Baldwin), Zev Siegl (Siegl), and Gordon Bowker (Bowker) in 1971 with the objective of selling coffee beans and coffee making equipment. When Howard Schultz (Schultz) joined Starbucks as director of retail operations and marketing in 1982, he suggested that the company sell drinks rather than just beans and machines. As he failed to convince his employers, he left the company and started his own coffee bar, 11 Giornale, in Seattle in 1986. In 1987, Schultz purchased Starbucks with the help of local investors and became its CEO. Subsequently, Starbucks became one of the fastest growing coffee chains in the US. From selling brew coffee and espresso beverages in its first store in the US, Schultz expanded the company rapidly during the 1980s and 1990s and opened stores outside of North America. With its mission “to inspire and nurture the human spirit – one person, one cup and one neighborhood at a time,” Starbucks soon became the largest coffee chain in the world. ..

STARBUCKS IN CHINA

Starbucks forayed into the Asian market in 1996 when the company opened its first branch outside of North America in Tokyo, Japan. China, being a nation of predominantly tea lovers, Starbucks’ subsequent foray into China was done with the objective of converting the 1.3 billion tea drinkers in the country into coffee lovers through its premium offerings. China was far from the world’s biggest coffee market as the average Chinese consumed only 4 cups of coffee annually compared to Americans who consumed an estimated 441 cups annually. However, China’s young, fast-growing middle class felt the traditional tea houses of China had failed to keep pace with modern life and culture. Moreover, the tea culture of the country lacked a “third place” outside of home and work for the people to spend their leisure time. . . .

ADAPTING TO CHINESE CULTURE

Starbucks entered the Chinese Mainland with the marketing approach of lifestyle branding wherein the brand was sensitive to the cultural differences of the Chinese market. Realizing the long-standing value of Chinese culture and tradition, Starbucks worked to enhance the customer's experience by integrating local customs in store designs and offering local food and drinks among. .

AN EXPENSIVE TASTE

In China, coffee was considered a premium product and with its high price, it targeted affluent consumers. Unlike the Western lifestyle that treated coffee as a daily essential, the Chinese consumers viewed it as a new social trend and considered Starbucks more like a restaurant rather than a coffee lounge. ..

HIGHER PRICE CRITICIZED

Despite Starbucks' increasing footprint in China, it failed to attract the average Chinese consumer who could not afford it because of its high price. In China, Starbucks raised the price of its products at different times, which attracted public attention and strong media reaction. On January 31, 2012, the coffee giant raised the price of some products in its 500 Chinese Mainland stores by 1 to 2 yuan (US\$0.15 to US\$0.31), the first price hike for its China stores after five years (the company had made its previous price adjustment in 2007). The price hike was almost the same as in the US stores owing to the rising cost of raw materials, labor, and logistics in China. As a result, the consumer had to pay 30 yuan (US\$4.62) instead of 28 yuan (US\$4.31) for a 16-ounce Grande Latte while the prices of hot chocolate, fresh-brewed coffee, and espresso drinks increased by 1 to 3 yuan (US\$0.15 to US\$0.46) in China. In November 2012. ..

DEFENDING PRICE HIKE

In the face of the massive media attack, Culver was apprehensive about achieving the projected growth of 30,000 cafés in the region within two years (2013-14) in China. The company feared that it could become the next major foreign company to be targeted by the Chinese state media. Earlier in 2013, the Chinese state media had launched an aggressive campaign against foreign companies like Apple Inc. (Apple) and Wal-Mart Stores, Inc. (Wal-Mart) for their higher prices and alleged inferior customer services and goods in China. ..

IS IT SUSTAINABLE?

Euromonitor International said while China's small fraction of 4.5 billion cups of coffee drunk per year lagged behind that of North America's 133.9 billion as of 2016, Chinese coffee consumption would grow 18% annually, significantly outpacing the US growth of 0.9% by 2019.

EXHIBITS

Exhibit I: Top 10 Coffee Chains in the World

Exhibit II: Starbucks' Key Financials

Exhibit III: Number of Starbucks Stores in China (2005-2015)

Exhibit IV: Region-wise Starbucks Store Status

Exhibit V: Expensive Foreign Products in China vs. U.S

Exhibit VI: Breakdown of Starbucks Grande Latte Price in China

Exhibit VII: Price Comparison of Coffee Chains in China (Prices in Yuan)

Exhibit VIII: Forecast Change in Cups per Capita Consumption (2014-2019)

