



The Secret of Starbucks' Success in the Chinese Coffee Market: Pricing and Marketing Strategies Analysis

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Abstract. As one of the top three beverages in the world, the coffee industry is maturing. Starbucks started as a small coffee shop in 1971. Today, Starbucks is not only the largest coffee chain but also conveys an American coffee culture. With the rapid development of China's economy, people's quality of life and consumption level continues to improve, creating a coffee market with massive potential for growth. For Starbucks, China has now become its fastest-growing and largest overseas market. This paper uses a combination of theory and data to analyze Starbucks' pricing and marketing strategies in China to demonstrate the lessons of its success, inspiring the world's beverage companies.

Keywords: Starbucks · Pricing Analysis · Marketing Strategy · Price Discrimination

1 Introduction

As a leading global coffee retailer, Starbucks has grown from a small coffee store in Seattle to a multinational coffee chain with over 32,000 stores worldwide and a market capitalization of over \$100 billion [1]. With the rapid growth of China's economy, people's quality of life and consumption level continues to improve, giving birth to a coffee market with enormous potential for expansion.

In 1999, Starbucks opened its first store in Beijing [1]. Facing a traditionally tea-drinking country, it only took Starbucks several years to successfully establish itself as a leader in the Chinese coffee industry, achieve high brand awareness, and gain shockingly huge success in China. To date, Starbucks currently operates more than 5,400 stores in over 200 cities on the Chinese mainland, employing more than 60,000 partners [1]. Starbucks has become a cultural symbol, loved by the Chinese people, and its symbol is no longer just a cup of coffee, but a brand and culture. For Starbucks, China has now become its fastest-growing and largest overseas market.

This paper uses a combination of theory and data to analyze Starbucks' pricing and marketing strategies in China and present different strategies that Starbucks used to successfully gain a seat at the table of the Chinese coffee market with the price discrimination controversy. The research significance of this paper is to enlighten and guide Chinese beverage companies as well as foreign beverage companies preparing to open up the Chinese market.

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2 Starbucks' "Price Discrimination" Against China

According to Investopedia, price discrimination refers to setting different prices for the same product to different groups of buyers in order to maximize sales and profits. With Starbucks' rapid growth in China in recent years, it has received public praise as well as many debates [9]. In 2013, China Central Television (CCTV), a Chinese state-controlled broadcaster, pointed out that Starbucks is suspected of profiteering by selling a cup of coffee for tens of yuan, and this news has attracted widespread attention and discussion [3]. According to the research, Starbucks pricing in the Chinese market is indeed more expensive compared to other countries, but Starbucks' price discrimination, as a form of differential pricing, does not violate fair trade principles [2].

3 Factors Affecting Starbucks Pricing in China

3.1 Brand Positioning

When Starbucks first entered the Chinese market, it positioned itself as targeting middle and high-end customers and tied itself to the "professional elite" image [5]. Starbucks wanted to reflect the value of its premium brand through its high price. From the perspective of city distribution, the Starbucks stores in China show an unbalanced overall distribution characteristic, with large cities and economically developed coastal areas becoming its main targets of choice [8].

3.2 Production Cost

Cost is a key factor for a company's pricing, as it is the lower limit for setting prices. The composition of the cost of a cup of coffee includes not only coffee beans but also hidden costs that are typically overlooked, such as renovations, labor, utilities, etc. In today's increasingly expensive land prices, especially in the busy commercial areas of first-tier cities like Beijing and Shanghai, property rents are very high and often account for a large percentage of costs [10].

Starbucks said that the Chinese market is still in its early stages of development despite its huge potential [2]. Although the number of stores is increasing, the raw materials, machinery, and equipment need to be imported in large quantities [2]. David Wolf, head of public relations dialogue at Starbucks, has said that among the costs, the real cost in China is logistics and transportation, where tariffs and other costs are inevitable [2]. Therefore, the high prices of Starbucks in China are also meant to cover the costs involved.

3.3 Competitive Environment

As the Chinese market continues to open up, the huge potential of the Chinese coffee consumption market is constantly explored. In 2006, COSTA entered the Chinese coffee market with its first Shanghai outlet [3]. However, its marketing is out of place and its product reputation is lacking due to COSTA's positioning in China has always floated

in the upper echelons. Despite aggressive store expansion, it has never been as good as Starbucks. Meanwhile, there is competition from brands such as Pacific Coffee and McCafé, and Starbucks felt threatened but failed to be shaken until the emergence of Luckin Coffee in 2017 [3].

With the rise of Chinese local coffee brands over the years like Luckin Coffee, not only have a more youthful and personalized brand positioning, but the price is also very pro-people [4]. At Starbucks', the average price for a cup of medium coffee is 28 RMB, corresponding to around 4.30 USD [3]. Compared to Starbucks coffee, the price advantage of Luckin Coffee is undeniable. It has accumulated numerous young groups over the years, especially students who do not have much income [4]. For Starbucks, the competition with local Chinese brands represented by Luckin Coffee has made it lose a large number of young customers, while an emerging Chinese coffee brand expanding its stores at an amazing speed is able to bring pressure [8].

3.4 Global Epidemic

Generally speaking, the rising price of coffee beans is one of the unavoidable cost challenges for all coffee brands. Brazil, the world's largest producer and exporter of coffee beans, has seen a large-scale production reduction due to the pandemic. In addition to Brazil, Vietnam is also closed to domestic management affected by the epidemic, and the export rate of Vietnamese coffee has also been significantly reduced. As the external supply of coffee beans has fallen sharply, the price of coffee has naturally risen. The global epidemic situation fluctuates. Due to the lack of capacity, port congestion, and labor shortages, the freight, and labor costs of sea transportation have increased, so the price of raw materials in the entire coffee market has gone up. Instead of incurring further losses, Starbucks has counted the rising costs on consumers.

4 Starbucks Pricing Strategies in China

4.1 Skimming Pricing Strategy

According to Investopedia, skimming pricing is the practice of setting the price of a product high at the beginning of its life cycle in order to achieve maximum profit. Starbucks gained bargaining power in China by using skimming pricing. When it entered the Chinese market in the early stage, most Chinese people had never drunk coffee. Due to special social conditions, scarcity became a powerful tool for Starbucks. As an old Chinese saying goes, things are precious because of their scarcity. Taking advantage of the dividend of the rapid development of Chinese consumption, Starbucks adopted the skimming pricing strategy, which enabled the coffee to sell at the highest price in this country where the coffee culture has not yet formed and continues to this day.

4.2 Prestige Pricing Strategy

According to Oxford Languages, prestige pricing is a method of consciously setting a high price for a product in order to enhance its status. When Starbucks entered China,

it portrayed itself as an “affordable luxury” brand, reflecting its high price level, which enabled customers to distinguish Starbucks coffee from other generic coffee brands [5]. In other words, what Starbucks sells is not only coffee but also identity. Starbucks tends to satisfy people’s inner vanity and self-esteem because a good brand makes customers feel that using the brand represents who they are [5]. People don’t care about whether the coffee is worth the price, but whether they are happy and satisfied when they hold a cup of Starbucks coffee.

4.3 Perceived-Value Pricing Strategy

According to The Economic Times, perceived-value pricing refers to the price which customers are willing to pay for a particular product or service based on their knowledge, feelings, or understanding of the product. Starbucks’ business philosophy is dedicated to providing customers with a first-class coffee and consumer experience. Specifically, Starbucks not only focuses on offering coffee and other beverage options, but also a variety of delicious pastries, relaxing music, air conditioning, charging sockets, and Wi-Fi access to add value to the coffee experience. As a result, customers are less sensitive to price, so the perceived value of the product has been greatly enhanced. That’s why even though the price of a cup of coffee is so high in China, there are still a lot of loyal customers who come to consume it. Undoubtedly, the perceived value pricing has created a huge profit margin for Starbucks.

4.4 Marginal-Cost Pricing Strategy

According to Britannica, marginal-cost pricing is the practice of setting the price of a product equal to the extra cost of producing an additional unit of output. The common Starbucks cup types are medium cup, large cup, and extra large cup, with capacity codes of 354ml, 437ml, and 591ml, and prices of 27 RMB, 30 RMB, and 33 RMB, respectively [7]. The difference in cost between medium and extra-large cups is only a partial increase in water, coffee, sugar, and milk [7]. From a cost perspective, these increases are almost negligible. Starbucks’ biggest costs are fixed costs such as rent, utilities, and staff management. Therefore, selling a smaller cup of coffee for less money implies much lower marginal revenue. Starbucks doesn’t want customers to buy cheaper coffee because it would lower their marginal revenue. That’s why Chinese Starbucks servers are willing to continuously promote cup upgrades, because as marginal costs decrease, the more cup upgrades, the higher the profit, the better for Starbucks in terms of limited space, time, in-store consumers, and other key elements.

5 Starbucks Marketing Strategies in China

5.1 Co-branding Marketing Strategy

As the main beverage of Starbucks, the most important and direct symbol carrier of coffee is the coffee cup. In order to meet the trend of young people, Starbucks has tried to cooperate with different brands and resources in different forms without departing

from the core of coffee culture. Since the first set of holiday cups was launched in 1997, Starbucks has continuously displayed its own creativity on coffee cups every year to serve every customer [7]. Limited edition themed cups are also launched every year, such as the Constellation Mug, Cat Paw Mug, Mid-Autumn Rabbit Mug, etc. [7]. In June 2016, Starbucks cooperated with Jay Chou and Vivienne Tam to launch a co-branded collection, which integrated Starbucks into the Chinese style [7]. In addition to collaborating with designers, Starbucks has also partnered with Tingyi to jointly launch bottled Frappuccinos [7]. Starbucks uses these fancy and creative cups to keep attracting potential consumers. Starbucks is not only empowered by the high-quality products but also able to accurately grasp the psychology of consumers and constantly innovate in common and viable areas. Starbucks' dominance also demonstrates that, while brands do an excellent job with their products, paying more attention to how to have more and better interactions with customers is a critical factor in brand success.

5.2 Digital Marketing Strategy

With the rise of e-commerce in China, Starbucks entered the WeChat platform. Starbucks' corporate development strategy has been focused on digital and social media, being on the cutting edge of technology. After partnering with Tencent in 2016, Starbucks launched the WeChat mini program [6]. Through the applet, users can view the digital menu, place orders for delivery, and search for the nearest Starbucks stores based on location, schedule, and event offers [3]. The applet is also connected to Starbucks' rewards program, so members can access and enjoy their benefits through the WeChat platform [3]. In 2017, Starbucks launched "Say it with Starbucks", which is a new social gifting feature on WeChat [1]. WeChat's users can visit the "Say it with Starbucks" section at any time and choose from a wide range of Starbucks gifts to express friendship and love instantly, depending on the target audience or the occasion. These gifts and wishes will be stored in each other's WeChat accounts and can be redeemed at any time in Starbucks stores to enjoy a warm and unique Starbucks experience [6].

5.3 Localization Marketing Strategy

Starbucks has been so successful in the Chinese market because of its continuous innovation and integration in China itself. Starbucks has fully adopted a localized marketing strategy in the Chinese market. In order to cater to the tastes of Chinese consumers, Starbucks has highly localized its beverages and won the approval of Chinese consumers. To begin with, Starbucks has taken domestic consumer tastes into consideration by offering a dazzling array of beverage choices and a wide variety of delicious pastries. For instance, Starbucks has combined the Chinese tea culture to introduce a new style of Biluochun tea and leveraged the platform of traditional Chinese festivals to push the envelope, typically with special moon cakes for the Mid-Autumn Festival and Zongzi for the Dragon Boat Festival [3].

Moreover, Starbucks has incorporated Chinese elements in its store design. Starbucks opened a Reserve Roastery on Qianmen Street in Beijing, which combined traditional Chinese culture with modern western fashion [1]. Inside the Qianmen store of Starbucks, a strong Chinese culture is conveyed, such as traditional and elegant window panes, dark

Chinese tables and chairs, antique mugs and postcards, and Starbucks employees wearing Chinese-style work uniforms. All these fully reflect the ancient Oriental culture of China and attract many Chinese consumers. It can be seen that Starbucks has made great efforts to achieve a perfect combination of the western brand and local Chinese culture.

6 Conclusion

Pricing has the power to make or break a business. If done correctly, it can build an empire like Starbucks. Otherwise, it can haunt a business for life. By taking coffee as the carrier, differentiation as the basis, and corporate values as the core, Starbucks successfully sells the best coffee at the highest price and brings substantial competitive advantages and profit margins to the company. Former Starbucks CEO Howard Schultz said Starbucks' growth and success are not only because the coffee is good, but also because people trust in such a consumer brand.

The fact that Starbucks offers products, services, and experiences that meet the needs of its target group and that consumers recognize its brand values and are willing to pay is an important reason for its success. In pursuit of profits, companies should never forget to provide excellent products and services, just like the "We proudly serve" printed on every Starbucks cup. The study has some limitations. The weakness of this paper is that although it mentions some strategies used by Starbucks in China, it is still not comprehensive enough. Future studies can complement and elaborate on the basis of this study. Furthermore, there is no model to analyze and demonstrate. Future research can focus on using models to justify.

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