

COMPANY PRESENTATION:



Will the partnership with
Alibaba help Starbucks
maintain its market share
in China?

Case Analysis, Prof. Stallings
Danni Zhai, Shucheng Yan,
Kohei Kariya, Yuxin Zhang

Agenda

- Introduction
- External Analysis
 - PEST Analysis
 - Porter's Five Forces Analysis
 - Competitor Analysis
 - Customer Analysis
- Internal Analysis
- Partnership with Alibaba
- Conclusion



China is the second biggest market for the largest coffeehouse chain worldwide - Starbucks



Situational Context



2nd most valuable fast food brand after McDonalds

39.8% market share of the U.S coffee chain industry

24.72 bn USD revenue worldwide (2018)

Over 27'000 worldwide in 68+ countries

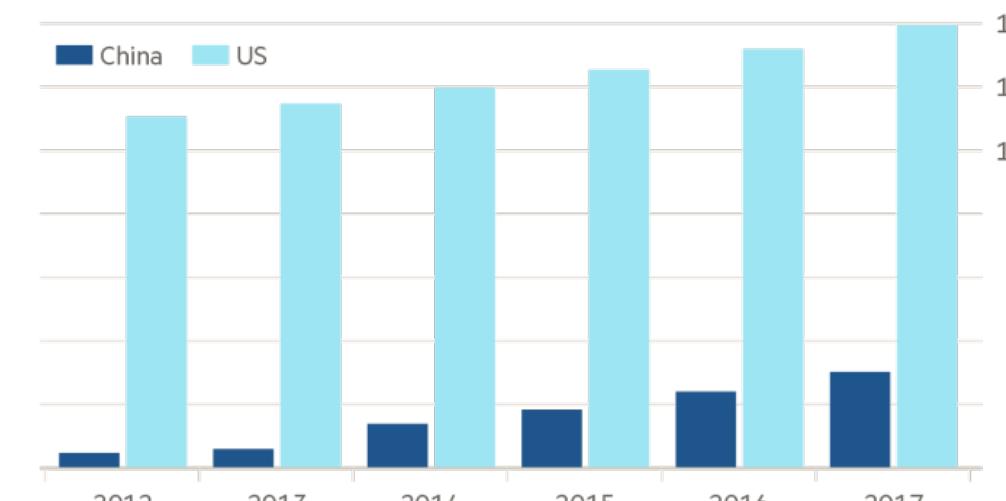


Now more than 3000 stores with a new store opening every 15 hours

Market share in China coffee chain market 80.7% (2017)

Rising importance of Chinese market to Starbucks

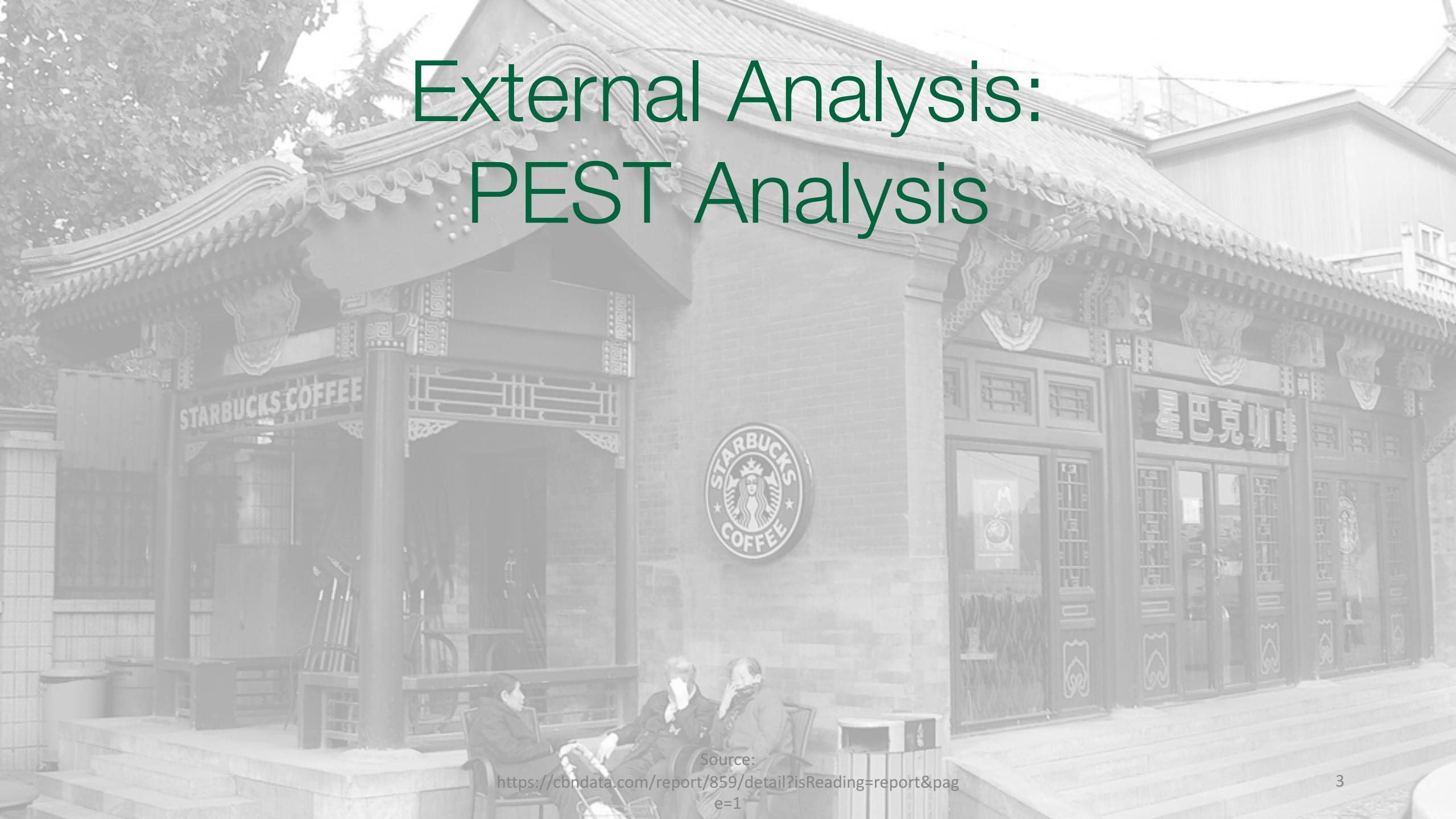
Number of outlets ('000)



Sources: company; Statista

© FT

External Analysis: PEST Analysis



Source:

<https://cbndata.com/report/859/detail?isReading=report&page=1>

While political, economical and technological factors are promising, social factors could pose a challenge for Starbucks



PEST Analysis (relevant macro-environmental factors)

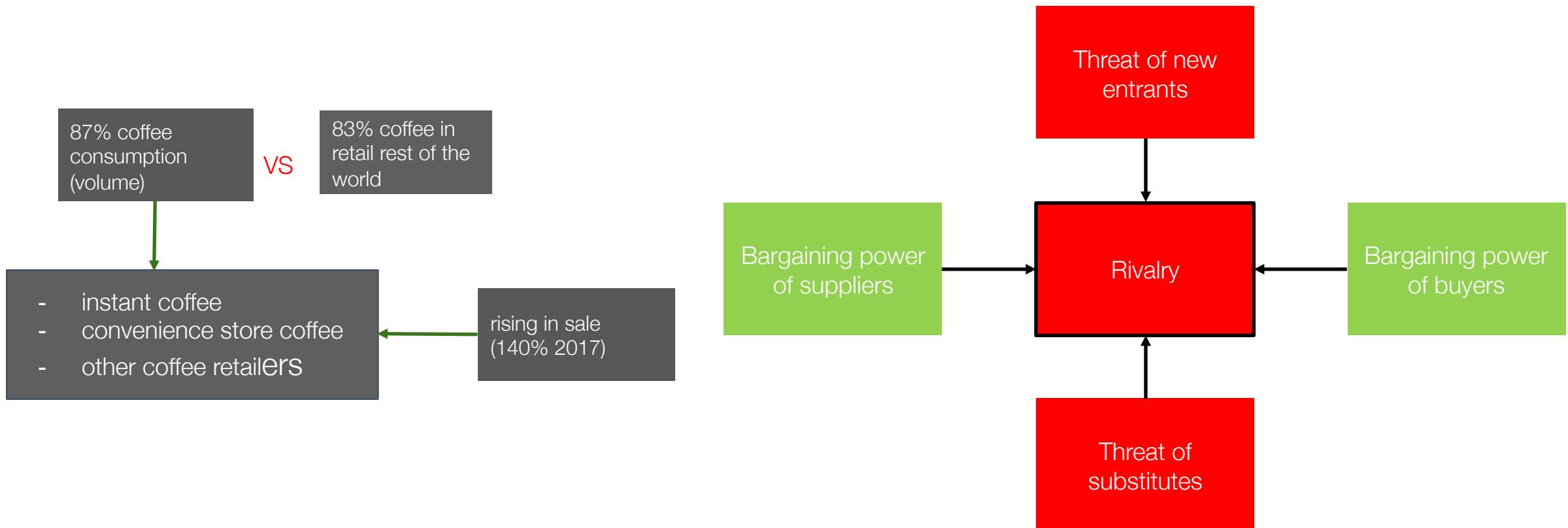
Political	Economic	Social	Technological
<ul style="list-style-type: none">Member of WTOAttractive pro-business policies and legal environment for foreign investments.Moderate corporate tax ratesLaws & regulations about franchise are improving	<ul style="list-style-type: none">Fastest developing economySecond largest economy in the world (12.24 trillion USD GDP)Domestic retail market growth: 12%Inflation rates between 2% and 5%	<ul style="list-style-type: none">Population 1.415 billionPopulation growth: 0.6%59.3% urban populationConsiderable rise in standard of living, purchasing power has improved.Chinese prefer tea than coffeeCoffee is still a lifestyle, not a necessity	<ul style="list-style-type: none">World's largest online population: Over 800 million internet users (38.4%)663.37 million smartphone usersRapid development in science and technologybig tech giants in China e.g. Baidu, Alibaba and Tencent dominating the market

For Starbucks, it is essential to deeply understand the social environment and to leverage the technology potential.

External Analysis: Porter's Five Forces Analysis

Threats from everywhere

Porter's Five Forces Analysis



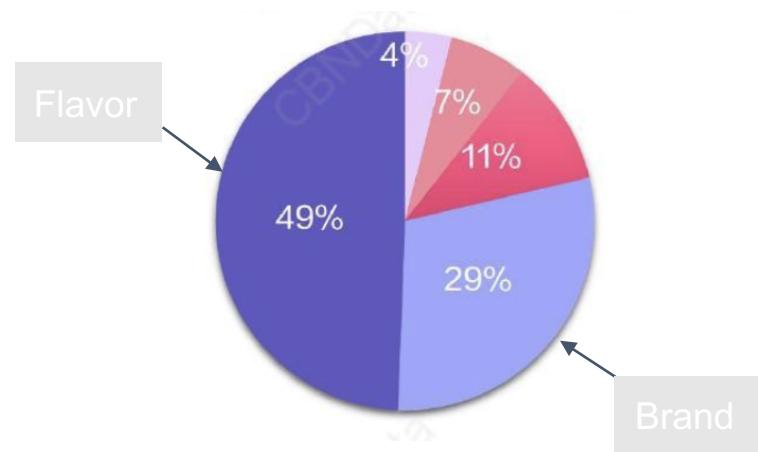
→ People's way of consuming coffee is differentiated → hard to penetrate more

Chinese coffee industry's special value proposition is ...

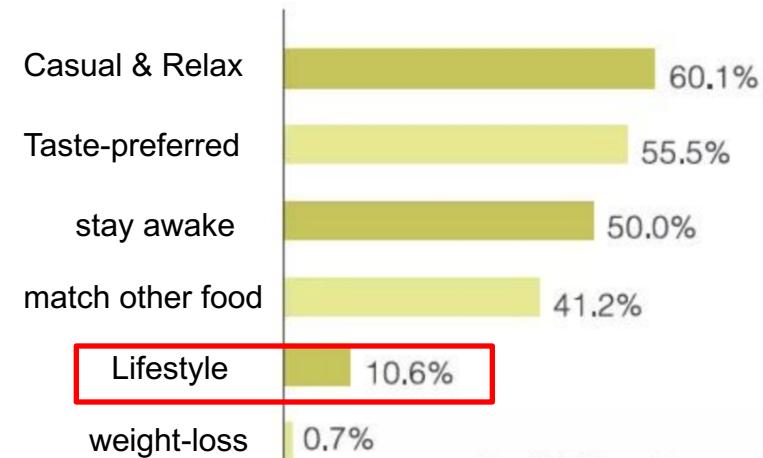
Porter's Five Forces Analysis



What Chinese prioritize in consuming coffee



Why Chinese people consumer Coffee



→ Preference for brand is low on Chinese Market & Coffee is not a necessity & Possible high competition



Web-celebrity Effect attracts growing substitutes and entrants

Porter's Five Forces Analysis: Web-celebrity Effect



46% increase in drinking
retails in 2017

Chinese Drinking industry feature

- Low entry cost
- Easy replication
- High margin



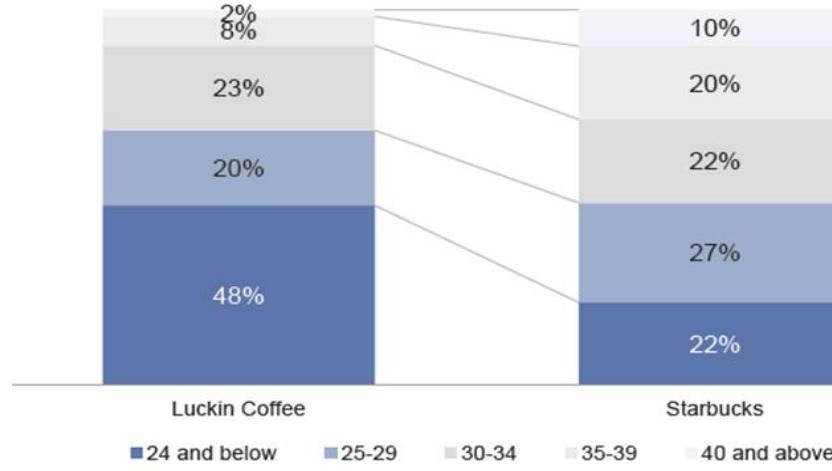
→ Sentiment-driven industry, not hard to penetrate & scale, quality not priority at the growing period.

External Analysis: Competitor Analysis



Data-driven technology company that specializes in brewing and selling coffee

Main competitor: Luckin Coffee



Started in 2017.10
1003 stores in ONE year

Strength:
data-driven technology

Creative digital marketing strategy
coffee delivery (avg. 18mins delivery)

attracting younger population

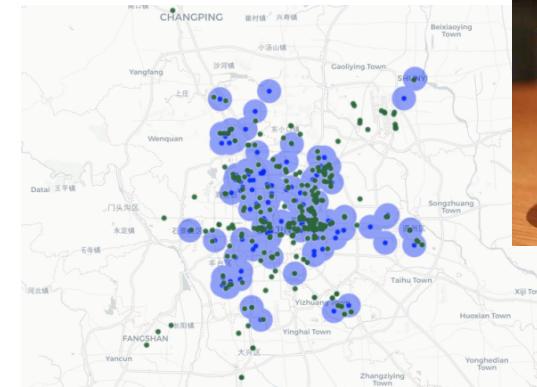
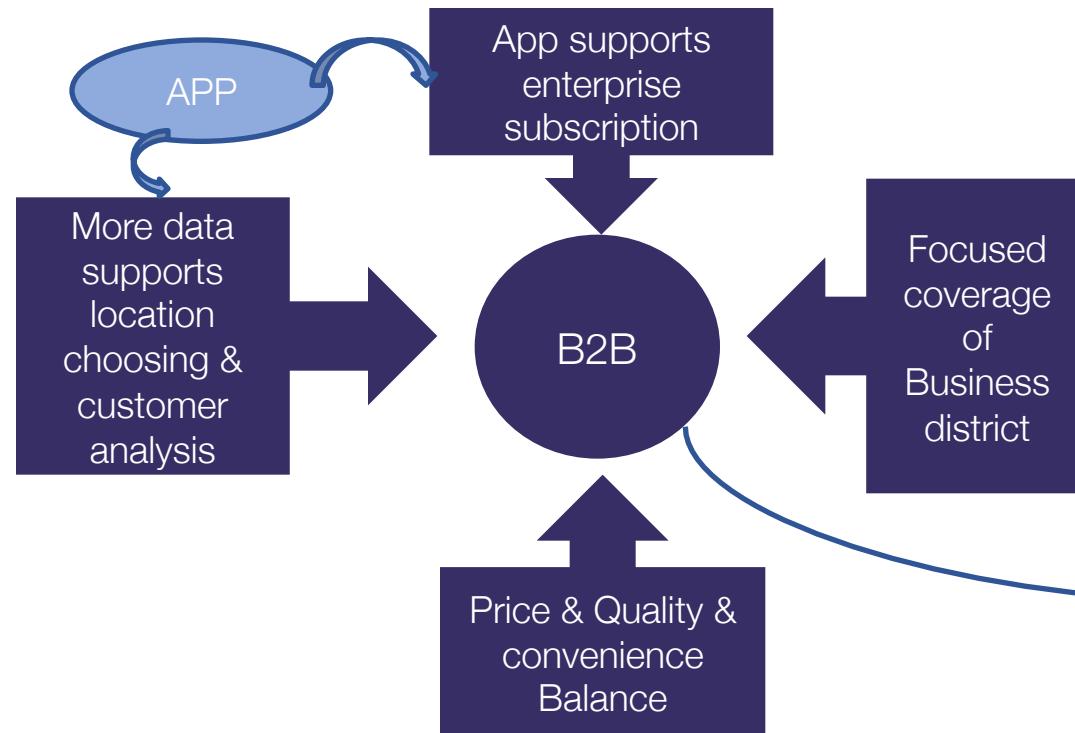
Tech + Data + Coffee = Luckin

→ Main Competitor is successfully using coffee delivery to attract younger population



Luckin Coffee is trying to enter the B2B instant coffee market

Main competitor: Luckin Coffee

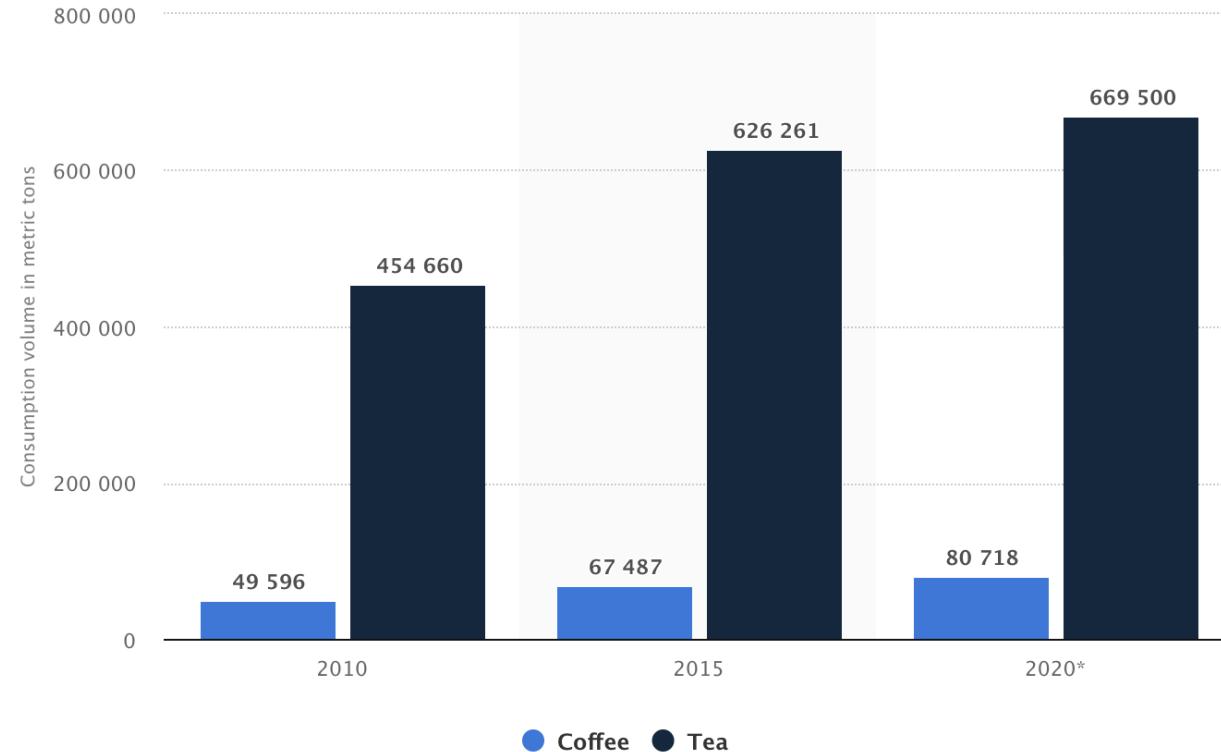


→ Luckin Coffee sees the importance of instant coffee in China and has a B2B strategy to enter the market



Drinking tea becomes a super cool choice for younger generation

Substitute: HEYTEA



Started in 2012

103 stores (15 cities)

Strength:
Chinese tea culture

Tea taste that adapts to young people

modernize the “traditional” tea and make “drinking tea” cool again

HEYTEA modernized the “traditional” tea and made drinking tea cool again

External Analysis: Customer Analysis



Exclusive market: criticized for high price

Customer Analysis



WE ARE IN NEARLY EVERY PROVINCE IN CHINA

2,000+
STORES IN
100 CITIES

~500
NEW STORES PER
YEAR FOR THE NEXT 5
YEARS

VS

\$2-\$3.5

\$2.5-\$5

Starbucks site features:

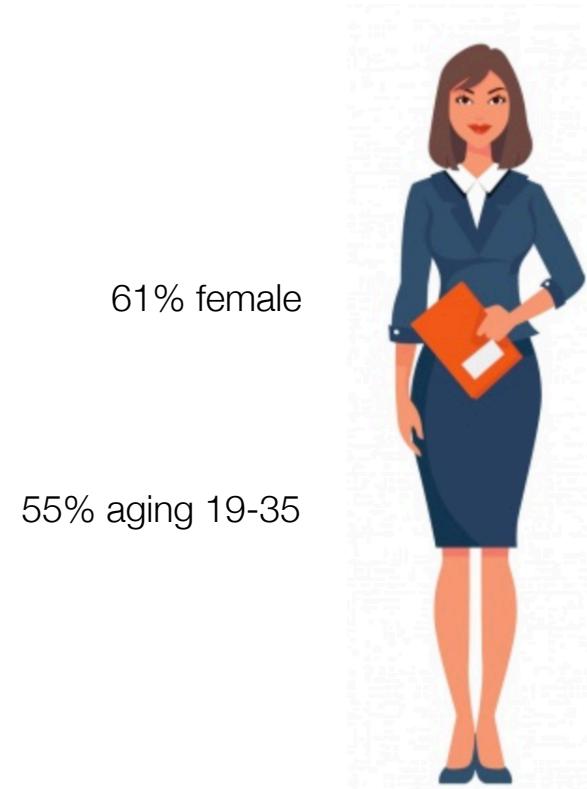
- Coastal
- The large cities
- Developed cities
- Developed secondary cities

→ Starbucks is still a luxury for the majority -> Hard to penetrate for the general population



Young female takes the majority of coffee retail market

Customer Analysis



68% with Bachelor degree

46% from Tier 1 cities



→ Educated, young white collars are the major stable consumers

Internal Analysis: SWOT Analysis

Internal analysis show that usage of technology and new distribution channels are opportunities

SWOT Analysis - Starbucks



Strengths:

- **strong market position & brand recognition → customer loyalty**
- High quality
- Location and appeal of stores
- HR management
- Diverse product mix

Weaknesses:

- High prices
- Self-Cannibalization
- **Overdependence in the U.S market**
- Negative corporate image
- American/European coffee culture clash with that of other countries

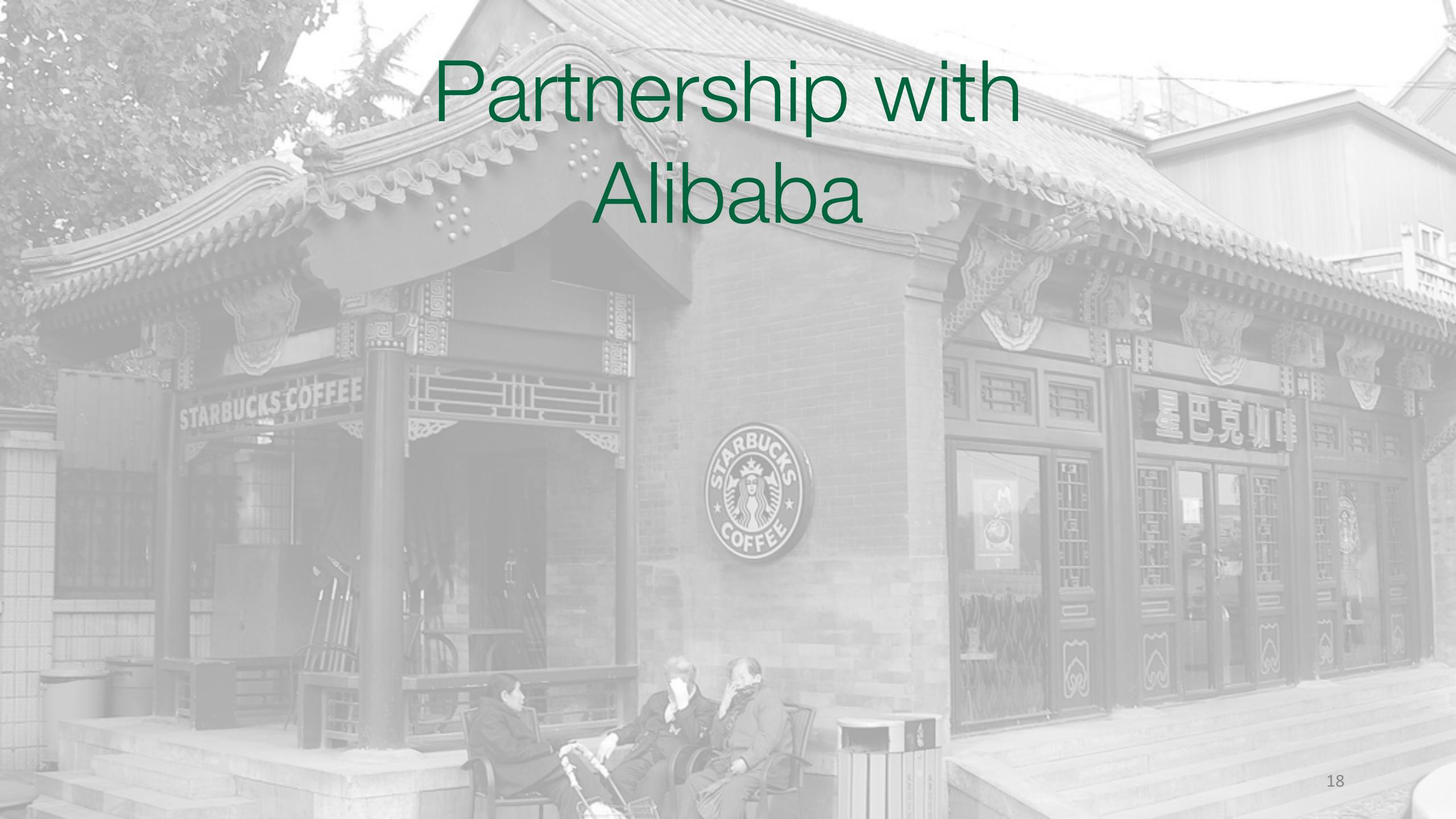
Threats:

- Intensive competition
- Price volatility of global coffee market
- **Market saturation in developed countries**
- Changing consumer tastes towards more healthy options

Opportunities:

- Expansion into emerging markets
- Expansion of retail operations
- **Usage of technology**
- **New distribution channels**
- Brand extension

Partnership with Alibaba



August 2018, Alibaba and Starbucks announced the partnership, coffee delivery

Introduction of new retail partnership of Starbucks and Alibaba



August 1, 2018 Coffee & Company

Starbucks and Alibaba Group Announce Partnership to Transform the Coffee Experience in China

Share

f t p in g

Downloads

A photograph of a delivery person wearing a blue helmet and a blue shirt with "CETIZ" on it, carrying a blue insulated delivery bag and two Starbucks coffee bags, walking past a Starbucks coffee shop.

Starbuck has been in Chinese market for 20 years + looking for growth



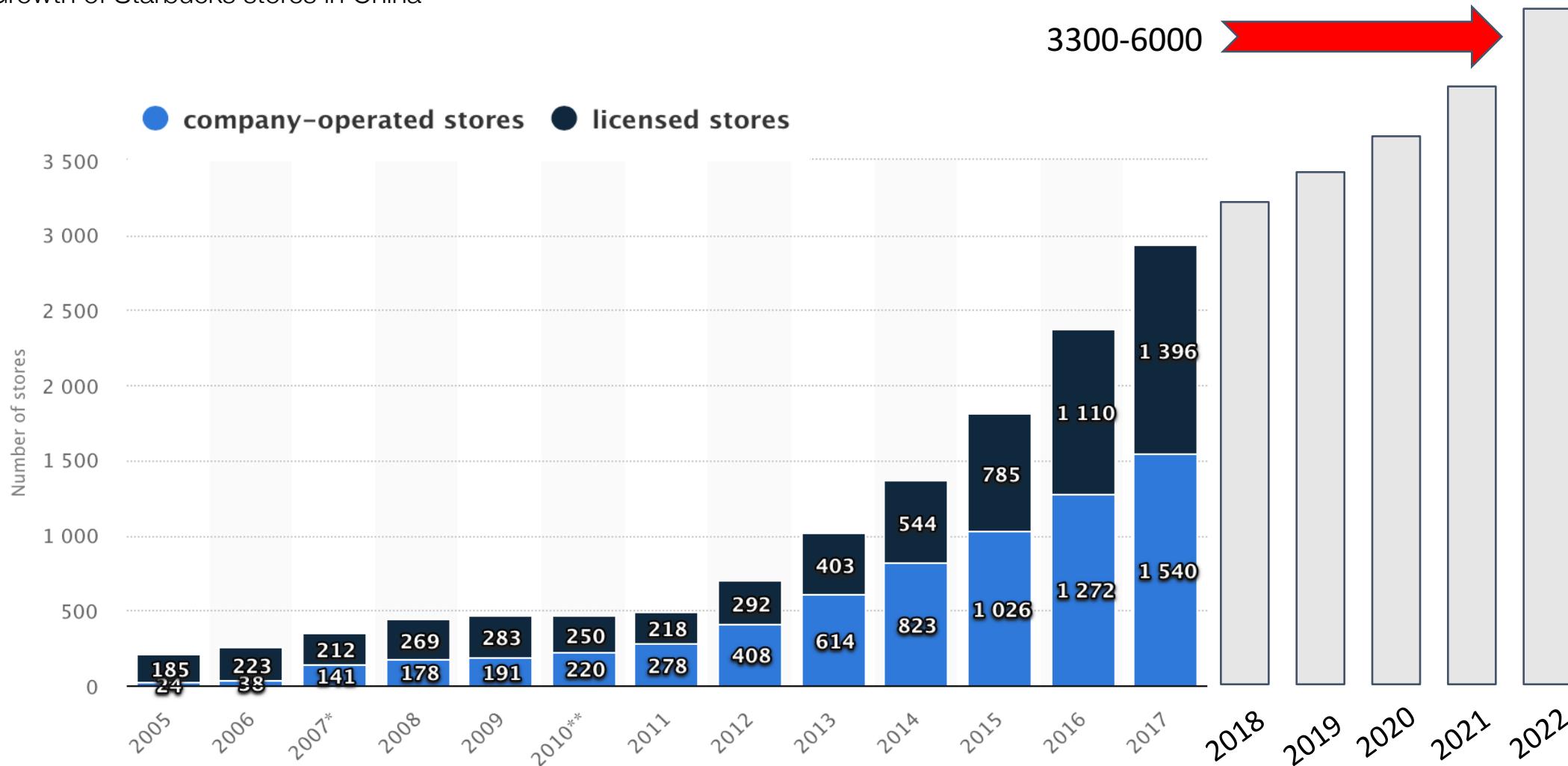
Timeline and Goals



Until 2018 Q1, the number of starbucks in China growto 3124, 51% Chinese retail market



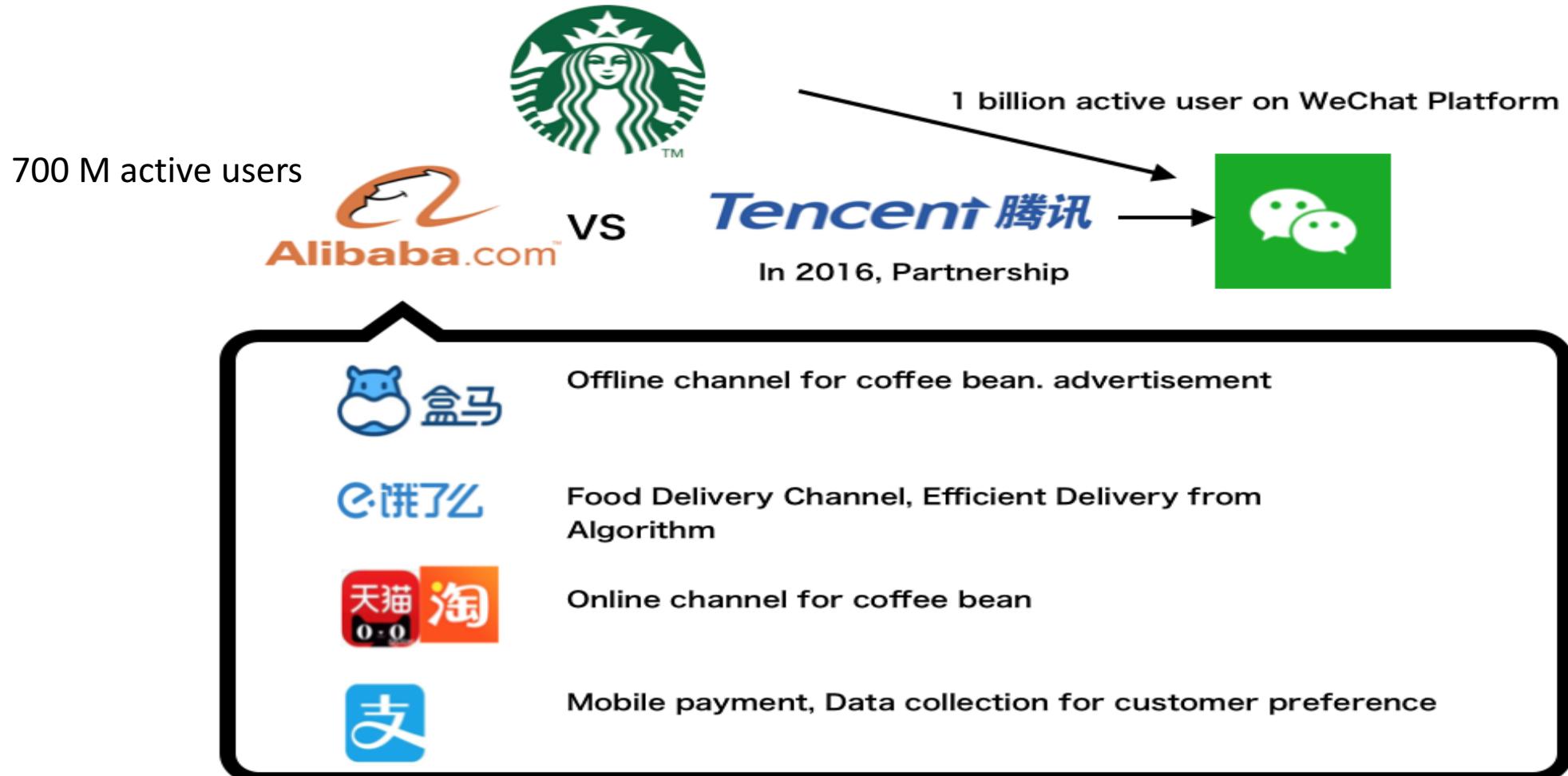
Growth of Starbucks stores in China



Expected to have huge growth of Starbucks with Alibaba network, but could affect the partnership with Tencent

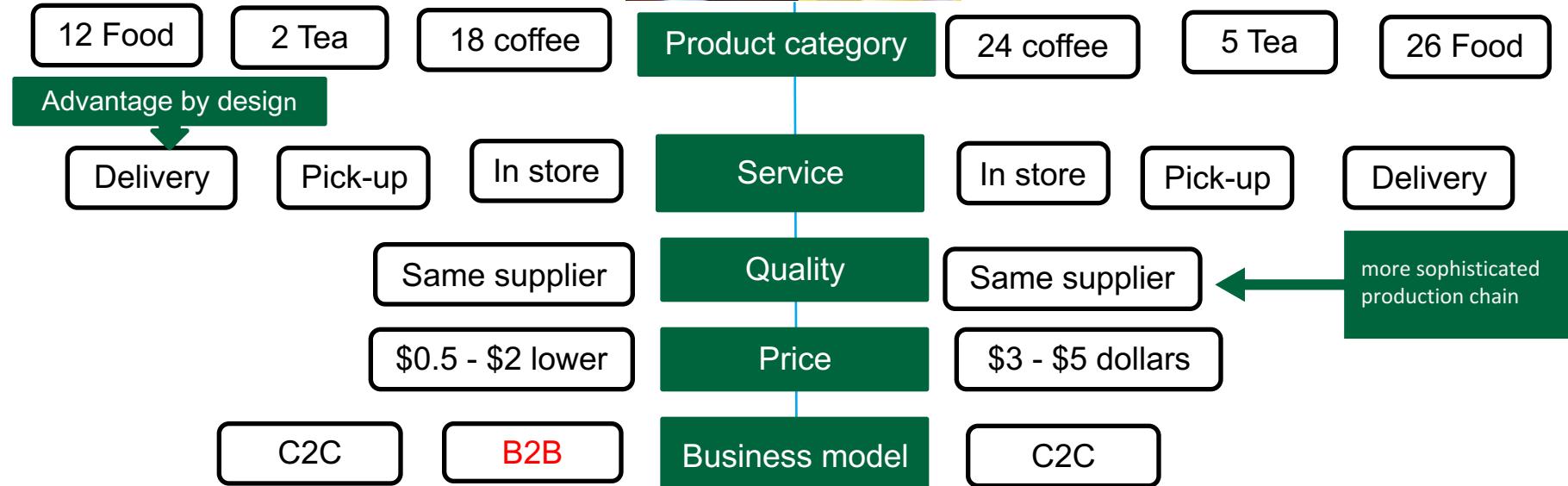


What the partnership will bring



Even with the partnership, Starbucks should not underestimate the competition

Starbucks VS Luckin Coffee



→ Competition be long-lasting & Capital consuming

The partnership will help Starbucks maintain its market share, but competition is waiting ahead

Conclusion



External analysis showed:
Drinks get more popular
Retail coffee is not major choice
threat of substitute & new entry high

Internal analysis showed:
High price and Culture difference are
major barriers

Competitor analysis showed:
New competitor gets edge from
incorporating internet technology and
data, following culture trend, exploring
new business model

Customer analysis showed:
Hard to penetrate more unless adding
extra value to customers

- [+] distribution channel (online & offline)
- [+] bring convenience by offering delivery
- [+] More data for strategic analysis of business
- [-] Social media channel

**Starbucks may maintain its market share
More competition is waiting ahead**

Q&A