



**Maroon 8:** Kyle Albertson, Phil Clark, Lacey Hanson, Babajide Ogunbanwo, Himanshu Patil, Kayla Wolfe

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# Company Background

Mission: "To inspire and nurture the human spirit, one person, one cup, and one neighborhood at a time"



**Founded in  
Seattle, 1971**

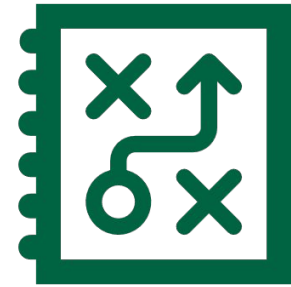


**35,000 stores  
worldwide**



**Operations &  
Revenue Share**

- North America (72%)
- International: (22%)
- Channel Development (6%)



**2022 Reinvention  
Plan**

- Market Expansion
- Purposeful Growth in China

# Market Background

CURRENT STARBUCKS TRENDS IN THE CHINESE MARKET	FYQ4 2021	FYQ4 2022	Change
Number of Chinese Stores	5,360	6,021	+12%
YOY Change In Transactions	-2%	-17%	-15%
Revenues	\$964m	\$775.6m	-\$188.4m
Operating Income	\$377.4m	\$217.6m	-\$159.8m
Operating Margin % of Revenue	12.2%	19.7%	-7.5%

**Q1 F2023: “...China’s comparable store sales decreased 29%, driven by a 28% decline in comparable transactions and a 1% decline in average ticket.”**

Source: <https://investor.starbucks.com/press-releases/financial-releases/press-release-details/2023/Starbucks-Reports-Q1-Fiscal-2023-Results/default.aspx>

# Starbucks Situation

## Current situation:

Starbucks has a traditional model of differentiation based on the in-store experience it offers customers. This business strategy left the company unable to adapt to the extreme and lengthy Chinese shutdown and restrictions as a result of the COVID-19 pandemic.

## Complicating factors:

Competitors with low cost products were able to rebound from the pandemic shutdowns more quickly than Starbucks, growing sales and taking market share from Starbucks during this time. Starbucks' strategy to grow sales in China and regain their market dominance depends on their ability compete with low-cost competitors.

## Key question:

**How can Starbucks compete with low-cost competitors and increase sales in China by 5%?**

# Recommendation

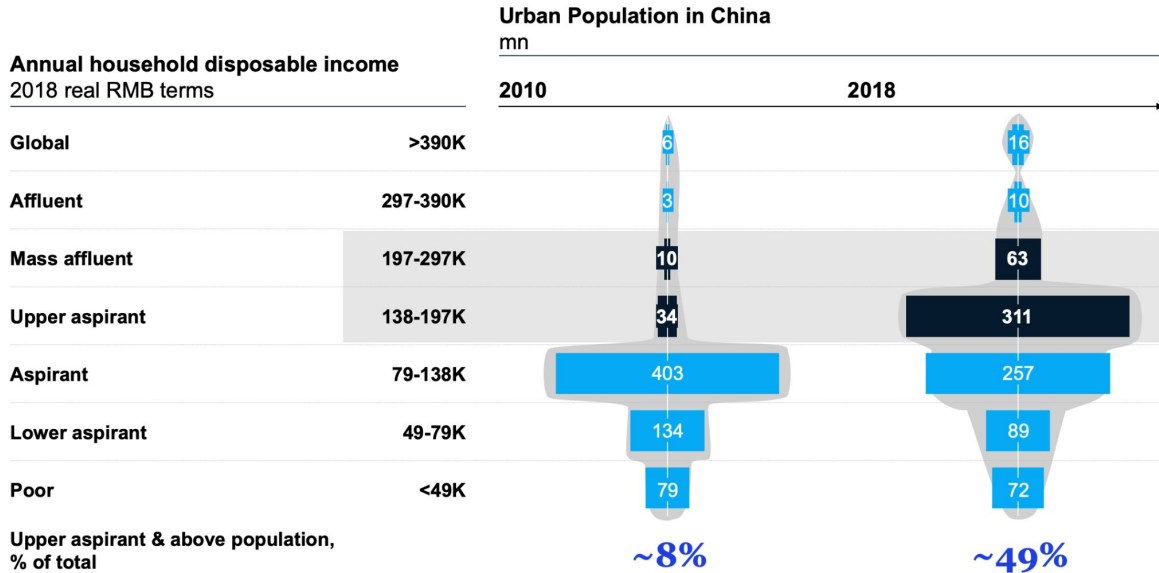


Starbucks must lower its prices in the Chinese market to reach its sales growth target of 5%!

# Rationale #1

Middle class population is growing, increasing the number of consumers with disposable income

The middle class population is rising in China



# Rationale #2

**The Chinese consumer is increasingly valuing lower cost options in regard to disposable goods**



“Yang said she has cut out her daily Starbucks coffee. Fu said she switched her makeup powder brand from Givenchy to a Chinese brand called Florasis, which is about 60% cheaper.”

“And there’s more: price competition—the worst nightmare of every business. Luckin Coffee products sell 20% below those of Starbucks.”



# Rationale #2 (Continued)

## Frugal Consumers are decreasing their spending across the board

Change in actual spending by category (2018 vs. 2017)<sup>1</sup>

% of respondents, Frugal Consumers (N=131), ranked by % of consumers decreasing spending

■ Decreased by -5% or more ■ No change (-5-5%) ■ Increased by 5% or more



1 Question: Thinking of your/your family's consumption behavior in 2018, do you notice any change in spending in categories listed below when compared with 2017? What is the level of change per below?

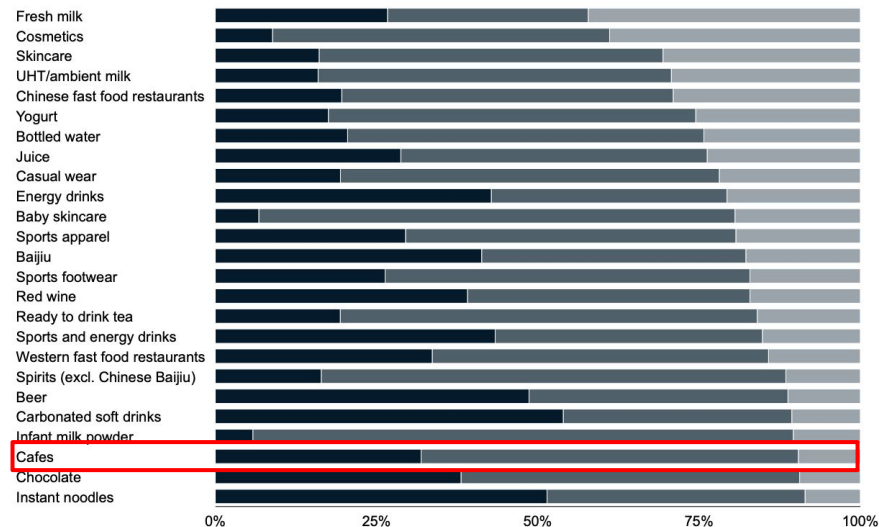
Source: McKinsey China Consumer Survey

## Savvy Shoppers have become more selective and are trading off across categories

Change in actual spending by category (2018 vs. 2017)<sup>1</sup>

% of respondents, Savvy Shoppers (N = 288), ranked by % of consumers increasing spending

■ Decreased by -5% or more ■ No change (-5-5%) ■ Increased by 5% or more



1 Question: Thinking of your/your family's consumption behavior in 2018, do you notice any change in spending in categories listed below when compared with 2017? What is the level of change per below?

Source: McKinsey China Consumer Survey

# Rationale #3

## Starbucks' differentiation brand strategy is not conducive to the collectivist culture in China



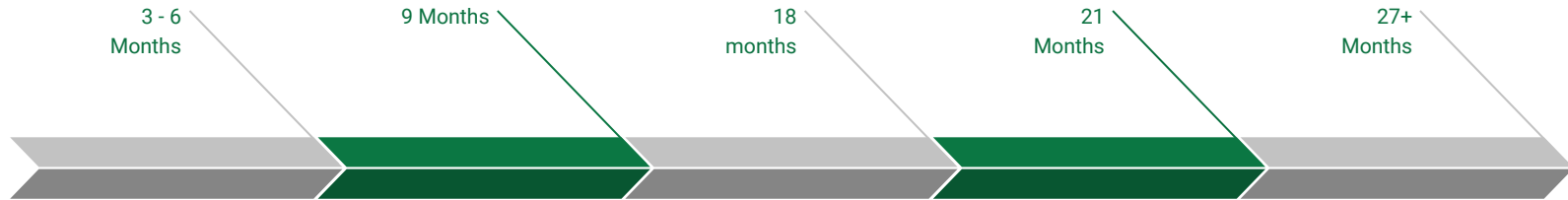
- Individualist culture
- Values uniqueness
- Differentiation = success



- Collectivist culture
- Values harmony, group interests
- Differentiation = less compatible

“The Chinese culture measures very high on the “collectivism” scale along with Japan and Korea compared to most western cultures....In a business sense, this means where the western audience may search on a company website for features such as product uniqueness and privacy statements, the Chinese audience will look for features such as family friendliness and product forums.”  
(Communicaid Inc., 2010)

# Implementation Roadmap



## Pilot

- Identify optimum consumer price point
- Streamline menu
- Identify representative market
- Evaluate market share growth in target region

## National Rollout

- Rollout Pilot findings to all of China

## Wait, Bake, Evaluate

- Determine optimal bake time
- Evaluate regionally to determine success of market capture

## Make Adjustments

- Optimize prices regionally based upon evaluated findings

## Periodic Evaluation

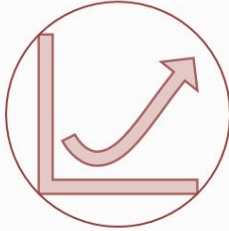
- Bi-yearly evaluation
- Assure that Chinese Major Seven Holidays are taken into account

# Risks and Mitigation

Potential Risks	Mitigation
<b>Margin erosion risk</b>	<ul style="list-style-type: none"><li>- Cost optimization &amp; streamlining of operations</li></ul>
<b>Brand image &amp; reputation risk</b>	<ul style="list-style-type: none"><li>- Localize offerings, appealing to Chinese consumers</li><li>- Continue a limited amount of premium product offerings</li></ul>
<b>Sustainability risk</b>	<ul style="list-style-type: none"><li>- Continuous market analysis and adaptation</li></ul>
<b>Competitor response risk</b>	<ul style="list-style-type: none"><li>- Maintain a quality and consistent product which preserves Starbucks' Value Proposition</li></ul>

# Call to Action

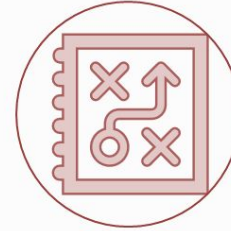
**Lower consumer prices in the Chinese market to increase sales by 5%.**



Seize growing market  
share before it slows



Capitalize on  
rebounding economy  
post-COVID restrictions



Overcome stalemate in  
growth strategy



# Appendix

# Root Cause Analysis

## Why is Starbucks losing Market Share in China?

Why?



### COVID shutdowns

- Focused on in-store operations
- Competitors offering delivery / digital options
- Longer shutdown than other markets
- Revenue declining
- Long-term market share lost to delivery preference

### Changing consumer preferences

- Desiring efficiency
- Desiring low cost competitors
- Growth in younger generation
- Growth in middle class
- Technology changes

### Being behind the curve on technology adoptions

- Slow to adopt technology
- Not conducive to COVID restrictions
- Delivery offered by competitors
- Changing customer preferences
- Lower cost options

### Not cost competitive

- Differentiation strategy not conducive to collectivist culture
- High quality, high cost ingredients
- 20% higher cost in China than other markets
- Competitors offering lower cost
- Chinese preferences shifting toward low cost preference - "Frugal is the new cool"



# Possible Solutions

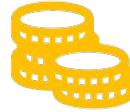
How can Starbucks compete with low-cost competitors and gain XX% market share in China?



Reduce Supplier  
Partner costs (raw  
goods)



Promotional  
opportunities



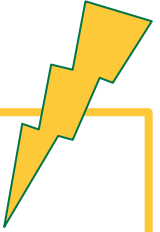
Reduce Labor Costs



Expand store footprint  
through efficient  
delivery options

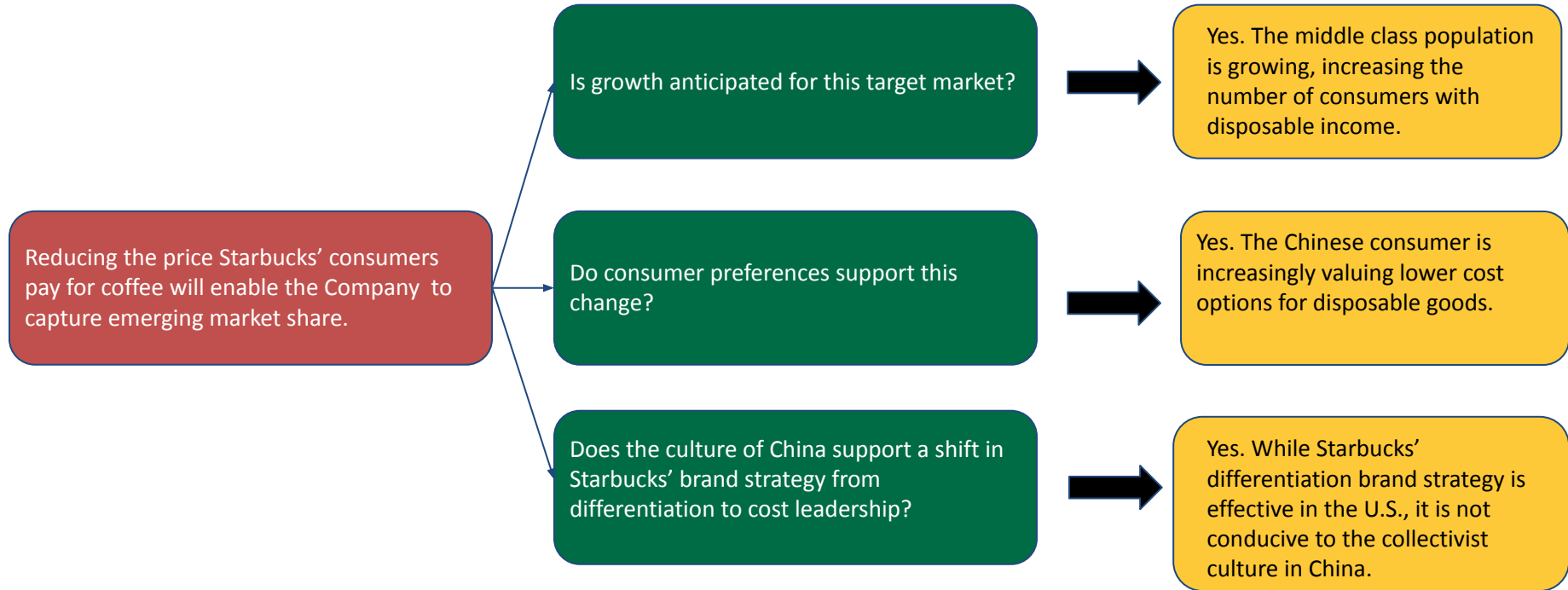


Lower Consumer  
Prices with expectation  
of increased capture





# Hypothesis Tree



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