2018 Bain Case Competition

Starbucks Growth Strategy Proposal in China
Team Flyover

Agenda

1 Market & Trends

- **Market Overview**
- **Key drivers**
- **Competitive analysis**
- **Customer preference**

2 Strategy Plan

- **Management improvement**
- **Crossover cooperation**
- **Smart café exploration**

3 Prospect Analysis

- **Revenue Estimation**
- **Conflict Analysis**
- **Timeline**

The future growth of China restaurant and food service market

① Expectation of the market size in 5 years--- Growth

2012-2020 China's restaurant market growth

Income (trillion RMB) ——Growth rate (%)

Though the market growth rate slows down, the overall market **grows in stability**.

(2018 S1) The growth of food and beverage revenue continues to **lead to** the total retail sales of consumer goods.

Source：the State Statistical Bureau

② Status quo of cost and profit

- **Rising cost in the whole market**
  High cost of renting, labour, ingredients
  Low gross profit
- **Profit is compressed.**
  In 2016, the profit margin of China's top 100 restaurants is merely 4.7%.
  （Average level is 5%-10%)

2 Solutions

1. Apply AI and digital management system to update administration mode.
   --- raise management efficiency
2. Smart shops require less staff.
   --- less labour cost

The cost can be dented.

③ More Potential Participants

- **There's been increased competition**
- **New forms of business are emerging.**
  Eg. MUJI's Café & Meal
  Family's Meal

3 Benefits

1. New technology is emerging and applied to update restaurants
2. Increase industry vitality
3. More potential players

Conclusion: China restaurant and food service market will continue growing in the next 5 years.

What are the key drivers of China restaurant and food service market?
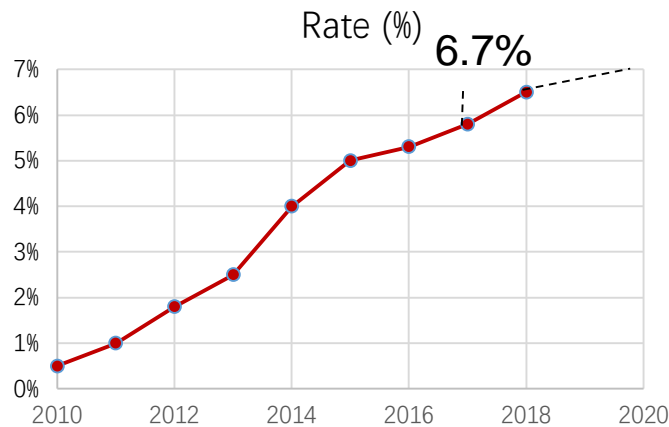
1 **Business model of the Internet** | **2** **Consumer demand**

• O2O model plus restaurant | • Mobile payment

Online: customers choose food &pay
Offline: delivery and enjoying food

O2O model restaurant Penetration Rate (%)

6.7%

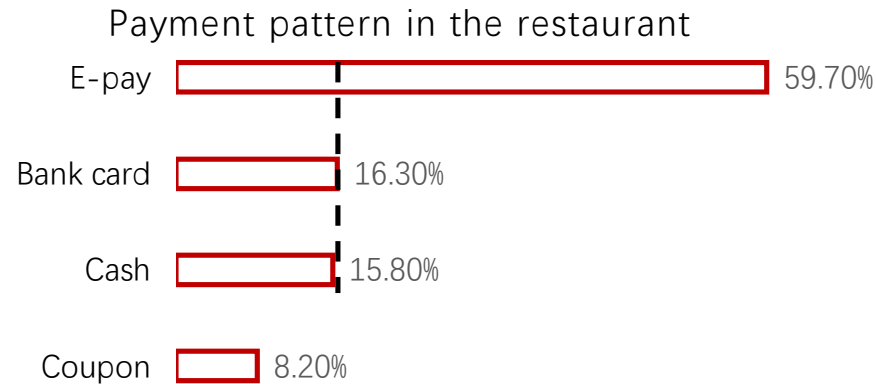|	
7%	
6%	
5%	
4%	
3%	
2%	
1%	
0%	2010 2011 2012 2013 2014 2015 2016 2017 2018 2020

• **Take-out service**（Eg. 饿了么，美团）
The take-away market maintains
double-digit growth from 2016,
including breakfast, brunch, diner, etc.

Paying on mobile phones
becomes a **consumption habit**

Payment pattern in the restaurant

E-pay	59.70%
Bank card	16.30%
Cash	15.80%
Coupon	8.20%

How often users use mobile payment:
2017:59% of all customers
2015: 9% of all customers
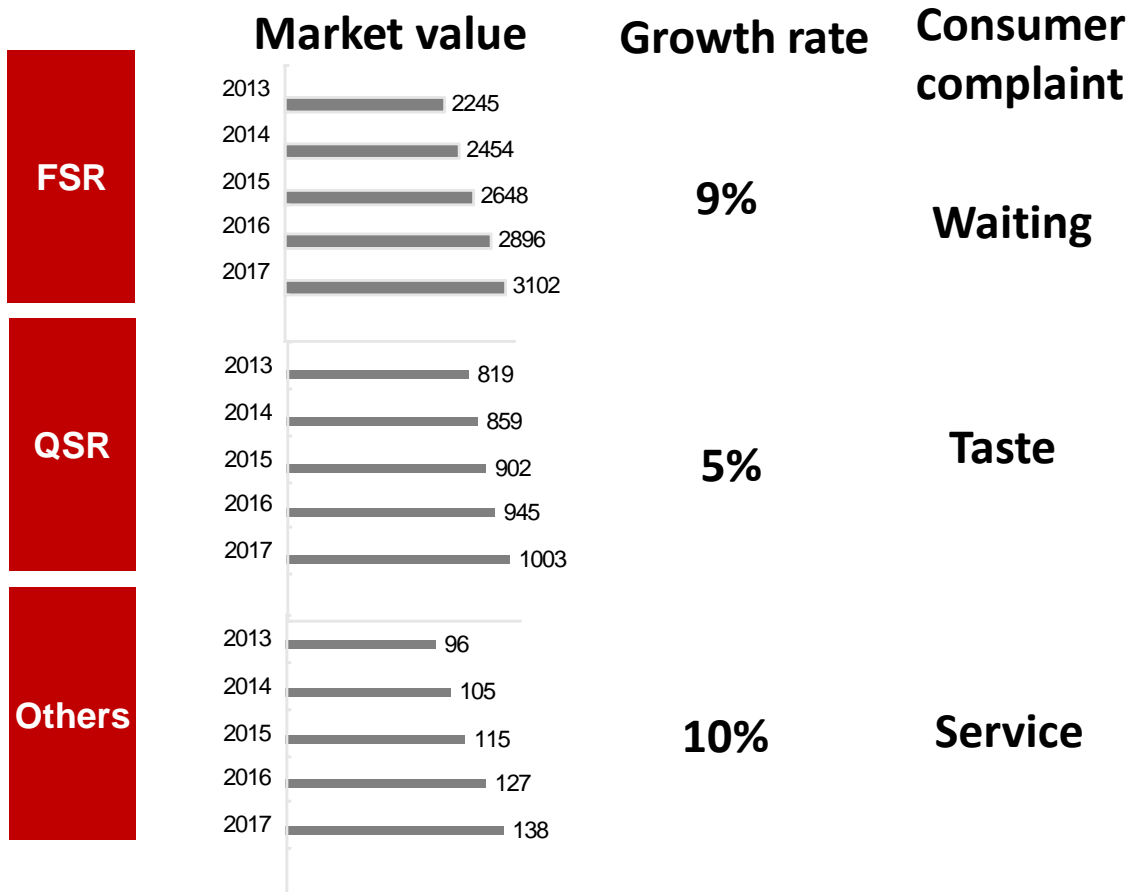
The generation of 80, 90s

1. Focus on **personalization** and **creative** features
2. Changes in dietary preference, prefer more **healthy** food
3. Concerned about the **personal** experience, trust friends reputation rather than advertising
4. Value **cost-effective**

The old brand
needs new blood

Both: Steady growth from 2010 and growth in the foreseeable future

Coffee grows in the Chinese market and Starbucks brand is not suitable for other segments

China restaurant and food service market

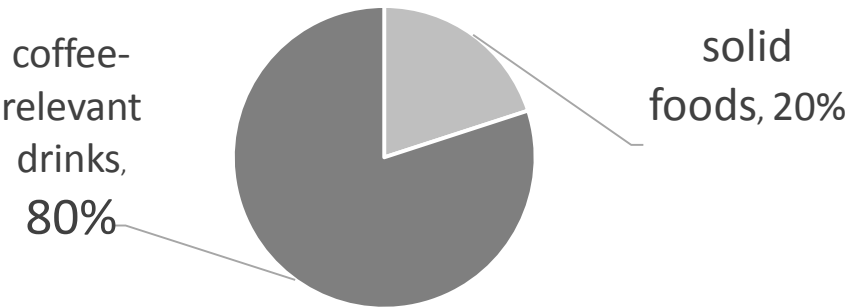|	Market value	Growth rate	Consumer complaint
FSR	2013: 2245 2014: 2454 2015: 2648 2016: 2896 2017: 3102	9%	Waiting
QSR	2013: 819 2014: 859 2015: 902 2016: 945 2017: 1003	5%	Taste
Others	2013: 96 2014: 105 2015: 115 2016: 127 2017: 138	10%	Service

Starbucks status quo

- Customers who like to sit in the store for a long time **occupy the position of the FSR customer**

- Different from a complete and sustainable coffee supply chain, introducing new fast foods will **bring challenges to the supply chain**

- The variety and style of fast food dishes are **difficult to meet different consumers**, which will **bring to the decline of brand reputation**.

- The current **service quality is higher** than the overall level of the snack and beverage industry

Comment：1. Snacks and drinks has largest growth rate in China restaurant and food industry

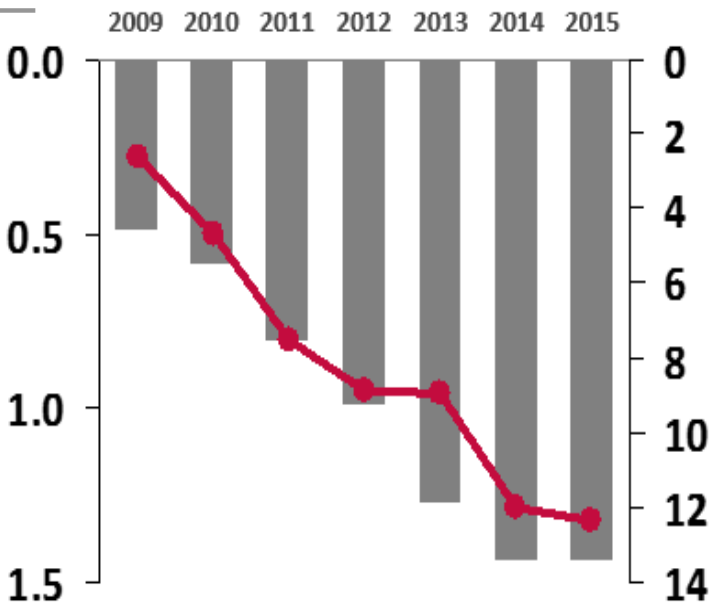**2. Starbucks will encounter various difficulties in other segments**

Source：China Hotel Association , Euromonitor, Dataway

Coffee-relevant products should still be the priority in Starbucks` next-step strategy.

Categories of Revenue in 2017

Share of China`s coffee market

coffee-relevant drinks, 80%

solid foods, 20%

2009 2010 2011 2012 2013 2014 2015

the apparent volume of coffee consumption in China (10,000 tons)

Comments: Coffee is the main source of revenue in Starbucks and dominates the most important share.

China`s coffee production share in the global market (%)

Insight: Considering the tremendous revenue coffee-relevant products bring to this company, its dominant share in the market and the bright prospect of future trend, it would be wise for Starbucks to prioritize coffee in their next 5-year strategy.
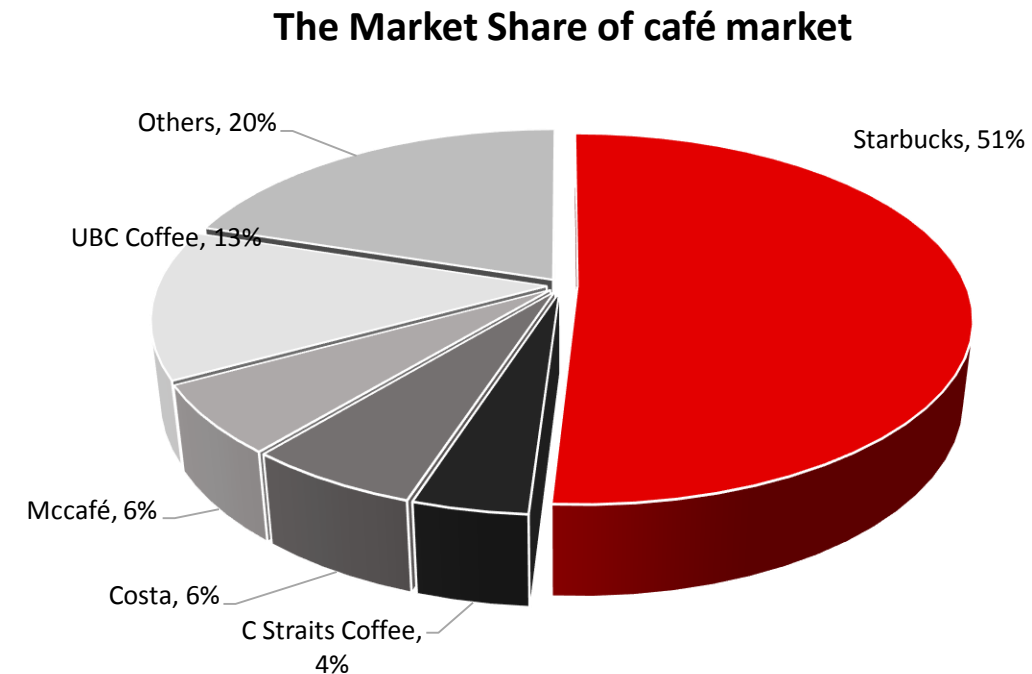
Comments: The coffee market in China is giant and the prospect seems bright.

Source: Interview of Scott Maw, the CFO of Starbucks; CINIC

Starbucks dominates the competition in the café market

Company	Store Number	Café price (latte)	Product	Notes
Starbucks	2800	• 25	• Café • Bakery & dessert • Tea	• Comfortable environment • Good customer experience • Clear brand positioning
UBC Coffee	<1000	• 40	• Café • Chinese dining • Western Non casual FSR	• Lack of strict and uniform brand management • Low entry threshold and lack of service support
Mccafé	1400	• 19	• Café • Bakery & dessert • Tea	• Poor experience • McDonald's Brand Positioning for mass consumers
Costa Coffee	248	• 28	• Café • Bakery & dessert • Tea	• semi-automatic coffee making results in different taste

The Market Share of café market

Others, 20%
Starbucks, 51%
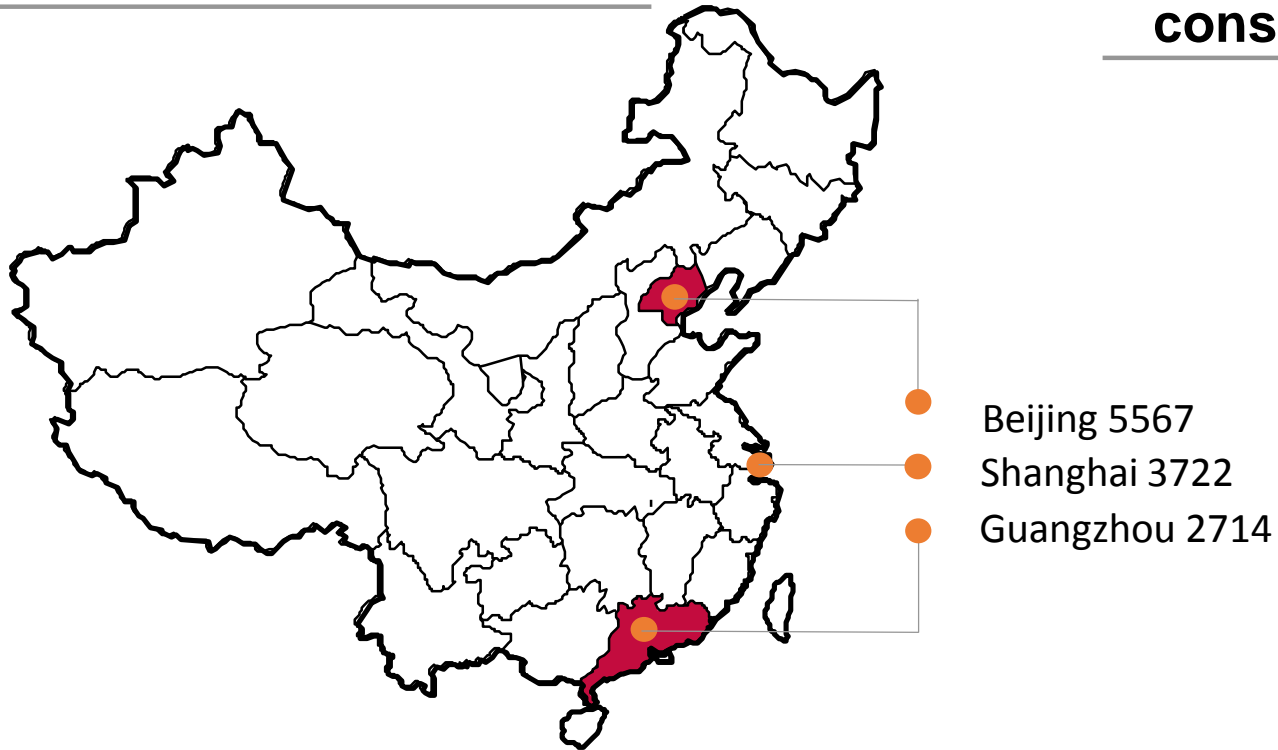UBC Coffee, 13%
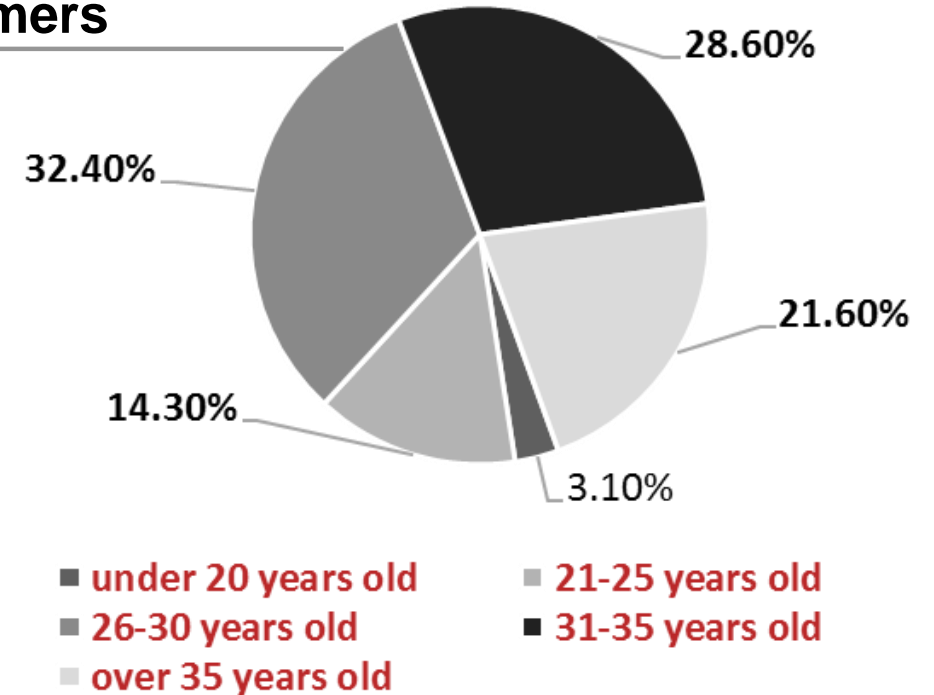Mccafé, 6%
Costa, 6%
C Straits Coffee, 4%

Comment：

- Starbucks is definitely in a dominant position.
- Starbucks has the largest number of stores
- Starbucks has a clear advantage over brands customer experiences compared to other competitors

The customers of China café are young who live in the first-tier cities.

The Number of Café House

Beijing 5567
Shanghai 3722
Guangzhou 2714

Age of China Starbuck's consumers

28.60%
32.40%
21.60%
14.30%
3.10%

- under 20 years old
- 21-25 years old
- 26-30 years old
- 31-35 years old
- over 35 years old

- Compared to other cities of China, there is a greater demand in Shanghai, Beijing and Guangzhou.
- Young people are the main consumers. About 78.4% customers of café market are under 35 years old.

Source：The Report on Chinese Café, 2017；the official website of Meituan

What the customers of Starbucks really want

The age of Starbucks Fanatics

90's traits : Use cellphone,
Under great stress,
Chase after individuality

90's, 23.60%

60's, 4.10%

70's , 18.40%

80's, 52.50%

80's traits: Stable life, Love luxury,
Attach to brands

Share of China's coffee market

Online shopping	Social networking	Financial planning	Video	Catering	Traveling	Music
4,81	4,19	3,88	3,36	2,83	2,63	2,03

- **Most clients were born in the 80s and 90s, who pay more attention to appearance than the previous generation**
- **Most fanatics, with high-end demand, live in Shanghai and Beijing.**
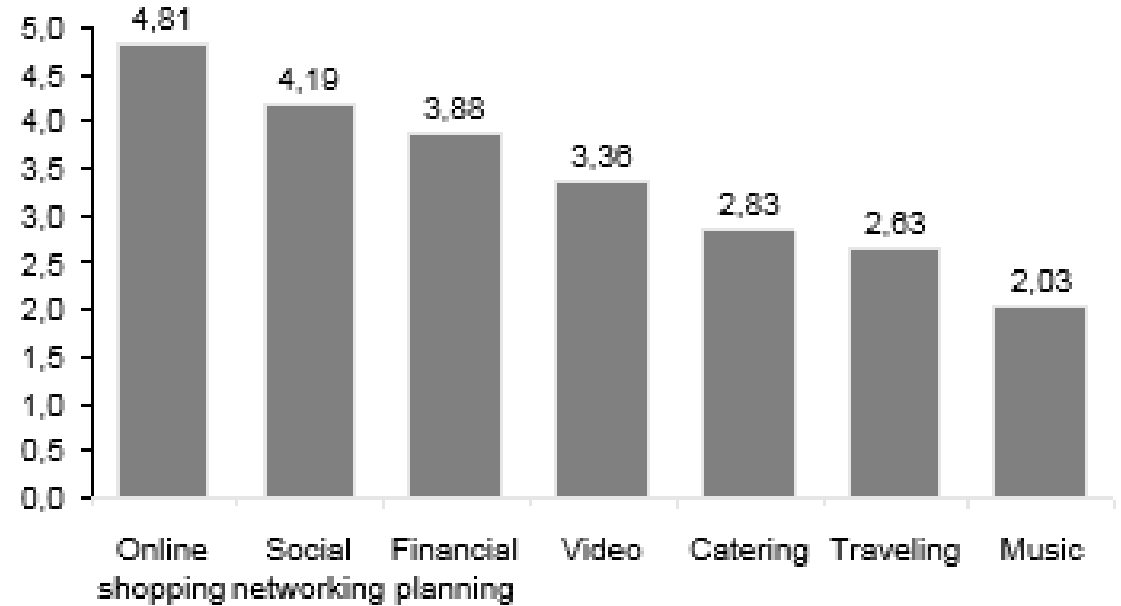
Consumers are increasingly seeking personalized、convenient and high-quality life.

Source：The insight into the loyal fans of Starbucks；the official website of TalkingData

* refer to Target Group Index; TGI= Application preference index of Starbucks/Application preference index of user in Internet * 100

Cost and consumers drive the café industry in three directions, Starbucks should take related measures

Three directions of coffee industry

| Traditional coffee store |
| Brandjoint |
| Smart café store |

Starbucks Status quo

◔ Company-operated stores/Licensed stores
- launch **a social gift platform** on WeChat
- Open **Reserve store**

◕ **Peripheral products**
- coffee cup
- coffee bean

○ Starbucks currently has **no action in the smart coffee area**

Drivers

Administrative expense rise sharply

People pursue **high quality of life**

The rhythm of people's life speeds up

Strategy

- **Optimal management** internally
- **Study consumers** to meet demand

- **Cooperate with** bookstores and art stores

- **Explore Smart café** store

Source：Starbucks Official Website

Crossover Cooperation Model and its Benefits

· Café & Bookstore

· Café & Pet Store

· Café & Music Bar

- Partner corporations：Enterprises with similar class of target customers and compatible ideas.
- Location: Business districts in first-tier cities.
- Target Group：Customers who are regular/ have specific intentions/ can accept mid+ consumptions.

Strengths

· Composite marketing
· Better display for products
· Prolong customers` stay-hours
· Emphasis on Starbucks` philosophy of "providing a better environment for life"

Expected Results

Combine different types of leisure service with traditional café and create a certain atmosphere to make itself outstand the homogeneous cafeterias by space integrity.
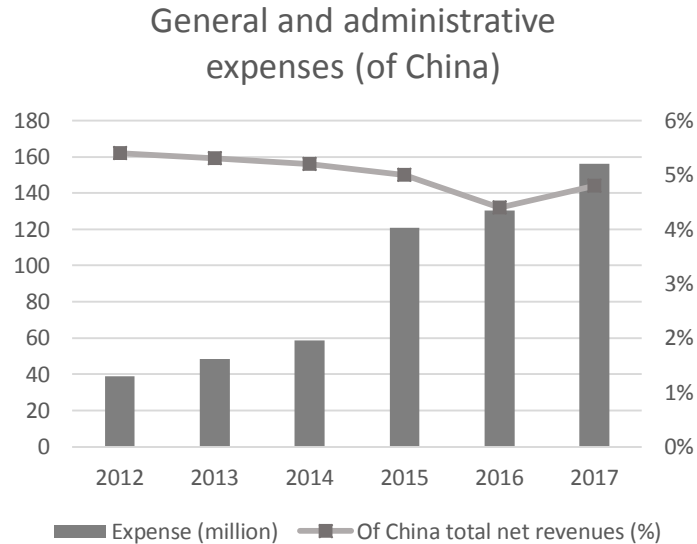
Future trend and prioritized geography of crossover strategy in Starbucks

Crossover Strategy in Starbucks

Partner	Core Customer Profile	Customer Preference	Buying Power	Existing competitors
Cosmetics store	· Age：24~30 female · Middle-class lady	· Low price-sensitive · Pursue beauty and quality · Tasty drinks	· Very High	None on the similar scale
Bookstore	· Age：16~22 / 30+ · Students / High taste	· Admirable environment · Intimate service	· High	e.g. Maancofee, Momicafe…
Bands & Music bar	· Age：All-covered · People fond of music	· Enjoyable performance · Sense of immersion or relief	· Mid to High	e.g. Costa

Two ways to update Starbucks' management

Current dilemma: Starbucks' Labor costs are rising again.

General and administrative expenses (of China)

- Expense (million)
- Of China total net revenues (%)

Update brings three Benefits:
1. **Saving administrative expense**
2. **Revaluating consumers data**
3. **Concisely targeting consumers to raise revenue**

① Target on industry --- Intelligent Management

- a new central digital management system
- keep following up operation management
- centralized deployment

1. Timely tracks down the fashion and makes changes

2. Precise marketing on individual's taste

3. Ads covering popular **social media**

4. Danger of leak of consumer date

5. Centralized deployment can **stimulate** stock **turnover**

7. Monitoring page view, unique visitors, new users data

6. Nearest material delivery

Marketing

Innovations

Safety

Central intelligent control

Data driving system

Mobility

② Target on Customers --- Intelligent Interaction

Build online customer service system to **involve** consumers to create new products, more interactions create more **customer loyalty, thus more future benefits.**

Starbucks' future strategy to set up smart café shops

1 Steps: How smart cafe works

| Open apps on mobile phones and order online | Enter the smart café to take it | exit the premises via a payment door | system automatically debited his account to conclude payment |

3 Planned location and open time:

- **First-tier cities** --- high standards of consumption
- **Busy CBD center**
- **Commercial building's first floor corner** ---a distance from Starbucks
- **Open round-the-clock**

2 Attractions to the customers

Customers
- Rigid demand？
- Busy schedule？
- Modern lifestyle？

Y

Smart cafe
- Combined with modern technology?

Traditional
- Focus on the quality of life？

N

N Future trend

Y
- **More efficiently**
- **Less waiting time**
- **Cheaper**

Y **Personalized coffee**

N Counter sale

Benefit 1:
Smart café =
Faster payment+ less time to wait + DIY my own coffee online

4 **Cut down Starbucks' growing administrative expenses**

Benefit 2:
The smart café needs no staff, which can save the growing cost in labour and enlarge the number of take-out customers(35% now).

Revenue Estimation

Starbucks annual revenue estimation

Starbucks revenue (Mn.USD)

Year	Value
2015	2.395,9
2017	3.240,2
2018F	3.737,9
2020F	4.637,8
2022F	5.608,9

■ Multiple Starbucks ■ Smart café ■ Chain store
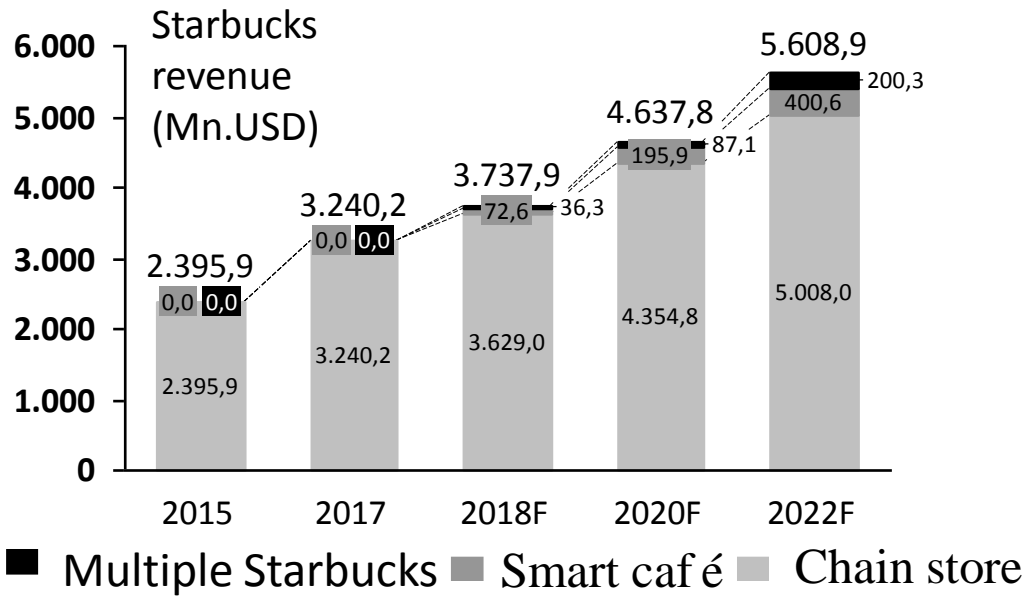
Key assumption

	Chain store	Smart café	Multiple Starbucks
	CAGR	**Contribution to total sales:**	
Now	35%	0	0
2017-2018F	12%	1%	2%
2018F-2020F	20%	2%	4.5%
2020F-2022F	15%	4%	4%

Methodology

Revenue = **Number of newly opened store** × **Number of people entered/passed by** × **% of purchasers in total people passed by** × **% of revenue generated**

City analysis × Historical data analysis × Store check × Industry data analysis
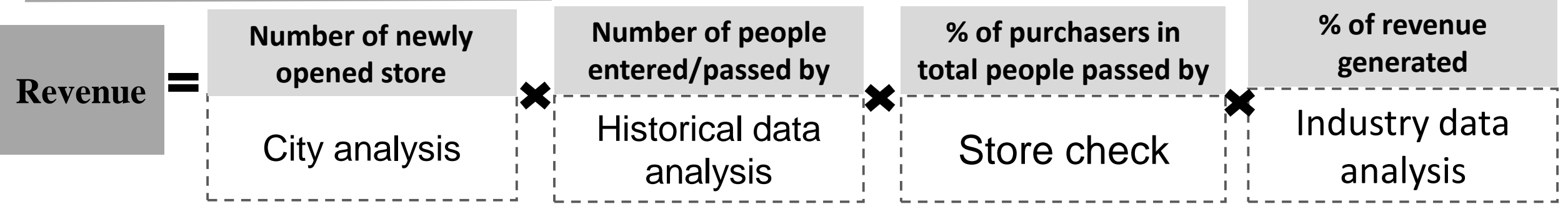
Consumption Group Will Further Expand

Customers Flow Model

clients

- Only want to enjoy coffee
- Not willing to spend to much time lining up

No-staff Smart Café

- Handling official business、reading books at store
- Enjoy the unwonted and peachful atmosphere

Traditional Starbucks

- pay attention to the quality of coffee
- congregate for fun or for relaxation

Multiple Starbucks

High

Willingness to enjoy the atmosphere of café

Multiple Starbucks

Traditional Starbucks

No-staff Smart Café

Low

Low *how concerned about the quality of coffee* **High**

	No-staff Smart Café	Multiple Starbucks
Benefits	✓ Solving the problem of queuing and increasing ordering efficiency ✓ Attracting young customers with curiosity	✓ improving coffee quality and earning reputation ✓ enhancing the appeal to high-end costumers
Risk	✓ Still queuing while taking the coffee ✓ Lose some of clients brought by bandwagon effect	

Cultivating young consumers preference of Starbucks and improving their conversion cost are highly beneficial to the LONG-TERM DEVELOPMENT of Starbucks .

Timeline

Work stream	2018		2019				2020	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2

Consolidate advantages: Management improvement
- Update Intelligent Management system
- Revaluate consumers data
- Offer new product individuality

Looking for a breakthrough: crossover cooperation
- Exploring joint point with other field
- Open crossover store

Seize the initiative: smart café
- Negotiate with technology companies
- Build Independent APP
- Select site and open store