

Research on New Business Model in the Context of Covid-19: Take Starbucks as An Example

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Abstract: With the outbreak of coronavirus and epidemic spread in worldwide, majority of shops are closed and more than a half of world customers choose to isolated at home, which has caused an enormous strike to catering industry and overall development of the whole economy. Base on current society situation, people's preference and propensity to consume under this impact of covid-19, we take Starbucks coffee as an example. This essay using SWOT provides preponderance and defect from both internal and external conditions. Plus, with the analysis of factors that fluctuating the quantity of sale, brand perception, and the preference of consumers which would have influenced the Starbucks market. Results indicate that, epidemic will bring limitation to Starbucks traditional traits and suggest to change the idea of 'third place' experience to take-out service. Relying on rapid development of online technology and base on Starbucks' own mature platform and brand influence, Starbucks has a comparative advantage and great possibility in achieving food delivery market. Meanwhile, Starbucks is facing a main strong competitor—Luckin coffee with the different idea of 'infinite space' and relative lower prices than Starbucks. Our research aims to offer some operational suggestion what Starbucks should do to optimize and reform itself for future development in China.

1. Introduction

After 22 years' development in China, Starbucks has grown into a leader in Chinese coffee market which even achieved its goal of opening 5000 stores in China. There is no doubt that, Starbucks is more than just a common coffee brand, but a cultural symbol. For millions of people, going to Starbucks to buy a cup of coffee is their daily routine. However, the "ritual" was interrupted by the outbreak of Covid-19 in 2019. During the pandemic, many coffee shops were closed. As a leader in the coffee industry, Starbucks has suffered a drop in sales and many of its stores have been closed. But Starbucks has been resilient in dealing with these problems, using the advantages to ensure its share of the coffee industry. When the epidemic was effectively controlled in China, competitors represented by Luckin coffee began to taking up the market with a more active attitude. In the face of local brands which has different ideas, Starbucks' current situation and its possible response and action are the subjects of our research.

Starbucks began with an experience-oriented marketing model to provide customers with a new choice to relax themselves and live a better life. Storytelling has already become a salient method to increase the influence of brand and products. Starbucks' use its strong brand culture to attract customers. Also, Starbucks made a lot of contribution to fulfill its concept of "The third place" and created great value

[1]. With the development of social economy, the level of consumption has also been raised. What customers need is not only the products and service, but also the enjoyment and pleasure through the consumption. Starbucks seized this feature and found new value and space for its products [2]. What's

more, some researchers also thought that aesthetics can help Starbucks gain a competitive edge [3]. However, driven by many factors such as information technology, consumption upgrading, China's retail industry is ushering in a new opportunity for transformation [4]. In 2017, the emergence of Luckin coffee has made a difference in Chinese coffee market. With the "New retail" model, Luckin provided cheaper products and more convenient service to take up the coffee market. Hence, Starbucks began to follow the trend of the development and made some efforts to reform its market methods and ideas, aiming to provide a better consuming experience both online and offline [5].

This article is based on the background of Covid-19, analyze Starbucks' current situation and future development by SWOT, hoping to provide operational advice for Starbucks' development in Chinese coffee market.

2. Date and method

2.1 Date

Starbucks is an American coffee company, which was founded in 1971 and headquartered in Seattle, Washington, USA. It has stores in more than 80 countries around the world. In 2020, its total turnover of more than 3,200 dollars, and it's the leader in the coffee shop field. Since its entry into China in 1999, Starbucks has opened more than 4,800 stores in more than 200 cities and employs more than 58,000 people, making a great contribution to China's economic growth and employment. Starbucks can become the first-class in the coffee retail industry because of its unique strategy of operation, in line with "arouse and foster humanistic spirit - per person, per cup, each community" mission, Starbucks has created its unique corporate culture--warm and a sense of belonging, every guest can feel the warmth of the coffee in Starbucks and care of the staff. In addition, Starbucks also pays great attention to innovation. It launches new products every season so that customers can experience different tastes brought by the same coffee beans; The "Star Card", due to which consumers buy Starbucks products more frequently; "Deep Brew" AI systems, which launched in 2020 combine consumer tastes, local weather conditions and the most popular products to provide recommendations to consumers to better serve the diverse global consumers; Online marketing services not only can promote the brand better, but it also can make more convenient for consumers to buy Starbucks products. It is worth mentioning that Starbucks almost never does advertising instead of using the money spent on advertising to improve product quality. Every year, Starbucks spends a lot of money to ensure the supply of coffee beans and establish corresponding research centers in coffee growing areas to improve the output and quality of coffee beans. In addition, Starbucks spends a lot of money to occupy the location, such as shopping malls, office buildings and high-end residential areas, so that Starbucks has a higher level of consumer groups and has a greater market potential.

2.2 Method

SWOT refers to listing all kinds of major internal strengths(S), weaknesses(W), opportunities(O) and threats(T) closely related to the research object through investigation, and arranging them according to the matrix form. Then, using the thought of system analysis, all kinds of factors are matched and analyzed, and a series of corresponding conclusions are drawn. Through this method, the situation of the research object can be comprehensively, systematically and accurately studied, so as to formulate corresponding development strategies, plans and countermeasures according to the research results. In the analysis process, we can divide SWOT into two parts. The first part is strengths and weaknesses, which are mainly used to analyze internal conditions. The second part is opportunities and threats, mainly used to analyze external conditions. Strengths include economic scale, product quality, market share, corporate image and so on. Weaknesses include shortage of capital, lack of innovation, disorganized management, aging equipment and so on. Opportunities include new products, new technologies, new markets, new needs, etc. Threats include a global recession, an increase in competitors, policy changes and so on. When the analysis process is finished, the action plan can be developed. The basic idea of making the plan is to give full play to the strengths, overcome the weaknesses, take advantage of the opportunities, dissolve the threats, use the comprehensive

analysis method of system analysis, match and combine the various environmental factors to get the strategy for the company to choose.

3. Results And Discussion

3.1 Strength

Product

In order to ensure the compliance with rigorous coffee standards, the Starbucks controls substantially all coffee purchasing, roasting and packaging and the global distribution of coffee used in their operations. The Starbucks purchases green coffee beans from multiple coffee-producing regions around the world and custom roast them to their exacting standards for their many blends and single origin coffees. As a company that buys approximately three percent of the world's coffee, sourced from more than 400,000 farmers in 30 countries and also utilizes forward contracts, futures contracts and collars to ensure the price coffee not rising too dramatic due to which the prices of products are rising. Hence, even though facing with the coffee production cuts during covid-19 and the prices of coffee rise, the Starbucks can always buy the high-quality coffee at same price as before. The Starbucks to ensure long-term supply of high-quality coffee, they establish farmer support centers and high-tech lab to improve the product quality.

Market

Almost of the Starbucks located in high-traffic, high-visibility locations. They make the coffee shops like socializing places or business places, so most of the customers are the managements of companies. When employees pass by Starbucks in the morning, they will be attracted by the warm environment and aroma of coffee, so drinking a cup of Starbucks coffee will be very happy for them and make them more motivated to work. Not only are the coffee shops located near the business places, but are also the shops located near the hypermarket. Whenever people walled through the shop, the aroma of coffee beans, all kinds of coffee, cakes into eye shade, at the same time, the unique lighting design, coffee tables and chairs of random color display, personalized decoration and soothing music, and builds a have emotional appeal and warm atmosphere, make consumers in Starbucks can get an exclusive emotional experience. As a result, more and more people like to have a cup of coffee in Starbucks. Also, Starbucks creates the Starbucks card, which is designed to provide customers with a convenient payment method, support gifting and increase the frequency of store visits by cardholders, in part through the related Starbucks Rewards loyalty program where available, as discussed below. There are three levels of Starbucks memberships, like Welcome level, Green level, and Gold level. Different levels meaning different status in the coffee shop. If you want to have more discounts during the year, you need to buy the Starbucks products frequently and as a result the Starbucks turnover will increase.

Brand

What do you fist think of when people mention the Starbucks? “ a kind of culture” or just “a brand of coffee shops.” Well, Starbucks has formed a kind of culture since the company introduced into China. Brand forming includes cafe atmosphere, service attitude and innovative cultural pursuit. In Starbucks where there is usually some classical and blues music playing, so that people can refresh their body and mind. Then the people will be immersed in a cultural atmosphere along with the melody of the music. The Starbucks also have the patient service. Whenever you order a cup of coffee in Starbucks, the staff will offer the service with a warm smell. If you have some problems, such as spilling a cup of coffee or ordering the wrong type of coffee, they will save your problems patiently. It makes you feel very warm and wants to buy their coffee for a long time. With the march of customers' feelings to the coffee, more and more coffee shops are sifted out because of they don't make any innovation on their products. However, Starbucks pays large attention to updating their products.

Market strategy

First of all, Starbucks has its brand strategies. One is to speed up the expansion of new stores. Another is to put more emphasis on the speciality of coffee selection and production.

As for coffee professionalism: with the initial completion of market cultivation, consumers gradually tend to pursue the quality of coffee from the pursuit of refreshing effect. In order to meet the demand of the consumers, Starbucks is no longer emphasizing the unique experience of the "third space" as usual, namely the alternative social space experience between privacy (such as families) and public places (such as company), but more emphasis on the professionalism of material and making coffee, to adapt to the third wave of coffee. For example, in 2014 they added instant coffee bars to its reserve stores. Barista could describe information in detail for consumers at the bar such as the source, types of coffee, coffee beans, and consumers can also watch the whole process of making the coffee, thus fully realize the interaction between consumers and business operators.

3.2 Weakness

Price

Price is too high relative to Chinese when compared with American. Statistics show that in the United States, where the national income is \$50,120, the average monthly income is \$4,177, a \$3.85 cup of coffee accounts for less than one-thousandth of their income. However, China's national income is \$5,740, far below the basic living standard of The American people. The average monthly income is \$478.33. A cup of coffee at \$3.85 accounts for up to one percent of the monthly income.

In terms of convenience, although Starbucks has continuously expanded its stores since entering the market, compared with the huge consumer group, the number of existing stores still cannot meet consumers' demand for convenience. Taking China for example, there are only 300 Starbucks stores in Beijing, however there's nearly 30 million potential consumers, which greatly reduces the convenience for consumers to buy coffee.

Number of Starbucks

For millions of people, going to Starbucks for a cup of coffee is a daily ritual, but the pandemic has interrupted that 'sense of ritual.'

This is especially true of the Chinese market. In contrast to the US market, 80% of sales in China were spent in-store before the pandemic, however as Starbucks were positioned in China as a social gathering place so called "the third space" between privacy (such as families) and public places (such as company), which is very different from Luckin or McDonald's.

Starbucks closed half of its stores in China in January, the first month of the outbreak, (with totally more than 4300), resulting in an estimated loss of more than \$400 million in revenue.

At the time, Starbucks Same-store sales' in China decreased 50% and global same-store sales decreased 10% initially, with 3% in the United States. That ended 41 consecutive quarters of growth of Starbucks, with first decline of quarterly same-store sales since 11 years.

Under the influence of pandemic

By mid-February, when the epidemic was at its peak in China, nearly all Starbucks stores were closed or curtailed, and same-store sales were down 90 percent.

As the pandemic spread around the world, Starbucks' losses intensified. Starbucks began closing stores in the US in March following the novel Coronavirus positive tests of US employees, and by April 50% of its US stores were closed.

Now, as public health authorities urge people to work from home and avoid crowds, cafes are starting to empty. And the risk of infection is particularly acute for service workers like Starbucks baristas.

To reassure the public, Starbucks has banned customers from using their own cups and instituted a strict cleaning policy, requiring employees to wash their hands every half hour and disinfect "frequently touched" areas of the store. Mr. Williams said, if the situation worsens, tougher rules could follow, such as forcing workers to wear gloves and masks or removing desks and chairs. In extreme cases, she said, stores in the United States could be temporarily closed.

While more than 90 percent of its stores in China have reopened, investors learned last week that Starbucks expects sales in The country this quarter to fall about 50 percent, or as much as \$430 million,

from a year ago. The company said it was too early to say how the virus would affect business outside China. During that time, Starbucks shares have fallen more than 25% in the past month.

3.3 Opportunities

Starbucks closed half of its stores when COVID-19 broke out in China, resulting in estimated loss of more than 400 million in revenue. At that time, the same store's sales fell 50% year on year in China. Due to the outbreak of overseas has just begun, global same-store sales fell 10% at first, and the United States fell by 3%. It ended the Starbucks' 41 consecutive quarter of growth which is the first quarterly decline in 11 years, the last declines appeared during the Global Financial Crisis. By mid-February, when the epidemic was at its peak in China, nearly all Starbucks' stores had closed or shortened their opening hours.

With the full recovery of China's economic vitality and further strengthening of the supervision of the take-out industry, the digitalization level of the takeout industry is constantly improving, new consumption trends are prominent, and the industry coverage is more diversified. Therefore, based on the rapid development of takeaway service in China, Starbucks should also further study to enhance its online service and takeaway business to consolidate its position as a giant in the Chinese coffee market

Brand culture (SO)

As a brand entering China for over twenty years, Starbucks has created a kind of symbolic culture in its own way which also became the label of exquisite life. Starbucks also take advantage of its strong membership system to deepen the links between customers. In this era of fragmentation, having a cultural symbol of ones' own is a significant way to increase its popularity and users' stickiness. Starbucks can make use of its platform and basement to improve the attractiveness of brand and achieve the value creation to gain benefits

Potential customers (WO)

Although Starbucks has been expanding its stores since entering the Chinese market, the number of the existing stores still doesn't meet customers' demand for convenience with China's huge market. For example, there are only 690 Starbucks in Shanghai with a population of 24.18 million. Although the number of Starbucks in Shanghai is much larger than that in New York, the density is not as high as that in New York, which greatly reduces the convenience for customers to but coffee.

Like other traditional sale stores, Starbucks usually relies on convenient location, beautifully decorated stores to attract customers, such as airports and shopping mall. The ignorance of some place which has smaller population can result in invisible loss of some potential customers. It shows that, there are some relatively sinking markets worth for Starbuck to develop. Considering the matching of store cost and customer flow, Starbuck can figure out a new model that is different from the stores in first-tier and second-tier cities and obtain the popularity in sinking markets while having a good control of the cost.

Table 1. Starbucks' distribution in New York and Shanghai in 2019

City	New York	Shanghai
Number of Starbucks	317	690
Resident population (ten thousand)	862.3	2418.3
City area (sqkm)	789	2650
Density (millions of people/ number of Starbucks)	36.8	28.5

Source: organizing according to public information

3.4 Threats

Hight price and low convenience

In terms of price, Starbucks' average price of 27 yuan a cup is much higher than its current competitor in China, Luckin coffee whose average price is 10 yuan a cup. After the Covid-19 in China, it's not easy for the restaurant business to get a great rebound from the "Revenge spending". A recent investigation from the People's Bank of China showed that in the first quarter of 2020, deposits

increased by 4.7 billion yuan, and 53% of depositors planned to increase their savings from now on, compared with only 22% of depositors planned to increase their spending. It is a precursor to “Revenge savings” which is going to have a certain impact on the relatively expensive Starbucks.

In addition, customers waiting in line can increase the stores’ attractiveness to some extent. However, due to the rapid pace of first-tier cities such as Beijing and Shanghai, customers will take the times cost into consideration. Hence, longer waiting time will improve customers’ cost perception and reduce their satisfaction with the product.

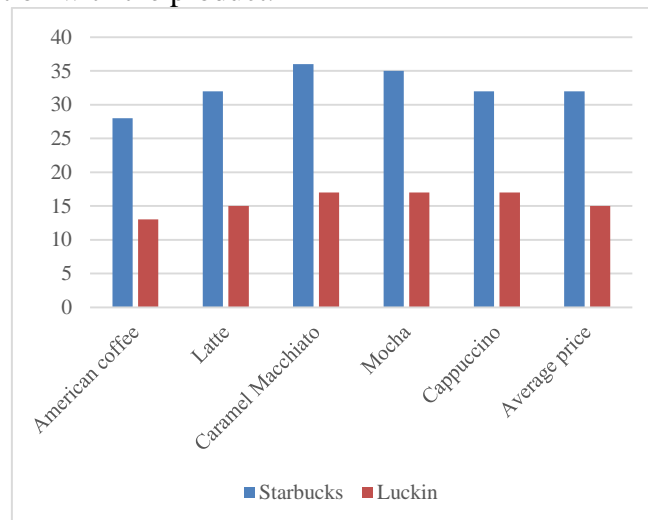


Fig. 1. Price comparison between Starbucks and Luckin

Source: Starbucks.com.cn & Luckincoffe.com

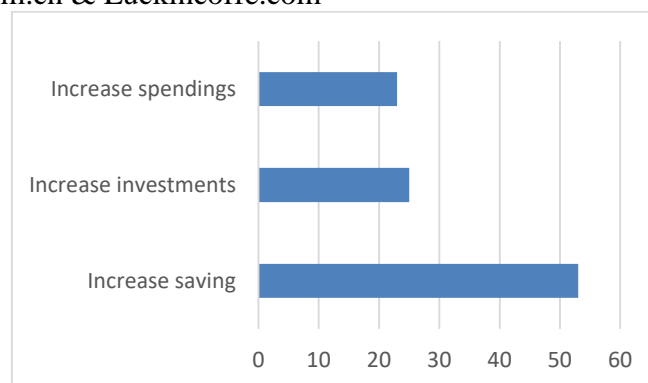


Fig. 2. Chinese depositors’ plan for the first quarter in 2020

Source: The People’s Bank of China

Trapped in traditional coffee places

Making a comparison between Starbucks and Luckin coffee again. Different from Starbucks’ aim to offer “The third space”. Luckin take online reservation and fast delivery as the top priority to provide a more convenient way to retail. It seems that Luckin coffee aims to provide “The unlimited space” for customers which can easily satisfy their various demands. In big cities which have faster rapid of life, it is a quite impact on Starbucks.

4. Conclusion

In this paper, SWOT is used to analyze the current situation of Starbucks’ development in the context of digitalization. In the epidemic, Starbucks traditional traits would bring it advantages and limitations. When the market is becoming more and more competitive, what should Starbucks do to optimize and reform itself is our main research.

The results show that: 1. Starbucks, which entered Chinese coffee market much earlier than other competitors, it has grown into a giant. With the development of more than 20 years, Starbucks has

rooted its own cultural symbols in every customer's heart and its brand influence is self-evident. From the products' quality to the experience and environment, from the complete and reliable supply chain to the exquisite decoration of the store, Starbucks' persistence and high requirements make itself win the customers' support. 2. Starbucks, which attaches great importance to the concept of providing "the Third Place", has suffered a great impact from the epidemic. The closure of several stores or the shortening of business hours is a serious blow to Starbucks. Starbucks has been continuously expanding the number of stores, and the number of stores has reached 5000 in 2020. However, by comparing the distribution density of Starbucks in Shanghai and New York, we find that although Shanghai leads in absolute number, there is a certain gap in distribution density with New York. The relatively high price is also a clear disadvantage for Starbucks as it battles for market share with competitors. 3. In China, where food delivery industry and online technology are developing rapidly, it is a development opportunity for Starbucks to seize the market with greater influence by relying on its original mature platform and brand influence. When more and more young consumers emphasize product quality and the cultural background behind it, how to give full play to the brand advantages can also help Starbucks to enter the young consumer market. Starbucks, which is used to opening stores in first-tier and second-tier city centers with high traffic, also faces a sizable sinking market. 4. Starbucks's main rival in the Chinese market currently Luckin coffee, at cheap prices in line with the age characteristics of new retail way to grab the market. Different with The third space concept of Starbucks, Luckin aims to cultivate infinite space. By paying attention to the convenient consumption mode of online reservation and offline self-pick-up and fast delivery, it perfectly fits the consumers with the increasingly fast pace of life and work. The high prices and traditional lines make Starbucks look conservative and cumbersome compared to Luckin coffee.

Suggestions for Starbucks' future development are as follows: 1. Continue to build an independent brand culture and establish a correct image in line with the background of The Times. With a strong foundation, Starbucks can continue to develop and use its own brand advantages to attract consumers who pursue the quality of life and products, and also increase the loyalty of consumers. 2. Reform the marketing model, while maintaining the characteristics of the third space, they can also learn from the "new-retail" model, create a full range of integrated consumer experience for domestic consumers according to local conditions, give full play to the advantages of takeout service and online technology, and serve consumers in each region in a timely and effective manner. 3. Starbucks, which is used to opening its stores in crowded areas of first-tier and second-tier cities, can pay attention to the consumption situation in the sinking market, conduct research on the demand of the sinking market, select the right location to open its stores, and further expand its market.

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