

Costa coffee marketing plan for china



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This paper aims at outlining the strategic marketing approach of “Costa Coffee” for entering a new market. Costa Coffee is the British part or retail sales of Whitbread Family.

Whitbread is a British Multinational Company and it has franchises worldwide. Whitbread includes Hotels, Restaurants [Household names like TGI Friday], Health and Fitness plus Other Businesses.

The contents of this paper include the marketing strategy of Costa Coffee and its expansion plans in China.

Introduction – The Story

The history of Costa Coffee began in a mountain town outside the region of Parma, where there was the house of Costa family.

In the late 60's, the Italian brothers Bruno and Sergio Costa, hungry for success, traveled to England, seeking an opportunity for professional advancement. By arriving there, they found how simple the English coffee market was. Motivated by their Italian background and Sergio's skills in the roasting of coffee beans, they decided to return to Milan to enrich their knowledge and technique in Italian coffee shops. In 1971, upon their return to London, they bought a three-story building in Lambeth, where they set up their own coffee shop.

In the beginning, the Costa brothers worked as producers and wholesalers and were supplying high-class restaurants and specialty stores. Soon, they built their reputation for their dedication to excellent quality of their product. However, in 1978 they had to find some employment for their wives in order

not to interfere in their business. Therefore, they decided to create their first coffee boutique in Vauxhall Bridge Road, London, and assigned its management to their wives.

This idea experienced tremendous success, and led the brothers to the expansion of Costa coffee boutiques and award their management to relatives and friends. Since the opening day of the first store to date, the same traditional method of slow roasting (18-22 minutes) of coffee beans is used, offering the delicious and fragrant blend " Mocha Italia", from 6 Arabica beans and 1 Robusta. Listen

Read phonetically

Dictionary - View detailed dictionary

Today, Costa Coffee owns 500 shops worldwide. Costa Coffee believes in its employees' skills therefore, it provides intensive employee training at the Cost Coffee Academy.

VISION:

Costa Coffee vision is to provide the best hospitality to its customers since its range of hospitality products range includes restaurants, hotels and leisure clubs.

MISSION:

“ To serve the best coffee in the true Italian style.”

BUSINESS PORTFOLIO:

Costa Coffee has built an unrivaled reputation for coffee excellence, and this is achieved by fully controlling the process, from harvest and selection of coffee beans, from the roasting of the Italian maestros, the choice of engines and compliance with the procedures of manufacture of beverages, ensuring this way that customers can enjoy the same excellent quality coffee at any of Costa Coffee in the world.

The drinks are served in 3 different sizes Primo, Medio and Massimo, and the customer can choose between the unique blend of Mocha Italia, or decaf, whole or skim milk and add an extra dose of espresso, flavored syrup, cream, candy or chocolate.

There are 15 factors that are combined and help to create the perfect Costa coffee. In addition, in every store worldwide regular controls take place, which ensure consistency and maintenance of quality. Every Costa Coffee has a Barista Maestro (coffee expert) responsible for maintaining the excellence of the drinks served.

COSTA COFFEE AND STARBUCKS:

Starbucks is the largest competitor of Costa Coffee. Starbucks is the leader in the coffee shop market. Its international presence is in 50 countries. On the other hand, Costa Coffee, is the third biggest coffee specialist in the market with shops in 25 countries.

Both companies have an excellent financial performance up to 2005 but in 2008 there was a decrease in revenue and operating profit as a result of the global economic recession.

However, in 2009. Starbucks has an improving in cost structure and therefore its liquidity is better than Costa Coffee since it has managed to pay its short term debts.

A key factor for both companies is globalization since most leading players in the foodservice market expand their operations in other countries. So the future success of Costa Coffee will be based on its operations outside the UK. The same applies for Starbucks.

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THE CHOICE OF CHINA:

China is one of the biggest economic forces in the world. Its domestic market is larger so there is a lot of potential for multinational businesses.

Its average GDP growth rate is more than 10% despite the global economic crisis (10. 9% last quarter 2009) (BBC China economy 2009).

International financial analysts believe that the growth of the Chinese economy will continue. Regarding the coffee industry in China, it should be noticed that competition is quite intense but sales in cafes has grown by 8% to RMB36billion (over £3, 487million).

It should also be noticed that in 2009 coffee shops chains had a growth of 22% (Euromonitor International August 2009, Cafés/bars - China).

However, the Chinese market for many international companies is considered a tough market since it is difficult to understand local culture and customs.

Therefore, many companies pursue joint ventures and strategic alliances in order to do business in China.

In 1998, Starbucks entered China and it has 180 coffee shops. In 2006, Costa Coffee entered China in a different way i. e. through a joint venture with Yueda Group which is based in Jiangsu Province. This was done because a local partner knows the market better so market penetration for the new entrant is easier. However, this also means that Costa Coffee is heavily dependent on Yueda.

Costa Coffee has a strong Italian aura that aims at attracting the Chinese market. Affluent Chinese customers want to taste a coffee that is represented by a global brand name. So far, Starbucks has been quite successful in this area.

The risk is that by being a partner with Yueda, the brand will be customized too much therefore, Costa will lose its competitive advantage which is the Italian aura.

Starbucks has very aggressive expansion plan in China. The crucial point is if Costa Coffee will maintain its brand essence and will not be customized. In this case, Costa Coffee will be a strong competitor to Starbucks.

Future trends – Strategy

The main issue for chained coffee shops is to create a unique experience that cannot be easily copied.

The consumers want to enjoy their coffee in a nice environment. The coffee shop space should be comfortable with an ambiente that will be inviting so the consumers will return to the shop again.

People will want to live the espresso experience at home so the sales of equipment and coffee will increase as well as the demand for better and higher quality of coffee and beverages in coffee shops.

Corporate social responsibility is another issue that chained coffee shops should take care on. They have to prove that they implement ethical practices.

Regarding marketing, researchers predict that chained coffee shops will use mobile apps and have social networking tools in the very near future.

COSTA COFFEE – Financial Data

Turnover: £263. 8m (2008: £216. 3m)

Operating profit before exceptional items: £22. 7m (2008: £20. 8m)

Number of outlets: 881 in the UK, 407 overseas

Total Revenue £ (m)

Strategy

“ Our target for Premier Inn during 2009/10 is to deliver around 2, 000 new rooms in the UK and overseas. We have a strong pipeline of secured sites and will continue to develop a land bank. Internationally, our first hotel opened in Dubai during 2008 and we will build on this position, intending to open a further two hotels in the Emirates plus one in India.

We plan to open around 100 new Costa outlets in the UK in 2009/10. We will capitalise on our strong Costa brand by focusing on new locations, as well as areas where we can replace existing operators, such as in supermarkets, hospitals and leisure facilities. Costa will also continue to strengthen its position across international markets, adding 100 net new stores in the year ahead”.

MARKETING OBJECTIVES:

Enter Greek market and develop a significant market share;

Increase product portfolio by new high caliber products;

Bring more value to shareholders;

Be a leader in its field for customer service;

Develop alliances with commercial partners and the communities in which Costa Coffee shops operate.

TARGET MARKET

Costa Coffee offers a wide range of products suitable for all consumeCNY. So far, coffee in China is consumed in big cities (Beijing, Shanghai, Guangzhou).

Coffee producers have targeted young professionals since they are the most westernized, affluent and open-minded. However, they see it as something that is in fashion rather than a regular habit.

Another target group for coffee consumption are returnees i. e. Chinese that studied in Western countries and come back to China. They are also affluent and they are accustomed to visiting coffee shops.

Ex- pats are another target group. China's economic growth has attracted a lot of investments from foreign companies. Ex-pats are used to drink coffee and their number increases every year. It has been estimated that businessmen from Hong Kong and Taiwan as well as Westerners amount to 30% of customers at multinational chained coffee shops as Starbucks.

The above customer base has been quite saturated so there is a need to increase customer base.

However, coffee is considered a luxury good and the average Chinese cannot pay for a cup of coffee. The average Chinese annual income is RMB 8000 yuan whereas a small cup of Starbucks coffee costs RMS 12 yuan (\$1. 5 which is the same price as in USA). In the big cities the average annual income is higher however it is still difficult for someone to consume a cup of coffee.

If coffee still goes on being considered as a luxury good, it will happen the same thing as in Japan i. e. it will take China more than 90 years to make coffee popular.

Market Segmentation:

Based on the above the following market segments were defined:

Young / Mature professionals

Returnees

Ex-pats

Students

Middle Class

Upper Middle Class

Single

Married

Bus section and train/airplane passengers

Marketing Strategy:

Costa Coffee will follow Market Development strategy and the reason for choosing this strategy will be explained below:

CURRENT NEW

PRODUCTS PRODUCTS

1. Market Penetration Strategy

3. Product Development Strategy

example is the marketing campaign of Nestle which was targeting at the “young middle class Chinese” although in reality this class does not exist or even if it existed they would not be heavy coffee drinkers.

Starbucks has increased awareness but it needs a different strategy for the Chinese market. Only KFC has been quite successful. Starbucks success cannot be considered as sustainable since it was based on management, financial power and brand name whereas the Chinese market needs entrepreneurship to advance it and this is what Costa Coffee is planning to do.

Coffee has been promoted by the Chinese government through festivals and fashion awards however these strengthened the misperception of coffee being a luxury good.

Local coffee shops add too many side things such as food, spirits etc. Therefore, they dilute the idea of coffee.

Coffee is a product that does not hurt health, stimulates the brain and it is addictive. Based on researches someone who has drunk coffee three times a week for two months in the row is addicted to coffee. Brain stimulation is important for personal wealth and intelligence. Coffee became popular because coffee shops were focused at making the customer accustomed with coffee. When people get accustomed then the market develops at an extremely fast pace.

The coffee shop is important for this development and a coffee shop can be a seated place or coffee stands and carts. It is important to make people drink coffee and then offer them ground coffee.

Many companies have found as an excuse the fact that tea is dominant in China and there is no place for coffee in a tea dominant country. However, there are no major tea companies that can compete international coffee giants nor is there a specific promotion to protect tea. On the contrary local society support the development of coffee houses and it is not negative to coffee.

Costa Coffee will focus on making people drink more coffee. Its new coffee shops will be around areas where people gather such as Universities, stations and office buildings etc. This can be the best promotion since if one group of people becomes loyal to coffee then it will influence other consumer groups. Costa Coffee will focus specifically on these people and its promotions will be measurable and specific.

Coffee has an unbeatable image in China and it is known to everyone. Costa Coffee will be based on the quick service restaurant (QSR) concept. QSR is based on the idea of offering “ cheap, clean and good food” and its purpose is to sell to a wider range of population. Costa Coffee plans to adopt this concept. Coffee has a high profit margin but food is what attracts people to the coffee shop. Costa Coffee already offers more products than coffee; however it should plan to add more snacks that are better suited to local customers and a cheaper but good quality filter coffee for taking away. Many local Chinese coffee shops offer food however, they have not formulated a

strategy so they cannot be considered as potential competitors. So far in these shops the restaurant is separated from the coffee house something that it is not the case of Costa Coffee. In the next two years the aim is to introduce new product lines that will be offered at affordable prices for the average Chinese consumer. It should be noticed that this does not mean price cutting since this will hurt Costa Coffee's brand name.

The location of the new coffee shops is also an important part of Costa Coffee strategy. Up today, the coffee shops were opened at locations where population is dense and the income is high. As a result, the rental prices are quite high. Therefore, Costa Coffee is planning to open new shops at bus stations and other busy intersections where rents are lower and the traffic is big.

The marketing strategy that will be followed to China is important since it influences neighboring states such as South Korea which is also a new coffee consuming country. If the model of highly expensive coffee will be followed then the consequences will be similar to Taiwan and Hong Kong where there is a negative trend in coffee growth.

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SWOT ANALYSIS:

Strengths

Weaknesses

Established brand name worldwide

Expensive prices for the average

Chinese consumer

Wide range of products

Starbuck's dominant position in the

market

Third - ranked coffee shop chain in the

world

Coffee is considered a luxury good

Know how of Yuda (local partner)

Tea is the daily beverage of the average

Chinese

Opportunities

Threats

Big market potential - a lot of Chinese

Consumers that do not drink coffee

Stagnant coffee growth due to high

prices

Unbeatable image of coffee

Possible marketing enforcement of tea

companies

No competitors are located at bus

intersections

PESTEL ANALYSIS:

Political - China has a stable political environment that welcomes foreign direct investments.

Economic - The Chinese economic growth is impressive (10% per annum).

Social - Although the income of the average Chinese consumer is low, there is a growing middle class -190 million urban households, or 29%. According to McKinsey, middle class is expected to expand to 75% (372 million), by 2025 (D'Altorio 2011).

Technological - New coffee machines are produced so making coffee at home is easier.

Environmental - There is a trend in producing organic coffee.

Legal - There are no legal issues involved.

MARKET POSITIONING:

The positioning strategy of Costa Coffee will be in line with its international strategy i. e. THE ITALIAN COFFEE MASTERS. The competitive advantage of Costa Coffee is the quality of their coffee. The image of the company is that it has a UNIQUE coffee.

Another positioning of Costa Coffee is that this excellent coffee quality can be offered with affordable prices (launch of the new take away filter coffee).

THE ITALIAN COFFEE MASTERS

This is the tag line that will communicate the Italian aura of Costa Coffee to the mass audience. Since Chinese consumers perceive well the Italian atmosphere it is expected that it will attract more people to Costa Coffee.

MARKETING MIX:

Product:

Brand Name:

Costa Coffee is a well established brand that signifies luxury, perfection and excellence. Chinese consumers prefer established brand names.

Image/Theme:

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Luxury

Costa Coffee is related to luxury. The coffee shops' ambiance is trendy and comfortable. Customers will have a nice time in a flashy environment. However, this luxury image should be cleverly related with the new, affordable, take away filter coffee. The message that will be transmitted is "luxury can be affordable and can be taken with you".

Color Scheme

Costa Coffee's shops are in warm tones having brown as the main color. Other colors that are used are green, black and white. The purpose of this color selection is the creation of a comfortable and trendy atmosphere.

Service:

Apart from coffee, Costa has a reputation of excellent service. Hiring and retaining talented employees and training them accordingly is a strategic goal of the company.

Product variety:

ESPRESSO

A short, strong and black coffee, with no milk.

ESPRESSO DOPPIO

A double espresso shot. For those who like it strong.

RISTRETTO

An extra short coffee, even shorter than an espresso, with an even stronger flavour.

MACCHIATO

Espresso topped with just a dash of milk. Yum.

AMERICANO

Coffee, mixing shots of espresso with hot water. Add milk if you like.

FLAT WHITE

A rich, full-flavoured coffee with a velvety, smooth texture. Each Flat White is hand-finished with a distinctive pattern.

CAPPUCCINO

Coffee combining espresso with steamed, frothy milk. Chocolate on top if you have a sweet tooth.

CAFFE LATTE

Coffee made with steamed milk. Not as strong as a cappuccino, but just as good.

MOCHA

Espresso with hot chocolate, topped with steamed, frothed milk.

(Source: Costa Coffee 2010)

Costa Coffee products variety includes iced tea and coffees as well as cakes, pastries, Panini and sandwiches.

Prices:

Costa Coffee prices are generally higher than other coffee shops. High prices are related to the outstanding quality and taste of Costa Coffee. Therefore, the traditional customer groups of Costa Coffee are high and middle classes. Costa Coffee believes that a reduction in its prices will harm its brand name. However, it wants to increase its Chinese customer base so it will offer a filter coffee for takeaway at affordable prices. Chinese middle class growth rate is significant, it will reach 372 million by 2025, it is a social class that cannot be neglected. Therefore, Costa Coffee is planning in the next three years to offer its products at affordable prices for the Chinese middle class without harming its brand name.

Locale / Setting:

The next Costa Coffee shops will be at busy intersections e. g. bus, train stations and at areas where office buildings and Universities are located. It will focus again on the big cities like Shanghai and Beijing. The aim for the next three year is to have 30 new coffee shops at both cities.

Promotion:

Costa Coffee will not do a lot of advertising since its brand name is recognized. However, there will be special sales promotions at its new shops for the new filter coffee that can be taken away. Costa Coffee is based on word of mouth advertising since reputation is very important.

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MARKET DEMAND

It is important to measure the market before launching new products and shops. It is also important to measure the market after the launch of the new products / shops so as to see their effects and gain a larger market share.

Growth Share Matrix

There are two factors that are important for the expansion to new markets and these are : market attractiveness and the Business Strength.

Market Attractiveness

Business Strength

Factors

Rate

Factors

Rate

Overall Market Size

70% increase (2004-2012)

Market Share

5. 0

Annual Market Growth Rate

7. 8

Product Quality

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5

Competitive Intensity

4

Brand Reputation

4.5

Technological Requirements

2.5

Distribution Channel

3.5

Inflationary Vulnerability

4.9

Promotional Effectiveness

4.5

Productive Efficiency

4

Managerial Personnel

3.5

Market Attractiveness

As it is seen above, the attractiveness of the Chinese market is very high.

The annual growth rate of the coffee market is high. There are no significant technological requirements since Costa Coffee already possesses advanced technology.

Inflation is quite high and it seems that it will increase in the near future, however the targeted market groups remain unaffected (growing Chinese middle class). Partnership with Yuda will protect Costa Coffee from any possible dangers.

Therefore, the Chinese market is very attractive and suitable for coffee shops expansion.

Business Strength

Costa Coffee is part of the well-known Whitbread Family. The quality of Costa Coffee is unquestionable. Costa Coffee owns more than 500 stores worldwide. Its outlets are in Europe, UK, Middle East, India, Pakistan and China.

In order to maintain its excellent reputation, Costa Coffee will continue its policy of recruiting, training and retaining the best available employees in China.

Business Strength

High Medium Low

High

Medium

Low

Costa Coffee's Business Strength is high and the overall position is ideal for further expansion into the Chinese market.

Projected Sales in CHINA

Costa Coffee projected sales are expected to rise to almost 97% in 2012 and this is due to the launch of the new takeaway filter coffee and the new shops at the busy intersections.

This rate is expected to slow down (87%) in 2013 and this is because the one time visitors are expected to cease to visit the coffee shops and the existing customer base is expected to remain.

An extensive marketing promotion through emails, customer clubs, social media etc. is expected to increase market share.

The above numbers are very impressive and expansion seems ideals.

Sales forecasts per customer groups are also very promising.:

Market

2012

2013

2014

Total

Students & Youngsters

CNY. 20, 000, 000

CNY. 23, 00, 000

CNY. 6, 300, 000

CNY 49, 300, 000

Ex pats and returnees

CNY 7, 555, 000

CNY 7, 000, 000

CNY. 12, 800, 000

CNY. 27, 355, 000

Families

CNY. 9, 700, 000

CNY. 9, 850, 000

CNY. 17, 200, 000

CNY. 36, 750, 000

Professionals

CNY. 17, 750, 000

CNY. 32, 750, 000

CNY. 92, 000, 000

CNY. 142, 500, 000

Totals

CNY. 55, 005, 000

CNY. 72, 600, 000

CNY. 128, 300, 000

CNY. 255, 905, 000

According to the above table it can be seen that professionals is a group that has a lot of potential. This is because the Chinese middle class is rising and the coffee culture is mounting too. Another reason for the increase in sales in professionals is due to the location of the new coffee shops. There will be located in busy intersections where there are many office buildings.

Newspapers and other electronic media have approached Costa Coffee and various interviews and programs have been made which boost Costa Coffee's reputation even more.

BUDGET FORECASTS:

The forecasted budget for the upcoming three years is as follows;

TYPE

2012

2013

2014

Total

Accommodation

CNY. 2, 000, 000

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CNY. 5, 000, 000

CNY. 7, 000, 000

Training

CNY. 1, 500, 000

CNY. 500, 000

CNY. 4, 000, 000

CNY. 6, 000, 000

Transportation

CNY. 250, 000

CNY. 350, 000

CNY. 1, 000, 000

CNY. 1, 600, 000

Fixtures

CNY. 2, 000, 000

—

CNY. 7, 000, 000

CNY. 9, 000, 000

Total

CNY. 5, 750, 000

CNY. 850, 000

CNY. 17, 000, 000

CNY. 23, 600, 000

Future promotion and expansion plans:

Costa Coffee will be launching more coffee shops in the major cities of China (Beijing and Shanghai) but the plans are to expand all over China after having created a considerable market share in the above cities. The expansion has been planned for the next year that is 2012. In the next two years the next cities where new coffee shops will be located will include Guangzhou and Shenzhen.

Costa Coffee is not in favor of extravagant launching campaigns. It supports the use of electronic and social media as well as corporate social responsibility programmes and actions. It also believes in the right location of its shops. So, the marketing activity will be low except the posters that will

be in the shops, as sales promotion, advertising the new takeaway filter coffee.

ANALYSIS:

Costa Coffee has a lot of potential for further intensifying its expansion efforts in China. It already possesses a significant market share in the Chinese market. The reason behind it is the unbeatable image of Costa Coffee and the advertisement (word of mouth) done by people who have visited its outlets.

Sales are expected to rise in the following years and they are expected to rise even more in the forthcoming years since Costa Coffee is focusing on the rising Chinese middle class.

Students and youngsters in general set the new trends so their influence in increasing coffee consumption and visiting coffee shops is of utmost importance. By further using social media, Costa Coffee is expected to increase its market share in this group.

Professionals always seek quiet place to do their official or unofficial meetings. Costa Coffee is an ideal place to do these meetings. Apart from that, Costa Coffee's activation in social media will certainly increase its future revenue.

In conclusion, it can be said that Costa Coffee has so far implemented an excellent marketing strategy and the new campaign that it will launch for the takeaway filter coffee as well as the location of its new shops will help it increase its sales and gain sustainable competitive advantage.

RECOMMENDATIONS:

Sales numbers are very promising however the local partner should follow all the below the line activities mentioned.

Costa Coffee should continue with low promotional strategies.

Apart from posters inside the outlets, Costa Coffee should consider the use of bill boards at the busy intersections.