

External analysis of costa coffee marketing essay



**ASSIGN
BUSTER**

The purpose of this report is to find and diagnose the main problems Costa Coffee facing currently in the development of Chinese market, based on the detailed introduction to the development of company in China, combined with the PESTEL model, SWOT analysis for the company's internal and external environments Then, this report will put forward possible solutions to the problem, and analyze the advantages and disadvantages of each strategy. In the end, based on the analysis of all, the optimal strategy is chosen. According to the analysis of the report, the main problems are: How to improve the market share? How to improve the brand awareness and image? The most appropriate solution is to use the market penetration and development strategy. This strategy can enhance brand image and expand its market share, from a comprehensive product aspects, including production, price, place and promotion.

1. Introduction

The report will make a detailed introduction and analysis about the possible problems that Costa Coffee faced with in its process of development and expansion in China based on the introduction of the company's history and development condition in China. According to the relevant analysis above, the report is aimed at putting forward some corresponding alternative solutions and measures and choosing the best solution according to the integrated analysis of enterprise internal and external environment condition and the advantages and disadvantages of the alternative solutions.

In 1971, in Lambeth, London, Costa brothers founded their famous coffee beans baking workshop and they used a slow processing derived from the traditional Italian baking method to make the excellent coffee, supplying for

local dining establishments and Italian coffee shops. Finally in 1978, the first Costa espresso bar in London Vauxhall Bridge Road was born. Today, the Costa Coffee has become the Largest and fastest growing Coffee shop chain in the UK with 1392 stores in the UK and more than 811 stores in 25 other countries (Costa Coffee Official Website).

In 2006 and 2007, Whitbread Group made joint venture with Yueda and Hualian Group respectively in China to open the business in mainland China. In 2007, the first Costa Coffee Store was opened in Shanghai; in 2011, the hundredth coffee store was opened in T3 of Beijing Capital Airport. At present, there are more than 200 Costa Coffee shop in China, which are distributed in Beijing, Shanghai, Hangzhou and other first-tier cities. Since it was founded in 1978, Costa Coffee has been stick in using the classic slow baking process, and inheriting the brothers will Arabica Coffee beans with Robusta Coffee beans by the method of mixed, produced excellent Coffee.

In this report, it can be found that if Costa Coffee wants to further develop the Chinese market, there are two key issues that should be solved: How to increase reputation awareness and build brand image? How to increase market shares? At the same time, in this article, the diagnosis of the above two problems are combined the case facts and PESTEL analysis, Porter's Five model and SWOT analysis and VRIO model.

2. Findings

2. 1 External Analysis of Costa Coffee

2. 1. 1 PESTEL Analysis

According to the PESTEL model, the analysis of the macro-environment environment Costa Coffee facing will be about six aspects as followed respectively.

a. Political: For the Chinese market, China's current political environment is conducive to the development of the company, especially compared to the opponent of Starbucks in China; both the political environments are the same. So, the political environment of China Costa Coffee companies facing has no obvious restrictions and obstacles on the development of the company.

b. Economic: Data shows that: China's coffee consumption is growing at around 15% a year, far more than 2% of the world. According to international coffee consumption market average calculation, mainland Chinese coffee market consumption amount is about 1 trillion yuan, but at present, China coffee sales is only 70 billion yuan a year. Apparently, there is a huge space for China's coffee market development.

c. Social: In many parts of the world^{1/4} people have different ways of understanding and interpretation of their own coffee culture and coffee is becoming a fashionable city modernization and a new evaluation index (Chen, 2011, 90). After 10 years' development of coffee industry in China, coffee culture has gradually been accepted by Chinese people. However,

influenced by traditional Chinese tea culture, there still need some time for the development of coffee culture in China.

d. Technological: The development of science and technology makes the coffee making machine better and cheaper.

e. Environmental: The raise of social environmental awareness puts forward higher request on the whole coffee production chain.

f. Legal: The labor and taxes in coffee beans origin places will affect the company's business development.

2. 1. 2 Porter's Five Analysis model

Porter's Five Analysis model can effectively analyze the competitive environment, though the analysis of the five forces: bargaining power of suppliers, bargaining power of buyers, threats of new entrants, substitutes, rivalry.

For Costa Coffee, its raw material suppliers are mainly from developing countries in South America, and as a well-known brand in all over the world, Costa Coffee has a huge purchasing power. At the same time, because the production of Costa Coffee is mainly sold to single buyer, the bargaining power of buyers is very low. So the bargaining power of suppliers and bargaining power of buyers are not the main source of competitiveness and threats. Due to the high loyalty of market and consumers to coffee brand, so the influence of new entrants for famous coffee brand like Costa Coffee is not huge. For the Chinese market, the main substitutes of coffee are the Chinese tea industry and carbonated beverages, which have some influence on the

coffee industry to some extent. But the most severe threat is not that. There is a fact that Costa Coffee's entry to Chinese market is later than Starbucks and the number of coffee shops of Costa Coffee in China is smaller than that of Starbucks, therefore, the rivalry of Starbucks may be the largest threat competitor for Costa Coffee in the Chinese market (Chen, 2011, 90).

2. 2 Internal Analysis of Costa Coffee

VRIO model of southwest airline

Value

Rareness

Imitability

Organization

Market development

ã~š

Ã-

Ã-

Ã-

Marketing activities

•

•

•

•

Operating control

•

•

•

•

Organization management

•

•

•

•

VRIO model is composed by four aspects: the value, the scarcity, difficult to imitation and model group. VRIO is the study of enterprise internal ability analysis model. Based on the analysis of value, rarity, imitability and organization problems, the internal advantages or disadvantages of the enterprise can be found.

The VRIO analysis of the enterprise value activities prove that operational control and organization management are the resources and capacity that help Costa Coffee to obtain sustainable competitive advantage. At the same

time, the enterprise market development ability is the capability that Costa Coffee should strengthen.

2.3 SWOT Analysis

This part will use provide a summary and analysis of the opportunity, challenge, advantages and disadvantages using the SWOT model, based on the analysis of the internal and external environment of Costa Coffee above.

Strengths:

Coffee maker expertise

)→ International brand

)→ Giant corporation support

)→ Powerful background of Joint Venture Company

Weaknesses:

Lower reputation

Small market shares

High price limits consumer target

Lack of product localization

Shortage of professionals

Opportunities:

Potential market

Chinese disposable income increase

Expanding various consumer markets

Coffee culture has been introduced to Chinese more than 10 years

Threats:

Competition with Starbucks

Tea culture influence

Local brands coffee chain growth

(Bao, 2012, 177-178).

2. 4 Diagnosis and Analysis of the Problems of Costa Coffee

As the analysis above, Costa Coffee entered the Chinese market late; its stores in China are far inferior to Starbucks. Currently, China's Coffee market is rising in a high speed; therefore, in order to expand their business better, Costa Coffee should make efforts to improve its market share in China. But many Chinese people still don't know what Costa Coffee is. So, to improve its reputation and image in China is also first and important issue Costa Coffee should solve.

According to the PESTEL model, porter five model, VRIO model and SWOT analysis on the company's internal and external environment analysis, combining with the operation status of company at present in China, especially compared with the Starbucks company, it can be found that the problems Costa Coffee in the Chinese market faced with are: How to increase brand awareness and image? How to improve the market share?

3. Discussion

3.1 Summary of the Main Problems

As Britain's most famous coffee company, Costa Coffee won in the battle for control of the UK market with Starbucks eventually. In the war of the Chinese market, however, Costa Coffee was forced into a passive position in the beginning. In 2007, the company entered the Chinese market, while Starbucks come into China market in 1998. At that time, Starbucks has perceived the great potential of Chinese market development, but Costa Coffee has wrong judgment for the China market's future development, eventually leading to Starbucks to successfully enter and occupy the Chinese market. Though, Costa Coffee gradually attached great importance to the Chinese market, however, because Starbucks business has got great popularity in China, Costa Coffee's markets in China are mainly concentrated in Beijing, Shanghai and other major cities. Company has more than 200 coffee shops in China, while Starbucks has more than one thousand coffee shops in China; more than 700 in mainland China (Costa Coffee Official Website). Therefore, the issues Costa Coffee faced with in the Chinese market development are: single products, store less and slow business progress in Chinese market development.

To be concluded, these problems can be summed up in two main issues: low market share and low brand awareness. And these two problems are also the main and most pressing problems Costa Coffee should solve in its development in the Chinese market.

3. 2 Analysis of the Alternative Solutions

There are five alternative solutions to these two main problems. Among of all, the market penetration and development strategy, diversification, Differentiation, Localization of products and enhance strategic alliance with commercial properties and other intermediaries are the three alternative solutions that help Costa Coffee improve the market share in China. The other two solutions can be used to increase brand awareness and image of Costa Coffee. There are McDonald's positioning (brand and place) strategy and the strategy of more events participation.

3. 2. 1 Market Penetration and Development Strategy

Market penetration and development strategy is a kind of typical competition strategies. It is a kind of market development strategy which can develop its market potential of the strategy through expanding the scale of production based on the existing products (Young et al. 1989). Costa Coffee can use the promotional activities to attract customers. Or promote its characteristics of products and services of the company. For example, due to the low temperature slow roasted method, Costa Coffee's coffee tastes more sweet thick, and less bitter than Starbucks's coffee. At the same time, the space in coffee shop of Costa Coffee is relatively bigger, and it tries to build a feeling of home for customers.

This strategy can help Costa Coffee make full use of its core resources to expand the market. The features of unique taste of coffee and comfortable coffee shop environment are the advantages of Costa Coffee. Therefore, the company should take advantage of this feature to build enterprise core competitiveness. However, this strategy also has disadvantages. The price of <https://assignbuster.com/external-analysis-of-costa-coffee-marketing-essay/>

Starbucks coffee is lower than Costa Coffee. At the same time, Starbucks has promoted its coffee culture in the Chinese market for more than ten years. It is a hard thing for Costa Coffee Wan to change people's concept of coffee in the short term.

3. 2. 2 Diversification, Differentiation, Localization of Products

This strategy refers to expand the market by changing the single production mode. When entering a new market, whether local people will accept the product or service is the first issue that should be considered for the company. In this respect, the practice of Starbucks is worthy of reference for Costa Coffee. In order to be accepted by Chinese people, besides coffee, Starbucks has green tea, black tea and soy milk, and their coffee shop design also blended in more Chinese elements. Costa Coffee can design different coffee flavor according to Chinese consumer's habits. At the same time, besides maintaining its own characteristic, the coffee shop environment and service of Costa Coffee should be designed according to the needs of the local Chinese.

This strategy can help the company enter the Chinese market more smoothly, and will bring more customer for the company. However, diversification, differentiation, and localization of products require a lot of resource input, and the result has some risks.

3. 2. 3 Enhance Strategic Alliance with Commercial Properties and Other Intermediaries

Cooperate with local business company is an effective method for a company to enter overseas markets. Besides cooperation with Yueda and Hualian

<https://assignbuster.com/external-analysis-of-costa-coffee-marketing-essay/>

group, Costa Coffee can enhance strategic alliance with commercial properties and other intermediaries. As local businesses have a better understanding of local political, economic, resource and environment, Costa Coffee can make full use of the resources and advantages to develop the Chinese market better.

John et al. (1997) said ' The traditional equity joint venture is a more formal partnership where the firms involved establish a new separate business.' And Brooke (1986, 103) suggests four main reasons for the use of joint venture. So this strategy can help the joint properties make use of their advantages to achieve a win-win situation. However, there is no denying that the cooperation with other groups may limit Costa Coffee's develop on its own willingness and the company's core resources may not play a role, which will influence the development of Costa Coffee in Chinese market.

3. 2. 4 More Events Participation

The participation of major events can effectively improve the company's brand awareness and image. The brand can act as a value system (De Chernatony & Dall'Olmo Riley, 1998, 422). Costa Coffee can sponsor some sports, charity activities to raise its profile. The participation of the local charity can especially help enterprises to mould good brand image.

The advantages of this strategy is once successful, the effect will be long-lasting and profound. But, at the same time, this strategy requires a company has a sound judgment. Selection of the suitable events and participation is the key to the success of this strategy. The disadvantage of

the strategy is that the enterprise needs to make long-term and much investment.

3. 2. 5 McDonald's Positioning (brand and place) Strategy

This strategy refers to a "close" strategy. That's to say Costa Coffee can choose its store locations and set brand positioning by imitating Starbucks. Because Starbucks has a mature market in China, if the coffee shop locates close to Starbucks, which will not only eliminate the previous input in location choose, but also promote Costa Coffee's image (Yang, 2011). Also, Costa Coffee's brand positioning can also follow Starbucks's positioning.

The advantage of this strategy is saving the cost in market survey. At the same time, its disadvantages are also obvious. This strategy will make the company develop in a passive position. If there is not vacant position around Starbucks, this strategy will not be able to play a role. Therefore, this strategy can be used as a temporary way to raise awareness and expand the market, not as a long-term strategy.

4. Conclusion

In general, the development of Costa Coffee in China is facing great threats and challenges. Through the analysis of the company's internal and external environment, it faced with in the development of Chinese market. However, due to the late entrance into the Chinese market and lack of awareness and attention for the Chinese market, at present, Costa Coffee is in a competitive bad situation in the competence with Starbucks. At the same time, the local Chinese tea culture and the rise of local Chinese coffee industry also limit the development of Costa Coffee in China. However, as the rising of Chinese

people's consumption level, China's coffee market is in a rapidly rising stage, there still exists huge opportunities for Costa Coffee's development in Chinese market.

Through the development of the company facts and relevant management theory analysis, it can be found that problems in the Costa Coffee's development in China are: How to improve the market share? How to improve the brand awareness and image? In order to solve the two main issues, the report gives five alternative solutions. Although some focus on solving the first problem, some focus on solving the second problem. However, due to the close relationship between the two problems, the five solutions are also linked to each other and service to two questions together. Each solution has its unique advantages and disadvantages. Not all of the method is suitable for the company. So the most appropriate way should be chosen based on the present situation of the company, as well as internal and external environment analysis.

5. Recommendation

Through the analysis of five alternative solutions, it is obvious that each method has advantages and disadvantages. Given the company's current development situation, the best solution may be market penetration and development strategy. Diversification, Differentiation, Localization of products may also be an effective way, but just as previous analysis, its result cannot be sure. Moreover, Starbucks' success has added more difficulties to Costa Coffee. Enhance Strategic Alliance with Commercial Properties and Other Intermediaries is a effective method to expand the market share, but it also means the limit of business, and is likely to lead

<https://assignbuster.com/external-analysis-of-costa-coffee-marketing-essay/>

Costa Coffee to lose the advantages of itself. McDonald's positioning (brand) and place the strategy is only a temporary strategy, not a long-term one.

The strategy of more events participation cannot solve the problem of Costa Coffee fundamentally.

" It has been suggested that organizational capabilities provide the richest explanation and prediction of entry mode choice in foreign markets"

(Ekeledo and Sivakumar, 2004, 69). The core four elements of evaluation of a coffee shop are: quality, environment, service and food (Sun, 2011). If a company wants to succeed, it must formulate the overall development strategy of specialized markets, according to the Chinese market and their own advantages. Market penetration and development strategy is a complete, system solution. According to this strategy, the company can segment the market and determine the target customer. Then, Costa Coffee can penetrate and develop the market using the marketing mix method from product, price, and place and promote. For products, the company should make differences with Starbucks, positioning in the high-end customers through the characteristic product and service; for price, Costa Coffee can compete with Starbucks's low price through the high quality coffee and environment; for place, the company should choose the suitable place based on detailed analysis and choice product positioning; for marketing, the company can shape the world famous coffee brand image by vigorously promotion. It is sure that the comprehensive market penetration and development strategy will help Costa Coffee open the Chinese market and become the final winner in the battle with Starbucks.