

Travel & leisure. Coffee culture

Starbucks opts for super-sized in China

Chain opens vast premium roastery in Shanghai as part of its effort to remain upmarket

TOM HANCOCK — SHANGHAI

Starbucks is making a super-sized bet on China, where it is opening a premium roastery that will be its largest outlet in the world as part of efforts to maintain its upscale reputation in an increasingly important market.

The company has spread to more than 130 cities in China, where it operates about 3,000 stores. It is opening new outlets at a rate faster than one a day as it seeks growth in the country following several quarters of underwhelming results in the US, its biggest market.

The 30,000 sq ft roastery — approximately half the size of a football pitch — in Shanghai is the first for Starbucks outside the US. The outlet, which is due to open today, allows customers to watch beans being roasted and brewed in Bunsen burner-style tubes and is positioned as “super premium”, the company said.

As white-collar Chinese consumers with rising incomes switch to pricier premium goods, Starbucks is betting that thirst will extend to coffee.

China could become Starbucks’ biggest market within a decade, executive chairman Howard Schultz told the Financial Times in Shanghai yesterday.

Starbucks outlets in China have been seen as an upmarket destination for business meetings or dates, and so can charge more for a coffee than in the US. But other US brands such as McDonald’s and KFC that expanded rapidly in China have struggled in recent years as consumers in large cities began to desert them in favour of higher-end options.

Starbucks has 600 stores in Shanghai — more than in New York or London — but faces competition from an increasing number of artisanal outlets. Li Chaoxiang, 23, who works in an investment bank, said: “Starbucks is not a premium brand any more, as when it first came. Now in Shanghai you can see Starbucks anywhere.”

Mr Schultz said US fast-food chains had suffered as “the ubiquity of those companies worked against them”, adding: “The roastery represents the ability to take the customer up.”

Starbucks dominates China’s \$3.8bn specialist coffee shop sector with a 55 per cent market share last year, says consultancy Euromonitor, well ahead of its closest rival McDonald’s, which had a 7 per cent share. Sales at such stores have nearly tripled in value since 2012 as more Chinese people drink coffee.

The Asia-Pacific region, including China, accounted for almost 15 per cent of Starbucks’ revenue for the fiscal year

ended in October, up from 5.5 per cent five years earlier. Same-store sales grew 8 per cent in China in the most recent quarter, compared with 2 per cent globally.

“This is an inflection point for the company where China will become a much more important component of the financial results of Starbucks,” Mr Schultz said, adding that there would be “less dependence on the US business” in the future.

Jeffrey Towson, a business professor at Peking University, said Starbucks had “positioned themselves as affordable luxury” adding: “The amazing thing is, they really don’t have any major competitor in China at the moment.”

Starbucks opens a store about every 15 hours in China, including in a growing number of smaller cities, Mr Schultz said. “We’re seeing fantastic returns in those cities which are consistent with the early days of Shanghai and Beijing,” he added.

“One thing we didn’t count on is how busy the stores would be in the afternoon and evening, which is different from the US where we are busiest in the morning,” he noted. He added that same-store sales in China had been boosted by increased custom in the morning “in the last year or two”.

To some extent Starbucks is following a trail blazed by the fast-food chains into smaller Chinese cities, where incomes are rising faster than they are in China’s largest cities.

“Starbucks stands for American lifestyle,” says Terence Tsai, a professor at the China Europe International Business School. “It’s allied with status. People in lower-tier cities would aspire to this kind of leisure lifestyle. Lower-tier cities are ready for this kind of thing.”

But Starbucks is unlikely to be able to spread itself as widely as brands such as KFC, analysts say, especially in western regions of China, which are poorer with sparser populations. “The urbanisation rate is a problem, for a Starbucks it’s a particular problem because they need high visibility and high-traffic locations,” says Mr Towson.

While Starbucks has been under fire for its tax arrangements in Europe, Mr Schultz, who stepped down as chief executive this year, has been an outspoken critic of US president Donald Trump and the recent tax reform bill passed by the US Senate.

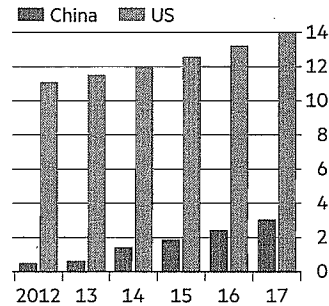
“I have a policy of not speaking about American politics on foreign soil,” he says. “I’ll just say this: I would like to see a tax policy that is more compassionate and serves all people, not just corporate America.”

Additional reporting by Wang Xueqiao



Rising importance of Chinese market to Starbucks

Number of outlets ('000)



Sources: company; Statista

As Chinese consumers with rising incomes switch to pricier premium goods, Starbucks is betting that their thirst will extend to coffee, with the opening of a 30,000 sq ft roastery in Shanghai

