

An Analysis on the Market Segmentation of Starbucks and City Café

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Abstract. In 1998, US Starbucks Coffee International formed a joint venture with two subsidiaries of the Uni-President Group- the Uni-President Enterprise Corp. and the President Chain Store Corporation, which is now named the President Starbucks Coffee Corp. However, in 2004, the President Chain Store Corporation launched its own coffee brand. Nonetheless, this brand is sold at a lower price to segregate itself from the market of Starbucks. This research conducted a survey on the main coffee consumer population in Taiwan and found that the reason why both of Uni-President's coffee brands - Starbucks and City Café - enjoy high market shares lies in the successful market segmentation strategy. With this finding, an expert in marketing was engaged in an interview to further analyze the market segmentation strategy used to segregate the market of Starbucks and City Café.

Keywords: Starbucks, City Café, Market Segmentation

1. Introduction

The name “Starbucks” was adopted from the name of the first maid – and coffee addict – in the novel *Moby Dick*, and the logo came from a 16th Century Scandinavian picture of a mermaid. The two legends turned a regular coffee joint into a coffee shop with a story. Starbucks was founded in 1971, and its main product was Arabica coffee beans. In 1987, its current Chairman, Mr. Howard Schultz, raised a fund to take over Starbucks and brought in the ambience and roasting technologies of Italian café. In 1994, Starbucks took a leap beyond the conventional operations of chain coffee shops and teamed up with Pepsi to develop a new line of products, including canned coffee beverages and ice cream (information abstracted from Starbucks website).

Starbucks started as a coffee bean roaster, selling coffee and peripheral products. The company set up its headquarter in Seattle, Washington State, USA and has gradually developed into a company with a chain of coffee shops across the US. Through 2012, Starbucks has over 15,000 stores worldwide, spread across North America, South America, Europe, Middle East, and the Pacific nations. It is now the largest coffee chain in the world (abstracted from Wikipedia).

The President Starbucks Coffee Corporation was officially founded on January 1st, 1998, and is a joint venture among the US Starbucks Coffee International, the Uni-President Enterprise Corp., and the President Chain Store Corporation. By the end of March 2012, there were 263 Starbucks stores in Taiwan, and 104 of them are inside the City of Taipei (from Wikipedia). Starbucks imported the coffee culture of the Western countries into Taiwan. It not only popularized the coffee lifestyle in Taiwan; its presence also brought a storm to the local coffee shop chains, including Barista Coffee, Dante's, Ikari, IS Coffee, O Café, Kohikan, E Coffee, and 85°C. The chain convenience stores, including Family Mart, and OK, as well as the chain fast food restaurants, such as MacDonald's, have also successively ventured into this growing coffee market.

In 1986, the President Chain Store Corporation launched Café Americano through its 7-Eleven chain stores. This product did not become the center of focus at the time. After 2004, the company began to shift the focus from the American style Americano to a series of Italian style gourmet café products that are more familiar to general consumers. In December 2007, a 7-Eleven commercial claimed that they had set up City Cafés at over 1000 stores (figure 1) and a series of cross-media commercial campaigns was launched, focusing on the most popular coffee flavor in Taiwan- Café Latte (reference Advertising Yearbook Taiwan, 2009). The launch of the City Cafés completely subverted the traditional model of coffee distribution. And the main appeal, “Enjoy your time; enjoy your city”, sets its targets on office workers and students aged between 20 and 40.

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The success of 7-Eleven's City Café presented a whole new model of “coffee bars” and brought other convenience store and fast food chains to follow suit. Convenience stores near schools, hospitals, offices, MRT stations, and high-speed rail stations began to launch their own coffee brands (figure 2), including Mr. Brown Coffee of Family Mart and OK Café of OK Mart. Fast food chain MacDonald's also launched its own coffee brand, McCafé. This research makes an attempt to compare and analyze the market segmentation strategy of President Starbucks and City Café, in aim to explore how well the consumers in the same region receive the two brands, Starbucks- an international brand- and City Café- a local brand. Results of the survey are brought to a marketing expert for further analysis and interpretation.



Figure 1: A commercial of 7-11, which announced the 1000th City Café



Figure 2: Starbucks in Taipei Railway Station, MRT, and HSR station (data collected by this research).

2. A Comparison of Starbucks and City Café

Riding on the fast track of the 7-Eleven 24-hour chain stores, City Café campaigned its slogan of “The entire city is my coffee shop” for quality, low priced coffee anytime and anywhere. President Chain Store Corporation segregated Starbucks, a brand run in joint venture with the US Starbucks Coffee Co., from its own label, City Café, through differentiation in quality, price, time, and space (Table 1).

2.1. Types and price range of Starbucks coffee products

President Starbucks Coffee Corporation sources its coffee beans from over 20 countries/regions, but the three main regions are Latin America, Indonesia, the Philippines, East Africa and the Arabian Peninsula. The stores offer a variety of coffee beverages, including café latte, vanilla latte, hazelnut latte, caramel macchiato, café mocha, cappuccino, café Americano, and espresso, and the prices range from NT\$ 75 to NT\$ 155.

2.2. Types and price range of City Café products

City Café uses mainly the Huetenango beans from Latin America for hot coffee and Andes beans for iced coffee, which is characterized by its attributes of Italian coffee and the varied taste, making it very suitable for taste in its original flavor. City Café offers a range of coffee beverages, including American coffee, latte, cappuccino, and City blend, and the prices range from NT\$ 25 to NT\$ 45.

2.3. Price range of coffee products in Taiwan

Since Starbucks set the benchmark of “hundred-dollar” coffee, other brands followed closely behind Starbucks, such as Barista and IS Coffee, and began to price their products as closely as possible to the prices of Starbucks, with a differentiation of NT\$ 10 to 20. The leader in canned coffee, Mr. Brown, has also jumped into the market and taken the lead in the price range between NT\$ 60 and 80. McCafé is also trying

to cut into this niche. And at the bottom of the market, E Coffee, targeting the take-out market, specializes in NT\$ 35 coffee (Chiu Li-Ling, 2009). Barista was the first high-end coffee chain to open in Taiwan, which was challenged by Starbucks, an international brand specializing in Italian style coffee. However, the emergence of the cheaper E Coffee officially brought the coffee culture into the lives of the Taiwanese (figure 3 and 4).

Table 1: Market segmentation components between Starbucks and City Café

	Quality	Price	Time	Space	Target Consumers	Others
 STARBUCKS	Higher	Higher	Fixed Time	In-store or take-out	Office workers	More choices
 CITY CAFÉ	Lower	Lower	24 hours	Take-out or in-store	Students	More convenient

(Data source: compiled by this research)



Figure 3: Starbucks at Chung Yuan Christian University (data source: this research).



Figure 4: 7-11 City Café at National Taiwan University of the Arts (data source: this research)

3. Questionnaire Framework and Statistical Results

This questionnaire survey aimed to explore the market share of Uni-President STARBUCKS, and CITY CAFÉ, as well as consumers' opinions of the market segmentation of the two. The main contents of the questionnaire survey included: (1) consumer behavior: everyday coffee drinking frequency, beverage drinking habit, and reason for enjoying coffee; (2) brand selection: most frequently drank coffee, favorite coffee venue, favorite coffee logo; (3) recommendations after market segmentation: coffee impression source, improvement items consumers think STARBUCKS needs to work on, and improvement items consumers think CITY CAFÉ needs to work on.

A questionnaire survey was conducted from June to July of 2012, targeting the main coffee consumer groups in northern Taiwan, that is, office workers and students. The survey aimed to explore patterns of consumer behaviors and brand image. A total of 164 effective questionnaires were returned. Other than parts of the questionnaire that served as a reference in this study, the statistical results of the questions closely related to the survey purpose are as follows: From the aspect of consumer behavior, the coffee population in Northern Taiwan drinks coffee in the following frequencies (per day): 46% 1 cup, 13% 2 cups, and 36% in varying frequencies. The “most frequently drank coffee” is latte (48%), Americano (19%), Cappuccino (17%), Café Mocha (4%), and others (12%). The statistics indicate that the average coffee consumer in Taiwan drinks one cup per day, and the most popular type is latte.

Among the 13 well-known coffee store chains in Taiwan (including convenience stores and fast food restaurants), the question of “most favorite coffee venue” revealed the following: Starbucks (29.1%) and City Café (29.1%). The two conglomerates alone take up 58.2%. However, consumers also pointed out that Starbucks needs to improve on prices (68.1%), promotional offers (15.3%), charity activities (9.2%), quality (6.9%), and refreshments (6.1%). The consumers also think that City Café needs to improve on quality (29.4%), refreshments (14.7%), promotional offers (14%), store ambience (13.3%), and peripheral merchandise (9.8%), thus indicating Taiwan's existing coffee consumers find Uni-President's market segmentation acceptable.

4. Statistical Analysis of the Questionnaire Survey

According to the results and analysis of the survey, STARBUCKS and CITY CAFÉ won nearly 60% of the market share through market segmentation, but many consumers raised some issues and improvement suggestions; among these, nearly 70% of consumers anticipated that STARBUCKS would make price adjustments, and nearly 15% of consumers anticipated promotional offers. As for CITY CAFÉ, the areas that need improvement include coffee quality, promotional offers, choice of refreshments, store ambience, etc., in order to satisfy coffee consumer groups.

Marketing and management scholar, Wu Pi-Chu (interviewed on June 14th, 2012) expressed, “To the consumers, Starbucks is a place to enjoy the feel of coffee. This is an element of experience marketing; through this, the consumers associate the smell, taste, visual elements, and sounds to the emotions, thinking, and behaviors. Plus, brand dominance brought Starbucks its position in the market. The brand equity has actually succeeded the value premiums from the actual assets, and that is why Starbucks is able to establish a large base of loyal customers with high price and high quality.”

On the subject of market segmentation between Starbucks and City Café, Wu Pi-Chu (interviewed in June 14th, 2012) indicated, “Starbucks provides an environment for high quality, high experience, and high priced coffee. City Café, on the other hand, emphasizes convenience in time and location, as well as quality coffee for lower prices.” An office worker, also a student of Ms. Wu Shu-Ping (interviewed in June 12th, 2012), thinks that “price” and “taste” are the main constructs of the market segmentation. “If there is a Barista, I would not choose Starbucks. If I see a 7-11 City Café, I would not buy Starbucks. This is because I like the unflavored beans of Barista, and I choose City Café over Starbucks because the beans used in these two stores are basically from the same place and at the same class, but the prices in Starbucks can be twice as much,” said Ms. Wu.

5. Conclusion

In Taiwan, coffee is sold through many different outlets. There are the chain coffee stores (e.g. Barista Coffee), convenience store coffee bars (e.g. Mr. Brown in Family Mart), and fast food restaurants (e.g. McCafé). This saturated market is highly competitive, and the success depend on many factors, such as quality, price, time, location, the ambience of the venue, consumer behaviors, and whether the point of sales are close enough to the major traffic spots. Uni-President Enterprise Corporation and President Chain Store Corporation adopted the market segmentation strategy to run two coffee chains at the same time, and the strategy has obviously had a positive effect in satisfying the needs of the major coffee population in Taiwan-office workers and the students.

Uni-President Enterprise Corporation launched City Café after Starbucks. Did the company worry about whether City Café would take away part of the Starbucks customer base? Based on the research results, the two coffee chains are positioned differently in the market. They lock on to different locations and customer niches. City Café targets the lower priced consumer market. The emergence of City Café not only has effect on the business of Starbucks, and the brand image of Starbucks in effect reinforces the image of City Café.

6. References

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