Coffee Market in China: Trends & Consumer Strategies

A Coffee industry Market Research of a Traditional Tea-Drinking Country

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Abstract

With the rapid development of China economy, the coffee market is now soaring and more and more companies are going to join it. To get a clear sight and some ideas of the market, here comes the paper.

This paper consists of 8 chapters, an overview of International and domestic coffee market about coffee production and consumption will be given, meanwhile, the status and development prospects of coffee industry in China are briefly summarized. However, coffee in China is still a trend more than a habit, people drink it to feel good, but not out of need. Coffee culture is beginning to be accepted and appeals to the adventurous, open-minded, young, affluent, urban consumers in cities like Shanghai, Beijing, and Guangzhou. This paper also gives a deep analysis of Chinese customers' coffee buying behavior, consumption values and Chinese coffee culture, which is more like a symbol of modern and successful lifestyle than the culture created by western people hundreds years ago. In China, coffee culture represents a young, emerging middle class and their growing purchase power instead of blends, tastes, and brewing techniques.

With the rising of Chinese people's living standard and continuously development of domestic coffee market, it is believed that China, this traditional tea-drinking country could also becomes one of the world largest coffee consumption countries in future.

Keywords: Coffee industry, Coffee culture, Tea culture, Coffee consumption behavior.

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LIST OF ABBREVIATIONS

CASS	Chinese Academy of Social Sciences
CCTV	China Central Television
CEPA	Closer Economic Partnership Arrangement
CNKI	China National Knowledge Infrastructure
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
ICA	International Coffee Agreement
ICO	International Coffee Organization
NCA	National Coffee Association of USA
WTO	World Trade Organization

Chapter 1 Introduction

1.1 Reasons for Topic Choosing

It was in 2000, the first time I went to a Starbucks Coffee when I was in Beijing. To my surprise, most of the customers were foreigners and I was just wondering how long it would last. Nearly fourteen years has passed, when I was in Beijing again last year, I found that nearly all streets in city center are decorated by a variety of coffeehouses, no matter an private cafés or some international coffee chain brands, like Starbucks or Costa Coffee. However, most of customers inside were Chinese young people, seems like young student or white-collar workers.

There is no doubt that coffee is the second trade of the world after oil and the second beverage. The sustained and rapid development of China's economy has brought a new historic opportunity to the world coffee market since Chinese Market itself is a fundamental market to study. Study in Spain with my roots in China, I am especially interested in cultural differences between different countries. The idea for this topic came from my own interest. In my opinion, it will be interesting while we put the market aspects and culture together.

However, everybody knows that China has always been considered as a traditional tea drinking country. I was surprised of the success of these international coffeehouse companies and the customers' rapid acceptation of those exotic products. "Coffee culture" has gradually rooted in Chinese society, even though it might sound strange when we talk about it.

1.2 Theoretical basis (Academic Literature Review)

Therefore, I would like to know more and deeper my knowledge into this area, it would be interesting if I could do the TFM with this topic. Since I am still not so familiar with the knowledge and the researches that have been done by others, so it is a little difficult for me to choose a focus and develop it now.

First, starting from my point of view, I selected several key words, such as “customer behavior, Chinese customers, coffee culture, combustion values, culture behavior, culture shock and intercultural communication” for searching of literatures, in order to get a basic understanding of this topic.

The selection of database could be an important phase in this period. It would be better using academic references, which could be found in the academic web site, so I chose Sciencedirect.com, Google scholar and CNKI.net for searching. ScienceDirect.com is a multidisciplinary academic website, where contain these articles of social sciences and humanities areas, so I chose it for searching. As well as CNKI (National Knowledge Infrastructure), especially focus on those publications of Chinese researchers, both in Chinese and English. Furthermore, I chose Google scholar because this topic could be considered as an open topic, all of these useful resources, from different points of view, could be found in a way of a variety of combination, which can provide a more wider and innovative point of view.

Based on the academic literature review that have been done last year, those most related literatures have been classified into three orientations, each of them are from the economical view, sociological view and marketing view. They are Chinese Customer behavior (Economical & Sociological view), Coffee culture & Tea culture (Sociological view) and Different Strategy need to be used considering different cultural influences (Marketing view). I would like to describe each of them with several aspects.

1.2.1 Chinese Customer Behavior (Economical view)

TRADITIONAL CHINESE CONSUMPTION VALUES AND CHANGES

Most observers of the Chinese consumer market have seen its linear evolution from a traditional culture toward a more Westernized consumer society during the country's three-decade experimentation of the free market (Wang & Lin, 2009). Values, attitudes, lifestyles and consumption patterns for the people of China have been deeply influenced by their long historical and cultural traditions. An individual's consumption behavior is a result of the individual culture value system developed over time as they socialize in a particular group that is in turn influenced by regional sub-cultures and familial values.

It is very important to understand basic cultural competence when doing business in China. A research of "Migration of Chinese Consumption Values: Traditions, Modernization, and Cultural Renaissance" has made by Wang and Lin in 2009. This article highlights persistent Chinese cultural values and identifies contemporary changes due to Western influences.

Talking about Chinese cultural, it could be present as a system in which give a lot of importance on interaction with one another, and some indigenous values has been included, just like guanxi (relationship), miànzi (face), renqíng (favor), and bào (reciprocation). The Chinese core values that affect the consumers' behavior are conversed below.

Thrift and Saving/Spending Patterns

''Thrifty'' is ranked as the top traditional Chinese cultural value (Chinese Culture Connection, 1987). The value of thriftiness has a significant impact on consumers' daily lives and their attitudes toward debt, saving, and spending patterns. Even with increasing incomes, consumer-borrowing habits are still conservative. There is a widely spread story in China, comparing the values and lifestyle of a typical American lady and a typical Chinese lady. The American lady took mortgages in her early years to live in big houses. When she dies, she has no savings but a big house. The Chinese lady saved all her money to buy the house. When she had enough savings to buy the house, she was dying. In her lifetime, she accumulated big savings but never lived in her own house. This story illustrates thrifty values related to consumer attitudes toward debt in China (Wang et al., 2001).

Face and Conspicuous Consumption

Face, or miànzi, is a concept of central importance because of its pervasive influence in interpersonal relations among Chinese. Face stands for the kind of prestige that is emphasized and it is reputation achieved from maturing in life, through success and ostentation (Hsien, 1944). Face involves prestige or reputation based on personal effort such as the acquisition of wealth, position, or power. Motivated by a desire to impress others with their ability to pay particularly high prices for prestige products, by advertising their wealth, people who engage in conspicuous consumption thereby achieve greater social status (Bagwell and Bernheim, 1996; Basmann, 1988). The possession of publicly visible luxuries, including foreign-branded products, is important to the consumer's ‘‘public self.’’ Many white-collar workers in China's cities want to impress people and raise their social status.

Relational Orientation and Connected Self-Construal

A relational orientation and connected self-construal have been shown to influence Chinese consumer responses to advertising (Wang et al., 2000) and consumer responses to marketing communication and sales approach.

The Chinese tend to value spending time with friends and family, and shopping is an activity that naturally allows consumers to spend time together. Peer pressure and opinion leaders often serve as the primary influential factors of purchasing decisions. Opinion leaders for Chinese consumers include older people, political leaders, family elders, and authoritarian types. Chinese are much more likely to be influenced in their purchasing decisions by opinion leaders.

Because of the social nature of the shopping experience, Chinese consumers may prefer to develop personal relationships with salespeople. Thus, as long as the Chinese perceive shopping as a social occasion, salesmanship will continue to play a significant role in their store choices.

Conformity and Brand Loyalty

Since the Chinese attach much importance to past experiences and tradition, they are not likely to switch brands unless the brand being used proves very unsatisfactory. The traditional Chinese are found to be slow in accepting new market offerings. As they are likely to make a reference to the way things have always been done, they are cautious with purchasing a product that may involve new brands or behaviors (Spears et al., 2001). As such, the product life cycle in China, especially in mature and elder consumer markets will be relatively longer than that in a typical Western society.

Changes under Western Influences

Since the Chinese consumer market was opened up in the early 1980s, the values also change overtime due to the successful entrance of western businesses. Some noticeable changes in China include a growing tendency toward individualism (McEwen et al., 2006) and materialism (Swanson, 1995), growing consumerism and awareness of consumer rights (Ho, 1997), and hedonic consumption (Wang et al., 2000). A prominent example is the more relaxed attitude toward debt and the willingness to spend on luxury products as China's consumer economy is in the process of becoming a credit-driven market (Deloitte, 2005). Consumers with greater utilitarian values tend to live simple lifestyles, consider consumption necessary for survival, and tend to be more concerned about product quality and price. On the contrary, consumers with strong hedonic values tend to consider consumption to be more than satisfying basic or survival needs. As a result, their consumption behaviors are characterized by pursuing instant gratification, spending expressively or symbolically, and seeking enjoyment and fun (Hirschman and Holbrook, 1982; Wang et al., 2000).

As consumer goods are being made more available and the freedom of choosing products and leisurely activities are encouraged, a consumer culture is emerging. Therefore, one of those major indicators of the emerging Chinese consumer culture is the growing hedonic consumption value. More than just satisfying basic physiological needs and assuring the security of product performance, Chinese consumers nowadays are looking for fun, gratification, and pleasure in their consumption experience. They also found that hedonic values have a positive impact on Chinese consumers' choice and consumption patterns such as novelty seeking, responsiveness to promotion stimuli, brand consciousness, and preference for foreign brands.

COFFEE BUYING BEHAVIOR

In this area, two literatures have been found; both of them have their research problem in relation with fair trade coffee. Coffee may be seen as a western-style beverage to Chinese consumers. In China, western-style foods are often symbols of modernization of food consumption and it is this idea that triggered the fast expansion of western-style convenience foods in China (Curtis et al., 2007).

Yang et al.(2012) has pointed out in his research that the coffee market in China is a potentially high growth market. In China, coffee is often not seen as an ordinary beverage. In the 1980s, coffee drinkers were rare and coffee was usually treated as high- priced imported gift items exchanged more for its token value (i.e., as an expensive gift) rather than actual consumption value. Today, more people in China may consume coffee for the same reasons as in most western countries. Coffee is, as opposed to a washing machine for example, a low involvement good. Buying a specific type of coffee is often a matter of habit. (De Pelsmacker et al., 2005), these different reasons represent different attribute dimensions when a customer purchases coffee, such as brand-orientated, flavor-orientated, ethical- orientated, and price- orientated. Both of the two studies were agreed with that the price, quality, convenience and brand familiarity are still the most important decision factors (Roberts, 1996; Tallontire et al., 2001). In general, the ethical consumer feels responsible towards society and expresses these feelings by means of his purchase behavior. When companies have bad social records, consumers can decide not to buy their products (De Pelsmacker et al., 2005).

McDonalds could not have succeeded without appealing to the younger generation of consumers who are eager to reach out to a different culture. There is scant literature on consumer coffee preferences or fair trade labeling in China. However, while China is opening its doors to the world, it is reasonable to anticipate that western-style tastes and preferences will emerge for coffee, especially among its younger citizens (Yang, et al., 2012).

Marketers can also adopt corresponding marketing strategies to focus on the target groups, while relevant policy makers can use proper management tools to facilitate this rapidly expanding market (Yang et al, 2012).

CHINESE CUSTOMER DECISION-MAKING

A study has been made by Kathleen Brewer Doran with the topic of “Exploring Cultural Differences in Consumer Decision Making: Chinese Consumers in MontrTal” in 1994. Customer decision-making processes have been widely studied in North America (Doran, 1994). However, to date, little understanding exists of how culturally based social influences (Hofstede, 1980; Kluckhohn and Strodtbeck, 1961) affect the utility of widely accepted models of consumer decision processes. This study was designed as an exploratory interpretive investigation into the role of culture on decision-making processes. The study assumes that influence applied through culture and socialization may shape individual consumer decision making.

While exhibiting some individual differences, the Chinese participants, as a group, showed remarkable similarity in their choice processes. Since the Chinese value thrift highly, attitudes that approve the use of debt are rare. In the sample they used, every individual saved in advance to make the purchase; impulse buying for this type of product was unheard of.

For the Chinese, information sources are viewed differently than they are in North America, possibly because much less information is available in China than in MontrTal. However, most Chinese customers preferred to use both neutral and marketer dominated information only for price and availability, although several admitted that they might also use these types of sources to provide details on functions available on various models.

One reason for the strong emphasis on both brand and personal sources of information was the need for trust. The Chinese customers often went beyond visiting a friend's home to see a product and actually borrowed the item to try it out. This process was possible because such a high level of trust exists in personal relationships, and having personal hands on experience with the product before purchase helps build trust (and loyalty) with the manufacturer and product. However, as acculturation increased, borrowing behavior declined dramatically.

Social desirability also played a role for the group, as individuals tried to match their choices to those of their friends. Local reference groups tended to have less impact on process than overall culture.

Furthermore, although the Chinese are thrifty by nature, they value quality very highly.

As a result, they choose a model first, and then try to find the best price for that model, rather than setting a price threshold first and finding the best model they can for a given price. Brand influence was particularly accentuated in the sample group. Perhaps this aspect was an artifact of the product category chosen; yet in discussions of all types of product categories, brand influence was a major factor.

Cultural differences appear to be more important than national borders when investigating decision-making processes, but local marketing environments, including current reference group and ambient culture, also have a profound effect, especially on contextual outcomes. Therefore, marketers should be careful to think globally in terms of understanding cultural differences, but act locally by understanding the effect of local environment. (Doran, 1994) Also, Several authors assert that some of today's consumers may prefer global brands to local brands (Alden et al., 2003).

1.2.2 Coffee culture & Tea culture (Sociological view)

BACKGROUND AND EVOLUTION OF COFFEE CULTURE

Nowadays, in China there are more and more people who like drink coffee in their daily life, and seems every moment of life has been filled with¨coffee culture¨. No matter at home, in office or a variety of social occasions, people are willing to buy and taste a cup of coffee, which gradually has been linked with fashion and our modern life. A plenty of cafés, which situated en every corner of city has become a perfect place for people to chat, listen music and take a rest, by which, coffee has developed as a culture. (Chen & Zeng, 2011)

Coffee culture describes a social atmosphere or series of associated social behaviors that depends heavily upon coffee, particularly as a social lubricant. (Zhang, 2006) A "coffeehouse or "café" is an establishment which primarily serves prepared coffee or other hot drinks. Historically cafés have been an important social gathering point in Europe.

They were and continue to be venues where people gather to talk, write, read, entertain one another, or pass the time. In addition to coffee, many cafés also serve tea, sandwiches, pastries, and other light refreshments. Some provide other services, such as wired or wireless Internet access.

TRADITIONAL TEA CULTURE

Tea and coffee is the most consumed traditional beverage in the world. Tea is not only popular in China, but also in other Asian countries, like India and Japan, while those western countries prefer coffee. According to Zhang (2011), the consumption of tea has declined since several years ago; those people from 18-29 years old are less likely to consume tea. However, the consumption of coffee increased from 1993, especially after 2000, meanwhile these young people are the more sensible ones to accept new things.

Baldwin et al (2006) divided all culture definitions into two types: broad sense and narrow sense. The former includes both material culture and intangible culture (also see UNESCO, 2002), and the latter is in a narrow sense of intangible culture. Following the definition of culture, tea culture could also be defined in a broad and narrow sense (Wu, 2006). Broadly it means the total of tea related material and spiritual wealth during the process of tea development, which combines tangible and intangible products including ethic demonstration, etiquette norm, esthetic, religion, arts and tea-growing, tea-processing techniques and materials (Song, 2004; Li, 2007); and narrowly it only means the spiritual wealth (Wang, 1992).

Xu (1999) define tea culture as the derivative of tea, and a series of phenomenon of material, spirit, customs, psychology and behavior with tea at the core, which, without any exception, demonstrate the natural property and social and cultural property of tea.

Throughout various studies, it is recognized that China's tea culture emphasizes 'Harmony, Respect, Gratitude and Love', which are closely linked with the traditional

Chinese culture and ethics (Yang, 2007).

There are several special circumstances in which tea is prepared and consumed. First, as a sign of respect, in Chinese society, the younger generation always shows their respect to the older generation by offering a cup of tea. Second, for a family gathering, when sons and daughters leave home because of work or get married, they may have few times to visit their parents, and parents may seldom meet their grandchildren as well. Third, to apologize, in Chinese culture, people make serious apologies to others by pouring tea for them. For example, children serving tea to their parents is a sign of regret and submission. Fourth, to express thanks to your elders on one's wedding day, in the traditional Chinese marriage ceremony, both the bride and groom kneel in front of their parents and serve them tea. That is the most devout way to express their gratitude. At last, to connect large families on wedding days. The tea ceremony during a wedding also serves as a means for both parties to meet with each other.

1.2.3 Different Strategy need to be used considering different cultural influences (Marketing view)

MARKET COMPETITION: TEA & COFFEE

With the opening to worldwide market in 1980s, a variety of foreign products have poured into Chinese market, and Chinese coffee industry has growing with a surprising speed. As what has been pointed out by Chen (2011), instant coffee could no more represent the Chinese coffee consumption, Chinese consumers began to recognize the coffee brand, style and pure, and knowing how to enjoy the fun of coffee. A positive relationship has been showed by level of education, family income and the frequency of drinking coffee. Coffee, this western drinks, are more likely to be considered as a symbol of successful lifestyle than itself. The development of Chinese coffee market, are close linking to the customers' interest for occidental culture. However, China's relationship with tea may never be the same as before again. The number of coffee houses in China has nearly doubled in the last five years. Over the same period, the number of Chinese tea houses rose by only 4 per cent. Teahouses have targeted higher-end consumers with expensive teas, food and service, but lack differentiation, and there are few successful brands to meet the challenge posed by the rise of the café chains. However, the situation is, the emergence of teahouse chains targeted at younger, lower-income consumers.

Some popular coffee chains like Starbucks and Costa Coffee have spread out fast in recent years. Even though a lot of Chinese customer may do not like the taste and flavor of coffee, who only adore the coffee culture. And even worse for the teahouse is that many cafés sell both tea and coffee, which provide more options for the customers. Nearly a quarter of Chinese consumers chose to buy tea drinks even in coffee shops.

COFFEE DEMAND AND MARKET ANALYSIS IN CHINA

Coffee consumption in China is highly concentrated in large cities such as Beijing, Shanghai and Guangzhou. Recently, coffee appeals to adventurous young, rich, and urban consumers. This is just because originally coffee is considered as a Western concept to most Chinese consumers. However the coffee culture is getting well known in China nowadays.

According to Bantiwalu (2012), Chinese coffee consumers are more exposed to Western influences and tend to look up to Western lifestyles. Manufacturers have targeted Westernized young professionals as the main target market for coffee. Another large consumer group, which influences the coffee consumption, is returnees. China has many returnees (mainland Chinese students returning from Western countries) over the last ten years. Many of these returnees have lived in Western countries for a decade and they have become accustomed to the coffee culture. Upon their return to China they have carried on living in this fashion. Foreign expatriate also comprise a large proportion of coffee consumers in China.

According to Lee (2004), it is reported that Westerners and businessmen from Hong Kong and Taiwan represent 30% of customers at chained cafés such as Starbucks. Total volume sales of coffee in China grew by nearly 90% between 1998 and 2003, to 6,504.5 tones. Domestic production of coffee beans also expanded rapidly. (Bantiwalu, 2012)

China doubled its on-trade coffee consumption between 1998 and 2003. This is a mostly urban phenomenon with most rural areas largely untapped. On-trade sales of coffee mainly go through three types of establishments: coffee shops/cafés (independent and chained), Internet cafés and fast food restaurants.

The Chinese coffee market is highly consolidated, with multinationals controlling the market. Bantiwalu (2012) has mentioned in his report that Starbucks stands as a statement of modern lifestyles and affluence in today's China. The company has opened over 90 outlets in the country. However, Starbucks faces increasing competition from other foreign players. Such like Nestlé, who was the first multinational to establish a coffee processing plant in China and standing as the first instant coffee in China, which may sometimes has become a generic name for coffee. Which has also mentioned by him is that Nestlé also sent technical staff to the Yunnan province (one of the major coffee-producing provinces in China) to help growers produce coffee beans which meet their own production requirements. Asian countries, affluent consumers with a high degree of Western influence are more likely to accept a coffee culture (Lee, 2004). According to Sprcoffee.com (2010) there are approximately 200 million potential coffee consumers in China, which would potentially put China on a par with the major coffee consumer. The coffee market is growing by 30% annually. In contrast, coffee consumption worldwide is growing at an annual rate of only 2%. In the future China has the potential to become a major coffee-consuming country. As Bantiwalu (2012) said, the coffee industry and coffee shop operation represent highly promising blue sea business areas, which has showed that China coffee market has endless potential thus make China play a key role in the world coffee industry.

LOCAL CUSTOMER CULTURE POSITIONING

Brand positioning plays an important role in global consumer culture. As the world globalization emerges, the importance of globally shared meanings, such as brands and product categories, becomes apparent (Terpstra & David, 1991). The Global Consumer Culture Positioning can be divided into the Local Consumer Culture Positioning and the Foreign Consumer Culture Positioning.

A Local Consumer Culture Positioning is that the brand is positioned in a way that the association with the local consumer culture can be made. The Chinese people attach importance to the opinion of personal sources like members of a collectivistic group (Jung & Kau, 2004). Reference groups are consulted to shape their behaviors and evaluations (Bearden & Etzel, 1982).

Chinese consumers are also likely to visit several stores to compare and evaluate products and have at least two conscious searches for information before making the final decision (Doran, 1997; Li et al., 2004). All these characteristics of consumer behavior in China leads to the indication that Chinese consumers are looking for certainty and recognition. When looking at these cultural aspects, a Local Consumer Culture Positioning of a brand is more suitable. The adaptation to the Chinese language and the use of Chinese idols in their promotional campaign is a small grasp of the possibilities of this positioning strategy to create certainty and recognition (Alden et al., 1999).

1.2.4 Conclusion of literature review

After a reading and study of all the literatures found from an economical view, sociological view and marketing view, a broader view has been provided and a variety of possibilities have been found to serve as an entry point. At present, China has already become one of the potential consumption markets for coffee, with their potential target customers and producers. However, it is important to analysis a possible sales channels, potential risks, customer behavior and potential competitors based on the Chinese business culture in order to facilitate those foreign enterprises to formulate their entry strategy in Chinese coffee markets. Table 1 has been made in order to make it more clear these main ideas.

Table 1: Conclusion of literature review

Focus & Enter point	Authors	Basic ideas	Important conclusion
Focus 1: Chinese Customer behavior (Economical & Sociological view)	Wang & Lin, 2009; Chinese Culture Connection, 1987; Wang et al., 2001; Bagwell and Bernheim, 1996; Basmann, 1988; Spears et al., 2001; McEwen et al., 2006; Swanson, 1995; Ho, 1997; Deloitte, 2005; Hirschman and Holbrook, 1982; Wang et al., 2000	★Traditional Chinese consumption values and the changes	- It's very important to understand basic cultural competence when doing business in China. Some traditional consumption values remained, just like guanxi (relationship), miànzi (face), renqíng (favor), and bào (reciprocation), although ''Thrifty'' is ranked as the top traditional Chinese cultural value, something has changed under the influence of western culture. - By the intend of impress people and raise their social status, conspicuous consumption has became more and more popular in China. A more relaxed attitude toward debt and the willingness to spend on luxury products have been showed. Chinese consumers tend to live with simple lifestyles, consider consumption necessary for survival, product quality and price. However, a strong hedonic value is being considered than some basic or survival needs. Chinese consumers nowadays are more likely to looking for fun, gratification, and pleasure in their consumption experience. - Also, the Chinese tend to value spending time with friends and family, and shopping is an activity that naturally allows consumers to spend time together. Peer pressure and opinion leaders often serve as the primary influential factors of purchasing decisions. Furthermore, Chinese consumers may prefer to develop personal relationships with salespeople.

			-The traditional Chinese are found to be slow in accepting new market offerings. The product life cycle in China will be relatively longer than that in a typical Western society.
	Curtis et al., 2007; De Pelsmacker et al., 2005; Roberts, 1996; Tallontire et al., 2001; Yang et al., 2012;	★Coffee buying behavior	- With the fast expansion of western-style convenience foods in China, coffee market is a potentially high growth market. - Those most important decision factors in coffee purchasing behavior are the price, quality, convenience and brand familiarity. - Some proper management tools should be used to facilitate this rapidly expanding market.
	Doran, 1994; Hofstede, 1980; Kluckhohn and Strodtbeck, 1961; Alden et al., 2003	★Chinese Customer decision-making	-The influence applied through culture and socialization may shape individual consumer decision making. -Chinese customers are likely to save in advance to make the purchase and to use both neutral and marketer dominated information only for price and availability. -Brand and personal sources of information, which need high level of trust, are both emphasized before purchasing. -Cultural differences appear to be more important than national borders when investigating decision-making processes, marketers should think globally but act locally.
Focus 2: Coffee culture & Tea culture (Sociological view)	Chen & Zeng, 2011; Zhang, 2006	★Background and evolution of coffee culture	-Coffee culture describes a social atmosphere or series of associated social behaviors that depends heavily upon coffee, particularly as a social lubricant. Cafés have been an important social gathering point in Europe for people to talk, write, read, entertain one another, or pass the time.
	Zhang, 2001; Baldwin et al, 2006; UNESCO,	★Traditional tea culture	-Tea consumption has declined especially among young people, while a dramatically increase of coffee consumption has been viewed.

	2002; Wu, 2006; Song, 2004; Li, 2007; Wang, 1992; Yang, 2007;		-Tea culture can be viewed as the derivative of tea, and a series of phenomenon of material, spirit, customs, psychology and behavior with tea at the core. China's tea culture emphasizes 'Harmony, Respect, Gratitude and Love', which are closely linked with the traditional Chinese culture and ethics.
Focus 3: Different Strategy (Marketing view)	Chen, 2001;	★Market competition: Coffee & Tea	-In China, Coffee is more likely to be considered as a symbol of successful lifestyle than itself. A positive relationship has been showed by level of education, family income and the frequency of drinking coffee. -Teahouses lack of differentiation, and there are few successful brands to meet the challenge posed by the rise of the café chains.
	Bantiwalu, 2012; Lee, 2004; Sprcoffee.com, 2010;	★Coffee demand and market analysis in China	-Chinese coffee consumers are more exposed to Western influences and tend to look up to Western lifestyles, the consumer group includes returnees, foreign expatriate and westernized young professionals. -The Chinese coffee market is highly consolidated, with multinationals controlling the market. The coffee industry and coffee shop operation represent highly promising blue sea business areas, which has showed that China coffee market has endless potential thus make China play a key role in the world coffee industry.
	Terpstra & David, 1991; Jung & Kau, 2004; Bearden & Etzel, 1982; Doran, 1997; Li et al., 2004; Alden et al., 1999;	★Local Consumer Culture Positioning	-The Chinese people attach importance to the opinion of personal sources like members of a collectivistic group. Reference groups are consulted to shape their behaviors and evaluations. Chinese consumers are also likely to visit several stores to compare and evaluate products and have at least two conscious searches for information before making the final decision. All these characteristics of consumer behavior in China lead to the

			indication that Chinese consumers are looking for certainty and recognition.

Source: Edited by writer

1.3 Methodology

All research approaches can be classified into one of three general categories of research: exploratory, descriptive, and causal. Exploratory research is used when one is seeking insights into the general nature of a problem, the possible decision alternatives, and relevant variables that need to be considered. Descriptive research embraces a large proportion of marketing research; the purpose is to provide an accurate snapshot of some aspect of the market environment. When it is necessary to show that one variable causes or determines the values of other variables, a causal research approach must be used (Aaker et al., 2011). In this study, the exploratory research will be used.

The main research methods include,

1) Secondary Data Analysis

Include published data, publications, the existing company information system, databanks of other organizations, such as government and non-government organizations, and Government departments' statistics, research reports, and the online article.

2) Case Study

Case study is about making a further explore, deep analysis of typical enterprise marketing strategies and business model of China's coffee market.

In the data analysis, it is necessary to use time series trend analysis, quantitative methods in comparison with similar market, as well as the other qualitative methods, such as the edit of secondary data.

1.4 Objectives

1.4.1 The problem indication

The objective of this study is, through a market research，to get a deep understand of China's coffee market with culture aspect taken into account. Furthermore, the result will help enterprises get a profound understanding of market characteristics and potential, and discover the importance of understanding Chinese coffee culture in doing business.

From an academic point of view, it can be said that there is several researches already been made by other researchers about Chinese Coffee Market. But when the research started, a lack of documents and journals regarding Chinese coffee culture and Chinese coffee customer behavior have been found. Those researchers usually did the analysis of coffee culture worldwide instead of China and ignore to analyze the whole coffee market with only focus on the cultural aspect. However, those researchers who only did a marketing research of coffee industry always ignore to take into account the culture aspect and Chinese customer behaviors. It means that, it is necessary to notice that an entirely new culture has been built with some new specific characteristics, absolutely differ from those western countries, even different from its Asian neighbors. From this view it is important to relate these interesting part of the past studies together and gain new insights around this topic.

Therefore, we should be clear of what market scale and supply-demand conditions do Chinese coffee market have. What is the coffee culture in traditional sense and how does a new coffee culture been forming by Chinese customers and the whole social atmosphere?

1.4.2 The research questions

In order to find out problems and development trends of China's coffee market and to understand where still have to improve, innovate, the following research questions should be answered.

- *What are the current status and future trend of China's coffee industry in recent years?*
- *What feature does Chinese emerging coffee culture have?*
- *What is the relationship between Tea and Coffee in China?*
- *What kind of effect does Chinese local culture have on the consumer behavior in China?*
- *How do the rapid economic growth and the exposure to western culture influence Chinese people's consumption value and Chinese consumer market?*
- *How do the development of China's coffee market and Chinese coffee culture effect on each other?*
- *What strategy should foreign coffee chain companies use regarding Chinese local market environment, local culture and Chinese coffee customer feature?*

Chapter 2 Coffee Industry Overview

2.1 Introduction to coffee

2.1.1 Coffee Origen and History

Coffee, one of the “world three top drinks” crops, refers to beans harvested from plants of the genus *Coffea* of the family Rubiaceae and beverage brewed from it. It has more than 500 types 6,000 species, most of them are tropical trees or shrub, which widely distributed in tropical and subtropical regions. Not only the seeds can be made into delicious coffee, a lot of caffeine could be extracted as a medicinal ingredient, its peel and pulp can also be used to produce alcohol, vinegar and its flowers can be used to refine flavor in order to make cosmetics.

Botanical evidence indicates that *Coffea arabica* is the first coffee to be widely used as a beverage, originated on the plateaus of central Ethiopia, several thousand feet above sea level (Dharmananda, 2003). In the 6th century, an Ethiopian shepherd called Gal brother discovered coffee. In 1615, the merchant of Venice brought coffee into Europe for the first time. Coffee was first planted in the Americas 1720. When it comes to 1925, growing coffee has become an agricultural tradition of Central and South America. Now, 1500 years has passed, and more than 70 countries and regions produce coffee, about 15 million people drink it every day. It is the world's oldest, largest commodity trade in addition to petroleum (Chen & Liu, 2013).

Just as it has been discussed, ancient African Ethiopians discovered coffee. At the beginning, people only picked the wild fruit of coffee for eating. Coffee was used for its medicinal properties and as a ritual drink (Dharmananda, 2003). Gradually, they started to plant it. In the Age of Discovery (from 15th century to 17th century), European spread coffee throughout the world, this let coffee culture born and developed. So Africans, Asians or Europeans, have all contribute to the spread of coffee, and made it become one of the three most popular beverages in the world.

Gradually, the picking up and consumption of coffee have been spread to the Arabian Peninsula across the narrow Red Sea. In medieval Arabs cultivated coffee. In the late Middle Ages, Chinese people promoted the conversion from a medicine drink to a popular beverage among normal people. Indians was also involved in the spread of coffee. In the early Ming Dynasty, the Grand Voyage of Zheng He also promoted the consumption, cultivation and development in Arabian region. In 1433, the fleet of Zheng He visited Persian Gulf, Arabian Sea, and those Arab countries of Red Sea coast, including Yemen, who brought the Chinese tea culture to Arab world. They also invited those peoples of Arab countries to have a taste of tea and send them tea as a gift. The Chinese tea drinking habits enlightened the Muslims that the original, refreshing beverages could also become everyday consumer goods (Zhang, 2006).

In addition, it is inseparable between the further spread of coffee and the development of Ottoman Turkish. By the 15th and 16th centuries, extensive planting of the coffee trees was undertaken in the Yemen region of Arabia. From Yemen, the use of coffee beans spread throughout the Arabian Peninsula and later to Turkey (Dharmananda, 2003). At that moment, Spain and Portugal was becoming a colonial empire, when Ottoman Turkish expanded to a feudal religious empire. Almost all of the West Asia, North Africa, Asia Minor, Central Asia and South-East Europe were under the domination of Turks, which provided a great opportunity for the spread of coffee in a vast continent. By the 6th century, after Turks took over the Arab region, they started to collect discarded coffee beans, and after the whole process of drying, roasting, and grounding, they boiled it with water and sugar. So far, the modern basic mode of coffee drinking was founded (Zhang, 2006).

2.1.2 The Introduction of Coffee into China

The introduction of coffee in China have several layers of meaning: the first is the consumption of coffee among the westerners who lived in China of early years; secondly, it means the appearance of commercial coffeehouse which both westerners and Chinese people like to go; the last layer of meaning refers to the individual cultivation, sales and consumption of coffee in China.

Chinese treasure ships sailed in search of medicinal herbs from distant lands, which were then brought back to China for incorporation into the rapidly increasing Material Medicine. However, they were unable to acquire coffee, which was intensively regulated by the Arabians. Eventually, a Moslem pilgrim who smuggled out the fertile berries took some beans to India and it was cultivated there in the 17th Century (Dharmananda, 2003). Today, about 80% of India's coffee is grown in the southern state of Karnataka, and is often sold as Mysore coffee. Southeast Asia was on its way to be a major world source of coffee in the mid 19th century when a plant disease wiped out many of the crops, turning the world's attention to coffee from Brazil and other areas.

But, the coffee plantations eventually recovered. By 1887, coffee had made its way to Tonkin, in what is now Vietnam, and from there it arrived in China. Later, thanks to those French people, they brought coffeehouse to China when the railway between Vietnam and China was being built. A French missionary planted some coffee beans in Yunnan at the same time (Yin, 2005). The Chinese initially showed little interest in this drink favored by Westerners, except in places like the Western influenced city of Shanghai (Dharmananda, 2003). But a hundred years after its first introduction to China, especially since the reform and opening up in 1980s, coffee became a popular drink in China. Moreover, China has become a major producer and an exporter of beans (green, roasted, or finished products) and coffee is offered in all major cities of China, and gradually formed its own coffee culture.

2.2 International Coffee Market Analysis

2.2.1 World Coffee Plantation & Production

In terms of the world coffee plantation regions, all of them concentrated in areas close to the equator and widely distributed in Central and South America, Africa, Asia and Oceania (Yin, 2005). Therefore, a bean belt has been formed, which roughly bounded by the Tropics of Cancer and Capricorn. The best coffee actually comes from the cooler, more temperate environments of the higher mountainous regions within the tropics. These coffee growing regions typically offer moderate sunshine, abundant rainfall, steady temperature around 70ºF (20ºC), and well-drained, nutrient-rich soils (papanicholas.com).

Figure 1: Coffee Growing Regions of the World

Source: http://www.papanicholas.com/guide/wherecoffeecomesfrom.aspx

There are several different coffee species. Two main species are cultivated today. Arabica coffee accounts for 75-80 percent of the world's production. *Coffee Canephora*, known as Robusta coffee, accounts for about 20% and differs from the Arabica coffees in a couple of ways. While Robusta coffee beans are more robust than the Arabica plants, they produce an inferior-tasting beverage with higher caffeine content.

Coffee Production is a process of its conversion from raw plant to the finished product in the access for the consumer. Some countries of the world have made the coffee production their major source of income. As the following table shows, the top ten coffee producing countries in the world of 2013 are Brazil, Vietnam, Indonesia, Colombia, Ethiopia, India, Honduras, Peru, Mexico, and Guatemala.

Table 2: Ten leading producing countries in crop year 2012/2013

Unit: Thousand bags

Country	Production	% Share of world total
1. Brazil	50826	35.0
2. Vietnam	22030	15.2
3. Indonesia	12730	8.8
4. Colombia	10371	7.1
5. Ethiopia	6366	4.4
6. India	5303	3.7
7.Honduras	4537	3.1
8. Peru	4450	3.1
9. Mexico	4327	3.0
10.Guatemala	3703	2.6

Source: International Coffee Organization Annual Review 2012/2013-1

Brazil is unquestionably the biggest coffee producing country in the world (NCA). Coffee plantations in Brazil often cover variety areas of land. Both Arabica and Robusta are grown, but a majority of them are Arabica coffee (Yin, 2005).

To be continued, it is necessary to mention an Asian country, Vietnam. It is a country with the largest coffee production in Asia. As it was said before, in the 19th century, a French missionary brought an Arabica tree and planted it around Tonkin. From then onwards, Vietnam has become an important coffee growing country in Asia and the coffee industry is growing so rapidly that Vietnam is rapidly becoming one of the world's largest producers. Nowadays, in the southern part of the country, Vietnam own thousands of small plantations, most of them produce Robusta coffee. Vietnam entered into world coffee market in 1990s, and soon became the second largest coffee producing country, greatly increased the amount of global coffee production and storage capacity (Yin, 2005). In May of 2002 Vietnam joined in the International Coffee Organization.

Indonesia, another Asian country that composed of thousands of islands, also is well known for its coffee plantation. The coffee plant was introduced to Indonesia by Dutch colonists in the 17th century and soon led the world's production. Indonesian coffees are noted for a pronounced rich, full body, and mild acidity. Small farmers produced about 90% of coffee in the country.

Colombia is the only South American country with both Atlantic and Pacific ports. There is no single consensus on how coffee was brought to this country. But located in the bean belt, Colombia is famous for its moist, temperate foothills of the Andes, where have the combination of high altitude and moist climate, which are the perfect conditions for coffee growing.

Ethiopia is considered as the birthplace of coffee. Indeed, it is not hard to believe that coffee originated in a land where wild coffee tree forests are still the primary source of harvested coffee. According to the table, it is the 5th largest coffee producer in the world and the top producer in Africa, with 6.4 million bags in 2012/13 (ICO, 2013).

According to legend, India is the birthplace of coffee cultivation of East Asia. In recent years, the coffee production of India has increased a lot from 2011, and now India has managed the top ten coffee producing countries in the world, with ascension of ranking from the 8th to the 6th. India specializes in the production of Robusta coffee.

Honduras is another South American country that has the required perfect climate and environment for coffee plantation. In this agriculture-oriented country, which its economy depends on the exportation of agricultural corps, coffee is the largest cash crop in terms of exports. But for the lack of modern technologies, infrastructures and brands, the coffee from Honduras is hard to sell by a premium price.

Another South American country needs to be mentioned is Peru, who earns a large amount of revenue from the coffee exports. A majority of coffee plantations of this country is small-sized. Also, Peru is known as one of the major producers of fair trade and organic coffee beans in the world.

Mexico, a central-American country, also, whose coffee primarily comes from the small coffee farms instead of large plantations, owns the coffee production capacity over 4327 thousand bags per year. Mexico ranks as one of the largest coffee producing countries in the world.

Guatemala also is a central-American country that is working hard to build the uniform quality in its well-established coffee industry, but it is not as famous as its neighbors in Central and South American, while its coffee is well known for its original taste and rich flavor. There are three growing areas in Guatemala: Antigua, Coban and Heuhuetanango.

2.2.2 Coffee Sales & Price

Traditionally, coffee is a relatively profitable crop (Hays, 2011), however, its price are very unstable and closely related to the circumstances of coffee producers, weather, politics.

The most important coffee trade organization in the world is International Coffee Organization (ICO) (Yin, 2005), it is a main intergovernmental organization for coffee, bringing together exporting and importing Governments to tackle the challenges facing the world coffee sector through international cooperation. Its Member Governments represent 94% of world coffee production and over 75% of world consumption. The ICO's mission is to strengthen the global coffee sector and promote its sustainable expansion in a market-based environment for the betterment of all participants in the coffee sector (ICO, 2013).

Prices were once largely controlled by the International Coffee Organization (ICO, 2013), which had traditionally been dominated by the United States who tried to keep prices stable to avoid political unrest in Latin America. Pricing was kept in line in accordance with the 1962 International Coffee Agreement (ICA) between coffee-consuming nations and coffee-producing nations, and a system of quotas has been designed to keep prices high by preventing overproduction. However, prices remained relatively stable until 1989 when the ICA collapsed and United States withdrew its support from the ICO and let the market control the price. The result was more instability and lower prices (Yin, 2005). In addition, these exporting countries are divided into 2 groups. The 24 main producing countries have to follow the basic quota of ICO while the quota of countries that has a less production would not be constrained (Yin, 2005).

The green coffee trading market is divided into natural market and the future market, which located in London and New York. Loaded with sacks, the standard package is 60kg, which indicates the country of origin, ICO certification on the bags in order to track the quota inspection (Yin, 2005).

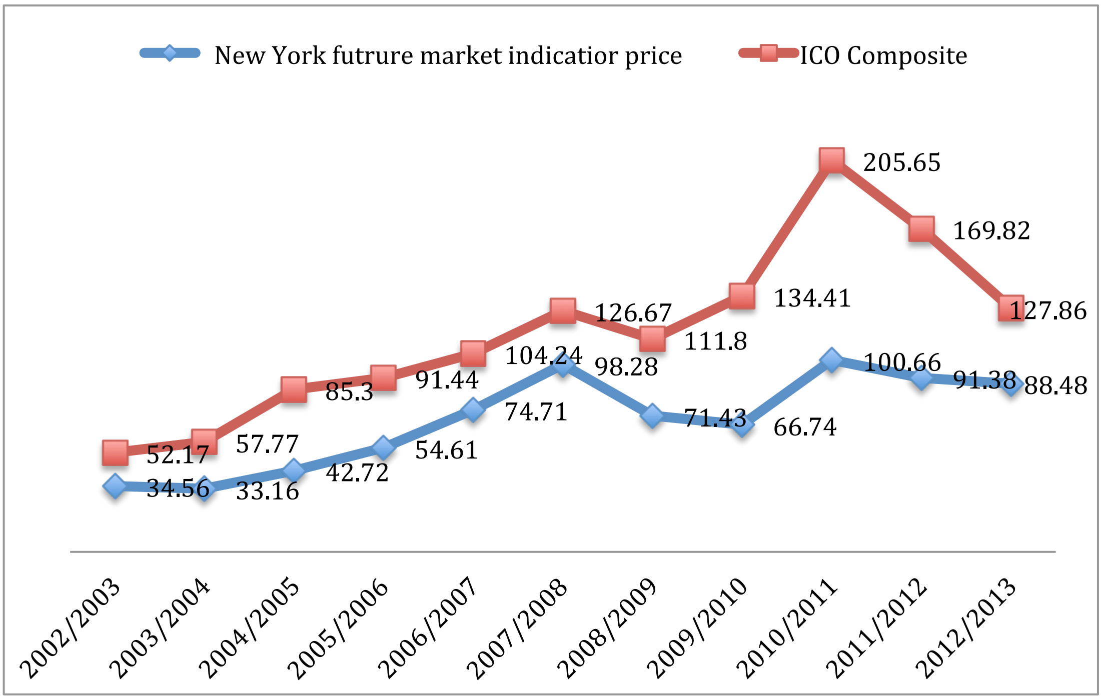
According to the diagram, from the year 2002 to 2013, the lowest price year was 2003/04, with a price of 33.16 US cents/lb. in New York future market. In 2008/09, the coffee prices began to increase, reaching a peak by 2010/11 (100.66 US cents/lb.). Since US joined again the ICO in 2005, the prices began to rise (Yin, 2005). But, from the year 2011, the prices began to decline. All ICO indicator prices as well as prices on the New York and London futures markets experienced the same negative trends (ICO, 2013).

The expanded local production of coffee beans coupled with the low price of green coffee in international markets has contributed to the reduction of the retail price of coffee in China. However, the fall of coffee price only has a little affect on coffee processing industry, but it could be a devastating impact to coffee plantation industry.

Figure 2: ICO indicator and futures market prices

(Coffee year averages 2002/03 to 2012/13)

Unit: US cents/lb.

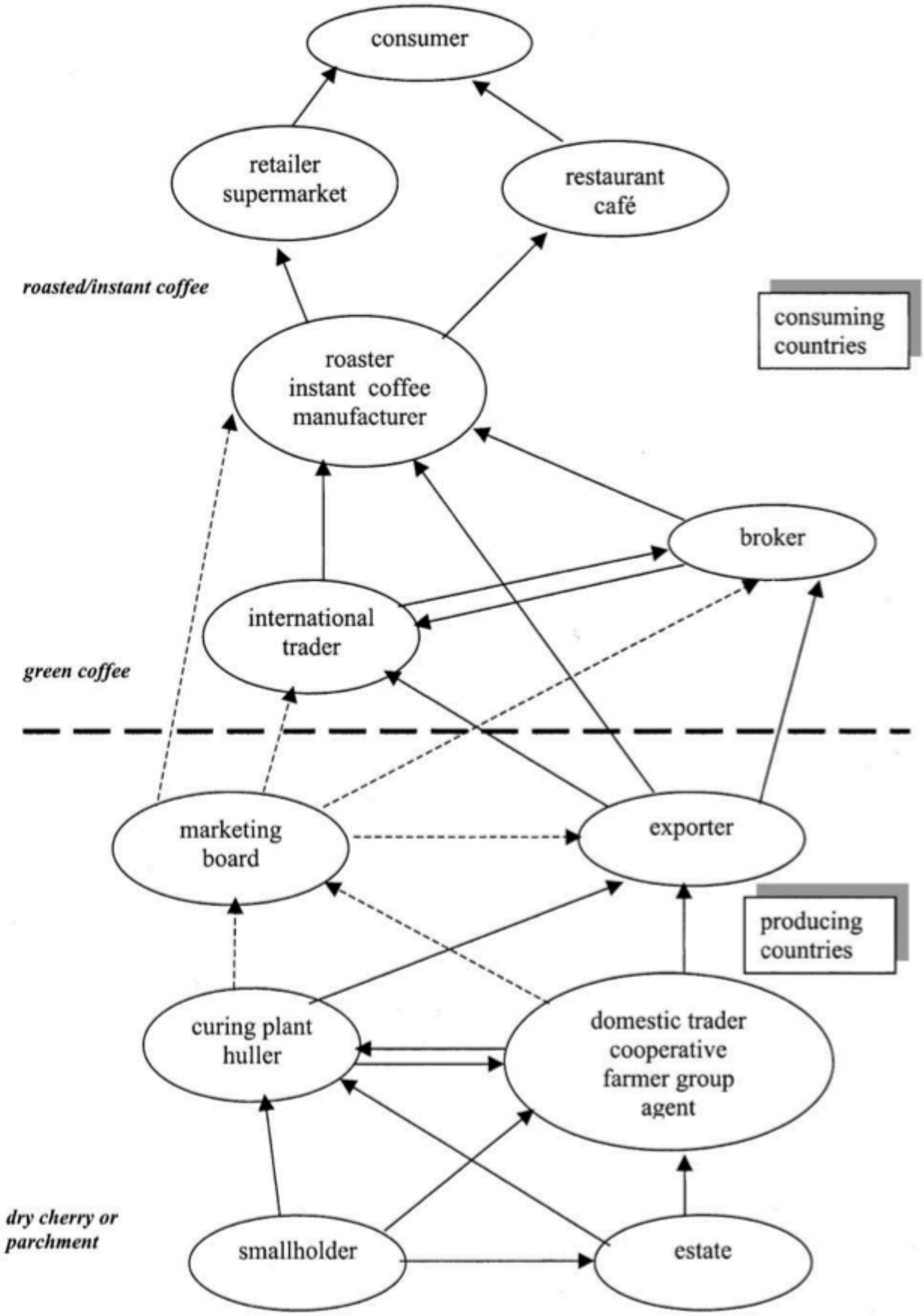


Source: International Coffee Organization Annual Review 2012/2013-1

2.2.3 Coffee Industry Value Chain

It was a long way to go for every coffee bean from field to cup. According to figure 3, coffee value chain contains various stages of processing, such as coffee research, seedlings cultivation, plantation, harvest, preliminary processing of coffee, sales and services.

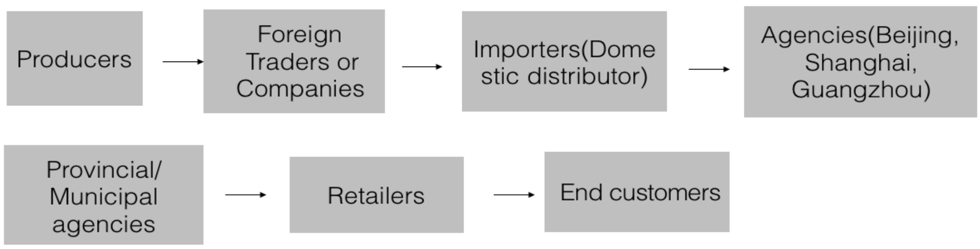
Figure 3: General structure of the global coffee-marketing chain



Source: Ponte, 2002

As figure 4 shows, the participants of coffee industry value chain are producers, traders, importers, agencies, retailers and end customers.

Figure 4: China's Coffee Industry Value Chain

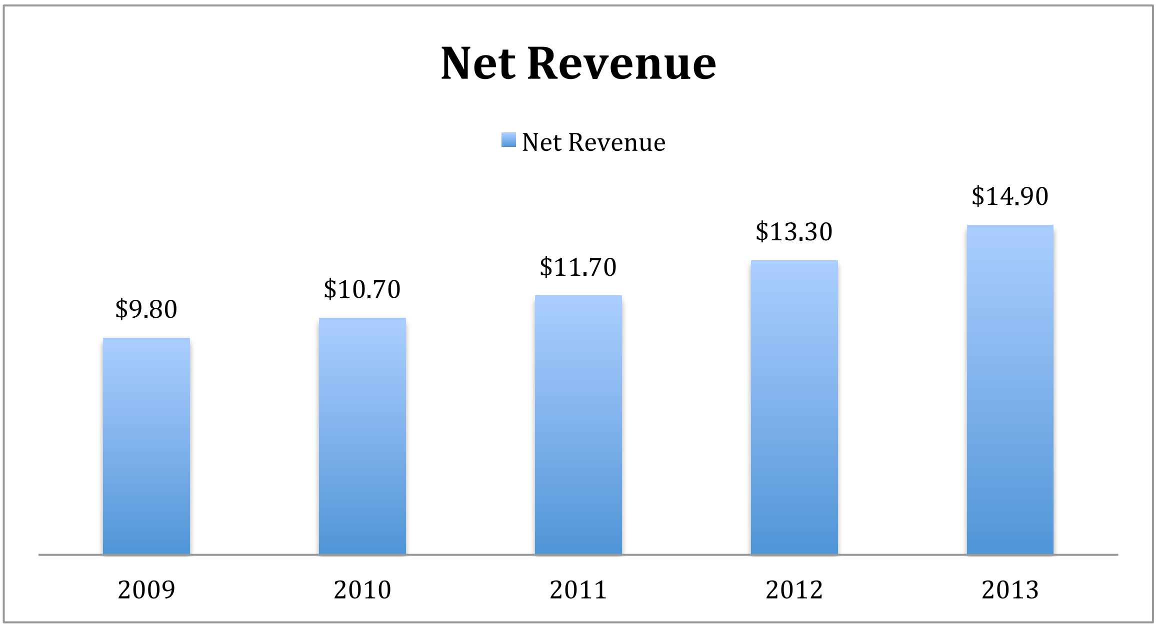


Source: Yin, 2005

In general, the price of coffee was fluctuating in recent years, and reached a relatively low price in 2014. However, the profits of processors and retailers continued growing. According to Starbucks' Annual Report (2013), the net revenue of 2013 has increased by 12% and reached $14.9 billions compared with last year.

Figure 5: Net Revenues of Starbucks (from 2009 to 2013)

Unit: US billion dollars

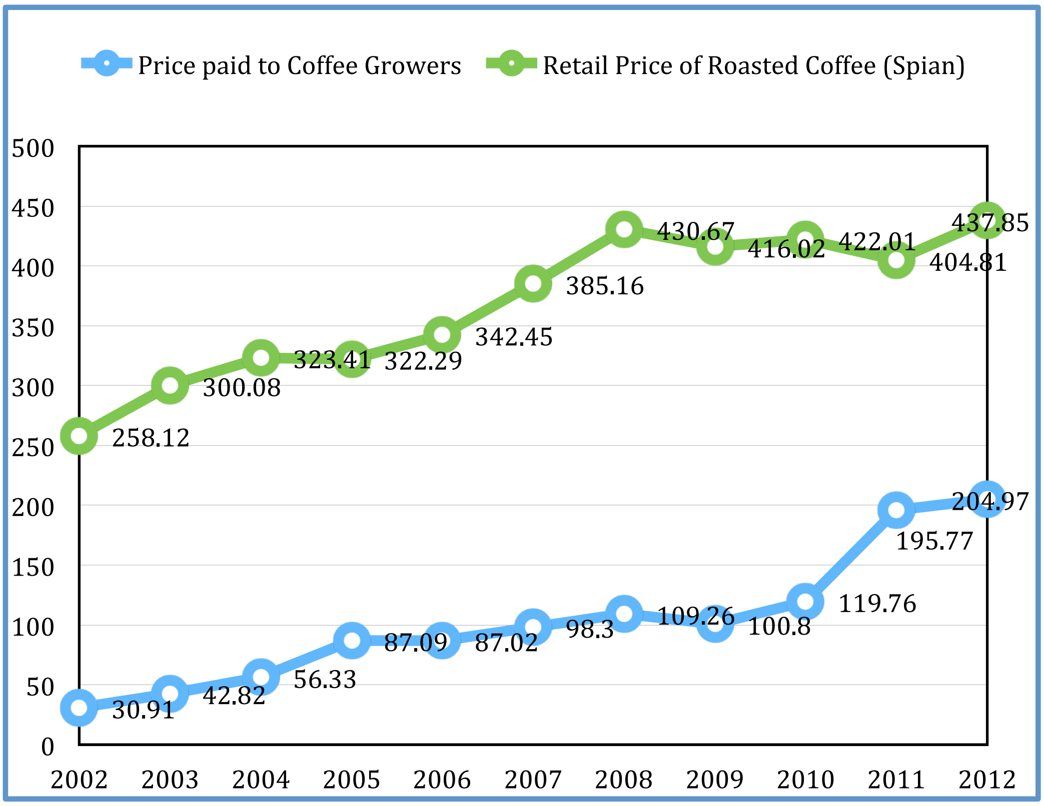


Source: Starbucks Corporation Fiscal 2013 Annual Report

The last link in the coffee value chain is the retailer. Taken Arabica Coffee from Brazil for example, the retail price of roasted coffee in Spain was much more higher than the price paid to coffee growers. According to the table, the importers and retailers earned most of the profits in coffee industry.

Figure 6: Comparison between Price to Coffee Growers & Retail Price of Roasted Coffee (from 2002 to 2012)

Unit: US cents/lb.



Source: ICO, http://www.ico.org/new_historical.asp

2.3 China Macroeconomic Environment Analysis (PEST Analysis)

PEST analysis (Political, Economic, Social and Technological analysis) describes a framework of macro-environmental factors used in the environmental scanning component of strategic management. Here it is going to be used to analysis the macro environment of China's market.

2.3.1 Political Factors

Political factors are basically to what degree the government intervenes in the economy. China is the member of WTO (World Trade Organization), which will promote the importation and exportation of coffee beans. Moreover, the joined of WTO stimulate the development of economy, enhance living standard of Chinese people, and brought new western culture, which influences living habit of Chinese people gradually. Furthermore, with the development of international enterprises, and the improvement of Internet, many white-collar workers in China need to release their pressure with coffee. Therefore, China's market could be considered as a market with large potential.

An excellent legal environment could protect enterprises from unfair competition, customers' legal rights, and the interest of society from some unfair business behavior.

Chinese retail industry has fully liberalized to foreign investment since 1992. The relevant laws and regulations about franchise enterprises in China have been improving gradually, which provide convenience for the centralized management of these companies. (Zhang & Yu, 2008)

2.3.2 Economic Factors

GDP

China is a global economic power with huge market that rising rapidly, and a great development potential both in trading and investment. From the latest data found in the webpage of World Bank, China´s overall growth has averaged a 7% to 8% for more than a decade, and now it stand as the second largest economy by size in the world after US, with a GDP of 8,277,040 million U.S. dollars.

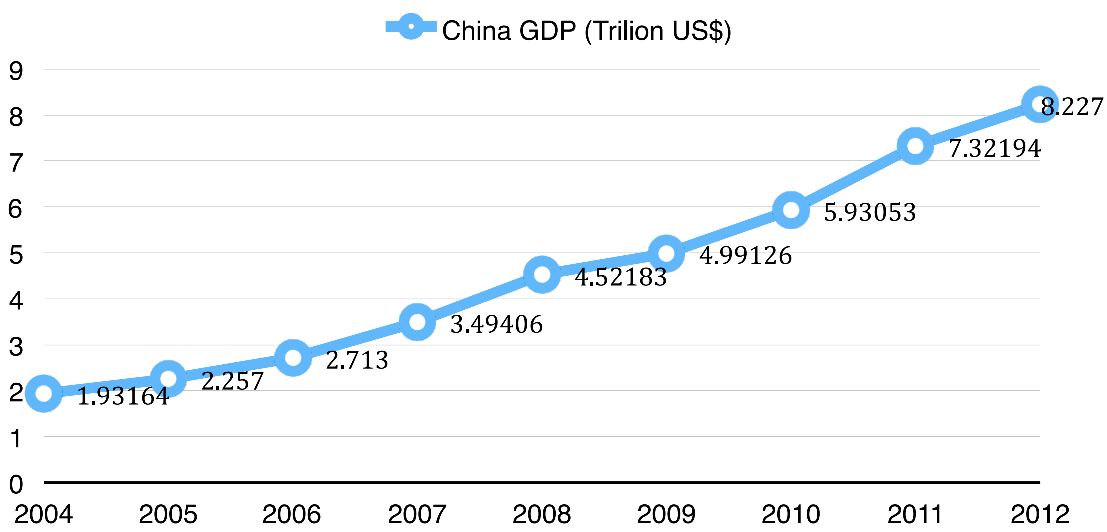
With China now playing an increasingly integral role in the global economy, the government now faces the challenge of balancing its long-term goal to shift the economy away from manufacturing and heavy industry, as well as more toward services, with its short-term goal of supporting continued economic growth.

Figure 7: China GDP Growth Rate (annual %) (from 2004 to 2012)

Source: World Bank, Databank

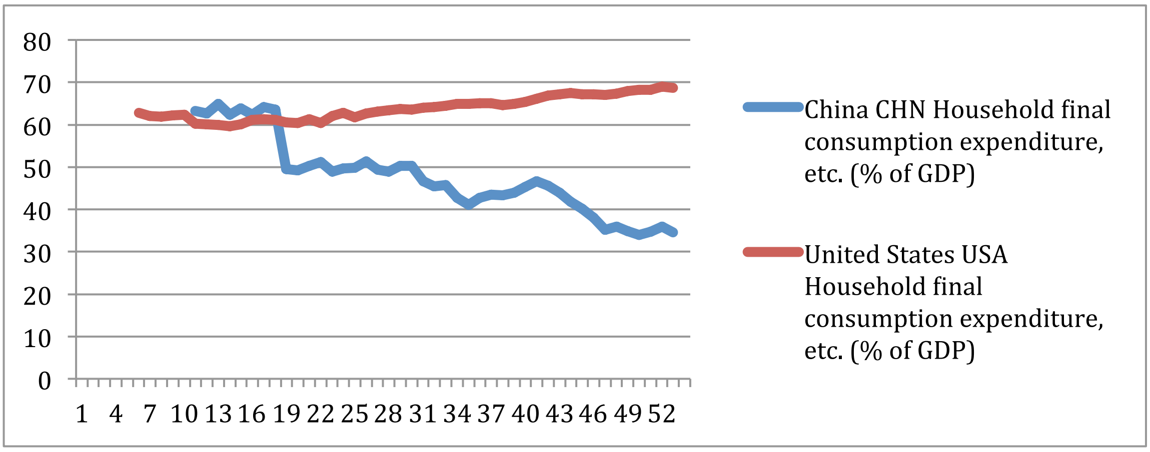
Figure 8: China GDP (from 2004 to 2012)

Unit: Trillion US dollars



Source: World Bank, Databank

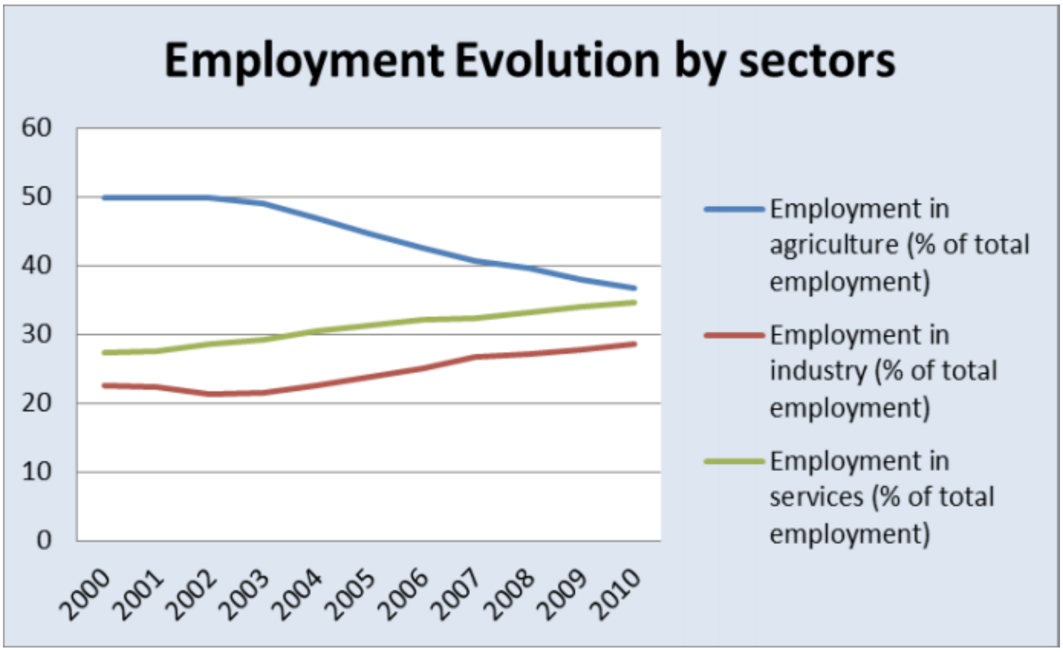
Figure 9: Comparison of household final consumption expenditure (% of GDP) (from 1960 to 2012)



Source: World Bank, Databank

As can be seen in the figure, consumption making up only 35% of GDP in China by 2012, while in U.S., consumption took of nearly 70%. It shows that China still has a lot of space to improve in consumption.

Figure 10: China employment evolution by sectors (% of total employment) (from 2000 to 2010)

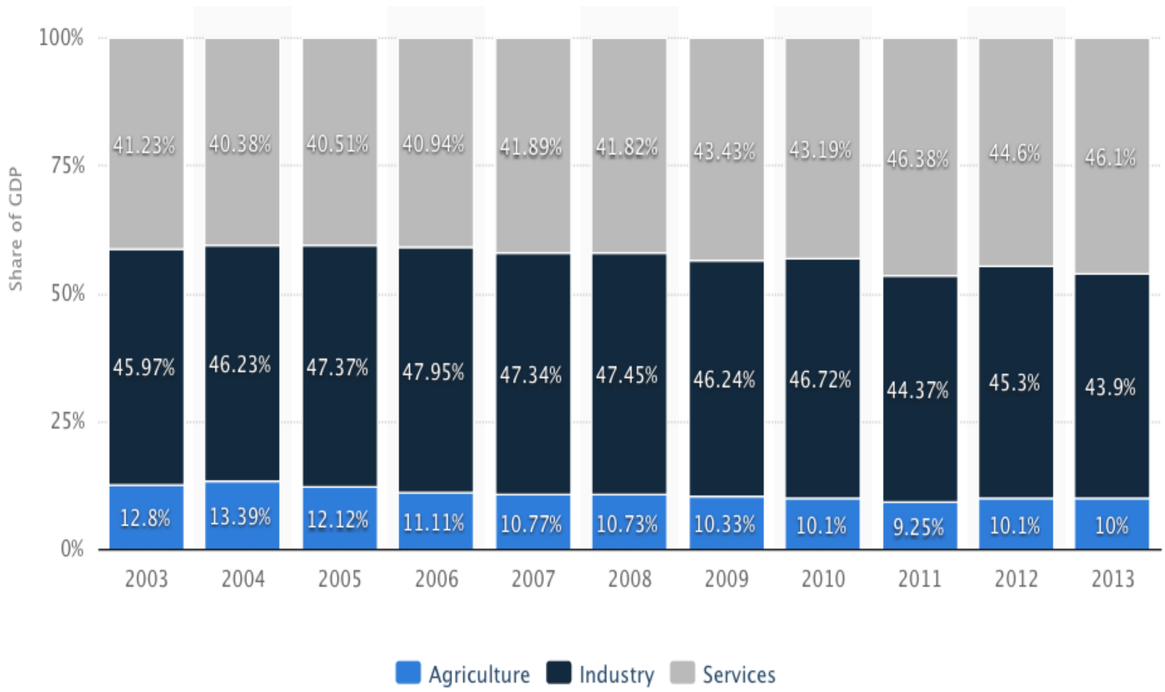


Source: World Bank, Databank

The Services sector has grown strongly. Unlocking the enormous potential of the services sector is needed to strengthen the business sector, provide jobs for a rapidly growing labor force, facilitate trade, accelerate the adoption of advanced management methods and increase overall economic efficiency.

According to the latest statistics in figure 11, the economic structure of China has been showed, declined from 12.8%, agriculture, the primary sector, occupied only 10% of GDP in 2013, while the industry sector occupied 43.9%. However, it is necessary to pay attention to the third industry, whose percentage of GDP rose from 41.23% to 46.1%. As the figure shows, the Services Sector is approaching Manufacturing in terms of value added and is already employing more labor.

Figure 11: China distribution of GDP across economic sectors (% of GDP)(from 2003 to 2013)



Source: Statista.com (2013)

WAGE

As can be seen from the diagram, average yearly wages in China increased to 46769 CNY in 2012 from 42452 CNY in 2011. Compared with 2002, the average wages reveal a trend of fast increase, nearly quadrupled in a decade.

Figure 12: China average yearly wages (from 2002 to 2013)

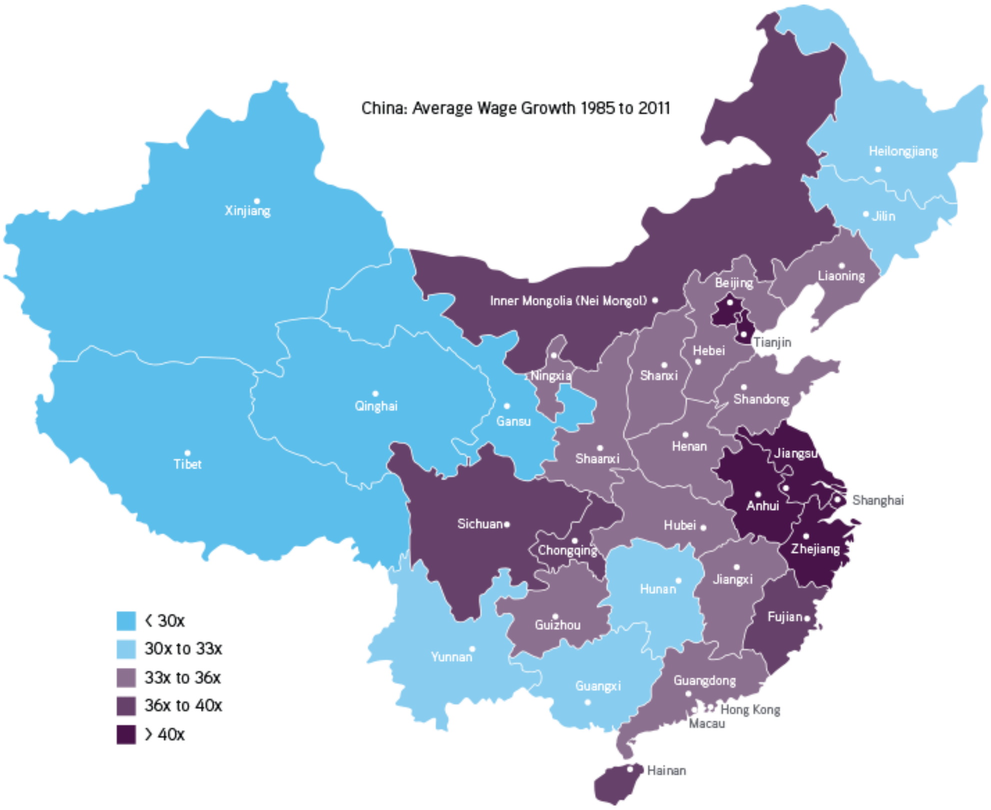
Unit: CNY

Source: www.tradingeconomics.com (2013)

According to Farrell et al. (2006) wrote in McKinsey Quarterly Report, the rising economy in China will lift hundreds of millions of households out of poverty. By around 2011 the lower middle class will number some 290 million people, representing the largest segment in urban China and accounting for about 44% of the urban population.

Meanwhile, Chinese consumers' purchasing power has improved. In 1985, the annual average income per capita of urban residents was 739 Yuan according to the National Bureau of Statistics and World Bank estimate. In 2002, it reached 7703 Yuan. Whereas in the 1970s, the bicycle, the wristwatch and the sewing machine were the major possessions of couples starting a family, it is not uncommon today to see poor rural households with no hot running water but equipped with a DVD player (Lan, 2004).

Figure 13: China average wage growth rate 1985 to 2011 (%)



Source: China National Bureau of Statistics.

As can be seen from the graph, the average wage growth of east area raise much faster than the western distraction and inner land. Meanwhile, the purchasing power of resident is stronger in the east costal area either.

A large complex population segment, the urban middle class, will soon redefine the Chinese market. Throughout the 1980s and most of the 1990s, urban middle class consumers were almost non-existent. The Chinese Academy of Social Sciences (CASS), however, estimates that China's "middle class" accounted for 19% of the total population in 2003. And this group is expected to grow to 40% of the total population in 2020. In recent years this phenomenon has led to an explosion in demand for luxury goods and services across all consumer sectors (St-Maurice et al., 2008).

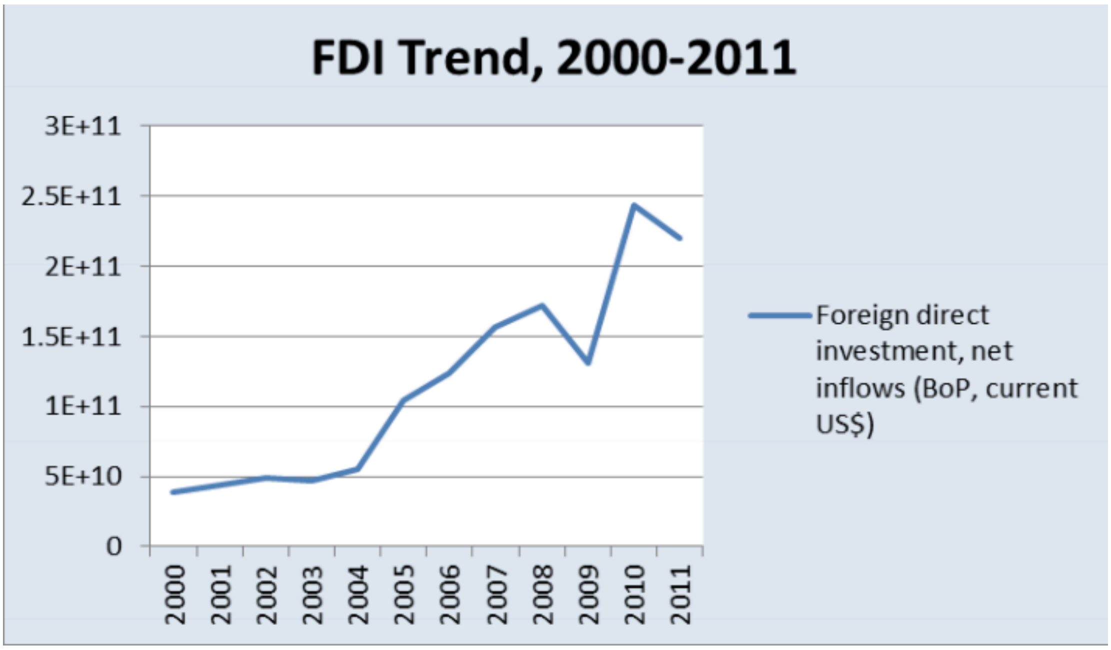
FOREIGN TRADE

Since the late 1970s China has moved from a closed, centrally planned system to a more market-oriented one that plays a major global role - in 2010 China became the world's largest exporter.

According to the latest data indicated in the graph, the foreign direct investment (FDI) reveals a general trend of increase, but with a little fluctuation in 2008. The trend is similar to the exports and imports amounts of China, which also show a great fluctuation every 3 years but increasing fast.

Figure 14: China FDI Trend (from 2000 to 2011)

Unit: US dollar

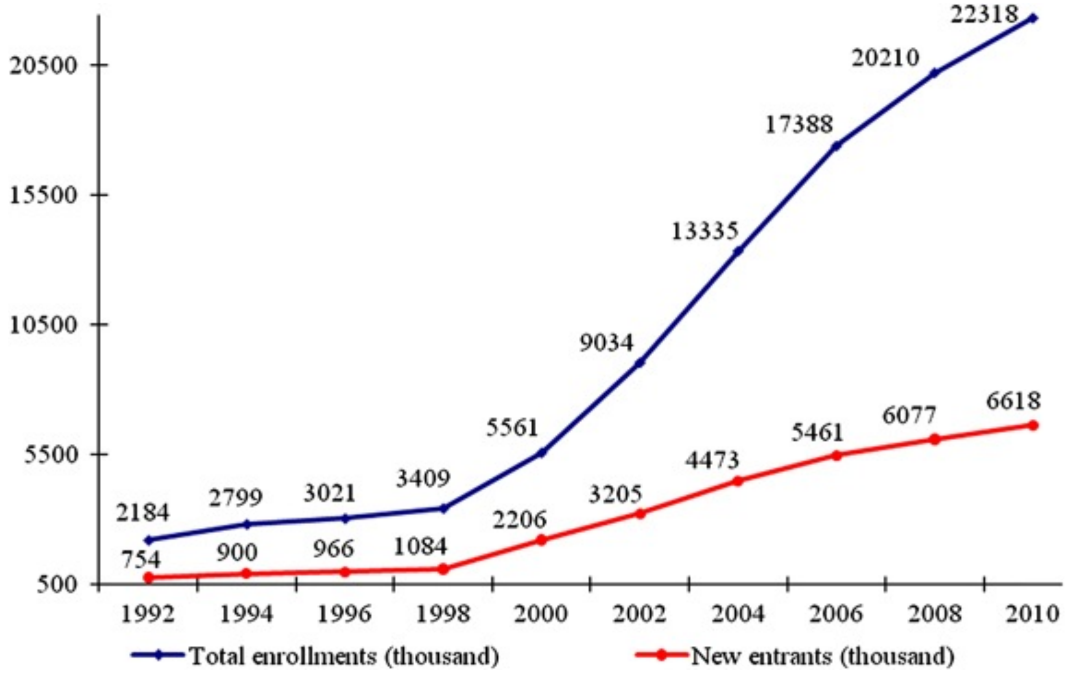


Source: World Bank, Databank

2.3.3 Social Factors

EDUCATION

Generally speaking, the total enrollments in high institutions have increased nearly ten times in 20 years. Obviously, the general education level is on a steady rise. It could be predicted that a large amount of well-educated costumers will emerge in the next few



decades.

Figure 15: Enrollment trends of regular higher education institutions in China (from 1992 to 2010)

Unit: Thousand people

Source: Data from China Statistical Yearbook 2010 (National Bureau of Statistics of China, 2011, 756) and Annual Statistical Communiqué of Education 2010 (MOE, 2011)

TOURISM

The rapid development of tourism industry stimulates the coffee consumption in China. As the statistics shows, the number of foreign visitors has increased from 810.9 million people in 1978 to 12907.78 million people by 2013 (China National Tourism Administration). The large number of tourist arrival in China, not only promoting the booming of hotel industry in China, but also enhance the coffee consumption in hotels and coffee house.

Chapter 3 China Coffee Raw Material Market Analysis

3.1 Coffee Beans Production in China

In China, the earliest plantation of coffee was in 19 century in Yunnan province, where belongs to a subtropical monsoon climate. Since Republican period, field cultivation of coffee appeared in Hainan, Guangdong, Guangxi, Yunnan provinces (Zhang, 2006), and started to convert into commercial coffee planting since 1950s (Chen & Liu, 2013).

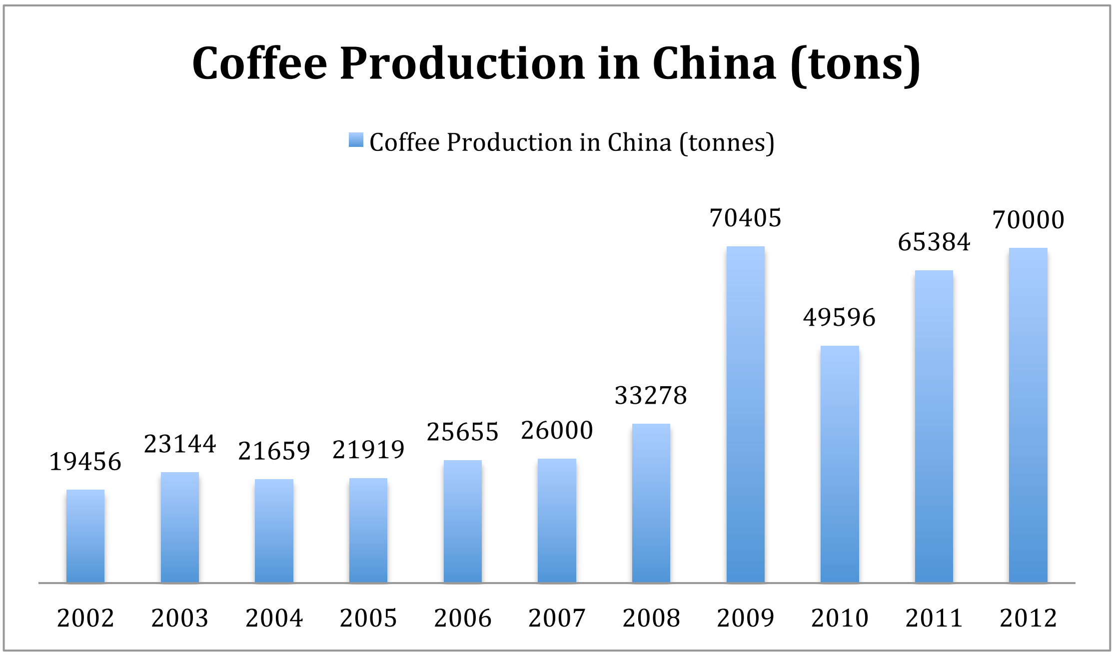
In 1960, the coffee growing area reached 87,000 hm^2, with the annual output of 26000 tons. Up to 1979, the planting area still remained over 133.33 hm^2, but the annual output is only 100 tons. After 1980, with the development of China's economy, the coffee production recovered quickly. (Chen, 2011)

In 1980s, a joint programme, United Nations Development Programme (UNDP) really pushed forward the development of coffee production. However, commercial coffee plantation has also promoted by those large coffee companies (ICO, 2013). Since 1996, Yunnan has become the largest coffee-growing province in China (Chen, 2011).

The coffee producing in Yunnan usually applies the operation mode of “Company+ Planting +Farmers”, in order to allocate resources reasonably. In the implementation of this programme, besides the support of local governments, a lot of foreign companies also contribute their effort. More than 300,000 farmers have participated in it and benefited directly or indirectly from it. (Li & Zhou, 2011) The following figure shows coffee production status in China from 2002 to 2012.

Figure 16: Coffee Production Quantity in China (from year 2002 to year 2012)

Unit: tons



Source: FAO Statistics Division

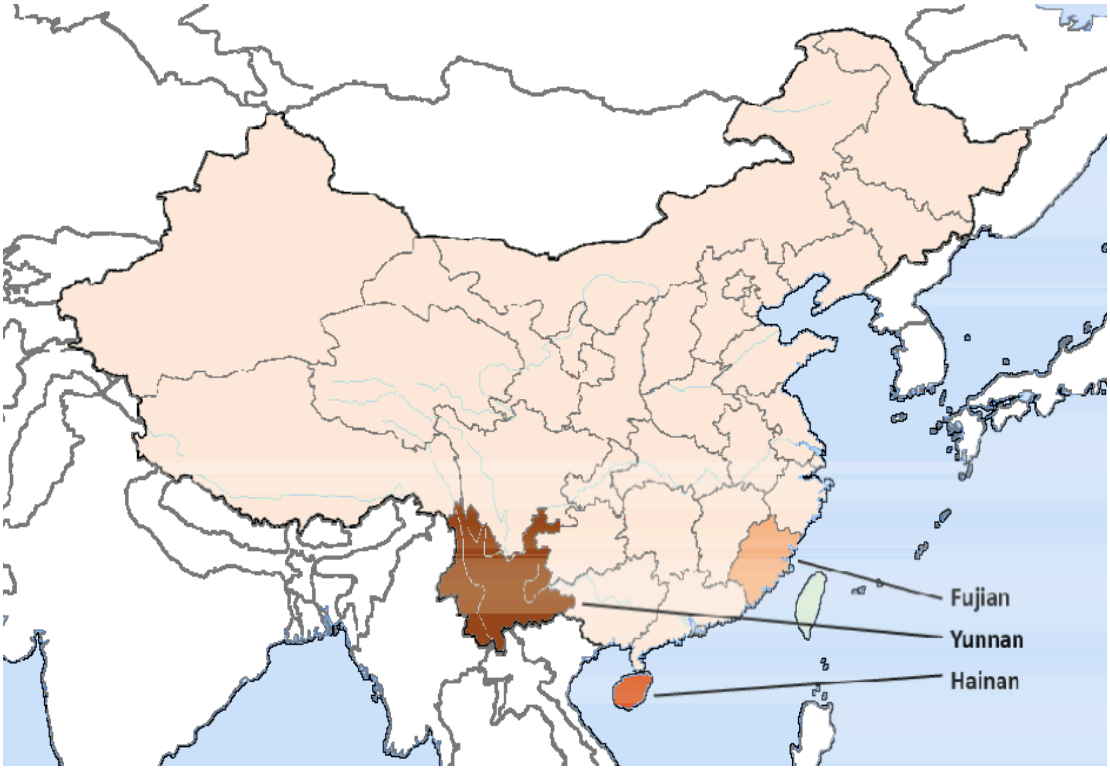
Table 3: Area Harvest of Coffee in China (from year 2002 to 2012)

Unit: hm^2

Year	Area Harvest
2002	15600
2003	16000
2004	12000
2005	15500
2006	14400
2007	15110
2008	16280
2009	22530
2010	25007
2011	29550
2012	31000

Source: FAO Statistics Division

Figure 17: Main Coffee Producing Areas in China



Source: ICO (2013)

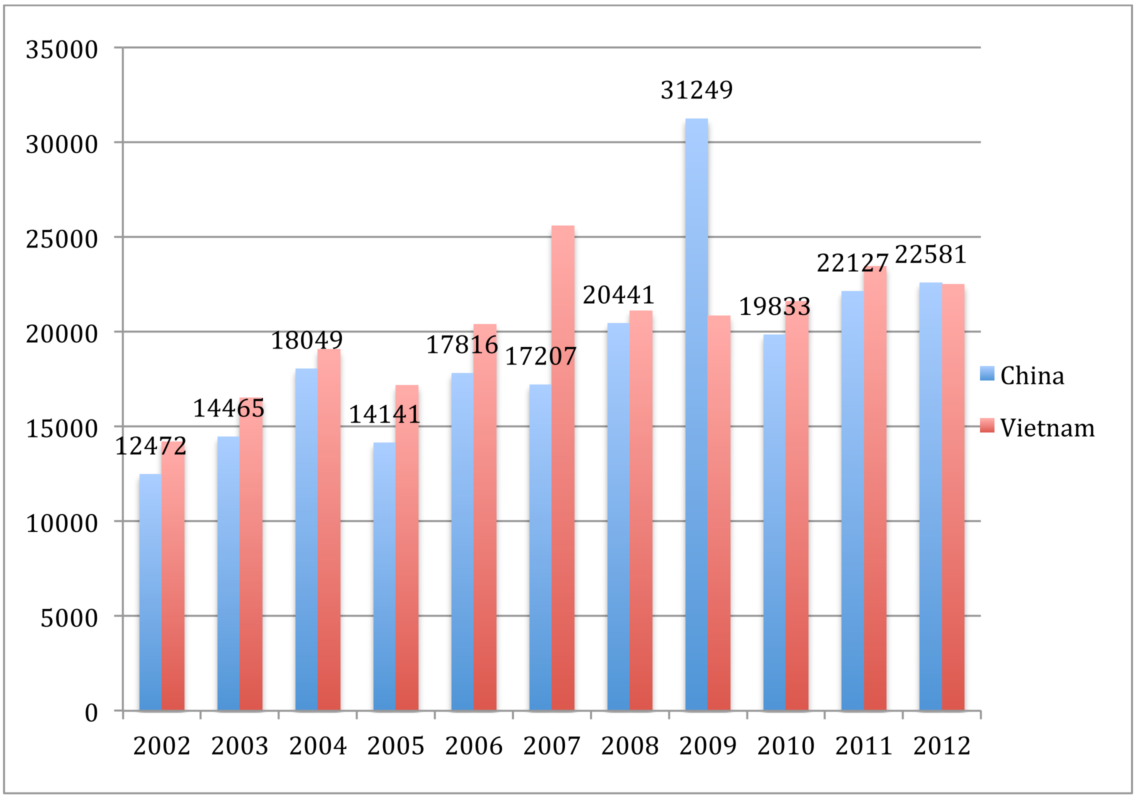
The annual average production of coffee in China was 38772 tons during the period 2002 to 2012. Production in 2012 has increased by 260% compared to 2002. The area harvest quantity and yield also reveal a trend of fast increase, thanks to the development of cultivation technologies, the amount of yield rose from 12472 tons of 2002 to 22581 tons, representing an average annual growth rate of 9.04%.

As can be seen from the figure 17, the main coffee growing areas in China are Yunnan, Fujian, and Hainan Province. In recent years, under the stimulation of governments, coffee industry in Yunnan province saw a rapid development. Up to 2010, coffee growing area of Yunnan has reached 43,000 hm^2 with more than 25,000 hm^2 harvest area. Moreover, the annual output is 49,000 tons that brought over 1 billion RMB agricultural output value for Yunnan (Li & Zhou, 2011).

In 2010, coffee beans production of China is 49596 tons, while Yunnan province took up more than 95% (ICO, 2013). Coffee plantation areas of Yunnan Province are mainly concentrate in Puer (18400 hm^2), Baoshan (9200 hm^2), Dehong (9000 hm^2), Xishuangbanna (3300 hm^2), Lincang (1400 hm^2), Wenshan (750 hm^2), Honghe (670 hm^2), and Nujiang (320 hm^2) (Li & Zhou, 2011). All these regions benefit from government's efficient management and the continuous investment of foreign companies (ICO, 2013).

Figure 18: Comparison of Amount of Yield (China Vs. Vietnam) (from 2002 to 2012)

Unit: Hg/Ha



Source: FAO Statistics Division

According to figure 18, the yield amount of coffee in China maintains growing from 2002, and reached 22581Hg/Ha and outpaced Vietnam thanks to the development of cultivation technologies. Although China's coffee production still remains little, it is expected to see a general trend of steady rise in the next few years.

3.2 China Coffee Importation

STRUCTURE OF IMPORTS

According to ICO (2013), there is not any coffee imported by China before 1980s, and the amount of production is so small in the last few decades, so that China usually been considered as a coffee importing country.

Wang (2009) in her report mentioned that due to lack of brand awareness, over 80% of Yunnan Arabica coffee beans have been exported to western countries. However, coffee consume in China's market is imported from other countries.

Table 4 and figure 19 show the coffee imports volume and structure of China. This data indicates that there are three main types of imported coffee: Green coffee, Roasted coffee and Soluble Coffee. In terms of imports structure, green coffee occupied almost 70% of total imports, due to the lowest price and convenience for conservation. The imports of green coffee have increased a lot from 140,000 bags of 1998 to 985,000 bags by 2012. In addition, a large amount of importer has its processing factory. According to Yin (2005), Vietnam is the largest country that export coffee beans to China, besides the reason of location, mixed-coffee (also known as no-origin or Yunnan coffee), which made of coffee beans from Vietnam and Yunnan has the largest market share in China coffee market, since a lot of Chinese customers do not like pure Vietnam coffee.

Soluble coffee, also known as instant coffee in China, its annual imports increased from 76,000 bags of 1998 to 100,000 bags by 2012, representing an annual growth rate of 9.3%. However, the share of soluble coffee imports declined from 33% of 1998 to 19.1% by 2012, due to the increasing demand of ground coffee. More people tend to have a ground coffee in coffeehouse instead of drinking instant coffee at home. According to the report of ICO (2013), this fall of the soluble coffee imports share could be linked to the development of the local processing industry as well.

Table 4: Volume and Structure of Imports of Coffee by China (1998-2012)

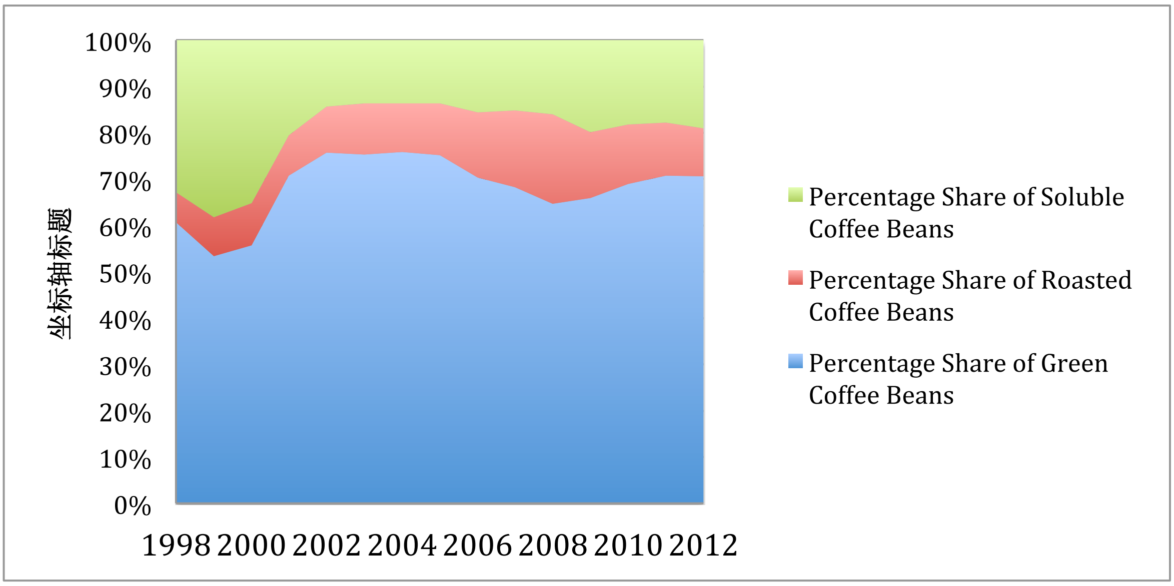
Unit: thousand bags

Year	Green	Roasted	Soluble	All forms
1998	140	15	76	232
1999	127	20	91	238
2000	133	22	84	239
2001	210	26	61	297
2002	237	31	45	313
2003	271	40	49	360
2004	301	42	54	397
2005	319	47	58	425
2006	355	71	79	505
2007	365	89	81	535
2008	383	114	95	592
2009	407	88	123	618
2010	540	100	143	784
2011	754	123	189	1066
2012	985	145	266	1396
Average	369	65	100	533
Average annual growth rate	14.9%	17.5%	9.3%	13,7%

Source: ICO (2013)

Figure 19: Structure of Imports of Coffee by China (Percentage share) (from 1998 to 2012)

Unit: %



Source: ICO (2013)

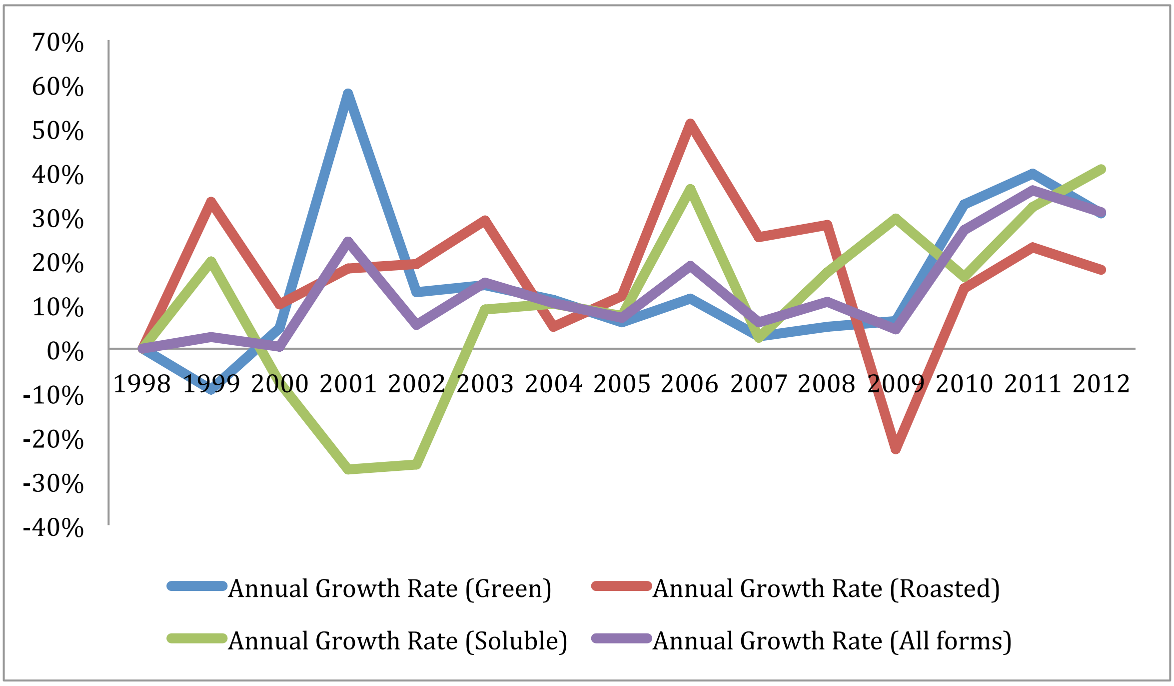
The main distribution centers of coffee beans importation in China are located in Beijing, Shanghai and Guangzhou, where have the largest coffee traders. Guangzhou is the distribution center of coffee beans that import from Southeast Asia (Vietnam and Indonesia). According to Yin (2005), after the implementation of CEPA (Closer Economic Partnership Arrangement) in the June 1th of 2004, the clause of zero tariff is going to make Hong Kong and Macro become the second largest coffee imports distribution center in China, and more trading companies will be founded.

Thanks to the excellent location, port infrastructures, more transparent market environment and a relatively low cost, Shanghai has become the largest port of coffee imports in China, which occupied more than 50% volume of total coffee imports. Nowadays, many trading companies have their headquarters in Shanghai and branches in Guangzhou, however, with the impact of CEPA and a rapid development of Vietnam coffee beans, the amount of imports of Shanghai port tend to decline. (Yin, 2005) Meanwhile, there is no doubt that in north China, Beijing is the largest coffee consumer market and the most important coffee distribution center.

ANNUAL GROWTH RATE

Figure 20: Annual Growth Rate of Imports of Coffee (from 1998 to 2012)

Unit: %



Source: ICO (2013)

As can be seen from figure 20, China coffee beans market maintained a trend of steady rise, and that is why that ICO view China and Russia as the biggest emerging market of coffee industry (Yin, 2005).

IMPORTS ORIGINS OF ALL FORMS OF COFFEE BY CHINA

As it indicated in table 5 and figure 21, the main coffee suppliers of China are Vietnam (47.8% of total imports), Indonesia (12.4%), the USA (7.7%), Brazil (6.3%), Malaysia (4.1%) and Colombia (3.8%) during 1998 to 2012. In terms of absolute volume, the proportion of coffee imported from Vietnam increased from 8% to 50.5% by 2012, so that Vietnam has become the largest coffee supplier of China. Indonesia remains China's second largest coffee supplier although its proportion fell a lot.

Table 5: Main origins of imports of coffee by China (1998-2002)

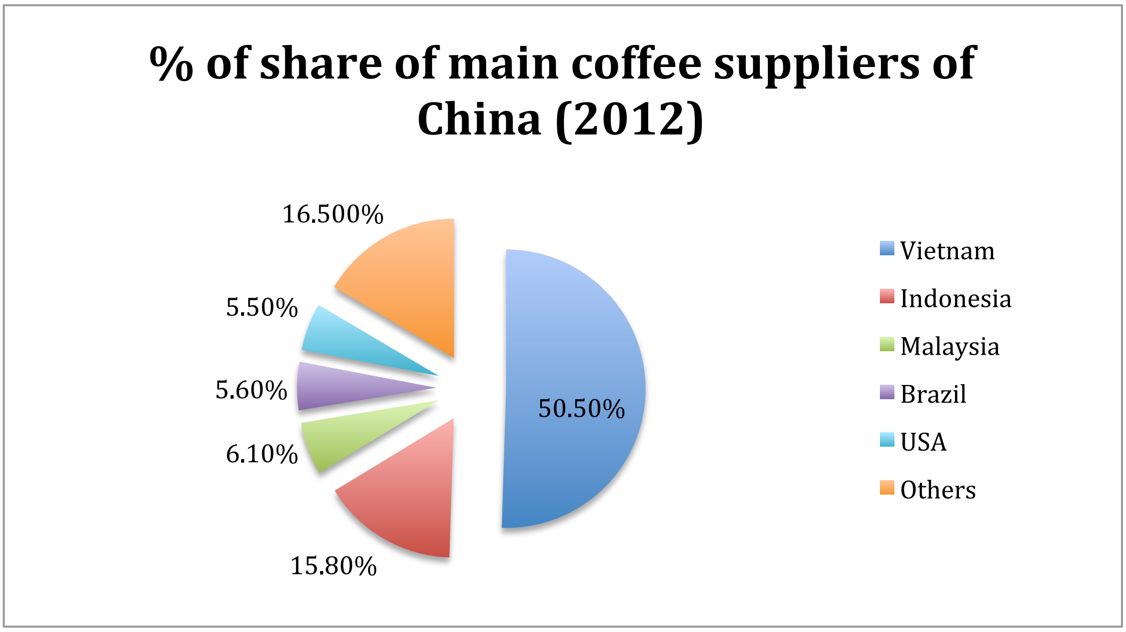
Unit: thousand bags

	Vietnam	Indonesia	Malaysia	Brazil	USA
1998	19	58	2	12	35
1999	53	30	3	12	53
2000	76	28	3	8	42
2001	137	33	3	16	34
2002	167	28	4	22	17
2003	187	37	8	30	22
2004	197	53	7	35	18
2005	180	88	9	39	23
2006	263	45	11	23	41
2007	269	56	19	31	53
2008	275	63	24	39	66
2009	299	69	31	51	40
2010	412	71	52	50	41
2011	583	113	70	56	52
2012	705	220	85	78	77
% Share (average)	47.8%	12.4%	4.1%	6.3%	7.7%
% Share (1998)	8.0%	25.0%	0.7%	5.0%	14.9%
% Share (2012)	50.5%	15.8%	6.1%	5.6%	5.5%

Source: ICO (2013)

Figure 21: % of share of main coffee suppliers of China (2012)

Unit: %



Source: ICO (2013)

3.3 China Coffee Exportation

3.3.1 Volume and Structures of Coffee Exports

As it indicated in figure 22 and table 6, the total exports of coffee by China shows a steady rise during the period from 1998 to 2012, the amount of exports increased from 137,000 bags to 1.1 millions bags, representing a average growth rate of 15.8%. In terms of green coffee, its proportion of total exports reached 91.8% by 2012, compared with 23.9 % of 1998. However, the exports of roasted and soluble coffee decreased, especially of soluble coffee, from 67.2% in 1998 to 4.6% in 2012.

China's coffee exports experienced a significant increasing in 2009, rising 51% from the previous year. According to the report of ITC (2010), an agreement signed in February between Yunnan Dehong Hogood Co., Ltd. and Switzerland-based ECOM Coffee Group, which called for the Chinese company to export 240 tons of coffee per month has promoted the fast increasing of exports volume. This agreement helps Hogood to establish its own brand in the global market, but also let China reached a new era in coffee exportation. Because in the early year, without those multinational coffee suppliers (eg.: Nestlé and Starbucks) , it was impossible for Chinese coffee to reach foreign customers directly.

Table 6: Structure of coffee exportation of China (1998-2012)

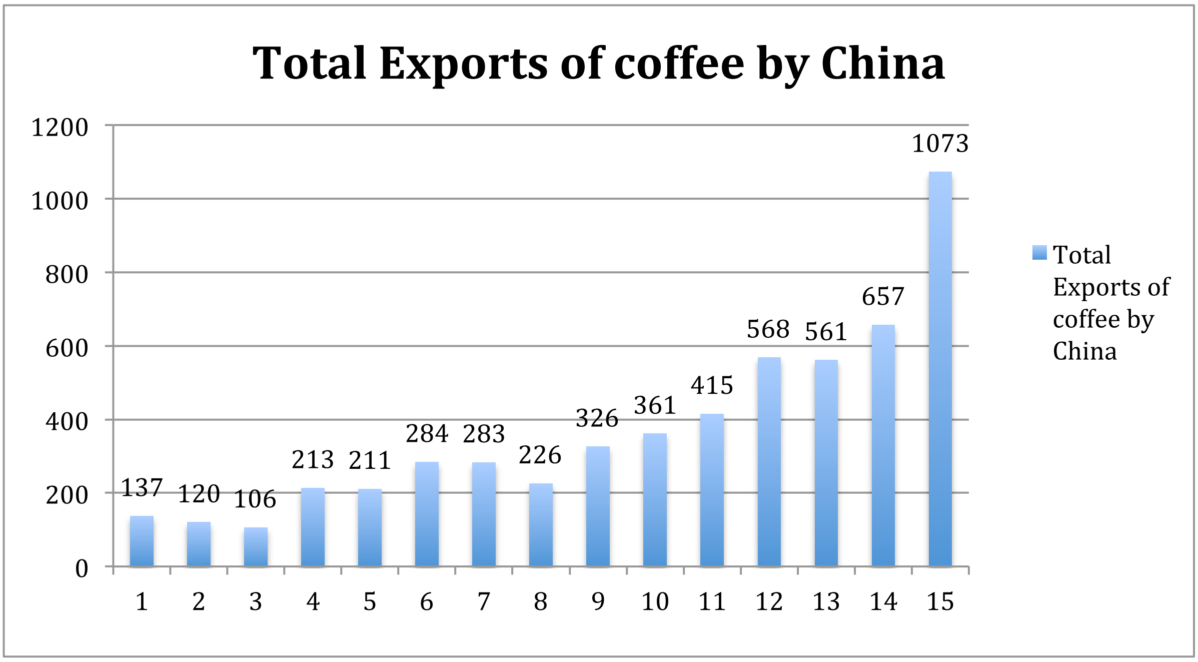
Unit: thousand bags

		Green	Roasted	Soluble	All forms
Volume	1998	33	12	92	137
	2012	985	38	50	1073
% Share	1998	23.9%	8.9%	67.2%	100.0%
	2012	91.8%	3.6%	4.6%	100.0%
Average annual growth rate		27.5%	8.6%	-4.3%	15.8%

Source: ICO (2013)

Figure 22: Total Exports of coffee by China (from 1998 to 2012)

Unit: thousand bags



Source: ICO (2013)

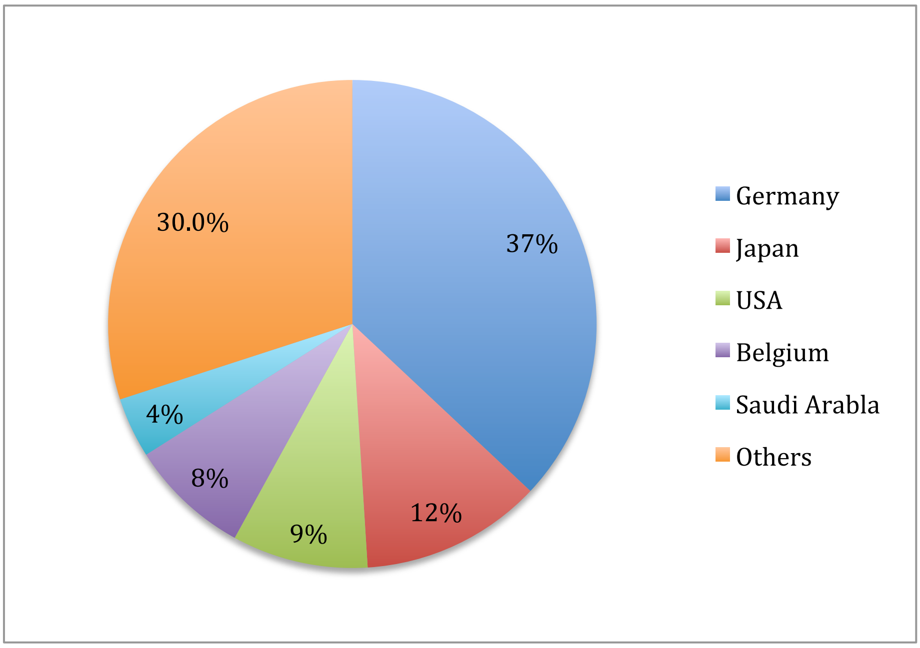
3.3.2 Main Destinations of Coffee Exports by China

In recent years, exports of Yunnan Arabica coffee beans reveals a general trend of fast increase. In the first half of 2011, 22,000 tons of Arabica coffee beans has been exported, which created a revenue of 100 million US dollars, and has become the largest exports agricultural of Yunnan Province. Raw coffee beans and deep-processed products were exported to more than 20 countries and regions, include Europe, America, Japan, Korea, Singapore, Vietnam and China Hong Kong, and China Taiwan (Li & Zhou, 2011). Figure 23 shows the main destination of coffee exports by China, there are Germany, Japan, the USA, Belgium and Saudi Arabia.

So far to now, Germany still remains the most important destination of China's coffee exportation, with Japan together, who occupied 12% of total exports, accounting almost 50% of China's coffee exports from 1998 to 2012.

Figure 23: Main destinations for exports of all forms of coffee by China (2013)

Unit: %



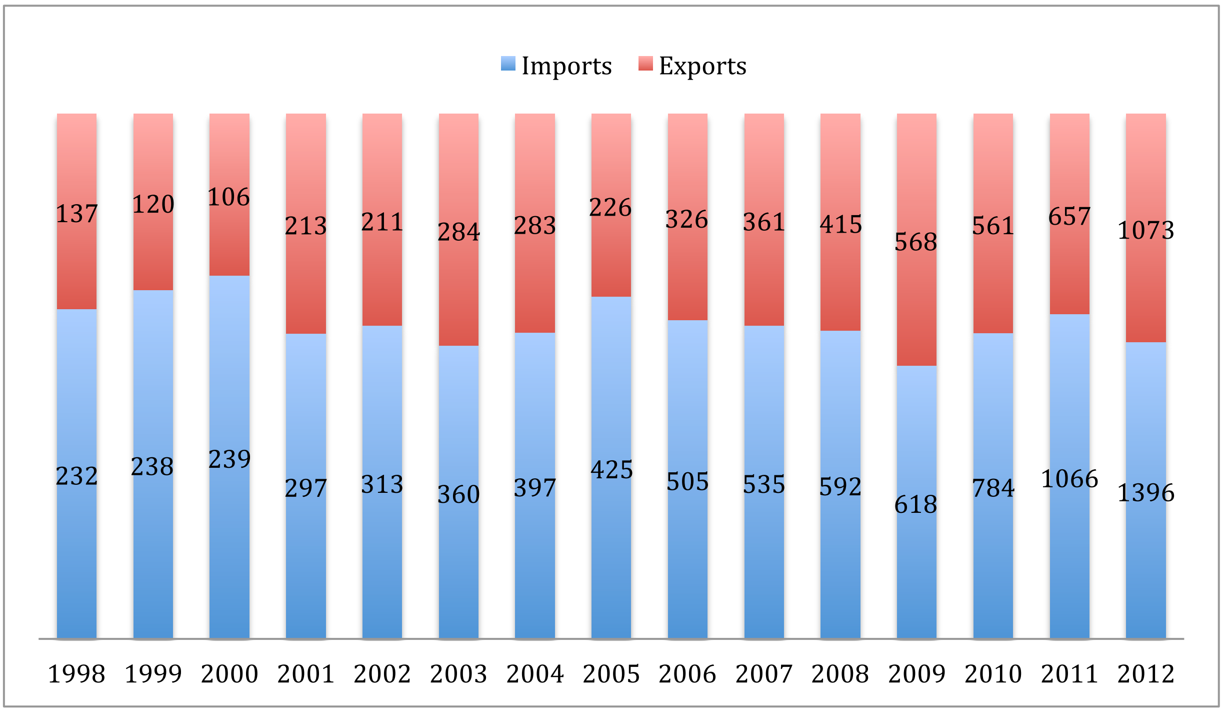
Source: ICO (2013)

3.3.3 Trade Balance of Coffee

According to figure 24, China has imported 533,000 bags of all types of coffee per year in average from 1998 to 2012, and exported an average of 369,000 bags during the same period, which accounts 69.3% of total imports. ITC (2010) mentioned in the report that the quality of coffee imported by China is higher than coffee exported by China, due to a growing number of international hotel chains and coffee chains brands in China, where higher quality, imported coffee is often served.

Figure 24: Trade Balance of Coffee (from 1998 to 2012)

Unit: thousand bags



Source: ICO (2013)

Chapter 4 Chinese Coffee Customer Market Economic Analysis

4.1 Chinese Coffee Customer Market Economic Overview

Coffee was brought to China in 1880s when French built railways from Hanoi to China. With a history of more than 100 years, a huge potential consumer market of coffee has been forming, in which coffee are linking with the modern lifestyle, since the rapid growth of China's economy, and the improvement of living standard. Foreign drinks such as coke and coffee are accepting by an increasing number of Chinese people. Coffeehouses like Starbucks and Costa have become a fashion place to go, and coffee itself has been considered as a part of life of Chinese young people.

There are 13,600 coffeehouses and 2,200 coffee-related companies in China, with 50 million employees (Chen, 2011). Countless foreign brands and Chinese investors saw the huge business opportunities in Chinese coffee market, and keen to enter it, so that it makes the industry standardization started. Competition are becoming increasingly intense, however, private coffeehouses with profound cultural background are still lacking.

Currently, the average annual consumption per capita of coffee is 4 cups in China, even in those big cities such as Beijing, Shanghai, the consumption per capita is only 20 cups. However, in those similar traditional tea-drinking countries such as Japan and the United Kingdom, people usually drink one cup of coffee a day now. Pablo Dubois, the Operation Supervisor of International Coffee Organization (ICO) believes that Chinese market has a great potential to explore. However, annual consumption in Japan in the late 1960s was roughly the same level as China now, and then it increased to 7 million bags in 2004. China's coffee market also shows a trend of steady rise, and he believed that China would become one of the most important countries in world coffee market.

The development of coffee market in China can be divided into 4 representative periods.

1. Appearance of instant coffee. Nestle entered into China's market with a slogan of "Coffee—A good beginning of a day". Gradually, Chinese people were affected by the western lifestyle and accepted coffee.

2. Arrival of ground coffee. Such as UBC Coffee, advocated fresh ground coffee, and expand throughout China with franchise business model. Coffee flavor were accepted by an increasing number of people. UBC Coffee, as a typical representative in this period, opened more than 2,600 coffeehouses in China mainland, took up 90% of total China coffee market share at that time.

3. Starbucks entered into China's market in 1998 and occupied a large market share in a short time, making ground coffees like espresso and cappuccino became a kind of fashion drink. Moreover, western lifestyle has rooted deeply in the mind of more and more Chinese young customers in this period.

4. A growing number of coffee franchise brands occupied China's coffee market and broke the monopolization of Starbucks.

4.2 Coffee Consumption in China

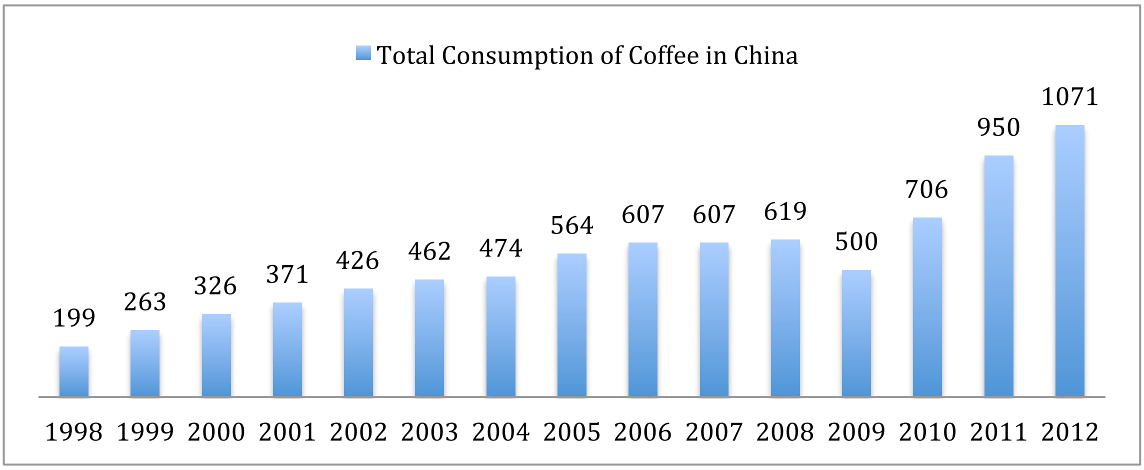
4.2.1 Consumption

ICO (2013) in its report indicated that the average annual consumption of coffee in China is estimated at 543,000 bags during 1998 to 2012, increased from 199,000 bags in 1998 to 1.1 million bags by 2012, revealed an average annual growth rate of 12.8%, which is rare in the world, while the international annual growth rate in developed markets is only 2-3%.

According to the report of ICO (2013), if China maintains an average annual growth rate of 12.8%, which is ten times compared to the world growth rate, coffee consumption of China will reach 2.8 billion bags by 2020. However, the consumption is still relatively week and future growth will depend largely on the development of China's economy, and the enlargement of Chinese urban middle class.

Figure 25: Total Consumption of Coffee in China (from 1998 to 2012)

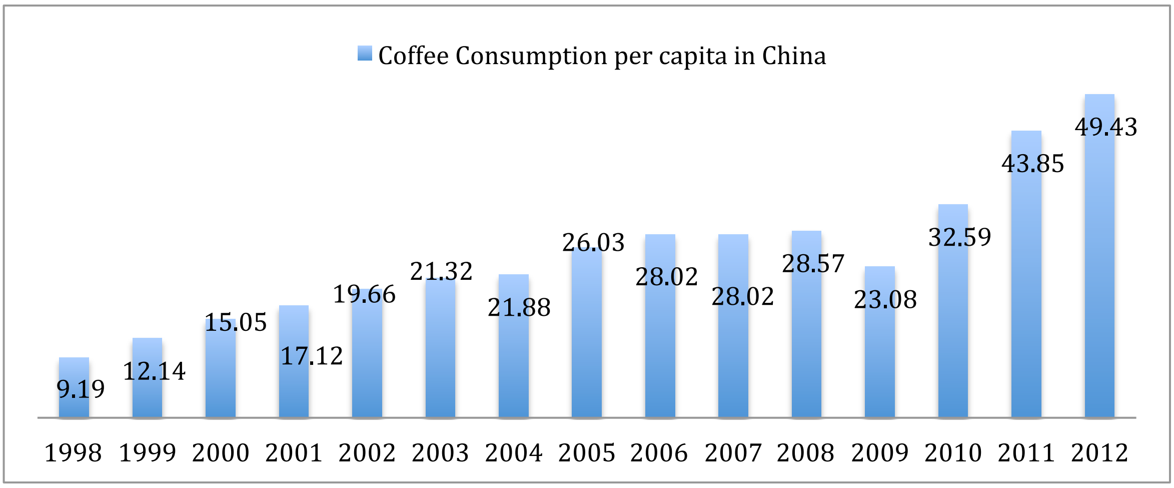
Unit: thousand bags



Source: ICO (2013)

Figure 26: Coffee Consumption per capita of China (from 1998 to 2012)

Unit: grams



Source: Edited by writer with the data from ICO (2013)

Table 7: Coffee consumption per capita in selected countries in 2009

Unit: kilograms

Country	Coffee Consumption
Finland	12.0
Norway	9.6
Denmark	8.9
Sweden	8.4
Germany	6.5
Italy	5.8
France	5.3
Brazil	5.3
United States	4.1
Japan	3.4
China	0.02

Source: ITC (2010)

However, the annual average coffee consumption per capita in China is only 0.02 kilograms during the period 1998 to 2012, with total population 1.3 billion inhabitants. In absolute terms the average consumption per capita increased from 9.19 grams of 1998 to 49.43 grams by 2012.

According to figure 27, the country that has the largest coffee consumption per capita in the world is Finland, whose consumption per capita of coffee is 12 kilograms. However, China consumes only 0.02 kilograms, with the 600 million urban population accounts for 90% of coffee consumption.

4.2.2 Characteristics of Demand

REGIONAL STRUCTURE

Coffee consumption in China is highly concentrated in large cities such as Beijing, Shanghai and Guangzhou (Bantiwalu & Demisse, 2010).

According to a survey made in 12 main inland cities, 32% of urban residents like to drink coffee. Nearly 30% people that lived in Shanghai, Beijing, Kunming, Xiamen, Hangzhou, Tianjin, and those largest cities of China have drunk instant coffee at least once in last one year.

INCREASING NUMBER OF POTENTIAL CUSTOMERS GROUP

Some customers may do not like coffee, but only adore the atmosphere and environment of coffeehouse (Cilengir, 2013). For this type of customers, they might consume some others subsidiary products in coffeehouse, which also contribute the sales revenue.

RETURNEES/FOREIGH EXPATRIATE

According to Bantiwalu (2012), Chinese coffee consumers are more exposed to Western influences and tend to look up to Western lifestyles. Manufacturers have targeted Westernized young professionals as the main target market for coffee.

Foreign ex-pats also comprise a large proportion of coffee consumers in China. China's high growth economy and improved investment has attracted substantial foreign direct investments, which has led to rapid increases in the number of ex-pats. Shanghai's official statistics show that the number of Taiwanese living in Shanghai for short periods (at least three months) is estimated at 230,000. The figure is expected to increase each year. Ex-pats are at the high-end of coffee consumption and are also regular patrons of coffeehouses. It is reported that Westerners and businessmen from Hong Kong and Taiwan represent 30% of customers at chained coffeehouse such as Starbucks (Lee, 2004).

Another large consumer group that influences coffee consumption is returnees. China has many returnees (mainland Chinese students returning from Western countries) over the last ten years. Many of these returnees have lived in Western countries for a decade and accustomed to western culture. Upon their return to China they have carried on living in this fashion (Bantiwalu (2012).

DOMINATION OF INSTANT COFFEE

Given China's vast population and strong economic growth in recent years, there is certainly a potential instant coffee market has been formed. Furthermore, the opening up of investment opportunities, particularly in the roasting industry, could help to change consumer habits, creating a vast potential market for coffee consumption. In this regard, the development of instant coffee is supporting strong growth in the country's coffee consumption. (ICO, 2013)

Instant coffee is widely viewed as an "afternoon-workplace-keep-everybody-awake" drinks with the characteristics of inexpensive, convenient and lower quality (China Briefing, 2013). In terms of market composition, instant coffee dominates Chinese coffee market. Although the drink comes with poor quality and cannot meet people's increasing requirement for the taste of coffee, it is still popular among white-collar workers because of its inexpensive price, convenient preparation, and easy availability.

Chinese coffee drinkers tend to eat while they drink. Therefore, "coffee-to-go" sales are not as prevalent as in Western countries. But the trend for on-the-go consumption is rising. Nestlé launched single-cup packaging for instant coffee in 2009. The product is widely available in convenience stores in China's more developed cities. In early 2010 Starbucks announced that it plans to enter the instant coffee market in China with the launch of its VIA Coffee Essence line, currently available in Japan, the United States, Canada, and the United Kingdom.

There are 4 mainly producers of instant coffee, Nestle, Maxwell, Hainan Lishen coffee Co.,Ltd., and Dehong hougu coffee Co.,Ltd in Yunnan. The domestic instant coffee production reached 5000-6000 tons in 2010, but still cannot meet market demand. The annual growth rate of instant coffee was 40%, while roasted coffee was 30%. It is predicted that the coffee consumption could reach 150,000 tons by 2015. (Li & Zhou, 2011)

Some experts believe that, compared with foreign brands, domestic instant coffee is more suitable for Chinese customers, and the capacity of this market segment is amazing. In addition, domestic instant coffee are easier to accept by Asian customers, due to the sweeter taste. (Li & Zhou, 2011)

Table 8: Estimated instant coffee companies shares 2009 in China

Unit: percent of retail value

Company	Coffee Brands	Market share
Nestlé (China) Ltd.	Nescafé	68%
Guangzhou Kraft Food Co., Ltd.	Maxwell House	14%
Jiangsu Mocca Food Co., Ltd.	Mocca	1%
Dalian UCC Ueshima Coffee Co., Ltd	UCC	1%
Shantou Gold Roast Food International Co., Ltd.	Bencafé	<1%
Hainan Haikou Lisheng Coffee & Food Co., Ltd.	Lisun	<1%
Changzhou Super Coffee Beverage Co., Ltd.	Super	<1%
Others	-	14%
Total		100%

Source: ITC (2010)

Nestlé was the first multinational coffee company to establish a coffee processing plant in China. Nestlé's Nescafé brand is a long-running favorite in the instant coffee sector in China and Nescafé has now become a generic name for coffee. (Eskinder & Demisse, 2010) According to the latest statistics in ITC's (2010) report, Nestlé and Guangzhou Kraft accounted for more than 80% of retail value sales of coffee in China of 2009. This trend has been consistent for several years. This has made it difficult for domestic players to compete with these multinational companies.

LARGE POTENTIAL IN FRESH GROUND COFFEE MARKET

Instant coffee (including 3-in-1, i.e. coffee, sugar and creamer) has always been the predominant form of coffee consumed in China. However, with the rising consumer income and increasing standards of living, as well as awareness of better-off lifestyles, especially among the growing number of middle-class consumers have boosted the demand for high-quality products, fresh coffee, though much more expensive than instant coffee. According to Euromonitor International, fresh coffee, though much more expensive than instant coffee, grew by double digits in both volume and value in 2009, faster than growth for instant coffee. Moreover, fresh coffee is more likely to be consumed by Chinese drinkers outside of home (in coffeehouse and restaurants) since many coffee drinkers do not know how to brew coffee or do not want to purchase a coffee machine.

Although there has been a consistent increase in consumption of roasted and ground coffee in recent years, instant coffee still accounts for well over 90% of consumptions. Fresh coffee remains a niche category of the coffee market. This is partly because of relatively high prices and the low penetration of coffee machines in China. But fresh coffee manufacturers are exploring ways to develop the Chinese market. For example, to promote sales of fresh coffee beans, some manufacturers and distributors provide coffee machines free of charge to offices and households. (ITC, 2010)

Sales of fresh coffee, which includes fresh ground coffee as well as fresh coffee beans, rose by an average of 12% per year from 2004 to 2009. The rate of increase declined by 1%-2% each year during that period, however, the low base sales of fresh coffee make it difficult to forecast whether this trend will continue in the next five years. (ITC, 2010)

Nowadays, China's coffee market is still developing. However, fresh coffee could not replace instant coffee completely in China in short term, but there is no doubt that the future trend of China's coffee market lies in fresh coffee. Moreover, it is going to appear more coffee lovers and a growing number of different forms of coffee.

LARGE MARKET SHARE OF FOREIGN COFFEE BRAND

Due to poor domestic coffee processing capacity and a lack of national brands, almost all of the coffee consumed was of international brands. (Li & Zhou, 2011) Currently, both in instant coffee market and coffeehouse chain market, foreign brands occupied a large amount, due to lack of domestic instant coffee brand in China's coffee market.

On the other hand, in a research of Chinese customers purchasing behavior mentioned that Chinese customers are more likely to purchase goods with global brand since these brands always be considered with better quality and more prestige. (Kayak et al., 2012)

HIGH RETAIL PRICES IN COFFEE HOUSES

In China, coffee houses with expensive prices and luxurious environment bear little resemblance to the traditional coffee houses in Western counties. For example, in China, Starbucks offers coffee at 25 to 35 RMB per cup, while some local coffee houses offer coffee from 35 to 55 RMB per cup. However, in Canada, most coffeehouses offer fresh coffee at 1.5 to 4 Canadian dollars per cup, which roughly equal 9 to 24 RMB per cup. Due to the expensive prices in China, consuming coffee is regarded as a luxurious experience for the middle class, one that cannot occur on a daily basis.

LIMITED ACCESS TO HIGH QUALITY COFFEE

Instant coffee is almost the only choice available for the majority of customers since many food chains and local stores only carry instant and canned coffee drinks. In China's coffee market, although most coffee houses employ a differentiation strategy, only some of them with high reputations can really offer high quality coffee to customers. Several local coffee houses will spend huge sums of money in advertisement and luxurious items to label themselves as offering high-quality coffee and food, which in fact, is of poor quality with unreasonable prices, deceiving their customers. Therefore, in China's coffee market, high quality coffee is limited and can be found only in selected coffee stores, expensive foodservice establishments, and hotels.

THE TIPPING POINT OF CHINA´S COFFEE MARKET

China's coffee market has just been unfolding, however, coffee still is not a main beverage of China's mainland beverage market. In fact, the situation of China is pretty similar with the other Asian countries, whose coffee consumption per capita also will increasing slowly, or even stagnant for a long time along with the gradually rising of country's GDP per capita. However, their coffee consumption only will start to expand rapidly when the "tipping point" has been reached. The coming of tipping point in coffee industry depends on the development status of national overall political and economic factors.

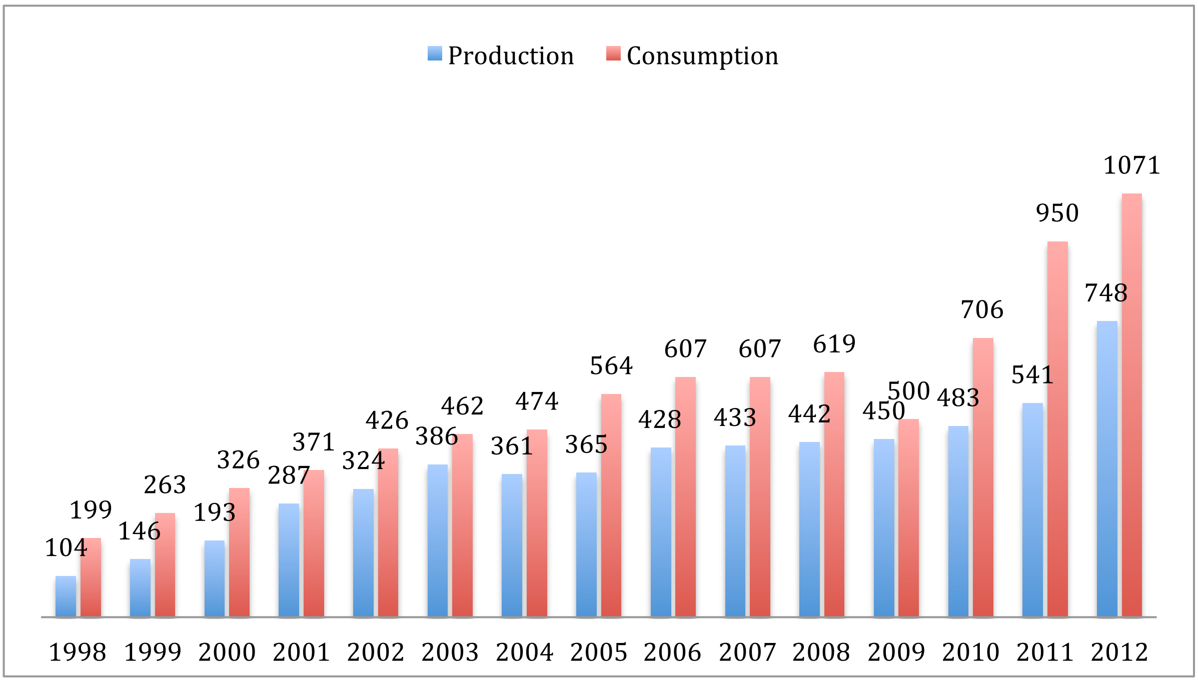
Started from Japan, then South Korea, Taiwan and China mainland market, all of them have shown a different evolution line from western countries. Coffee market in western countries is a grassroots movement, which spread rapidly in the first moment it appeared, developed in the same speed with national economic and political reform. Nevertheless, the development of Asian coffee market always will lag far behind the economic development, since it is a process from upper level of citizens to lower level. There are so many similar things between China's coffee market and other Asian coffee market, but something is different profoundly. The huge population and uneven distribution of wealth made many niche markets appeared.

Taken Starbucks for example, there are more than 200 coffee stores in China, but if they stop to develop new potential market segment and consumer groups, the existing market resource tend to be exhausted sooner or later with all people coward in a small market. However, under the current situation of high-rent, high-cost and low income per capita in China, the arrival of tipping point will be delayed.

4.2.3 Supply & Demand Balance

Figure 27: Supply & Demand Balance of China's coffee market (1998-2012)

Unit: thousand bags



Source: ICO (2013)

According to the data in the report of ICO (2013), worldwide supply and demand status was almost balanced, but high quality products are still in short. In terms of domestic coffee market, the gap between supply and demand will grow larger, given the dramatically increasing of demand. Therefore, in order to meet market need, it is necessary to import coffee raw materials and coffee product from other countries. (Li & Zhou, 2011)

4.3 Sales Channel

4.3.1 Traditional Sales Channel

Similar to other fast consumer goods such as beverage, milk, the traditional sales channel, such as supermarket, department store, convenience store and other sources, are the most important sales channel of coffee.

Public sales channels, especially large supermarkets, department store sales have become main sales channel of coffee, especially of instant coffee. Some international coffee producer even says that: "China is the second market except the home market of the company." Furthermore, the promotions of instant coffee could be seen everywhere, which made a huge queue in Chinese supermarket (Chen & Zeng, 2011).

4.3.2 Coffeehouse

With the continuous improvement of people's living standards, Chinese people, especially the younger generation are prefer to go to some exotic coffeehouse. China's coffee market was expanded rapidly in order to meet the growing demand (Li & Zhou, 2011). This kind of coffeehouse refers to the coffeehouse chain, such like Starbucks, UBC Coffee, McDonald's (Mc Café).

However, famous coffee chain brands like Starbucks and Costa tend to set a high joined standard for the market newcomers. Thus somehow ignored the basic national conditions of China and made many investors who interested cannot join. On the other hand, a normal private coffeehouse is not hard to open, but lack of professional management always limits them to show the inner spirit of coffee culture.

China doubled its on-trade coffee consumption between 1998 and 2003. This is a mostly urban phenomenon with most rural areas largely untapped. On-trade sales of coffee mainly go through three types of establishments: coffeehouse (independent and chained), Internet coffeehouse and fast food restaurants. Euromonitor's figures show that chained coffee shops, such as Starbucks and Manabe (Japanese style coffeehouse) saw spectacular growth in unit sales, increased by 814% from 1999 to 2009. Starbucks stands as a statement of modern lifestyles in China, and expects China eventually to surpass Japan to become the company's second largest market in the world. However, Starbucks faces increasing competition from other foreign players. The Chinese coffee market is highly consolidated, with multinationals controlling the market. (Eskinder & Demisse, 2010)

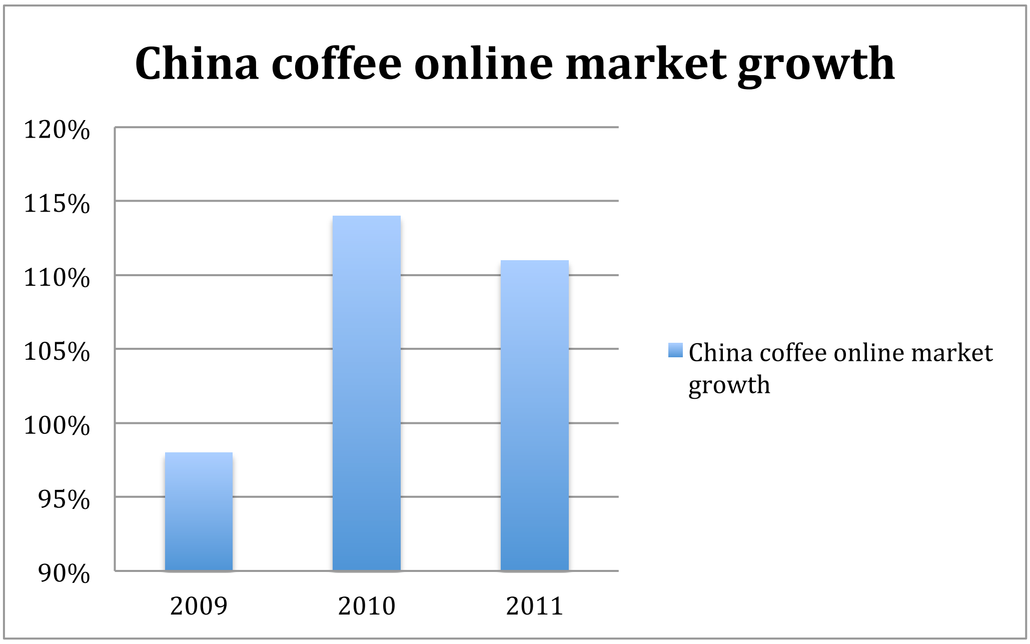
Costa Coffee, which just entered China's coffee market in 2007, now has successfully removed the hat of "Second Starbucks", also have completed their another round of expansion. With a completely rapid speed of expand, Costa Coffee opened almost 100 store in one year, and 200 stores will be opened by 2012. Furthermore, Pacific Coffee, which has just been acquired by CR Vanguard in June of 2013, has set the goal of open 1000 stores.

4.3.3 China coffee on-line market

Now, many manufacturers have set stores and distributors in the main e-commerce platform. For example, Nestle has opened an online shop on Taobao (China largest e-commerce platform), Jingdong, Dangdang, Amazon and other e-commerce platforms.

Figure 28: China coffee online market growth rate (from 2009 to 2011)

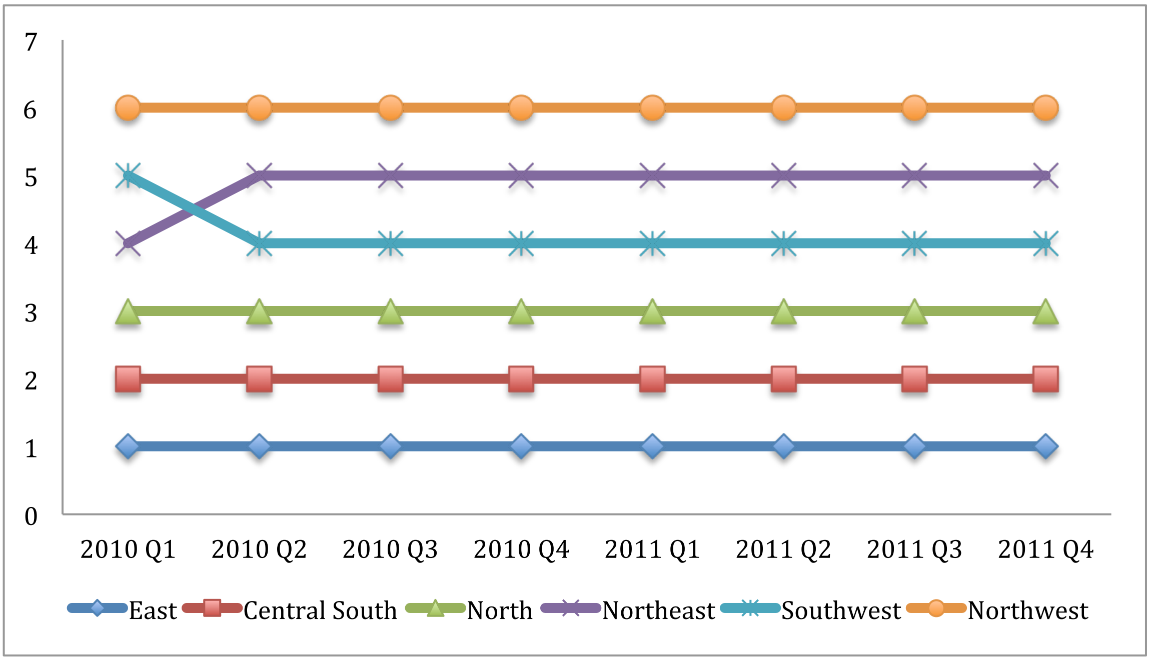
Unit: %



Source: www.smart-path.net

Figure 29: China Coffee Online Market Regions (by sales value) (from 2010 to 2011)

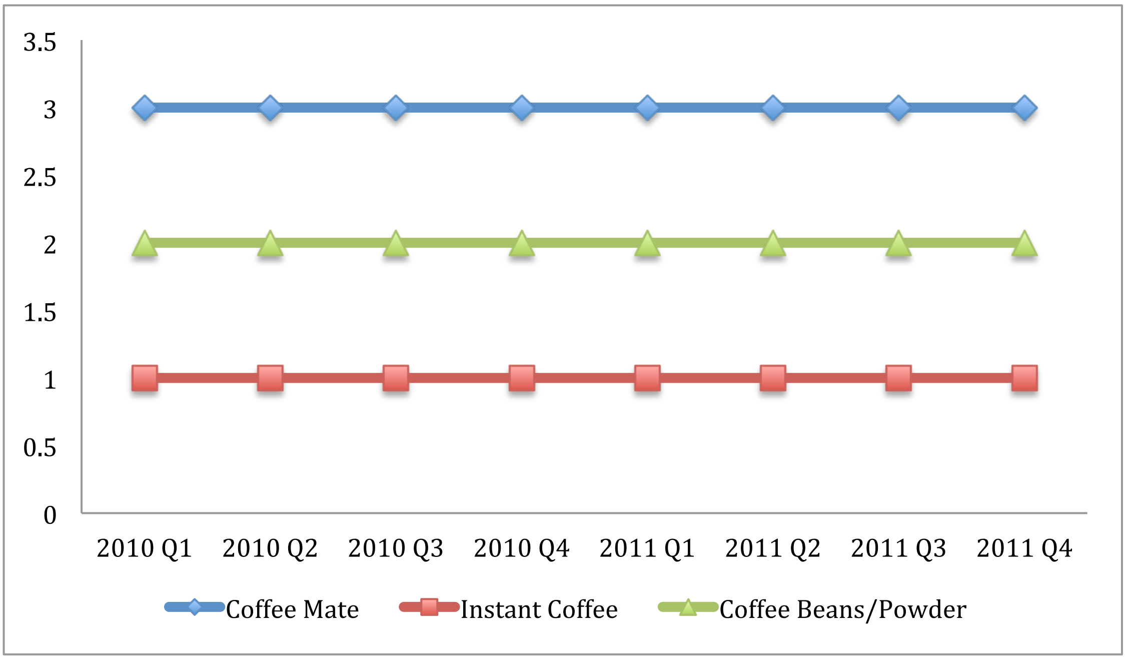
Unit: rank



Source: www.smart-path.net

Figure 30: China Coffee Online Market Growth Sub-categories Share Rank (by sales value) (from 2010 to 2011)

Unit: rank



Source: www.smart-path.net

According to the latest data of smart-path (2011), China online coffee market revealed a general trend of fast increase, representing an average annual growth rate of 108%. However, due to the regional imbalance economic growth, a majority of market share concentrated in developed areas, such as East, Central South and North.

Moreover, during the period 2010-2011, instant coffee took up the largest amount of online coffee market share. Compared with traditional sales channel, an increasing number of people prefer buy coffee online, which indicate a completely new chance for instant coffee companies.

4.4 Competition between different companies

4.4.1 Comparative analysis of instant coffee producers

Table 9: Comparative analysis of main instant coffee producers

Brands	Nestle	Maxwell
Market Share	68%	14%
Brand Image	Instant Coffee leader. The classic advertising slogan: "It tastes great!"	One of the famous brands of instant coffee. Representative of high-quality coffee. A variety of taste.
Target Market	Young, enthusiastic, energetic, fashion students and working-class	Young, enthusiastic, energetic, fashion students and working-class
Main Products	1+2 coffee 2. Cappuccino series 3. The Premium reward series 4. Gift boxes series 5. Coffee mate 6. Ready to drink coffee	1. 3-in-1 coffee 2. Sugar-free 2-in-1 3. Coffee partner 4. Grab coffee 5. Flavor series 6. Gift Box
Characteristics & Features	1. Good solubility 2. Rich flavor, delicate taste 3. Acidic taste, lack of flavor	1. A variety of taste 2. Aroma taste but light 3. Taste bitter without acidic
Sales Channel	Traditional sales channel; Sales online	Traditional sales channel; Sales online
Strengths	1. High brand awareness, well spread of brand culture. 2. Product advantages: Launch of the Chinese market adapted products. 3. Sales channel advantages: excellent capability of traditional distribution channel. 4. Price strategy: lower prices than other brands, regular promotional activities. 5. Terminal strategy: Exist in almost all public channels terminals, and adapted to the trend of e-commerce. 6. Promotional strategy: regular holiday promotions, posters, and gifts.	1. High brand awareness. 2. Product advantages: a variety of products and taste, more options than other brands. 3. Sales strategies: regular promotional activities during the holidays.
Weakness	1. Less product variety and taste; 2. Lack of mellow taste, bad coffee beans materials. 3. Lack of R & D to keep up with the launch of new products.	1, The sour taste is not enough, and relatively light. 2, Channel terminal not as good as Nestle, Difficult to

		find in small cities. 3. Higher price than Nestle 4. Advertising is not enough, compared with Nestle.

Source: Edited by Writer with data from ITC (2010), Wang (2012)

4.4.2 Comparative analysis of Coffeehouse in China

STARBUCKS

Starbucks and Costa are two leading coffee companies in the world. In China, Starbucks is much more crowded than in Costa, which same as other parts in the world.

Starbucks, the premier roaster and retailer of specialty coffee in the world, opens its first store by Howard Schultz in Seattle's Pike Place Market in 1971. By 2009, Starbucks already has 16,706 total stores worldwide, covered more than 50 countries, including Australia, Canada, UK, Germany, Japan, China and many other countries. This world's biggest coffee chain is opening coffeehouse in China at a rate of one every four days in its quest to expand from 570 shops currently to more than 1,500 by 2015.

Starbucks is committed to being a deeply responsible company in the communities where it does business around the world. The Company's focus is on sourcing high-quality coffee, reducing its environmental impacts and contributing positively to communities. The Company's mission is to inspire and nurture the human spirit—one person, one cup, and one neighborhood at a time.

In their first few years Starbucks had been targeting expats and foreigners more. They and their competitors are now clearly focusing on locals as interest in coffee drinking has grown. In particular, Starbucks has done an excellent job of positioning itself as an aspirational brand in China.

COSTA COFFEE

Costa Coffee is a British multinational coffeehouse company headquartered in Dunstable, United Kingdom, and a wholly owned subsidiary of Whitbread. It is the second largest coffeehouse chain in the world behind Starbucks and the largest in the United Kingdom.

The brothers Sergio and Bruno Costa founded costa Coffee in London in 1971. Acquired by Whitbread in 1995, it has grown to over 1,700 stores across 35 countries. The business has 1,375 UK restaurants, 2,500 Costa Express vending facilities and a further 800 coffeehouse overseas.

Starbucks entered into China's market in 1998 while Costa coffee open its first coffee shop in Shanghai by 2007, nearly 10 years later than Starbucks. However, something such as decoration styles and coffee quality are quite similar to each other.

Table 10: Comparative analysis of main coffeehouse competitor in China

	Starbucks	Costa
Position	Relaxing, high quality and convenient.	High quality and luxury lifestyle.
Product	- Variety of products, differentiate their products according to different country. Adapting China's market, green tea, and typical snacks have been developed. - Healthy organic sandwiches, salads and pastry for vegetarians. - Less credibility in terms of its quality compared with Costa coffee.	- Pay more attention to coffee's taste and originally. - Products are relatively monotonous, mainly supply espresso. Always appreciate handmade coffee. - Better reputation for quality than Starbucks, It differentiate itself from other coffees by "the perfect cup in four Ms", which means freshly ground beans extracted by perfect machines and perfect skills.

Target market	- White-collar workers and youngsters - Psychographic: Coffee lovers , Atmosphere lovers A great third place	- Upper Middle Class - Privileged Class
Price (Take Latte for example) Starbucks: Tall (350ml 25RMB), Grande (470ml 28RMB), Venti (590ml 31RMB) Costa: Primo (340ml 26RMB), Medio (450ml 29RMB), Massimo (560ml 32RMB)	Starbucks's "Venti" has been translated into "Super grande" size in Chinese while Costa translates "Massimo" into simple big size. The prices of Starbucks have been carefully designed in order to meet customers' Psychological expectations.	Due to its higher-middle class target market, the prices of all the products are comparatively higher than Starbucks. But this is offset by the outstanding quality and discerning tastes.
Location	- Select shopping mall, office building, upper scale resident area, where gather a crowd of people.	Costa's location is very close to Starbucks. Rely on Hualian and Ruida, easily enter into hypermarket, upper scales shopping mall, sometimes even exclusively.
Promotion	- Express Social responsibilities (Fair trade and "Green Coffee") - Starbucks Rewards Card, increase customer loyalty. - Make use of surrounding products and brand to enhance brand value. - Online or mobile Coffee-Ordering for busy people - New Coffee evaluation	- Brand name is enough to muster the required target market. - Less brand-based promotion, most of the awareness will be through the word of mouth of people amongst the masses.
Decoration	- Create elegant, fashion, romantic	- Provide luxurious shop

	atmosphere of culture for customers. - High quality and well designed furniture - Free WiFi to everybody - Children Corner - Education strategy: Board that shows Starbucks suppliers, and coffee knowledge	environments, including more sofas and plush seats.

Source: Global Entrepreneur (2011)

Though the analysis above, there are significant difference between Starbucks and Costa coffee. Starbucks prefer to meet different customers' requirements and demands with more diversity, while Costa coffee more concerned about the nature of coffee, and consist in their unique style.

Chapter 5 Tea Culture & Coffee Culture

5.1 Evolution of Coffee Culture & Tea Culture

5.1.1 Coffee culture

The coffee trend started in 1998 when Starbucks opened its first retail outlet in the Chaoyang district of Beijing, on the Third Ring Road near the China World Trade Center (Holstein, 2012). Coffee culture is not a word that Chinese people familiar with until 1999s. With the deepening of China's reform and opening up, and the constant infiltration of Western culture, coffee culture, a "vanguard of Western culture" has gradually entering into people's lives and getting well known in China.

Many years ago, Chinese people used to believe that "coffee is Nestle and Nestle is coffee". Since 1990, a variety of foreign coffee brand entered into China's market. Moreover, Maxwell also started their production and sales in China. Even Starbucks has launched their first instant coffee VIA in March 4 of 2009.

Recently, after many years, people begin to pay attention to the ambience of drinking coffee rather than only the convenience of instant coffee. Coffee appeals to adventurous young, rich, and urban consumers. This is just because originally coffee is considered as a Western concept to most Chinese consumers. A plenty of coffeehouses, which situated in every corner of city has become a perfect place for people to chat, listen music and take a rest. Therefore, coffee has developed as a culture. (Chen & Zeng, 2011)

Coffee culture describes a social atmosphere or series of associated social behaviors that depends heavily upon coffee, particularly as a social lubricant (Zhang, 2006). A "coffeehouse or "café" is an establishment which primarily serves prepared coffee or other hot drinks. Historically cafés have been an important social gathering point in Europe. They were and continue to be where people gather to talk, write, read, entertain one another, or pass the time. In addition to coffee, many coffeehouses also serve tea, sandwiches, pastries, and other light refreshments. Some provide other services, such as wired or wireless Internet access. "Coffee culture " is undoubtedly the mainstream of development in coffee industry, just like the rapid development of the coffee market is inseparable with the customers' interest of Western culture.

5.1.2 Features of Chinese Coffee Culture

Coffee in China is still a trend rather than a habit. People drink it to feel good, but not out of need (Red Luxury, 2011). However, those international coffee chain companies may slowly change think pattern of Chinese customers.

Starbucks, as an international coffee company who has entered into China's market for more than 10 years, saw the dramatically change of Chinese customers. Gradually, Starbucks has establishing a niche coffee culture in the first-tier cities of China, especially in Beijing and Shanghai.

China's Coffee culture is a symbol of modern and successful lifestyle (China Daily, 2009). While in the west, coffee culture focuses on things like blends, tastes, and brewing techniques, this is not the case in China. In China it represents a young, emerging middle class and their growing purchase power.

Coffee culture is beginning to be accepted and appeals to the adventurous, open-minded, young, affluent, urban consumers in cities like Shanghai, Beijing, and Guangzhou. Coffee drinkers generally consist of overseas returnees, expats, highly educated professionals and college students. The growth of these consumers bodes well for the high-end coffee market.

Most of these young coffee drinkers are more open-minded to Western influences that have made their way into China and are eager to show it through coffee consumption.

They visit coffeehouse for a comfort experience rather than a basic need. Since coffeehouse like Starbucks could provide them a uniquely different atmosphere with comfortable couches. In America most people want a “coffee-to-go”, but in China customers are like to sit down and talk with their friends.

According to ICO (2013), it is estimated that China's coffee consumption will grow by about 15% per year, far above the global average of 2%. However, most of this growth is based on China's unique coffee culture, which representing a fashionable symbol rather than habitual usage. According to ITC (2010), coffee-themed, casual dining restaurants has become popular since early 2000s, and are still very common in most first and second-tier cities in China.

5.1.3 Tea Culture

Tea, coffee and cola are three major beverages widely consumed in the world (Yang, 2007). And tea is an integral part of food service (Jolliffe, 2007). As widely accepted, China is the homeland of tea, the Chinese started to use tea as medicine and food 4,000 years ago. In Han Dynasty, tea has become the special beverage among the royal families. Since Tang Dynasty, tea drinking became a daily social vogue and enjoyed from the royal family and courtiers on down to ordinary people. Ancient Chinese intellectuals left behind a great volume of poems, chimed verses, songs, paintings and ballads about tea. Tea drinking was regarded as the high fashion, from which derived tea rituals and tea arts (Yang, 2007).

Tea is not only popular in China, but also in other Asian countries, like India and Japan, while those western countries prefer coffee. According to Zhang (2011), the consumption of tea has declined since several years ago. Those people from 18-29 years old are less likely to consume tea. However, the consumption of coffee increased from 1993, especially after 2000, since the young people are the more sensible ones to accept new things.

According to previous studies, Baldwin et al (2005) divided all culture definitions into two types: broad sense and narrow sense. The former includes both material culture and intangible culture (UNESCO, 2002), and the latter is in a narrow sense of intangible culture.

Following the definition of culture, tea culture could also be defined in a broad and narrow sense (Wu, 2006). Broadly it means the total of tea related material and spiritual wealth during the process of tea development, which combines tangible and intangible products including ethic demonstration, etiquette norm, esthetic, religion, arts and tea-growing, tea-processing techniques and materials (Song, 2004; Li, 2007); and narrowly it only means the spiritual wealth (Wang, 1992).

Throughout various studies, it is recognized that China's tea culture emphasizes 'Harmony, Respect, Gratitude and Love', which are closely linked with the traditional Chinese culture and ethics (Yang, 2007). As Jolliffe (2007) summarized the function of tea in China and some other countries as 'ceremonies, customs and rituals that have grown up around the practice of tea drinking are an integral part of the life and culture of many societies'.

Xu (1999) define tea culture as the derivative of tea, and a series of phenomenon of material, spirit, customs, psychology and behavior with tea at the core, which, without any exception, demonstrates the natural property and social and cultural property of tea. Generally speaking, tea culture is regarded as 'all the inheritable, continual, sustainable and excellent material and spiritual creations on tea during human being's social practice' and 'material and spiritual wealth of the sum during the development and growing of tea' (Yu, 1998).

5.2 Market Competition: Coffee & Tea

Chinese coffee industry has growing with a surprising speed since the reform and open-up of 1980s. As has been pointed out by Chen (2011), instant coffee could no more represent the Chinese coffee consumption, Chinese consumers began to recognize the coffee brand, style and pure, and knowing how to enjoy the fun of coffee.

In China, Coffee is more likely to be considered as a symbol of successful lifestyle than itself. The development of Chinese coffee market, are close linking to the customers' interest for occidental culture.

Euro monitor findings show that, within Asian countries, affluent consumers with a high degree of Western influence are more likely to accept a coffee culture (Lee, 2004). According to Sprcoffee.com (2010) there are approximately 200 million potential coffee consumers in China, which would potentially put China on a par with the major coffee consumer.

According to previous studies, the number of coffee houses in China has nearly doubled in the last five years to over 31,000. Over the same period, the number of Chinese tea houses rose by only 4 per cent to 50,000. Although there are still more teahouses than coffeehouses, the clientele of teahouse are often elderly, which may not bode well for the future.

Oldenburg (1989) calls one's "first place" the home and those that one lives with. The "second place" is the workplace — where people may actually spend most of their time. Third places, then, are "anchors" of community life and facilitate and foster broader, more creative interaction. All societies have informal meeting places. However, what is new in modern times is the intentionality of seeking them out as vital to current social needs. Here Oldenburg (1989) gives several features of a true "third place":

- Free or inexpensive
- Food and drink, while not essential, are important

• Highly accessible: proximate for many (walking distance)
• Involve regulars – those who habitually congregate there
• Welcoming and comfortable
• Both new friends and old should be found there.

We could see that Starbucks created a third place for customers where supply a new consumers' experience. Customer experience is the internal and subjective response customers have to any direct or indirect contact with a company. Direct contact generally occurs in the course of purchase, use, and service and is usually initiated by the customer. Indirect contact most often involves un-planned encounters with representations of a company's products, services, or brands and takes the form of word-of-mouth recommendations or criticisms, advertising, news reports, reviews, and so forth. (Meyer & Schwager, 2007)

For Starbucks, coffee is only a mediator, which helps Starbucks to pass a romantic atmosphere to customers. Meanwhile, Starbucks is positioned in a truly customer-oriented coffee house and always put the emotional experience of customer in the first place, achieved a transformation from sale coffee to sale coffee culture. Hence, nobody will care about their prices, quantity, and quality those main factors that really need to care about in sales of coffee. What the customers want is the emotional experience. In other words, even if customer prefers a cup of tea in Starbucks, he or she will also be able to immerse in the romantic and relax atmosphere, which is the think pattern of Starbucks in China.

Also, another company needs to be mentioned when we talking about coffee culture is Nestle. Twenty years has passed since Nestle entered into China's market, Nescafe always positioned itself as a brand that brought coffee culture to China. Nestle is not only a brand, but also a leader of Chinese coffee culture, coffee culture has been considered as a media and a bridge to connect young people in order to guide the consumption values of them. (He, 2012)

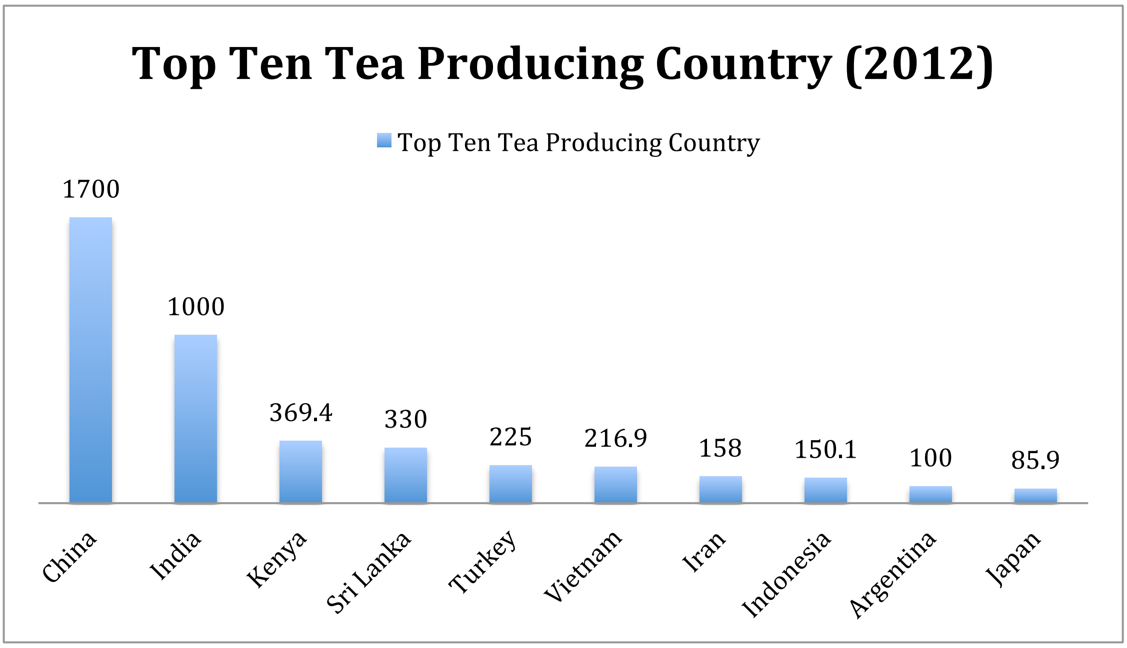
The phrase culture shock has been attributed to the anthropologist Oberg (2006), who used it in an article in 1960 to illustrate how people react to strange or unfamiliar places. Many years passed, and "culture shock" has become a widely misused term, both in popular language as well as in cross-cultural psychology (Bochner, 2003).

To face the culture shock, tea culture can also become an important element of Starbucks' entire experience. For a majority of Chinese customers, they are more familiar with tea to coffee. Started from the special features of China's market and in order to provide more choices for customers, Starbucks launched 9 types of tea now, including tea bags and original tealeaves.

According to Waldmeir (2012), nearly a quarter of Chinese consumers chose to buy tea drinks even in coffee shops. And a quick glance at the menu of any Starbucks in China will show that many of the other drinks have not much coffee in them and tend to be more like tea with milk.

Figure 31: Top Ten Tea Producing Country (2012)

Unit: 1000 metric tons



Source: www.statista.com

Teahouses have targeted higher-end consumers with expensive teas, food and service, but lack differentiation, and there are few successful brands to meet the challenge posed by the rise of the coffeehouse chains. The growth of teahouses is continuing slowly though also the emergence of teahouse chains targeted at younger, lower-income consumers. Even worse for the tea houses is the fact that popular coffeehouse chains like Starbucks have branched out into selling tea drinks in China, where people adore coffee culture but do not much like the taste of coffee itself.

As can be seen from the diagram, China ranked first in the top ten tea producing country in the world. Nevertheless, China, this traditional tea drinking country, its tea consumption per capita was only 0.82 kg by year 2009, ranked 33 worldwide, but still was 41 times more than coffee consumption per capita (0.02 kg) at that year. Unlike tea production, China's teahouse still lack of standard management. However, Starbucks brought its own standard management system and methods, make sure the healthy development of companies and the effective operation of the market.

As a creator of tea culture experience, teahouse help to express that the significant of tea is not only the physical sense, but also a leisurely charm of life, and that is what people looking for.

First, teahouse needs to position itself clearly and differentiate from each other. Teahouse could serve as the place for business negotiation, or place for leisure entertainment, or even for tea-art communication, which provide an opportunity for people who love tea to get together. However, a teahouse should not include everything, otherwise it will lose its unique characteristics.

In addition, one of the biggest problems in the development of Chinese teahouse is the stereotyped business model and lack of differentiation. Another problem is lack of culture background, teahouses prefer to invest in hardware such as decoration, rather than discover and demonstrate a bit of tea culture (Guan, 2007).

Chapter 6 Chinese Coffee Customers Analysis

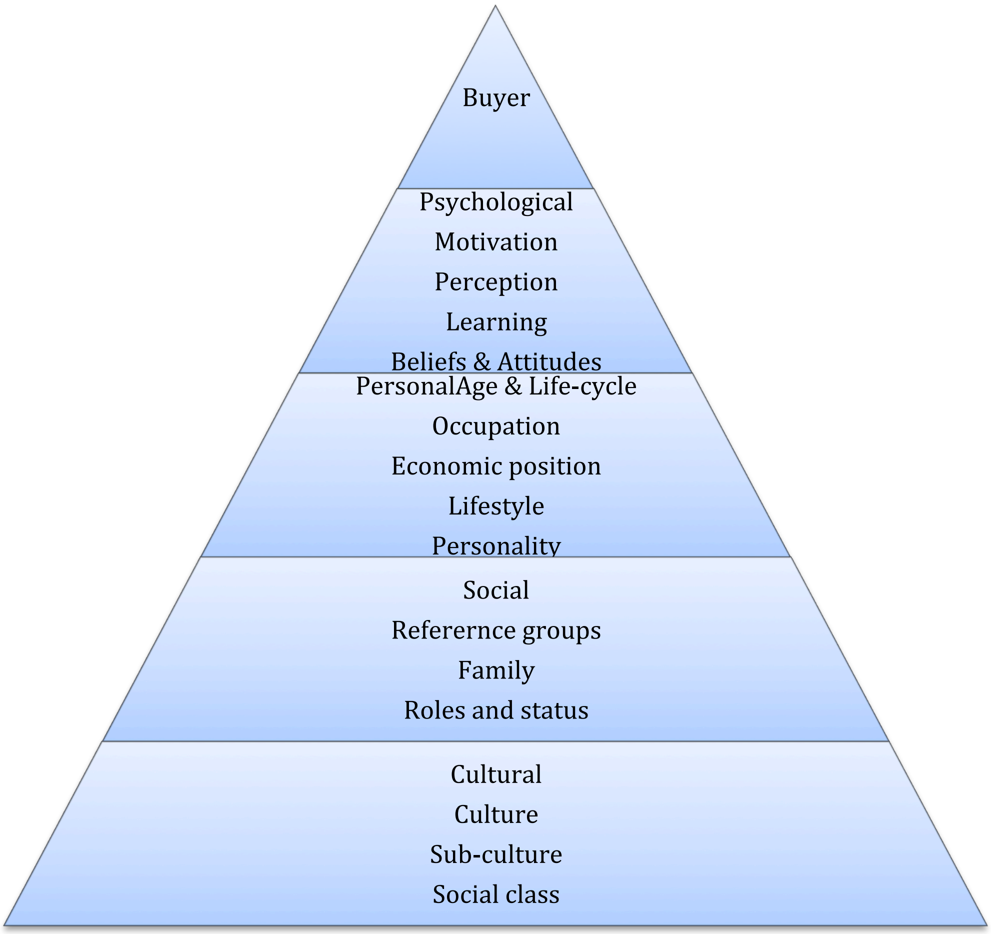
6.1 Hofstede's Cultural Dimensions Analysis of Chinese Consumption Values

To excel in China, the understanding of Chinese culture is important. Culture is human activities and environment where sets of values and norms followed by a group of people with inherited ethical habits that are symbolic, meaningful and identifiable whether abstract and material. It is to be noted that every form of the culture elements (materials, social institutions, beliefs and value systems, aesthetics and languages) cannot be viewed singly as they are intricately intertwined as each has its synergistic effect with the other.

The national culture of any country is shaped by its core values and is the source of considerable amount of mental programming (Hofstede, 2001). Therefore, it is imperative for marketers to better understand Chinese consumers' behavior. National culture has considerable influence on consumer behavior (Kumar et al., 1998) and is outer stimuli, influencing the diffusion of product across countries (Kumar et al., 1998).

Culture affects consumer behavior, which reinforces the manifestation of culture. An individual's consumption behavior is a result of the individual culture value system developed over time as they socialize in a particular group, which is in turn influenced, by regional sub-cultures and familial values (Luna & Gupta, 2001). Here we could see the factors which influence the buyers' characteristics.

Figure 32: Factors influencing the buyers' characteristics



Source: Riley (2012) http://tutor2u.net/business/marketing/buying_stimulus_model.asp

Values can be defined as moral or professional standards of behavior. As reported by Rokeach (1973), value is defined as an enduring belief that a specific mode of conduct personally or socially preferable.

Hofstede's cultural dimensions theory is a framework for cross-cultural communication, developed by Geert Hofstede (2001). It describes the effects of a society's culture on the values of its members, and how these values relate to behavior, using a structure derived from factor analysis.

The Chinese culture will be defined using Hofstede's five cultural dimensions. For each dimension, a world average score and a score for the country will be given. The cultural characteristics will also be described.

Power distance

Power distance is the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally. This dimension indicates the degree of inequality between people in physical and educational terms.

The score of China is 80, which is higher compared with the world average of 55. It indicates that the unequal distribution of power and wealth in China (Hofstede, 2001). It is in line with the Chinese values such as: interpersonal harmony, relational hierarchy and conservatism (Ueltschy et al., 2009).

As we summarized in the literature review, ‘‘Thrifty’’ is ranked as the top traditional Chinese cultural value (Chinese Culture Connection, 1987), which is also in line with the conservatism value that has been mentioned above. This conservatism also appears when it comes to spending money in purchasing an expensive product. Chinese people are more likely to compare same or similar products in various shops and evaluate the product from different aspects, which makes salespeople more difficult to persuade them to buy it. (Burstein & De Keizer, 1998).

Individualism

This dimension indicates the degree to which people act as individuals instead as group members. In an individualistic culture, the interest in the individual and their immediate family is the most important. In a collectivistic culture, the individuals belong to one or more close ‘in-groups’ and are therefore interested in the group (Hofstede, 2001).

China has a score of 20, which is lower than the world average of 43. China can be defined as a collectivistic country. It means that the Chinese society is more group oriented than individual oriented (Hofstede, 2001). The Chinese people are deeply involved with each other and adapt to their family, good friends and close colleagues. It is possible to engender a social hierarchy due to the group orientation (Hunter & Sexton, 1999).

It is important that a positive social image is preserved, so that prestige and admission to connections can be achieved (Oetzel & Ting- Toomey, 2003). It is in line with the cultural concept of ‘face’, which refers to the standing of a person before his or her equals (Hall, 1976). Taking into account the current situation of China, the rising of middle-class has brought a lot of people into white-collar workers group. Motivated by an eager desire to impress others with their purchasing power, the group of people needs to purchase luxury goods or products with relatively high price to “public” themselves and raise their social status (Bagwell & Bernheim, 1996; Basmann, 1988).

Moreover, Chinese people also like to spend time with friends and family. When a Chinese people make a purchasing decision, peer pressure and opinion leaders could serve as the primary influential factor. Furthermore, according to the previous studies, Chinese consumers may prefer to develop personal relationships with salespeople. Thus, as long as the Chinese perceive shopping as a social occasion, salesmanship will continue to play a significant role in their store choices.

Masculinity

This dimension indicates the degree to which a country can be divided into an assertive pole called masculine, or in the caring pole called feminine. Masculine cultures are more assertive and competitive, feminine cultures care more about the health and solidarity in society. (Hofstede, 2001).

China has a score of 66, which is higher than the world average of 50. China is more of a masculine country than a feminine country. A masculine culture is more of a competitive culture, which means that to achieve success is important. As we mentioned before, the possession of publicly visible luxuries (conspicuous consumption), including foreign-branded products, is important for them to show their wealth, position and power those elements usually been connected with "success".

Another characteristic of masculinity is that resolutions of conflicts are fought out, this in contrast with a feminine culture where conflicts are solved by compromise and negotiation (Hofstede, 2001).

Uncertainty avoidance

This dimension indicates the degree of a society's preference for formal rules and fixed patterns of life. Societies with high uncertainty avoidance strive for tolerance of uncertainty and ambiguity. (Hofstede, 2001).

China has a score of 40, which is lower than the world average of 64. It is an indication that China has fewer rules and does not attempt to control all outcomes. China can be stated as an uncertainty accepting culture (Hofstede, 2001).

However, under the reform and open door policy from 1980s, a variety of western values have been accepted gradually. According to the previous studies, there is a growing tendency toward individualism (McEwen et al., 2006) and materialism (Swanson, 1995), as well as the growing consumerism and awareness of consumer rights (Ho, 1997), and hedonic consumption (Wang et al., 2000). As consumer goods are being made more available and the freedom of choosing products and leisure activities are encouraged, a consumer culture is emerging. Therefore, one of those major indicators of the emerging Chinese consumer culture is the growing hedonic consumption value. Just like people of western developed countries, Chinese people tend to be more concerned about product quality and price instead of only considering their basic physiological needs. As a result, their consumption behaviors are characterized by pursuing instant gratification, spending expressively or symbolically, and seeking enjoyment and fun (Hirschman and Holbrook, 1982; Wang et al., 2000). They also found that hedonic values have a positive impact on Chinese consumers' choice and consumption patterns such as novelty seeking, responsiveness to promotion stimuli, brand consciousness, and preference for foreign brands.

Long-term orientation

The fifth dimension was found in a study among students using a questionnaire designed by Chinese scholars (The Chinese Culture Connection, 1987). It is an indication of a society's time perspective and how to deal with difficulties in life. It also describes the attitude of persevering, such as overcoming obstacles with time or with will and strength (Hofstede, 2001).

China has a score of 118, which is the highest-ranking factor. The world average is 45. China has an extraordinary long-term orientation. One of the characteristics is persistence. This describes the degree of pursuing goals. Since Chinese people's life is influenced by a traditional culture value, thrift, they prefer to save money rather than to squander. Even if the incomes in China has increased a lot these years, the saving rates are highest in big cities such as Shanghai and Beijing where the middle class claims to make up 49% of the population. (Wang & Lin，2009) Just as Hofstede (2001) mentioned, saving money for future is important in China, as well as taking care of others and being loyal. Since the Chinese attach much importance to past experiences and tradition, they are not likely to switch brands unless the brand being used proves very unsatisfactory.

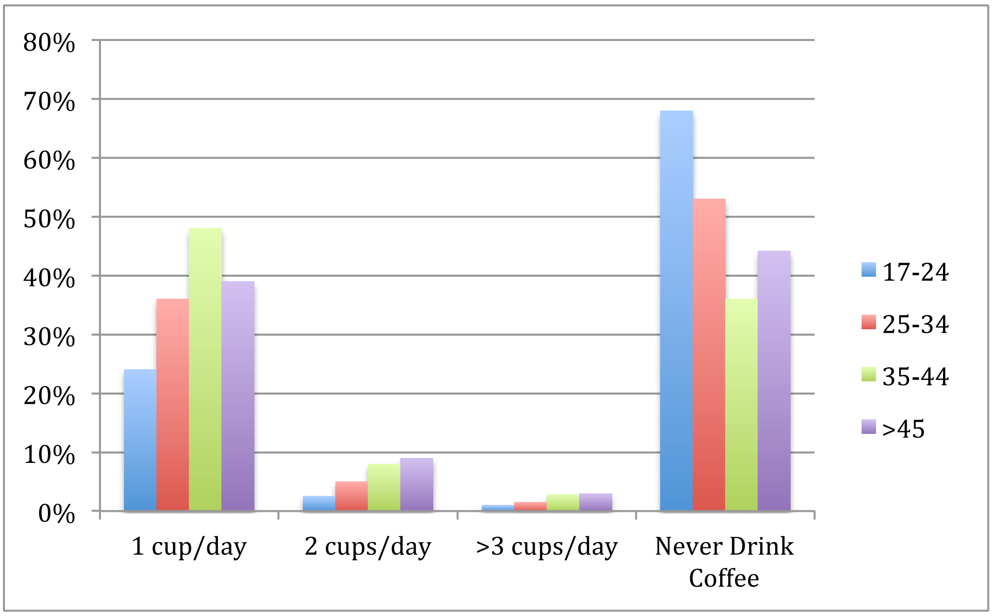
6.2 Chinese Coffee Customers Features

(1) Increasing customer group with large potential

Although a lot of customers do not like the taste of coffee, attracted by the romantic ambience and environment of coffee house, they will also consume some other things in it. Therefore, there are still a lot of potential consumers.

(2) Young people, ex-pats, foreign traveler, returnees has become the main consumer groups

Figure 33: Age distribution of China's coffee customers



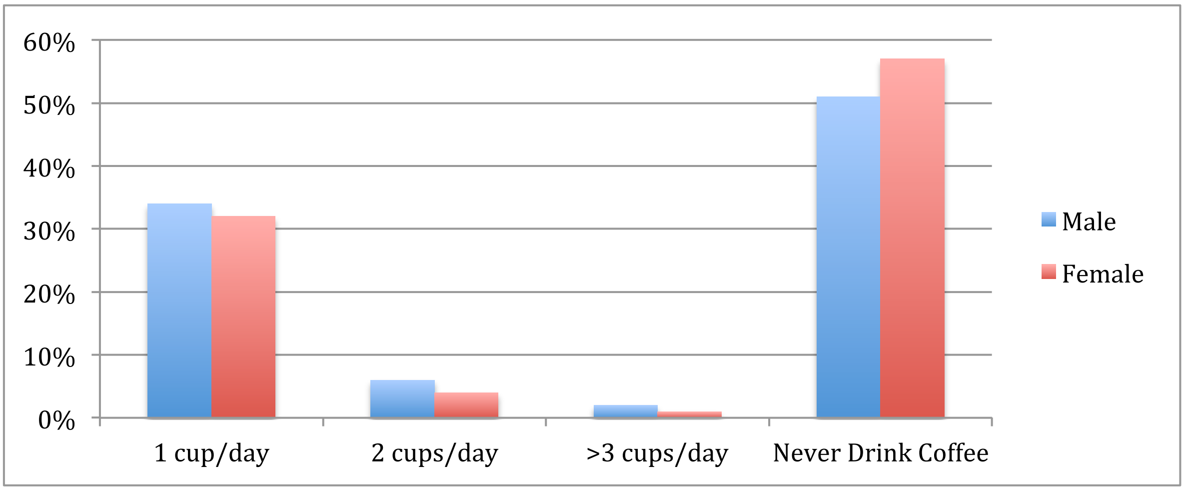
Source: Pollster (2012)

According to the data showed by Pollster, young and middle-aged people are the main consumers of coffee. People of age 25 to 34 occupied over 36% of total amount of consumer, while people from 35-44 accounted almost 50%. In report of ITC (2010) mentioned that, China's coffee house regulars are mostly young (20-40 years), affluent, fashion-conscious, urban Chinese. Foreign travellers and expatriates account for 15% to 25% of coffee house customers.

Most of these young people are born after 1980s, who always response very quickly to the new things are interested in exotic culture and easy to accept, which will promote the development of China's coffee market.

(3) Meanwhile, Pollster´s finding shows that in terms of gender differences, men still drinks more coffee than women.

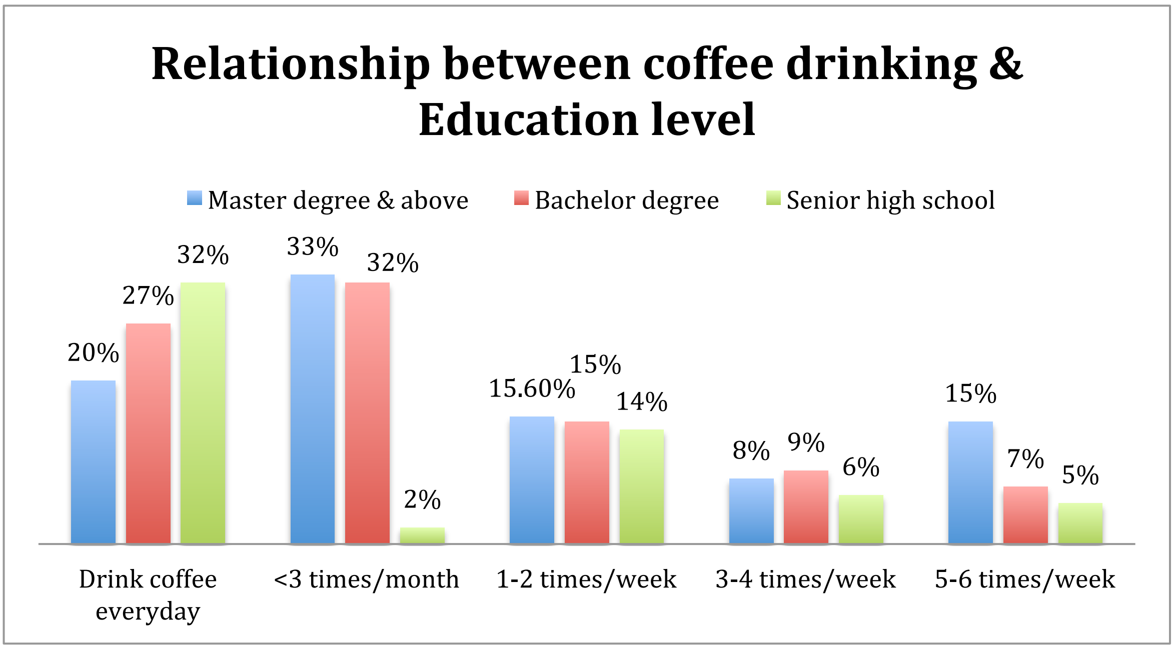
Figure 34: Gender distribution of China's coffee customer



Source: Pollster (2012)

(4) People with higher education level are more likely to drink coffee in China

Figure 35: Relationship between coffee drinking & Education level



Source: Pollster (2012)

A positive relationship has been showed by level of education and the frequency of drinking coffee. According to the diagram, although the majority of people do not have the habit of drinking coffee, there is no doubt that it shows a significant positive relationship between the level of education and frequency of drinking coffee, which means that coffee in China, is usually considered as a symbol of successful class lifestyle. Moreover, it is inseparable that the rapid development of China's coffee market and the increasing consumers' interest of western culture.

(5) Chinese patrons of gourmet and special coffee houses prefer lattes, cappuccinos, and mochas to espressos, which they consider to be too bitter. (ITC, 2010)

(6) The report of ITC (2010) concludes the reason why Chinese people go to coffeehouse. The first is the music and ambience, the second is branded wares, such as coffee mugs and thermoses; the last is a variety of fresh pastries and cookies.

(7) The main objectives of Chinese people to go to coffeehouse are for business, friends meeting and couples dating.

6.3 Chinese customers' coffee buying behavior

According to the American Marketing Association, consumer behavior is "the dynamic interaction of affect and cognition, behavior, and the environment by which human beings conduct the exchange aspects of their lives". With the environment, the place, the country or the culture is meant.

In the 1980s, coffee drinkers were rare and coffee was usually treated as high-priced imported gift items exchanged more for its token value (i.e., as an expensive gift) rather than actual consumption value. Buying a specific type of coffee is often a matter of habit, (De Pelsmacker et al., 2005), these different reasons represent different attribute dimensions when a customer purchases coffee, such as brand-orientated, flavor-orientated, ethical- orientated, and price- orientated. Both of the two studies were agreed with that the price, quality, convenience and brand familiarity are still the most important decision factors (Roberts, 1996; Tallontire et al., 2001). In general, the ethical consumer feels responsible towards society and expresses these feelings by means of his purchase behavior, for instance, the purchasing of fair trade labeled coffee (De Pelsmacker et al, 2005).

6.4 Chinese Coffee Consumer Psychology Analysis

(1) Coffee is a symbol of good taste. Coffee in China always been considered as a symbol of taste and quality instead of a kind of beverage.

(2) Meet the conspicuous consumption value of Chinese people.

A CCTV’s (2013) investigation has compared the price of same latte coffee in Starbucks, and found that the price in Beijing, 27 RMB, is the highest one, while the price in Mumbai is only 14 RMB. Furthermore, a cup of Starbucks’s American coffee priced in 25 RMB, however, its raw material cost is only 2.6 RMB. The sales price is 10 times more than the basic raw material cost.

In those Western countries, coffee in Starbucks is just mass consumer goods, but in China, Starbucks and some others similar coffee house tend to make itself as a luxury goods and an instrument to show off because of the conspicuous consumption is so popular among Chinese people. Many white-collar workers in China’s cities want to impress people and raise their social status.

(3) Coffee helps to refresh and clear the mind. (Wang, 2012)

Coffee contains caffeine that could stimulate the central nervous system and muscle, which is another major factor of coffee consumption in China.

Chapter 7 China's coffee industry development trend, problems and proposal

7.1 Development Trend

CONTINOUS INCREASING OF DOMESTIC DEMAND

According to Lingle (2007), the coffee industry is expected to continue growing through at least the year 2015 and even longer in other emerging markets around the world. Even if the market in the United States may begin to decline, there are still other emerging markets contributing the growth of coffee industry, such as China. Meanwhile, International Coffee Organization (ICO) has already started to organize some activities to promote coffee culture in China since 1999.

From the analysis of production and consumption of both domestic and international coffee market, the worldwide condition of supply-demand remains balance in recent years. However, those high-quality products are still in short supply. In order to meet market demands, foreign coffee producers tend to grow high-quality Arabica coffee. Due to the growing gap between supply-demand in domestic coffee market, a variety of coffee raw material and coffee products need to be imported. Furthermore, with the constant improvement of domestic people living standard and development of tourism industry, the consumption and demand will expand rapidly. (Li & Zhou, 2011)

Japan and United Kingdom both world traditional tea-drinking countries, now have become world main coffee markets. China as a traditional tea-drinking country also shows a huge potential of its coffee market, and is going to become one of the world largest coffee with an unexpected speed.

International Trade Center (ITC, 2010) has mentioned in its report that if the average annual growth rate of 12.8% is maintained, the coffee consumption in China will reach

2.8 million bags by 2020. President of Yunnan Coffee Industry Association, Xiong Xiangru believed that, the total consumption of Chinese coffee market is expected to reach 1 trillion in 10 years, and the coffee consumption will reach 2-3 trillion yuan by 2030. The mature China's coffee consumption market should reach 3-4 trillion yuan. (Chen, 2011)

The Chinese market seems, therefore, to be a particularly promising market for the coffee trade, as the case for many other agricultural products. In absolute terms, consumption is still relatively weak and future growth will depend largely on the flourishing Chinese economy. Moreover, coffee house are frequented mainly by a relatively small group of the urban middle class. (ITC, 2010)

Because of the increasing of people's living standard, the push forward of the young customers, and the popularity of coffee machine, coffee consumption in office or at home will surpass the proportion of instant coffee in the total domestic coffee consumption in China. In 2015, it is expected to become the second largest consumption channel after instant coffee and will outpace instant coffee, becoming the largest consumption channel by 2020.

Because of the rapid economic development and increasing of incomes, customers are tend to consume fresh ground coffee in coffee house instead of instant coffee, therefore there is a significant growth of coffee consumption in coffee house. Moreover, upper scale hotels and restaurants have become a new growth point of coffee consumption in China.

In addition to the first-tier cities, coffee consumption of those second and third-tier cities expanded rapidly, as well as its market share, which is expected to become the core market in the next few decades.

MORE INTENSE COMPETITION IN COFFEE MARKET

There is no doubt that China’s instant coffee market is still a market with large potential. Nestle and Maxwell accounted for more than 90% of China’s instant coffee market. While the fresh ground coffee market are mainly occupied by those foreign brands, such as Starbucks, UCC, COSTA, Nespresso, etc. Nevertheless, famous domestic coffee brand are still rare, consumers are expecting the arrival of domestic coffee brand.

With the entering of world famous coffee brand and their expansion, China's coffee industry will face a faster development and the arrival of new opportunities. With an increasing number of participants, the trend of industry standardization, and growing investment of capital, a more intense competition of coffee raw material will come. (Chen, 2011)

COFFEE HOUSE COMPLIES A TREND OF FAST FOOD

Nowadays, for many coffee houses, their main profit comes from other food instead of coffee, such as UBC cafe and Manabe café. The first thing that customers take into consideration when they choose a coffee house is convenience, then taste and price, which shows the same process with the choosing of a fast food bar. This type of coffeehouses has converted into something similar to casual tea restaurant.

CONVERSION FROM COFFEE HOUSE TO TEA HOUSE

Many Chinese people are familiar with the cheap price and free refill of teahouse, which allows its customers to spend a whole day hanging inside. However, in order to attract more customers, coffee house started to offer a variety of deserts and other beverage include tea, and hoping customers could spend more money and time in it.

THE PROFESSIONALIZATION OF COFFEEHOUSE

International coffee chain brand, such as Starbucks, entered into China’s market and changed the Chinese people's perspectives of coffee. Their professional coffee philosophy and market expansion will attract a large number of loyal customers and make those small café brands become desperate. (Zhang, 2008)

7.2 Problems

With the sustainable development of national economy, the improvement of people's living standards and consumption attitude, there is still a development space of "coffee economy". It can be expected that China will become the world largest coffee consumer rather than producer in the next few decades. However, there still are many uncertainties and problems need to be solved.

7.2.1 Problems of domestic coffee chain market

Recently, many people view domestic coffee chain market as a promising market, an increasing number of people want to join in. Everyday there are lots of coffee-themed restaurants opened while some of them go to bankrupt in a short time. The reasons analyzed has been showed below:

(1) Coffee industry investors are unfamiliar with coffee industry, and they invest blindly with unclear positioningLa, due to lack of scientific, objective useful data.

In franchise of a coffee chain brand, it is necessary to meet local customers' demand of different region, instead of only focusing on the fame of the franchised brand. Nevertheless, it is difficult to find many available references of data, both data about coffee chain brand development direction and data needs for establish an individual coffee house. It could be considered as a major problem in China's coffee industry. Yet in the foreign countries when an investor decides to open a coffeehouse, every step they make is based on the analysis of scientific and objective data.

(2) Lack of core competence in the construction of corporate culture, innovative management expertise and management talent.

Looking over the majority of domestic coffee chain brands, most of them are going the same way in operation mode, lack of differentiation, unique element in their corporate culture and they are used to copy the existing successful business model rather than adapt it to the current circumstance or develop their own business model.

(3) Negligence of coffee industry chain & coffee-related industries.

When we talk about coffee industry chain, the first thing comes up to our mind is to open a coffee house. However, behind the rapid development of coffee industry, it is easy to ignore those strong supports of related industries.

Due to the negligence of coffee-related industry, a lot of coffee raw material need to be imported, which adds up operation costs to customers, and make them to choose other brand or substitute. Moreover, it is impossible to maintain an rapid and stable development of coffee industry without paying attention to coffee-related industry, such as coffee beans processing enterprises and coffee equipment companies, which develops in a relative low speed than the expand speed of coffee house.

There still exist a huge gap between coffee industry and coffee-related industry. However, domestic coffee market participants have conceded the chance to those foreign companies, who have built a plenty of coffee equipment manufacturing factories.

(4) Competition between individual coffee companies in niche market

Nowadays, there are hundreds of coffee brands in domestic market, and more than 13,000 coffee houses, which brought an extremely intense competition. In order to capture the market, coffeehouses are trying to launch their new products continuously, but it could only attract customers and bring some profit in a short term.

This type of competition might make the whole coffee industry more chaotic, everybody just cares about maximizing their own profit blindly, yet, will finally lost its development direction. However, it is necessary for those coffee franchise enterprises to help each other and seek a long-term sustainable development.

(5) Facing the unhealthy competition between each domestic coffeehouse brands, lack of coordination of a national coffee association. Furthermore, the inferior coffee beans occupied a plenty of market share that influence customers' confidence in domestic coffee market.

(6) Lack of a research organization of coffee beans to makes sure the quality from plantation to consumption.

7.2.2 Problems in coffee plantation

(1) Low market price influences coffee plantations seriously.
(2) The poor quality of harvesting and proceeding affects the international brand image.
(3) Lack of imports and exports quality inspection standards and market entry certification system.
(4) Government being short of systematic industrial support policy leads to corporate finances difficulties.
(5) Lack of industrial technical support system and scientific and technological innovation support industry. (Huang, 2014)

7.2.3 Problems in International Franchising Coffee brands in China

The fact that people like accepting new objects accelerates the development of coffeehouse, thus different kinds of coffeehouses emerge in streets, especially which combine Chinese meal with western meal. The well development of international coffeehouse proves the huge potential of domestic coffee market. However, there are some main problems in the development of international coffee brands in China.

(1) Some international coffeehouses fail to execute better market research and comply Chinese consumers' habitats.

(2) International cafés are too orthodox to fit the diverse demand of domestic consumers.

(3) The high price of international cafes exceeds the consumption capacity of Chinese market, thus promote the development of domestic coffeehouses.

7.3 Proposal for further development

As the globalization of the world is in full motion, understanding differences in consumer behavior in different cultures is essential. Understanding the differences helps to make successful product launches possible (Doran, 2002). Cultural orientation has an effect at the attitude and behavior of the consumers (Aaker & Maheswaran, 1997).

7.3.1 Cross-Cultural sales negotiation

Pablo Dubois, operation supervisor of ICO mentioned that Japan's annual coffee consumption was only 25 million bags in 1960s, but now its consumption has reached to 700 million bags, and China's market already shows the similar development trend, and it is expected to become one of the world's most important coffee markets.

For most of people in China, Coffee still belongs to a lifestyle of upper scales consumer, which is not in line with China's current development circumstance. In order to capture China's market and be accepted by a majority of Chinese people, it is necessary to reduce the produce costs, develop new products that meet local customers needs.

DIFFERENT LOCATION POLICY IN EACH CITY OF CHINA

So far to now, main customers of Costa coffee shops in Beijing are still people from foreign countries, and local people prefer products which are localized. They do not like to try things that they aren't familiar with. Hence the location of new-opened coffeehouse should be in some streets where the flow of people is high. While in Shanghai, the location must be picked at some places that are very quiet and elegant, far away from the noise area, since the people in Shanghai's lifestyle is petty bourgeois. Based on that, the location can be places around universities. In Guangzhou, first thing need to consider is the traffic. If the traffic is very convenient and the quantity is high, people would like to come all the time.

DIFFERENT TASTES IN DIFFERENT PART OF CHINA

Consumers in Beijing and Shanghai would rather try some sweet food than Guangzhou. So it is better to put some marks on the menu, or let the waiter ask customers about their tastes every time. Since the tea culture is so important in China, coffee houses managers can consider about combining two drinks. When Starbucks first entered Guangzhou, it released a new kind of drink—— Green tea coffee, and it won huge success for the shop.

ESTABLISH BRAND REPUTATION & PUBLIC PRAISE

Brand positioning plays an important role in global consumer culture (Terpstra & David, 1991). According to the previous researches, understanding local customer culture and make a local customer culture positioning are necessary when an international brand decide to enter into a foreign market. However the Chinese people attach importance to the opinion of personal sources like members of a collectivistic group (Kau, 2004).

Moreover, according to the report of Farrell et al., (2006), which shows that Chinese consumers are increasingly wary of untried products and ever more likely to make purchase decision at the last minute. Recommendations from family and friends remain very influential.

The adaptation to the Chinese language and the use of Chinese idols in their promotional campaign is a small grasp of the possibilities of this positioning strategy to create certainty and recognition (Alden et al., 1999).

BUILD SOCIAL RESPONSBILITY

Meanwhile, print ads are losing ground, while sponsorships and the Internet are becoming more influential (St-Maurice et al., 2008).

Following the devastating May 2008 earthquake in Sichuan, for example, the drink maker Wang Laoji pledged 100 million RMB toward relief efforts during a telethon that was broadcast nationwide. However, according to the local media, Starbucks only donated 70 thousands RMB in this earthquake. This highly visible act dwarfed gifts made by foreign beverage companies, and within two weeks thousands of online discussions mentioned the pledge. Bloggers even created a couplet—"If you donate, donate 100 million; if you drink, drink Wang Laoji"—which rhymes in Chinese and was used in a print ad for the company. In some regions, its sales increased by 25 percent, restaurants and stores were frequently out of stock, which the company attributed at least in part to the Internet activity (St-Maurice et al., 2008).

IN-STORE PROGRAMS

In-store programs remain crucial. As we mentioned before, a lot of Chinese customers are likely to make their buying decision in last minute. Store displays, in-store promotions, and salespeople who steer consumers to specific brands are crucial influences on such last-minute decisions. Many foreign companies underrate the effectiveness of in-store programs as complements to mass-media spots, but consumer attitudes and low wages in China make such efforts sensible (St-Maurice et al., 2008).

FOCUS NEW TARGET MARKET ALONG WITH CHANGES

Coffee industry is an emerging industry in China, with a large market development space and prospects. As an investor or manager of coffee company, he or she should focus on improving product quality as well as finding new market segments in order to respond the intense market competition in the future and capture the market. Furthermore, what need to be paid attention is that the demand of coffee in those second and third tier cities is expanding with an unbelievable speed, and is expected to become the core market in China coffee industry in a few decades.

COMPLETE COFFEE INDUSTRY DATABASE

As we mentioned before, it is not only need to attach importance to coffee-related industry, but also to establish a complete database, to get an comprehensive understanding and overview of coffee industry value chain, in order to guide the rapid and stable development of China's coffee industry.

7.3.2 Proposal for coffee production

STRENGTHEN MACRO-CONTROL, FOMING SCALE EFFECT

Under the background of globalization, all countries around the world have been involved in the impact of international market. Therefore, strengthen macro-control must be carried out to change the current operating procedure and disorderly market competition situation. Furthermore, to realize scientific and intensive production and give full play to sufficient labor force in China, it is necessary to increase capital investment to change the present workshop-style processing mode, establish national coffee planting demonstration park in a planned way to improve the existing scale of operation. Only in these ways could we maintain the competence in the world coffee market.

STRENGTHEN INVESTMENT IN SCIENCE AND TECHNOLOGY

There are several ways to promote the sustainable development of agriculture of China including summarizing the results of domestic and overseas advanced technology, constantly strengthening the investment both in R&D and management, strive to achieve mechanized production, and standardized testing which is one of the inevitable way in the sustainable development of agriculture in China. The ultimate aim of the above is to enhance total value of out-put, improve product quality, reduce production cost and enhance economic performance, all of them cannot live without support of advanced technology. At present, it is the top priority to guide the coffee industry development with theory of advanced technology and complete management system in order to narrow the gap in production and marketing of developed countries gradually.

PROTECT EXSITING COFFEE SPECIES, INTRODUCE IMPROVED SPECIES AND ESTABLISH DOMESTIC BRANDS

Early in the 20th century, Yunnan coffee's unique fruity mellow taste had been welcomed and recognized around the world and was considered as Yunnan regional brand. Therefore we should actively protect its advanced species maintain its fame. Meanwhile, Yunnan has imported many alien species such as cat feces coffee and elephant feces coffee, which are at a high price. These species not only brought economy benefits but also promote the local animal breeding industry like elephant and paguma larvata. But there are few established and well-known domestic coffee brands in the market. Most of those famous brands are alien. We should improve taste, renovate wrapping methods and eliminate the distance with international products.

ENLARGE ADVERTISING SCALE, STIMULATE DOMESTIC CONSUMPTION AND FOCUS ON DOMESTIC MARKET

Nowadays the demand of coffee is increasing gradually, especially in domestic market, since more and more young people begin to accept coffee. China is a country with large population, yet the coffee consumption per capita remains low. Most of the countryside and rural area still has a blank in the coffee consumption. Hence the potential of this market is huge. Moreover, as the development of technology, the influence of coffee to human health is being concerned. Coffee company should cooperate with medical lab and administration of food and drug in order to develop coffee's function in refreshing brain and preventing stroke. Meanwhile we should discover new species, which fulfill the demand of people in different ages instead of staying catering young people. Fully utilize the advantages of coffee, promote domestic coffee industrial upgrading. Therefore coffee would be no longer just a kind of beverage but a companion of our life and family. (Chen, 2013)

ESTABLISH COFFEE ACQUISITION PRICE PROTECTION SYSTEM & COFFEE INDUSTRIAL INSURANCE FOUNDATION

Based on the coffee production cost, acquisition should be done by the rate of floating 5%~10% in order to protect the interests of coffee growers, thus protecting the coffee industry. (Huang, 2014)

Coffee market has a great potential in China. It is necessary to explore the market continuously and improve it. We cannot stay in the current achievement, but stand higher and see further.

Chapter 8 Conclusions

This chapter is going to conclude the findings and analysis, as will as the managerial implication. Moreover, the limitation will be described.

8.1 Conclusions

1) Statistics shows that China has become the world's second largest economy with an enhancement of per capita GDP from US$314 in 1990 to US$6,091 in 2012, representing an annual average growth rate of 14.4%. However, all of these have to thanks to the programme of reform and opening-up in 1978, which enables the country to move towards a market economy, and lead a change of people's attitude, increased the exposure of Chinese people to Western influences, particularly among the young people. Furthermore, this reform has brought up China's first middle-class, who has become an important source of consumer demand.

2) In addition, Chinese government has been consciously guiding the transformation of China from the "world production center" into a combination of "production center" and "demand center" (Bantiwalu & Demisse, 2010), while the statistics reveals a general trend of growth of country's coffee consumption. However, it worth noticing that since the large population of China, the absolute level of coffee consumption remains relatively low, even if conditions for reaching the consumption level of 2.8 million bags by 2020 indicated above are met, per capita consumption would only be around 125 grams.

3) Nevertheless, we should have confidence in China's coffee industry, although it was considered as an emerging market. With the deeply promoting of opening-up, and the changing of consumer habits, it will create a domestic coffee consumption market with vast potential, which may probably shows an similar potential as the Japan's coffee market in 1960s, given China's vast population and strong continuously

economic growth in recent years. In this regard, it is worth noting the development of instant coffee, which occupied a large market share and supported a strong growth of coffee consumption in China. (ICO, 2013)

4) The attitude for tea of Chinese people is just like the personality of Chinese people, which prefer to pays attention to their own comfort. Nowadays, teahouses are afraid of losing their customers. However, the thing that Chinese teahouses lack of is differentiation and a new brand positioning, so there is few successful teahouse brands could cope with the challenge posed by the rise of the coffee house chains. Furthermore, as the rapid development of China's coffee chain market, tea and coffee are intertwining with each other. The competition between tea and coffee in China is more likely a mutually complement. (Zhang, 2008)

5) At present, China has already become one of the potential consumption markets rather than coffee manufacturer. We should pay attention to the coffee plantation industry, planning coffee plantation rationally, supporting coffee deep processing industry and promote the domestic brands in order to make sure the healthy development of the whole industry value chain.

6) Since foreign enterprises often found it is difficult to formulate their entry strategy in China's coffee markets since the special local market environment it has. Therefore, culture could be an important aspect for companies that decide to globalize their strategies to expand their business. Nevertheless, corporate strategy could also help to stimulate customers' new demand and to form Chinese new coffee culture.

7) Furthermore, it is important to recognize the evolution of whole coffee market in China has great effect in shaping of Chinese coffee culture, while the changing of customers' taste regarding coffee, and the coffee culture itself influences the development trend of Chinese coffee market, which been viewed as a blue sea market， no matter for those individuals or those foreign companies who want to enter. In short,

Chinese coffee industry and coffee culture in China are promoting the development of each other mutually. Even if big companies as Nestlè and Starbucks have succeeded in the past twenty years with their strategies, it doesn't mean that their business model will be the right answer for Chinese consumers in the future. Moreover, the Chinese coffee experience has some features that will drive the consumers into a new dimension with all its needs and wishes (De Marzi, 2013).

8) As a result of the analysis with Hofstede's cultural framework, it can be said that the Chinese consumers:

- are more likely to be influenced by reference groups (Doran, 2002).
- are conservative when it comes on expensive products (Burstein & De Keizer, 1998).
- are more critical in the decision making (Doran, 2002).
- are more challenging to be persuaded to buy products (Li et al., 2004).
- value long-term relationships where 'face' and 'guanxi' are preserved (Kau, 2004).
- are more loyal to a provider when 'friendship' is created (Wong, 1998). The managerial implications will be elaborated in the next paragraph.

8.2 Managerial Implications

It is necessary to learn how to understand well the nuances of local culture, especially under the new communication circumstances (Han & Zhang, 2009). To understand the negotiation and cultural differences derived from Hofstede's work (Hofstede, 2001; Rowden, 2001) and use a Local Consumer Culture Positioning (Alden, et al., 1999), to capture special characteristics of Chinese customers and provide coffee especially to meet their needs (Such as Green tea coffee offered by Starbucks) is needed. Moreover, relationship marketing need to be used during the negotiation, since Chinese customers not only care about the option of their reference group, but also have the desire of establish a good relationship with the coffee house's staff.

8.3 Limitations of research

It should be noted that since China is not yet a Member of the International Coffee Organization, it is difficult to collect all statistics on the country's domestic coffee sector, although reliable data is available for some aspects.

It has to be kept in mind that, only using Hofstede's cultural framework to describe and analyze a country's culture has its drawbacks, given Hofstede classify all Asian cultures as the same. It is recommended to use different cultural frameworks to analyze the cultural characteristics and derive the similarities from the frameworks.

Another limitation is that the strategy is formulated with only the cultural aspects taken into account. When introducing a new product in China, other important factors can play roles like the marketing mix (Chan, 2010).

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