Marketing Analysis of JDE Peet's in Chinese Coffee Market

Zhiya Wang*

School of Business, Central South University, Changsha, China

*Corresponding author: 8305201114@csu.edu.cn

Abstract. With the continuous improvement of the income level of Chinese residents and the popularity of coffee culture among Chinese consumers, the annual coffee consumption in the Chinese market continues to rise. More and more coffee brands are entering the market, intensifying market competition. Large chain brands, represented by Starbucks, have gradually occupied an absolute leading position in the fierce market competition. JDE Peet's is the father of Starbucks, but it is a new player in the Chinese market. Therefore, this paper is guided by the research results of the coffee industry in the world and the Chinese market, adopts the SWOT analysis method and analyzes the company's financial data to analyze Peet's business status, existing problems, internal and external environment, and its own advantages and disadvantages in the Chinese market. Through analysis, it is found that although Peet's has gradually opened up the consumer market in big cities such as Beijing and Shanghai in China, the market is still too narrow, and there is no strong competitiveness, and there are still a series of brand positioning that is not accurate and clear. In the face of strong Starbucks and Luckin Coffee, it is obviously impossible to win in the market competition. Therefore, JDE Peet's doesn't currently have big investment value.

Keywords: JDE Peet's; Starbucks; Coffee; Brand Strategy; Investment advise.

1. Introduction

1.1 Background

In recent years, the development trend of China's coffee market has shown a rapid pace, which also means that the future development of enterprises has great potential. According to relevant data, the annual growth rate of coffee in China has reached 15%, while the average growth rate of global coffee consumption is 2%, so this means that the Chinese coffee market still has huge development potential. As the grandfather of the coffee industry, JDE Peet's entered the Chinese market in 2017, trying to introduce first-class high-quality coffee products and the rich and mellow American coffee culture into China and hope to occupy a certain share in the fierce market. So far, however, Peet's has been slowly growing in the Chinese market and has far less stores than coffee giants like Starbucks. According to the current situation, Peet's marketing strategy in China is not scientific enough. This paper focuses on the research and aims to provide some plans for the development of JDE Peet's in the Chinese market and provide investment advice to the investors.

1.2 Related research

Statistics from the General Administration of Customs showed that China's coffee bean imports had exploded in 2021. The annual import was 122,700 tons, an increase of 74%. According to the "Shanghai Coffee Consumption Index" report released by China Business News in January 2021, Shanghai has 6,913 cafés in total, making it the city with the most cafés in the world. Given by its function of "wakening up the mind", coffee has now gradually immersed into daily life. The habit of consuming coffee is developing, and thus creating a business opportunity with good prospects. Hence, more and more enterprises have joined the expanding market. Related agencies predict that, before 2025, the Chinese coffee industry will still maintain a rapid growth rate [1].

The data results showed that the stock market crash risk had been intensified in China during COVID-19. Even though the country's confirmed disclosed cases were still at a relatively low level, this had caused panic and fear in society and might reflect as a risk rising in the stock market. The authors summarized that COVID-19 has increased stock market crash risk and has the potential of causing a severe downturn in stock prices. Therefore, companies need to take precautions immediately and execute rather safe and stable strategies during the pandemic. Moreover, swift responses toward global changes and timely actions should take place [2].

Henningsen pointed out that to Chinese urban middle class, a relatively famous and promising foreign brand can somehow help establish their authenticity, build their self-image, state their belonging and claim their individualism. This could be the reason why coffee consumption in China is increasing, largely contributed by the so-called Xiaozi group. Therefore, the author claimed that this type of consumption is defined by authenticity, aesthetics and imagination, reflecting people's lifestyle, taste and interest [3].

In Negai and Cho's research, Chinese youth represent a distinctive part of luxury consumers in the Chinese market, among which, the students who studied abroad and came back to China were the major part. They are more accustomed to western lifestyle, including drinking coffee. Since having an overseas educational background makes them stronger competitors in society and being more superior to their peers, their influence to the generation is significant. Therefore, their lifestyle can be mimicked by others and thus can build up the trend. Moreover, the young generation has brought up a trend of perusing luxuries and high-end consumption to reveal their social status. The authors concluded that, when it comes to China's youth market, the complexity of the generation must be taken into consideration. Brands can position their operating strategies by classifying consumers into certain groups. They also need to catch up with the evolution and constantly innovate [4].

Faircloth et al. found that a positive brand image and attitude can have a notable performance in helping to grow brand equity, which connects with company's financial assets and a series of consumers' behaviors. They concluded that the firm should foster a positive brand image in order to lay a foundation for rising brand value. Marketers should focus on image and attitude rather than equity. They should also be aware that a good image does not necessarily lead to good equity. They provide guidance for marketers under the e-commerce environment, claiming that brands play a more prominent role in affecting consumers' choice. Therefore, building a good brand image and understanding a brand's associations are still important [5].

Neilson and Wang informed that Yunnan province is the main coffee producer in China. Production and consumption have both grown rapidly for the past ten years. Being a coffee producer, consumer, importer and exporter, China is now reshaping the global coffee market and value chains, making it an inseparable composition in global coffee chain. Chinese recent requirements for coffee have made global brands like Nestle easily adjust to the Chinese market and earned a profit. Nevertheless, Chinese' passion for coffee has given nearby countries like Vietnam and Indonesia more commercial opportunities, production chain upgrades and innovations in all aspects through cross-border trades. Since China is a big agricultural country, planting has definitely received national attention. Priority financial policies, generous tax benefits and risk protection systems have created a favorable environment for coffee industrial development. The authors concluded that end markets are shifting to China, which has resulted in the rise of Chinese leading companies [6].

The message of “China's coffee market is in a state of rapid growth” is delivered by the author, stating that the scale of the market is big enough to support two leading companies. However, none has appeared yet. The characteristic of the Chinese coffee market is that the consumption of coffee beans in the country mainly depends on imports. Therefore, there is a situation in which domestic coffee beans are exported at low prices, and at the same time, large quantities of coffee beans are imported at high prices. This is because the market concentration in the upstream and midstream links of the coffee industry chain is relatively low, the industry is relatively fragmented, the bargaining power is weak and the supplier capacity is insufficient. However, a beautiful vision for the future of the Chinese coffee market was given according to Li [7].

Guo and Zhang used “NING COFFEE” which is funded by the famous sports brand LiNing to reveal the circumstance that cross-border coffee brands are entering the market. This has caused an even more ferocious competitive environment. However, the authors concluded that the space of domestic coffee market is limited, therefore brands need to have strong continuous innovation. Many cross-border players do not have catering genes. Therefore, facing the fierce competition in the coffee market, cross-border brands still need to use their existing advantages to strengthen product quality and form differentiation. This is both an opportunity and a challenge [8].

Qiu took Starbucks and Luckin Coffee as the case to discuss customers' coffee purchase decisions in China. The author came up with the conclusion that high discount rate means lower price, therefore encouraging the customers to consume. Another result is that inventive products can also provoke consumption, therefore the two companies in the study are deeply aware of their innovation ability. Lastly, the author stated that ethnocentrism can have an opposite effect on local brands and foreign brands. It can affect on consumers' decision which prefer local brands more, and thus create an obstacle for foreign brands to develop in Chinese market. Therefore, the foreign brands must come up with more creative ideas to attract customers and win the competition [9].

Cao studied the world-wide notorious financial fraud that happened on Luckin Coffee. The author stated three main reasons for this incident: First was the unsustainable business model and improper market positioning which had caused financial stress. Second was the malfunction of internal control system and external supervision system. And the third one was the racketeers despicably evaded from their unethical behavior and let the rest majorities to take on the consequences. Learning from this, the author noted that it's important for enterprises to strengthen supervision of major shareholders and complete their inner control systems. They should also construct the capital market system and establish an optimal impression in social credibility system. Last but not least, form a series of strict disciplines to prevent illegal and fraudulent behavior [10].

Misionera analyzed Starbucks and concluded that Starbucks is overall a premium coffee chain company and it delivers a high-quality product and customer service. It's worth noticing that it was Peet's business model that inspired Starbucks' founders to sell high-quality coffee beans and equipment. The author suggested that Starbucks should pay more attention to international market research and consider offer more mid-price products. It can also exploit its menu, other than just provide coffee and some simple snacks. Misionera has a high expectation toward company's future [11].

1.3 Objective

This article makes an in-depth analysis of JDE Peet's in combination with the Chinese coffee market and the current development status of JDE Peet's in China. The paper is suggested to provide some ideas for Peet's future development, and at the same time, put forward corresponding investment suggestions for investors who are interested in the company. The content is mainly structured by three parts: SWOT analysis, financial data comparison and Business status comparison. Assisted by theories in marketing, the essay analyzed the company's own strengths and weaknesses as well as the internal and external environment for future development. Hence, some development suggestions are summarized and the company is evaluated for investment.

2. SWOT

2.1 Strengths

Peet's is already a well-established company with a complete supply chain and profound history, covering from raw materials to final products. Therefore, it has stable input and output and diversified products.

The company has internally formulated a series of conduct and ethics policies to prevent major shareholders from taking advantage of other shareholders. Also, a relatively centralized control can smooth the progress of a company's decision-making and other activities.

The company's main development strategy is to move forward step by step. Its biggest advantage is the adherence to roasting each batch of coffee beans by hand, and using the exquisite skills of baristas to manually make each cup of coffee for each customer.

2.2 Weaknesses

JDE Peet's doesn't have wide familiarity in China. Its brand market positioning is not accurate and clear enough and its promotion methods are too singular. Also, the product line selection of Peet's in China is flawed. The company covers the whole industrial line, but currently, it only focuses on beverages. Meanwhile, the overall channel layout is too narrow. This can be reflected in the number of stores, geographical locations, and customer positioning. Peet's has only opened up a small number of stores in big cities, and its targeted consumers are above the middle class.

Despite the low risks, companies in such a stage may not provide a good return for investors, especially new investors. Peet's ROA is 4.08%, ROE is 8.2% [12], which are below average for all coffee retailers. This is partly because for a mature company, it is hard to find a new way to go through another rapid growth. Also, for the foreseeable future, the price of stock floats in a relatively small range. There may not be any surprise bonus for their investors.

2.3 Opportunities

The macro-environment for the Chinese coffee market is in a good state, and more and more people are beginning to accept coffee, so this provides a good background for brand development. China now has many coffee brands, but only a small amount of them has good quality. Since Peet's has its own coffee farm and high-quality supplier all around the world, it can provide good coffee beans to its stores in time. The environment of its stores is also praised by a lot of consumers. Also, being the father of Starbucks, using the brand effect to popularize the brand in the digitized world can bring huge income.

2.4 Threats

It is said in the previous content that the company's familiarity is low in China. Now it's marching its way into the Chinese market which means it has to compete with many local trendy brands and other beverages that are Chinese specialties such as Boba tea and flavored tea. Besides, it’s hard to challenge big companies’ leading positions and strong competitiveness in the coffee market.

Moreover, its “step by step” development strategy may be unsuitable for the quick-paced Chinese market. Additionally, JDE Peet's currently is constructing its high-end market in big cities in China. Only a small amount of people can be identified as its targeted customers.

Chinese traditional taste also needs to be taken into consideration. Tea is the strongest competitor undoubtedly; since it also has the same function as coffee and is more accustomed to Chinese taste. Even though coffee is gradually accepted by the Chinese, most people still prefer to drink tea, especially for middle-aged and the elderly. For younger generation, there are lots of substitutes in Chinese beverage market, making coffee less compatible in the market.

3. Fundamental Analysis

Table 1. Financial Data Comparison.

September 21, 2022	JDE Peet's	Starbucks
Trailing P/E	16.85	25.14
Forward P/E	16.21	23.97
EPS	$1.78	$ 3.55
Equity Beta	0.45	0.94
ROA	4.08%	10.31%
ROE	8.2%	48.16%
Leverage	0.32	1.57
WACC	6.04%	8.54%
Gross Profit (mil)	$2,996	$8,595
Debt to equity ratio	0.46	-2.76
Inventory turnover	2.22	2.92
Business risk	0.43	-0.84
Debt to EBITDA	2.76	3.50

This part uses a P/E model and some additional data to analyze the three companies. According to the data above, both being large global enterprises, JDE Peet's and Starbucks have a forward P/E ratio lower than trailing P/E ratio, indicating that their future profits will increase. Between the two companies, Starbucks performs better because the difference in forward and trailing P/E ratio is bigger. However, Starbucks already has a large base and a high stock price. Therefore, in spite of its high earnings in the future, it's not worthwhile for investors to get into the market currently. But if investors already hold shares, they can expect a rise. Dutch Bros has the worst performance and it has a negative trailing P/E ratio, which means that the company is at a loss currently. This might be due to its single operating model and small operating scope which can be easily impacted by COVID-19. Also, the company is currently expanding, so its expenditure is much bigger than its income.

Since the opening of the first store in 1971, there are now more than 33,000 stores as of 2021. Starbucks has become the most popular coffee shop in the world, showing real persistence. The data shows that Starbucks has a negative debt-to-equity ratio, which indicates that its debt is weighted more than its assets. However, it's related to the strategy of buy-back using large amounts of capital. Another reason could be that it has been aggressive in financing its growth with debt. It is true that because Starbucks is the leader in the global coffee market, it has a strong ability of generating profits. As we can see it has the highest ROA. Moreover, compared to the other two companies, Starbucks' ROE ratio is way larger, therefore it has managed to realize an adequate return on the capital invested by the owners in the company. So, there's no need to worry about its current situation. Judging from the data Starbucks' leading position in the world coffee market still remains unshakable. But when it comes to investing, for new investors, Starbucks's share price already reached a peak compared to other companies, so it's more worthwhile to invest in a smaller company which is growing steadily. Investors who already have their shares, they should hold the shares for there's still a price upside.

JDE Peet's shows a relatively low leverage, and has the lowest equity beta among the three companies. It's stable and safe with a slow development. Peet's has the lowest debt to EBITDA ratio of 2.76, which signals its strong ability to pay off its debt. Overall, it is not likely for the company to encounter a debt crisis, which decreases its risk. Peet's is already a well-established company with a complete supply chain covering from raw materials to final products, and its brand name is well-known among consumers. Despite the low business risk and asset risk, companies at such a stage may not provide a good return for investors, especially new investors. Peet's ROA is 4.08%, ROE is 8.2%, which are below average among all the coffee retailers. This is partly because for a mature company, it is hard to find a new way to go through another rapid growth. Also, with a foreseeable future, the firm valuation is stable for Peet's, and the price of stock floats in a relatively small range. There may not be any surprise bonus for their investors. The equity return is low, so there is not much space for investors to get profit. However, if investors already hold some shares, they should keep holding them, because it still has some space for appreciation. Moreover, since it decided to expand its market in China, if things go well, there might be another big rise in the stock price.

4. Business analysis and Investment advice

Table 2. Business Comparison.

	Starbucks	JDE Peet's
Gross profit (TTM)	$8,595mil	$3,298mil
Net income (TTM)	$4,168mil	$970mil
Number of stores globally	More than 33,000 stores	About 380 stores
Number of stores in China	More than 6,000 stores	40 stores
Gross profit per store	$0.26mil/store	$8.68mil/store
Net income per store	$0,13mil/store	$2.55mil/store
Beverages	Coffee, Teavana, Frappuccino, milk	Coffee, Tea, drinks (special in China)
Specialties	Coffee beans, cups, bakeries, mugs, coffee powder, ear coffee, Snacks, Tea bags	Coffee beans, cups, bakeries, K-Cup Pods, Tea leaves, Capsules, Ear coffee, Coffee machine, mugs and gears
Number of coffee bean type sold	8 (addition with 2 ear coffee and 4 coffee powder)	33 (addition with 13 K-CUP PODS and 6 capsules)
Rating by public	3.9/5.0	4.5/5.0
Price of product (take similar sized latte as an example)	Standard $5	Grande $4.6

4.1 Operating Situation

As shown in Table 2, it is not difficult to find that Starbucks is still in an absolute leading position in China, still maintains its advantages, and has a good development prospect. Although Peet's is currently much smaller than Starbucks in China, it is not difficult to find from the above table that its various data presents a relatively good state.

Starbucks and Peet's have very different development models and target customer groups. Starbucks focuses on a fast coffee chain, represent a “grab and go” model. Its target customer groups are mainly young people and working groups. Therefore, Starbucks mainly focuses on expanding the beverage side. While JDE Peet's is a high-quality coffee chain, it takes a niche boutique route and insists on hand-made coffee; its chain model of “selling coffee + selling beans” leads the wave of boutique coffee in the United States and even the world. It mainly targets on white-collar middle class, social elite, and business people in medium and large cities. In June 2022, Peet's announced that it had achieved the goal of 100% responsibly sourced coffee. It has built its own coffee and tea plantations around the world, so it can guarantee high-quality raw materials supplements.

But obviously, Peet's traditional "slow-paced and step-by-step" business model cannot adapt well to the fast-paced Chinese society. A year after Peet's entered the Chinese market, it began to make localized upgrades and transformations in both products and operations according to the habits of consumers. For example, in the United States, Peet's does not provide desserts such as smoothies, nor does it sell ear-hanging coffee. But these products are all available in Peet's China stores. At the same time, JDE Peet's also provides take-out services. At present, Peet's has only 40 stores in China, mainly in Shanghai. But it has seized a gap in the Chinese coffee market, that is, although there are many coffee brands, a few brands are different from fast coffee through exquisite coffee. Therefore, though the number of stores is small, it can be concluded from the data in the table that the Gross profit and

Net income of each store are much higher than Starbucks. This shows that the final results and profitability of the company's operation are in a relatively impressive state, and it can also reflect from the side that Starbucks wins by quantity, while JDE Peet's wins by quality.

According to the scores on Yelp, it can be seen that Starbucks only has an average score of 3.9 points out of 5, while the average score of JDE Peet's has reached a fairly high score of 4.5 points, and many stores are ranked first in the coffee shop hot list. It shows that Peet's has been widely recognized by the public in terms of environment, taste, and service. Peet's, which has adapted to Chinese tastes and has lowered its prices, has become more accessible to the people. The price of each cup of coffee is similar to that of Starbucks, but the quality is better. Under such circumstances, Peet's has won the love of the Chinese people with its high-quality coffee raw materials and exquisite coffee-making skills. At the same time, the tea beverages developed by Peet's for Chinese tastes have also attracted more customers with their unique taste combinations.

4.2 Development Advise

Based on the development environment of China's coffee market, the above-mentioned data, and recent store operations, in the future development of JDE Peet's in China it is recommended that:

(1) Continue to go the high-end route of exquisite coffee

More and more people are living a prosperous life because of the improving economy, so they begin to pursue higher-end consumption to reflect their identity and social status. So, it's a great environment for Peet's to grow. Peet's should continue to clarify and innovate the original development concept, on the basis of a strong supply chain behind it, ensure the high quality of raw materials, and strive to make every cup of coffee well. It's also suggested that it create a combination of "popular products + elite products". Considering both products can not only ensure brand positioning but also expand the market.

(2)Take advantage of the internet and streaming

The powerful ability of influencers and stars to bring goods has allowed many brands to find a way to develop. The lack of publicity is its current strongest weakness. At present, the familiarity of JDE Peet's in China is far from enough. It only has a good operating capacity in fast-paced cities with prosperous economies currently. Because there are a lot of migrant workers and people with high consumption levels, so the demand for coffee is very strong, and the high-end positioning of Peet's is also very suitable for the consumption needs of these people. But if Peet's wants to gain market traction in other parts of China, it must publicize it and open up the overall channel layout. Considering that the consumer demand for coffee in other regions is not very high and the well-known coffee brands in the Chinese market have been able to meet their coffee needs, Peet's competitiveness is bound to decline. In order to gain more customers and thus increase revenue, it is necessary to increase brand awareness. Therefore, the company can hold an online celebrity check-in event, or hire celebrities to promote it and increase the company's publicity.

(3) Keep combining with the taste of the Chinese people

Since China is the country of tea, using Peet’s’ solid tea industry foundation to create new types of beverages that combines coffee and tea based on good quality is a good way to attract customers. For example, its current best-selling sweet-scented osmanthus oolong latte in stores. It can also develop more flavors and products that focus on the specialized tastes of the area, increase product items suitable for different channels, suspend or delete product items that are not suitable for the Chinese market, and improve and perfect product packaging.

(4) Expand the coffee derivatives market

One of the great advantages of Peet's is that it has built a whole industry chain, covering both upstream, middle, and downstream commodities. And after JDE and Peet's merged into JDE Peet's, it has made rapid progress in coffee packaging and coffee machine manufacturing. At present, China's coffee market is about selling coffee beverages, and there are few specialized well-known brands selling coffee beans and supporting gears for coffee making. As a result, Peet's can reinforce its position in the manufacturing of coffee derivatives, and people are bound to prefer to use well-known brands of coffee beans and coffee machines that make a great cup of coffee because they will find it reliable. Therefore, this is Peet's unique and innovative development path, and it is also a powerful weapon for it to seize a place in the Chinese coffee market.

4.3 Investment Advice

In the future of the Chinese coffee market, Starbucks will still conquer the market's best areas and certainly will continue having the lion's share of the market. Despite the occasional burnt coffee that may not be as smooth as Peet's, Starbucks is still one of the market leaders and holds a strong place in most Chinese coffee lovers' hearts. Therefore, JDE Peet's is more suitable to compete in the mid-to-high-end market. Then again, it is because of the positioning of the market that its customer base is limited. Although drinking coffee has somewhat become one way of showing people's social status and life taste, most coffee lovers still prefer to drink more affordable coffee. If Peet's tries to develop the low-end market, it will not only be a bit of a waste of money since its cost is high due to the quality of their raw materials, but it is obviously not as competitive as Starbucks and Luckin, so future investment value is not great unless it develops in various tracks. But in the near future, this is still not very realistic.

5. Conclusion

This paper studies the operation of JDE Peet's in the Chinese market and its current advantages and disadvantages, and judges its market competitiveness. It is concluded that there are a series of strategic problems such as the unclear brand positioning for the company. At the same time, in the face of a strong market competitor like Starbucks, Peet's competitiveness is far from enough. As far as the current situation is concerned, the company has certain potential for development, but the development speed is slow, and there are many difficulties in future development. Although the company's business risk is not high according to financial data, the return on investment is not high correspondingly. So, for investors, this is not a company worth making a big investment. It is suggested that JDE Peet's expand its sales market as soon as possible, broaden its product categories and sales channels, so as to make its own development.

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