

Report 1: The research Idea of Investigating Competitive Forces of Coffee in Chinese Beverage Industry

Word count: 1270

Part 1. where did the idea come from

Plato's allegory of the cave tells us that experiences of an individual limit the way that the person comprehending the world. I admit that as a DBA student, the experiences I had, especially the education and training did impact me on my research interests, and gave ideas on my research topics.

My father has been a businessman for half of his life, and my mother was an accountant before she decided to be a full-time housewife. Both of them had higher education experience back then, and they value both the influences of good education and off-campus experiences have on an individual. So I was sent to another country to receive higher education. Because they believe that I would benefit from a more complex educational and life experience.

I had my bachelor of accounting and master of international business degree at the University of South Australia. The academic requirements including academic writing and research integrity are extremely strict. The research training I had and years of practice on how to being academic and objective help me understand the seriousness and difficulties of doing business research.

When I was in my international business study, I was curious about the how is a foreign product being accepted by the market. Coffee and tea are two of my favorite everyday drinks. Since tea is the national drink in China, therefore, as a foreign drink, the competitive power of coffee in China intrigues me.

However, the title of '*the competitive power of coffee in the Chinese beverage industry*' is very wide. To be more specific, this research is aim to answer the question: if a supplier or a brand shall sell coffee in China, would it be profitable? And will there be investors willing to risk their money in it?

Therefore, to answer these questions, the beverage industry of mainland China needs to be investigated. Also, there are few questions need to be answered: 1. what is the

competition degree of Chinese beverage industry, is it a fully competitive or over competitive market?

Part 2. list of sources consulted to define areas of interest.

According to Saunders (2016), there are two types of literature sources that might be most useful in business researches: secondary literature sources and grey (or primary) literature resources. As for my research, it requires a wide investigate on the beverage market in mainland China, therefore research by only reading journals and books that are issued by authorized publishers (secondary literature resources) would be insufficient. The most recent macroeconomic data and relevant beverage industry report is also required to reflect propensity to consume in casual drink area. Thus, the following is the list of different kind of sources that I used the most with the evaluation on their reliability and validity.

2.1 Textbooks.

As one of the most important sources that constitutes the foundation of my international business knowledge background, textbooks is a serious type of academic resource that contains a systematic and well-developed information about one typical subject. However, normally, only classic knowledge or knowledge that has been generally accepted would be published and selected as textbooks. The study that are too much cutting-edge would not normally appear in this kind of books. Therefore, textbooks is a reliable resource when I intend to get a thorough overview of a subject. But to be cautious that the theories or experiments that it introduces might be outdated.

2.1.1 Research Methods for Business Students

To ensure the validity and reliability of my work, I use this book as a handbook to guide every step of my research. It is the seventh edition and published in 2016. the theories and methods it introduced can be reliable and relevant from time aspect.

2.1.2 Marketing strategy and competitive positioning

This is also a textbook that is published by Pearson Education in 2020. Even though the competition theory I referenced is from 1979, it still used in the recent years to

analyse various industries in different countries (Aydin, 2017; Chen and Cheng, 2019; Olga and Jana, 2019 etc.).

Although textbooks are usually for undergraduates, considering the professionalism of the author and the authority of the publisher, also the relevance in time, these textbooks meet the requirement of the validity and reliability for sources.

2.2 Journal articles

Although the information from well published textbooks can ensure the authority of the knowledge. The recent development and application of a theory normally would not published in textbooks but in journals. However, the quality of journals are various, therefore besides the research methods and data collecting approach of the article, the ranks of the journals and issue time are vital criterion of this type of source.

2.2.1 *The Competition of Beverage Products in Current Market: A Composite Demand Analysis*

The title of the article indicates that the research subject is relevant to mine. It was published by *Agricultural and resource economics review* in 2018. The article information shows that it is peer reviewed, however, the journal was only ranked 1 in both 2015 and 2018 by Academic Journal Guide (AJG). Considering the relevance in research subject, and it can provide some valuable information on the world beverage market development, the article is quotable.

2.2.2 *Dynamic Capabilities: A Review of Past Research and an Agenda for the Future*

This article is focusing on the development of one stream of competitive advantage theory. The context is rich and explained in systematic logic. And it was published by journal of management, ranked 4 by both AJG and ABS. As an academic source, it is not only reliable but also enlightening. However, it was published in 2010, not so current, and this might also compromise its validity of theory development observation.

2.2.3 *Towards a Dynamic Theory of Strategy*

This article is written by Michael Porter in 1991, and published in *Strategic Management Journal*, a 4 rank journal. Obviously, this article is not recent enough, to

study Porter's five forces in competition, it is also important to study how he understands other stream of competition theory.

2.3 Industry research report

Because understanding the competitive power of coffee needs to comprehending the industry which it is in. Therefore, the latest annual industry research report is a crucial source that should not be neglected. The validity and reliability of the report, to a large extent, are depending on the expertise and authoritativeness of the research organization.

2.3.1 *The present situation and development prospect of Chinese Coffee industry in 2020*

As there are difficulties in finding the most recent Chinese industrial report in English, the title of this report is translated. This report is provided by Qianzhan, a Chinese listed company that focus on providing industrial investigation reports.

2.4 News (Authoritative Media)

Business world is changing too fast. News in authoritative media is a convenient and comparatively reliable source that one can receive signals like the change of consumer preference, industry development and new business model appearing.

2.4.1 *China's coffee consumption upgrading speeds up industrial layout*

This article is based on the recent industrial research, and published in 2020 by People's Daily, an official newspaper in China. Although the information it provide is not first-hand, the authority of the newspaper can guarantee the reliability and validity.

The sources I listed above are vary in type and age, but they are serious articles that can be used in academic research. Although these articles are rarely perfect, according to the criterion of reliability and validity of sources, but with proper control on the research processes like data collection and analyse instrument adjusting, these sources can also form a solid foundation of a research.

Report 2: Core Theory Evaluation

Word count: 1097

As it is mentioned in the previous report, this research is mainly studying the competition of coffee in an emerging market. Thus, the competition forces theory that developed by Michael E. Porter in 1979, Porter's Five Forces model, is a huge milestone in competition theory, and it will be discussed in this report.

Concept mapping diagram

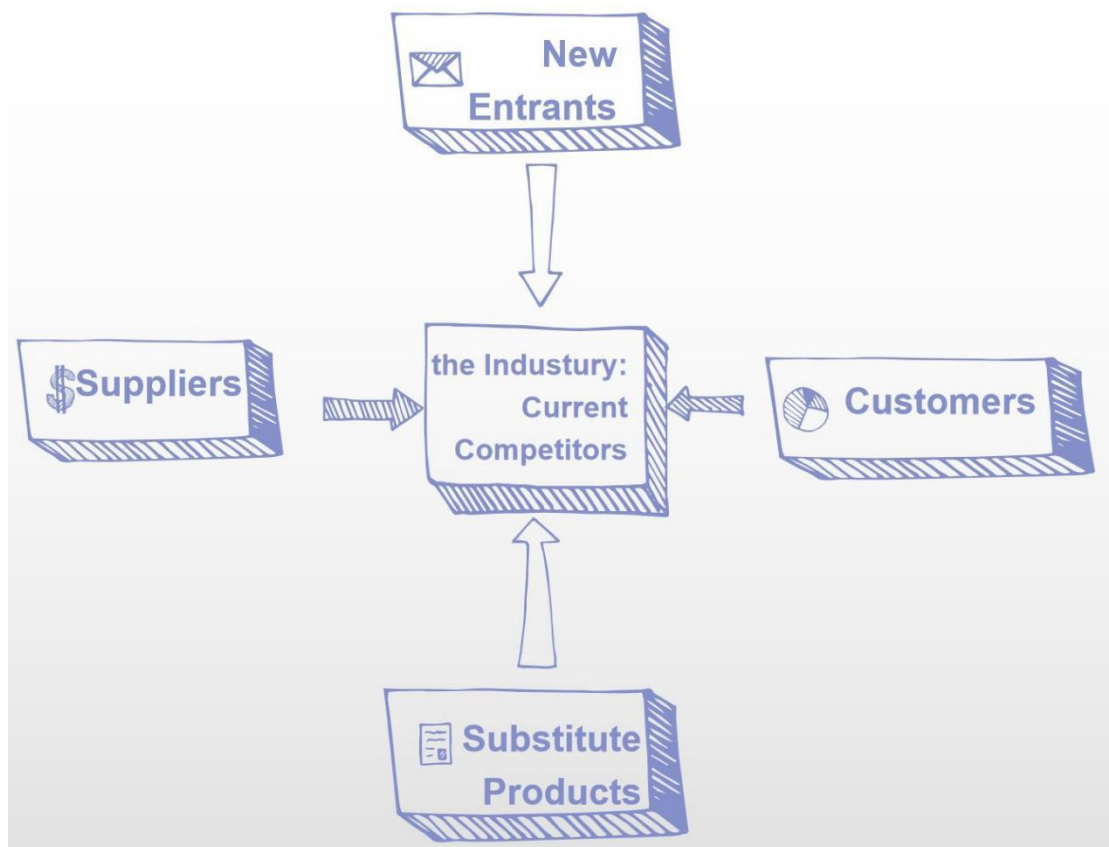


Figure 1: Porter's Five Forces Model

As it is stated clearly in the very beginning, Porter's famous article, *How Competitive Forces Shape Strategy*, claims that to study an industry's competition environment, one need to analyse the forces from five aspects in that industry: the competition degree of existing competitors, both of the bargaining power from suppliers and customers, and both of the threats from new entrants and substitute products (1979).

The Competitive Theory System

While businesses are seeking ways to survive under complex competitive pressures, scholars are also curious about the answer to one question:

“To ensure the survival and development of an enterprise, is there a systematic way to analyse the competitive forces in an industry or the competitiveness of a business?”

However, this question is asking two entirely different things in reality. Because, it indicates the two angles of looking at competition: the industry angle and the organization’s angle. No matter which angle a theory is from, the solution keep circling back to form competitive advantages for organizations in their industries (Teece et al. 1997, Porter, 2008, Barreto, 2010).

As a crucial aspect of strategic management, the theories of competition analysis have developed into a complicated knowledge system in recent decades. These theories are divided into four branches by different strategic perspectives (Eloranta and Turunen, 2015): market forces, relational view, resource-based view (RBV), dynamic capability approach (the former two are from industry angle, and the later two are from the entities angle).

The market forces perspective is mainly consist of Porter’s diamond theory, which is viewing competition by analyzing the challenges in the entire industry. There are five challenges all together are identified in an industry that would affect either the long-term or short-term profitability of an enterprise (Porter, 2008). This theory is built up on the assumption of close interaction between firm and its industry (Shapiro, 1989).

Another strategic from industry angle is the relational view. This stream consider that the cooperation between organizations can form strength in competition (Dyer and Singh, 1998; Lavie, 2006), through the process of sharing of different forms of resources (Grunt, 1996; Dyer et al, 2008).

The other two, RBV and dynamic capacities are the theories from organization’s perspective, which relates to build competitive advantage by developing unique resources (Barney, 1991; Wernerfelt, 1984; Amit and Schoemaker, 1993) and abilities of adapting with market change (Quinn, 1985; Teece *et al*, 1997; Hobday, 1998; Roberts, 1998).



Core Theory Evaluation

Considering that this research is aiming to understand what kind of situation that coffee business is facing in Chinese beverage industry, so investigating the challenges in the whole market is vital. This makes Porter's Five Forces are the most relevant approach.

Even though this theory was proposed in 1979, this framework has not been adjusted much by Porter. He consider that this theory can be adopted in any existing market, does not matter how the economic environment change (Poter, 2008). Till now, it is still a comprehensive strategy that with authoritative reputation.

However, it has also been criticized by many other scholars for years. These critical voices are vary, some of them think that there just a few small issues that this framework needs to adjust (Slater and Olson, 2002); but some of scholars are questioning about the fundamental like validity of this theory (Narayanan and Fahey, 2005).

This theory is mainly attacked from the following two aspects:

Firstly, some think Porter failed to identify some other factors in the model. For example, Holm *et al* claims that it needs to include the influence of allies (1996). Also, it has not consider the volatility of the market (Grundy, 2006), or it should also consider “time dynamics” as one of the factors (Dulcic *et al*, 2012);

Secondly, some researchers don't think this theory is as all-embracing as Porter think. For instance, Bruijl considers it is more focused on big entities than smaller ones (2018), and Keen and William think it is more relevant with value chains than the whole economic environment.

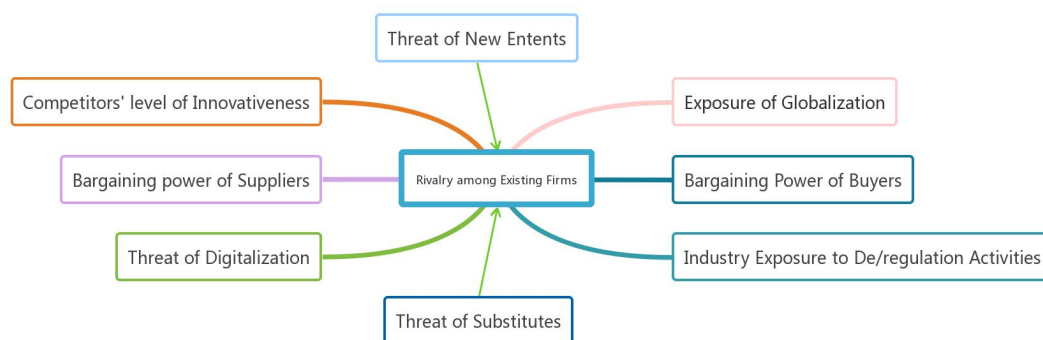
Although many of these researches have developed something based on Porter's model, these adjusted ones are not implemented as wide as the original.

If Porter's five forces framework is use to analyse the competitive environment in

beverage industry in China, other than its authority and wide implement, there are a number of disadvantages that need to be taking under consideration. There are difficulties in applying it in reality (Lee *et al*, 2012). There are issues in method relevance in today's highly globalized business world (Oviatt and McDougall, 2005), especially in the post-pandemic background(Isabelle et al, 2020), international economic are even more complicated.

Theory Application

Considering this is a widely used strategic analysis framework, there are several situation that this theory can be helpful. For example, this framework can be used by investors to analyzing the investment feasibility of their interested industry. Also, for a company to promote its new product, this method can use to analyse its potential substitutes. According to Porter himself this approach can be applied to any markets under different economic background (2008). However, it is still be suggest to add new elements like globalization, deregulation (Downes, 1997), and level of innovativeness (Johnson, 2014) to adapt to the new situation. Following is a developed model.



Obstacles in implementing Porter's five forces in this research

As this research is require close investigate in the operating of a business, to understand its relationship with suppliers, it is difficult for an external researcher to collect the core data. Therefore, to get a better result, researchers might need to ask for access to the information inside an organization, it would be more effective if there are 'existing contacts' (Johnson, 1975), otherwise it might not always succeed (Buchanan *et al*, 2013).

Other than the obstacle discussed above, there are also several aspects need to be taken care of while conducting survey to gathering information from customers. As this process associate with sensitivity issues of individuals, researchers might need to behave ethically in practice and in paper (Berry, 2004; Thomas, 1996; Bell and Bryman, 2007) to ensure the philosophical basis of the research.

Report 3: Possible Research Theme

Word count: 1345

As a factor that affects the profitability, the competition of an industry is frequently analyzed by the investors or new entrants (Mueller, 1977). As the consumers in mainland China is experiencing consumption upgrade in recent years (Zheng, 2018; Zhu, 2019). There are evidence show that the consumption of fresh ground coffee is raising rapidly (Burkitt, 2016; People's Daily, 2020). Both international and domestic investors are attracted to the market. Therefore, this research is trying to provide information of competition environment in beverage industry in China, and how it can affect the profitability of sell coffee as a casual drink (or open a coffee shop), so that the findings of this research can help investors and drink store owners to make better decisions.

1. Area of specialism

After a series of literature studying and data searching, the idea of “analyzing the competitive power of coffee in the Chinese beverage industry” shall be refined to a more specific research topic.

Firstly, basing on consumption upgrading, the consumer behavior in drink market has radical changes. One of them is that people used to buy bottled drinks from supermarket when they feel thirsty outside, now many of them are prefer to enjoy a freshly made fruit juice or milk tea with nice package from a well decorated drink store on the side of busy street or in a shopping mall. This indicates that the Chinese beverage industry has developed from a manufacture dominant industry to a more mixed one with service industry growing rapidly inside (Qianzhan, 2020).

Second, coffee as an imported drink, has been introduced to Chinese consumers since 1980s (QianZhan, 2020). However, it was either in bottles or as instant coffee powder, which sold in retail stores. The fresh ground coffee drink that sold in coffee shop has only been spread in mainland China for just over two decades (Since the first Starbucks entered in 1999). As driving by globalization, the oversea coffee brands spread (Zucchella et al, 2007), the investment of coffee business has been grown

rapidly (Estopace, 2016), however, it reached its peak in 2018 (Qianzhan, 2020; Soon, 2019).

As a research reflects the influence of consumption upgrade in China, this study is focusing on the competition in fresh made drink area. Thus the research topic can be refined to:

Competitive challenge of coffee shop in Chinese fresh made drink service industry: Porter's five force analysis

This analysis is trying to find out answer to one question:

How profitable is fresh ground coffee drink business model under recent competitive situation of Chinese fresh drink market?

By answering this question, the research is aiming to find out that, basing on the recent competitive environment, is the beverage industry still profitable for coffee stores.

According to the research on theories that explaining competitive advantage, Porter's five forces model is appropriate when an entity intends to fight for its market share (Eloranta and Turunen, 2015).

To be even more specifically, the research question can be divided into a set of research objectives:

a. Analyzing the five forces in Chinese Fresh made drink market

- (1) Rivalry in existing firms
- (2) Bargaining power of buyers
- (3) Bargaining power of suppliers
- (4) Threat of new entrant
- (5) Threat of substitute

b. Analyze the the profitability of fresh made coffee under current competition

2. Possible approaches analysis

2.1 Quantitative approach

A quantitative approach is normally used in collecting and analyzing data to test or to develop a theory (Saunders *et al*, 2016). Therefore, this research might not meet its objectives by only using a quantitative approach. Unless, fresh drink market is a

mature industry with rich data can be accessed, the competition of the industry can be measured by Herfindahl Index (HHI). However, it will then be analyzed by industry concentration theory (Safdar, 2016), not Porter's five forces model.

However, if there it is required to meet the research purpose through a quantitative approach under the current circumstances, this study might need a big research team and sufficient time to do it. As the process of investigating (1) rivalry of existing firms and (2) bargaining power of suppliers requires strong connection in the industry. Because visiting, observing and interviewing managers in main brands and businesses to collecting data is indispensable. Also the process of this kind of research would be time-consuming.

In spite of the obstacles stated above, there are advantages by conducting this approach. First, with wide spread into the industry and its supply chain, the data this research collects is original and representative. Second, with well control on the interview and survey question design, this approach might form an objective research that is valid and reliable, which can help investors and business starters to make wise decisions. But the disadvantages would be too costly, and have too many control points need to manage, which would be too complex and less feasible for DBA students, but it might be doable for an organization with authority reputation.

2.2 Qualitative approach

Even though a qualitative approach can also be used to exam a theory (Yin, 2014), it appears more in a "interpretive" way (Denzin and Lincoln, 2011). Clearly, most of this study will be presented by interpreting the logic inside. Considering the limitation of this study, a more feasible way to conduct a qualitative research is to focusing the resources to do a case study on one particular organization. If it is possible, study the organization from inside. To see how it is dealing with the relationship with its suppliers; observe its daily income, costs and business model, to see how it compete with other brands and stores; and carefully evaluate that if there is any potential substitute (as this is the aspect that can be easily neglected. Who knows that the one beat Chinese instant noodle down is the development of take-away delivery service(Qianzhan, 2020)).

One of possible business to conduct case study that may provide a comprehensive research data and results would be Starbucks. As the research can only choose one organization to study, it would be more appropriate to choose one that spread most widely in China (Fantozzi, 2020).

The advantage of this research approach would be that it can provide the competition experience of Starbucks. By studying from the best, either smaller fresh drink brands and potential investors can get rich information on the risks and challenges in this industry.

The disadvantage is obvious, which is only one organization is studied, the representativity of other businesses in the market would be compromised.

2.3 Mixed method approach

According to the nature of this study, and the aim it intends to accomplished, it includes “realistic ontology” and “interpretive epistemology”, which can be addressed pragmatic way. Thus, to conduct a mixed method approach would be more appropriate (Tashakkori and Teddlie, 2010; Nastasi et al., 2010).

As there are several diverse aspects need to be evaluated, using a mixed method approach that includes both qualitative and quantitative method to fit in different stage would be more appropriate.

(1) Rivalry in existing firms and (2) Bargaining power of buyers

- 1) a few different fresh drink brands in different sized cities can be selected by popularity;
- 2) Conduct surveys on customers preference in flavor, drink habit, consume ability etc.;
- 3) Search industry reports for average profitability.

The challenges of this stage would be first, to gather a proper sized sample that represent the population; second, design a proper survey that can reflect consumers' preferences without breach ethical issues.

(3) Bargaining power of suppliers

- 1) Asking for access to businesses (if possible) to collect operation data;
- 2) Collecting information about suppliers (both international and domestic)

(Neilson and Wang, 2019).

The difficulties on this stage would be getting permission on accessing the inside data of ideal organizations.

(4) & (5) Threats of new entrants and substitute

- 1) Analyze the cost of entry;
- 2) possible consumer behavior change.

As the entry of fresh grounded coffee business is relatively low, this information can gather from internet, or it can be down by following up with a start-up store. The Challenge would be analyzing industry development and a form of new consumers' habit. This might require the researchers to follow news, industrial reports and national policies etc.

In conclusion, having a pragmatic aim, a mixed method approach is more appropriate to this research. Although there would be challenges, it can be done under proper control.

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