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Costa coffee in China

Change and Stability Management

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Executive Summary

This article discusses the measures taken by Costa Coffee in response to the COVID-19 pandemic in China. Due to a sharp drop in demand for goods and services, many businesses in China had to close, including some of Costa Coffee's stores. The company also laid off thousands of employees. However, Costa Coffee did not give up and started developing new business models, including ready-to-drink coffee, automatic coffee machines, and franchising businesses. Costa Coffee's goal is to become a Total coffee company, with three core businesses: chain retail coffee stores, FMCG business, and coffee service business. The company closed loss-making stores while opening healthy stores, and it digitized its stores and expanded its membership base. Costa Coffee also launched its ready-to-drink coffee products and entered the home coffee machine market, with different focuses on offline and online sales channels. Costa coffee has entered into strategic partnerships with a number of major clients by Costa Proud To Serve service, especially Huazhu Group, the business model "hotel + coffee" will be a win-win cooperation. Costa Coffee has developed a five-year plan to become a Total coffee company by increasing its market share and expanding its channels of distribution. Its core business remains in-store experience, but ready-to-drink coffee and coffee service business have become important growth points. Costa Coffee's development strategy revolves around multiple channels of distribution. They has their unique key advantages, the company's relationship with Coca-Cola and a complete internal management system, through these strategies, Costa Coffee is set to become a major player in the coffee industry.

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Introduction

Costa coffee was born in London in 1971, created by Sergio and Bruno. Until now, Costa coffee already traveled 39 countries in the world, has more than 3,000 stores (Costa coffee China official website,2022). Costa coffee entered Chinese market about 8 years later than its biggest competitor Starbucks coffee, opened first in at the end of 2006 in Shanghai, and entered Beijing market in the second of 2008. Before entering the Chinese market, Costa spent three years doing research on the Chinese market. In addition to investigating consumer psychology and market conditions, the key is to select suitable partners because foreign companies entering the Chinese market, need for joint ventures with local companies. In 2006, Whitbread Group and Yueda Group invested 51% and 49% respectively to establish Yueda Costa (Shanghai) Catering Management Co., Ltd., which is responsible for the development and operation of Shanghai, Hangzhou, Nanjing, Guangzhou, Wuhan and other cities. In 2008, Hualian Costa was established by the British Whitbread Group and Hualian Group with 50% investment respectively, responsible for the development and operation of Costa Beijing, Tianjin, Shandong, Liaoning, Jilin and Heilongjiang and other northern regions (Bolan Coffee shop, 2014). What has to be said is Costa coffee acquired by Coca-Cola in 2018 (Coca-Cola official website, 2019).

The end of 2019, Covid-19 swept the whole world, China is one of the countries most affected by it. Even during the Chinese New Year, the most consumer-driven period of the year, all of the real economy was severely affected by the inability to go out normally and the sharp drop in demand for products and services, it has also reshuffled the industry, the demand for medical-related industries, online shopping, food delivery, online meetings, and online entertainment has increased dramatically, allowing them to grow rapidly in a short period of time. (Li, 2020, p.47).

This article will use Lewin's change management model to explain the changes of Costa coffee in China. Due to the sudden epidemic, Costa had to close some of its stores with bad performance. That is only the Unfreeze stage, Costa coffee needs to implement further changes, maintain good communication and be ready to meet the challenges to get through the difficult times (Channell, 2021).

Main discussion

Unfreeze Stage

As we all know, the epidemic started to affect the whole world at the end of 2019, China was one of the countries most affected by it. With the spread of the epidemic, major cities began to gradually close their cities to isolation. Due to the inability to go out, the demand for services and goods dropped sharply, some smaller companies and stores closed down, and even larger companies were affected to some extent, and a large number of people lost their jobs and sources of income, Costa coffee was no exception.

Costa coffee decided to close some stores to reduce operating costs, and most of these closed stores were relatively poor performers. The number of closed stores represents 10% of Costa coffee's total number of stores in China (Bi, 2020). In addition to Beijing, Jiangsu and Zhejiang regions, the most affected is Qingdao city. All the Costa coffee stores in Qingdao were closed. Qingdao belongs to Shandong Province, Qingdao covers an area of 11293 square kilometers, with a population of 10.2567 million. China has 19 Tier 1 cities, and Qingdao is one of them. It is easy to see that Costa coffee has made a difficult and urgent decision about the sudden epidemic.

In addition to closing 10% of its stores, Costa coffee is laying off thousands of employees. Costa coffee responded that this closing is the continuation of store optimization work, and the closing of loss-making stores in Qingdao is a part of Costa coffee's business optimization and adjustment in China. Affected by changes in store passenger flow and economic operation, Costa coffee will

continue to develop new retail stores while exploring store patterns suitable for different consumption scenarios (Journal editor, 2020, p.78).

Change Stage

Almost all brands are adjusting. Starbucks and Alibaba have cooperated to accelerate the digital transformation, not only launched "Coffee Express", "Special Star Delivery" and other delivery services, opened up Alipay, Taobao, word of mouth and other platforms, but also actively transformed stores to launch high-end Starbucks Best choice and other stores. Another competitor, Lian Coffee, reported on the official WeChat official account that all offline stores had been closed and had no plans to reopen them for the time being. In the future, even coffee will be released as pre-packaged products. WeChat official account and Tmall flagship store will be the main shelves, and other e-commerce channels will also be launched in succession. Unlike Lian Coffee, Costa coffee did not give up the store, Costa coffee is actively developing new business models and channels, including ready-to-drink coffee, automatic coffee machines and franchising businesses (Zheng, 2020).

The goal of Costa coffee is to become a Total coffee company. The president of Costa coffee China MR Ouyang said, Costa coffee completed the merger of the North and South companies in 2021. Costa coffee currently has three core businesses: chain retail coffee stores, FMCG business (packaged instant coffee Ready to drink instant coffee and home coffee), and coffee service business (Costa Proud To Serve and self-service coffee machine Express). These three businesses are not independent, but play a synergistic role to cover more diverse consumption scenarios (Yan, 2022).

1. Stores: The retail coffee shop chain is the largest business in terms of revenue and the cornerstone of Costa coffee. In terms of the number of stores, Costa coffee closed a number of loss-making stores during the epidemic, while also opening many healthy stores. 60 new stores were opened in 2021, one of

the largest number of store openings since entering China, and there are now roughly over 400 stores in China. In terms of store quality, the recovery and growth of Costa coffee's stores have been relatively healthy in an environment where the epidemic is still recurring. Starting in the fourth quarter of 2021, Costa has clearly defined three types of stores internally: Master Select store, Standard experience store and Take-away Counter stores, with more diverse store styles to meet the needs of different channels. The main store type will also be a Standard experience store. As of February 2022, there are 10 Master Select store, Including new stores and old stores upgraded, from the environment to the decoration, and in terms of products, we will provide fine beans and serve customers by high level baristas. The smallest Take-away counter stores are those without dine-in seats or with fewer seats. In office building lobbies and transportation hubs, consumers more often want to be able to get coffee quickly and leave, and do not need too big and complicated stores, and the menu will be more concise and convenient for consumers to choose, as take-away demand is growing, so the growth of Take-away counter stores will be more rapid (He,2022). In addition, store digitization has become an important driver of Costa coffee's accelerated business development. This includes milestone expansion in membership size, record high volume and share of takeaway sales, and over 10 times growth in e-commerce business volume over 2020 (Yan, 2022).

2. FMCG business: As the first step to promote multi-category strategy in China, Costa coffee launched its first ready-to-drink coffee products in March 2020, and in early 2021 Costa coffee officially joined the home coffee machine market, successively listing products such as coffee freeze-dried powder, hang-ear coffee and bagged coffee beans. Costa coffee's ready-to-drink coffee and home coffee have different layout focuses, with the former's main battlefield in offline brick-and-mortar stores, including convenience stores and supermarkets, while the latter is mainly sold on e-commerce channels and Costa coffee's

offline stores. Partly due to changes in consumer behavior in the post-epidemic period, Costa coffee's e-commerce business (selling ready-to-drink and home coffee products) achieved high growth in 2021 as a complement to the offline scene (He,2022). In the whole coffee market, ready-to-drink coffee as a segment, it has gained high growth with convenience and relatively high quality, behind which hides a huge incremental market. As a wholly owned subsidiary of The Coca-Cola Company, Costa coffee's ready-to-drink products are naturally placed in an important strategic position. In this business, synergies with The Coca-Cola Company are maximized. In March 2020, Costa coffee's ready-to-drink coffee products were officially launched in China and entered the sales channels of e-commerce, major supermarkets and convenience stores nationwide, with each bottle selling for about 7-8 Yuan. In 2021, COSTA launched another boutique cold brew ready-to-drink coffee to explore the high-end ready-to-drink coffee consumption market. Different from the conventional PET packaging, the metal aluminum bottle packaging design is adopted. Costa coffee China's ready-to-drink coffee products are all distributed through Coca-Cola China bottling system partners. By leveraging the scale effect of the channel and the distribution advantages of the Coca-Cola China system, Costa coffee can be brought into the right distribution points faster and spread the new category of ready-to-drink quickly (Yan,2022).

3.Coffee service business: Costa coffee's coffee service business mainly includes Costa Proud To Serve and self-service coffee machine Express. The coffee service business is a young business, in August 2019, the self-serve coffee machine project "Costa Express" was introduced to the Chinese market. Then proud to serve the business matured, small sit-down coffee machines have also entered different channels in major cities across the country. By the end of 2021, there will be more than 600 Costa Proud To Serve and self-service coffee machine locations. Costa has strategic partnerships with a number of major clients, including the China H Group, Universal Studios and more. Costa

is also provide coffee at the 2022 Beijing Winter Olympic games. Most of these channels have a characteristic that the foot traffic is dense, but the space that can be utilized is not very large, and brands usually do not open a standard coffee shop here, such as theaters, highway service stations and so on (He,2022). Costa coffee's coffee service mainly undertakes the provision of raw materials, equipment rental, marketing, after-sales and coffee training. The rapid layout of this business responds to the new changes in people's coffee consumption scenario. From the consumer side, compared to store consumption, self-service coffee machines are more convenient and can cover various places such as offices, campuses, airports, stations, gas stations, convenience stores, etc., and can even meet 24-hour consumption scenarios. From the brand side, self-service coffee machines can complement the store network, eliminating the cost of stores and personnel, and can increase the frequency of consumption (Yan,2022).

As mentioned above, Costa has strategic partnerships with a number of major clients, including the Huazhu Group. Huazhu Group is headquartered in Shanghai and was established in 2005, operates more than 8,500 hotels in 17 countries with about 809,000 rooms in operation and employs nearly 140,000 people. Huazhu Group operates 31 hotel and apartment brands, covering the luxury to budget markets (Huazhu group official website, 2022). Costa Proud To Serve Service is an extension of the original hotel front desk to be used as a sales counter for coffee machines and brand display materials. The hotel front desk also serves as a barista, which can greatly supplement the income of the hotel front desk, reduce the staff turnover rate, and at the same time promote the flow of the store and strengthen the overall comprehensive income of the hotel. According to the conditions of different hotels, Huazhu's hotels can choose two different models: "front desk fusion coffee bar" or "independent coffee bar". As of March 2022, Huazhu Group has opened Costa Proud To Serve counters in 50 stores nationwide and plans to cover 1,000 stores by the

end of 2022, which will enable Huazhu Group's full brand of hotels and apartments to achieve full coverage of the economy market to the luxury market in the future. According to data from the International Coffee Organization in London, coffee consumption in China is growing at an impressive rate of 15% per year compared to the global average growth rate of 2%. the size of China's coffee market exceeded 300 billion yuan in 2020 and is expected to reach 1 trillion yuan in 2025. Thus, the rapid development of the coffee market undoubtedly provides good opportunities for various hotel groups. Under the change of the epidemic, the guest flow of the hotel will be affected to a certain extent, in this case, the hotel will certainly seek innovation and explore other business models, so the number of brands entering the "hotel + coffee" business model is increasing. The three keys to cross-border operation of the hotel are the integration of resources to innovate consumption, contractualization of cross-border cooperation and the content, procedure and detailed design of experience projects. Give full play to the role of the hotel as a consumption terminal platform, integrate resources to innovate material consumption and spiritual consumption. At the same time, it is the key for the hotel to find and occupy the market segment that suits its own situation and develop segmented products to meet the market demand by building on its strengths and avoiding its weaknesses. It is a win-win for hotels to bring influential coffee brands in. However, if a hotel takes cooperation with a coffee brand as a strategic decision, the first thing to consider is whether the brands of both parties are a good match and whether the brand match is appropriate. At the same time, it is also very important that both parties can channel traffic between each other. If both brands have the same market, then the process of cooperation may be smoother in the future. (Guan, 2022).

Refreeze Stage

1. Five-year plan: While Costa coffee's gold standard is to provide experience in its stores, ready-to-drink coffee and coffee service business gives Costa coffee the potential to play "guerrilla warfare" in a lighter footprint. Through the synergy between multiple channels, Costa coffee is gradually covering more diverse consumption scenarios. The impact brought by the epidemic is undoubtedly huge. If we still rely on physical stores as the only way, instead of changing the business model in time, many companies will face a crisis, while Costa coffee turns the crisis into an opportunity for transformation, and continues to optimize in terms of talents, stores, processes and costs.

To continue to make efforts to build a Total coffee company, Costa coffee has a five-year plan: In 2025, the number of Costa coffee stores will reach more than 1,000; the market penetration and market share of packaged ready-to-drink coffee will increase significantly; 5,000+ points will be laid out for the Costa coffee Proud To Serve and self-service coffee machines; other home coffee businesses will achieve explosive growth.

First of all, as the core of the brand, inherited coffee quality and culture, stores will remain the core channel and business bedrock of Costa coffee, Costa coffee hopes to steadily and healthily develop store business, through the operation team's execution, product strength and comprehensive deepening of digital marketing, Consistent and steady store openings while making each store more productive than ever. Continuously explore store formats suitable for different consumption scenarios, not only limited to traditional stores. Consumer demand-oriented, based on the core of good coffee, and then combined with consumer demand to do innovation. For example, chocolate flavor for Christmas, watermelon flavor for summer, and Osmanthus flavor for autumn, all of which are designed to meet the needs of different consumers in different seasons.

Secondly, Costa coffee's FMCG business, which includes ready-to-drink coffee and other home coffee businesses, is also seen as an important growth point for the future. FMCG business will take advantage of the Coca-Cola system to accelerate growth and cover more regions and categories. At present, in addition to ready-to-drink coffee, we see that Costa coffee has already launched freeze-dried coffee, hanging ear packets, capsule coffee in cooperation with Joyoung One-cup and other products. China is a very leading country in home coffee, this is the advantage of the Chinese market, making innovative product forms with more partners is the goal for the future. Costa coffee has now laid the foundation for its FMCG business and is building a total plan to gain a higher market share and achieve more channel coverage. The coffee service business will be the focus of Costa coffee's efforts to grow in volume.

2.Development strategy of multiple channels:

2.1. Costa coffee's vision of "making the world fall in love with good coffee" and its insistence on making good coffee. Be a professional coffee brand, the Rainforest Alliance certification, the unique recipe of Costa brothers through 112 blends, and the "artisanal coffee quality" achieved by semi-automatic coffee machines are all its proud advantages.

2.2. Costa coffee and Coca-Cola are mutually empowering relationships. As Coca-Cola's global coffee platform, Costa coffee can help Coca-Cola enter the food and beverage and retail channels for coffee, while Coca-Cola will also empower the growth of the Costa coffee brand worldwide. Costa coffee is interoperable between different businesses, and where there are more stores, ready-to-drink coffee will also sell particularly well because of the brand's popularity and recognition, so through the linkage of each business, multiple business development will be promoted.

2.3. Costa coffee has a complete internal management system. Costa coffee insists on making good coffee from confidence in the training system.

Compared to fully automatic coffee machines, semi-automatic coffee making is about the barista's ability. Costa coffee company will provide complete standards and common training, with the internal Costa check system, can be meticulous and precise inspection stores, provide audit to ensure the uniformity of standards, consumer experience, coffee quality will be more highly uniform. In terms of talent development, each barista at Costa coffee needs to pass more than 100 hours of training before they can start, to ensure that they really make good coffee. Costa coffee's annual worldwide B.O.Y competition (Barista Of the Year) uncovers and cultivates outstanding barista talent for the brand and promotes coffee culture and skill enhancement. In addition, Costa coffee in maintaining the original high-end coffee brand tone at the same time, through social media and other youthful communication channels, targeting young consumers, such as co-branding with IPs such as WuHuangWanShui, the launch of coffee peripheral products(Yan,2022).

Conclusion

The sudden outbreak of the epidemic has had a profound impact on the global economy, including the coffee industry. Costa coffee, one of the leading coffee chains in China, has not been immune to the adverse effects of the pandemic. In an effort to reduce operating costs and adjust its business operations, the company had to close 10% of its stores in China, including all its stores in the heavily affected Qingdao city. This difficult decision resulted in the loss of jobs for thousands of employees. However, Costa coffee remains committed to optimizing its operations and exploring new retail store patterns that are suitable for different consumption scenarios. We can also try to use Force Field Analysis, Driving force includes prospects of more varied work, meeting the different needs of consumers in diverse scenarios, epidemic causing old ways of doing business to no longer work, etc. Restraining force has Fears that earning might be affected, the cost of new business expansion, fear of uncertainty, etc.

Eventually it will be concluded that change is necessary. As the world continues to face challenges brought about by the pandemic, it is crucial for businesses to remain flexible and adaptable in order to survive and thrive in the new normal. Costa coffee is covering a more diverse range of consumption scenarios through the joint collaboration of its three core businesses: chain retail coffee stores, FMCG business and coffee service business, and the digitalization of its stores has become a key driver of Costa coffee's accelerated business growth. This includes milestone expansion in membership size, record high takeaway sales volume and share, and more than 10x growth in e-commerce business volume by 2020. By leveraging the scale of the channel and the distribution strength of the Coca-Cola China system, Costa Coffee can bring its products to the right distribution points faster and spread the new category of ready-to-drink quickly. Costa coffee has entered into strategic partnerships with a number of major clients by Costa Proud To Serve service, especially Huazhu Group, the business model "hotel + coffee" will be a win-win cooperation. Costa coffee will continue to advance the five-year plan, integrating the changes made into the company's culture and operations, focusing on optimizing people, stores and channels to create a sustainable and successful business model and become a Total coffee company to meet the diverse needs of consumers in different scenarios.

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