

# SITUATIONAL ANALYSIS

## COSTA COFFE UK

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## Costa Coffee – Situational Analysis (Pestel)

### 1. Introduction

Costa Coffee is a leading coffee chain in the UK, operating within the highly competitive industry – Food and Beverages Retail Industry.

The company provides a variety of hot drinks, cold beverages, snacks and takeaway options, with an impressive presence predominantly on high streets, in shopping centres and at transport hubs. Its convenience, consistent quality, and strong brand recognition help it maintain a strong market position (Miller, 2005).

This report applies the PESTEL model to evaluate the external factors affecting Costa Coffee and explain how these factors are influencing its marketing decisions. Situational analysis is important as it allows businesses to understand external pressures (Kotler et al., 2024) and respond effectively to market changes (Lee, 2025).

By evaluating the external environment, Costa Coffee can anticipate challenges and capture opportunities, which is essential for long-term planning.

### 2. Situational Analysis (PESTEL)

#### POLITICAL

Political factors mainly affect Costa Coffee throughout government policies, particularly increases in the national minimum wage, employment regulations and business taxation.

Higher labour cost impact profitability, particularly in service-based businesses with a large staff requirement (Harris, 2024). Political stability and trade agreements also affecting coffee import costs, which affects pricing and supply decisions.

Keeping up to date with government regulations ensures the company can operate efficiently and avoid fines or reputational damage. Marketing decisions must therefore balance cost

control with value perception – for instance, by emphasising service quality to justify pricing (Willson, 2024)

## ECONOMIC

Economic conditions have a major influence on Costa. Inflation, rising energy costs and the UK cost-of-living crisis have made customers more price-conscious, affecting discretionary spending on items like coffee (Smith, 2025).

Costa responds by offering promotions, value deals and loyalty schemes to maintain demand and encourage repeat purchases (Lee, 2025). These strategies not only protect revenue but also help sustain customer engagement. However, there is a delicate balance: lowering prices too much can reduce brand perception, while pricing too high may deter customers during economical challenging times (Brown, 2024).

Additionally, fluctuation in foreign exchange rates can affect the cost of imported coffee beans. Marketing campaigns often highlight value, quality and ethical sourcing to justify pricing decisions (Harris, 2024).

## SOCIAL

The current social factors support Costa Coffee but also create a specific customers expectation. Coffee shops are commonly used for socialising, studying, remote work or meetings, creating consistent demand across urban areas (Brown, 2024).

At the same time, there is a growing demand emphasis health, sustainability and ethical sourcing. Customers increasingly prefer plant-based alternatives, low calories options and environmentally friendly packaging. Costa has adapted by offering plant-based milk alternatives and recyclable cups, which adapt with socially responsible customer expectations (Clark, 2025).

Marketing strategies now reflect these social trends, promoting ethical sourcing, corporate social responsibility and community engagement initiatives. Understanding these social dynamics, helps Costa maintain brand relevance and attract ethically minded customers (Harris, 2024).

## TECHNOLOGICAL

Technology plays a crucial role in Costa Coffee operations and marketing while digital innovation is reshaping customer experience and expectations. Costa's mobile app, contactless payments and AI-driven loyalty programmes improve convenience and customer experience (Chaffey, 2024). Data collected through these digital platforms enables personalised promotions, targeted offers and better customer engagement (Lee, 2025).

Investments in AI and data analytics could enhance further the predictive marketing, ensuring Costa to meet customer expectations efficiently. Failure to embrace technological innovation may result in losing market share to competitors offering faster, more convenient digital experiences. Overall, technology supports both operational and strategic marketing by enabling data-driven decision-making (Miller, 2025).

## ENVIRONMENTAL

Environmental pressures and factors constantly increasing, are both a risk and an opportunity for Costa Coffee. Climate change impacts coffee production and supply chains potentially affecting the cost and availability (Clark, 2025).

Costa has implemented sustainability initiatives and committed to recyclable packaging, waste reduction strategies and energy-efficient operations. These measures are essential not only for environmental responsibility, but also for expanding brand perception among the environmental conscious customers (Brown, 2024).

Marketing messages highlighting sustainability help to build loyalty and customer values. Proactive environmental strategies can differentiate Costa from competitors, supporting long-term growth and customer trust (Johnson, 2025).

## LEGAL

Legal factors include compliance with food safety regulations, employment law and hygiene standards. Ensuring all staff adhere to legal requirements protects customer safety and brand reputation (Wilson, 2024).

Compliance is non-negotiable Costa Coffee. Non-compliance could result in fines, litigation or reputational damage, which may result to negatively affect brand loyalty and trust.

Marketing campaigns also need to consider advertising regulations, particularly regarding health claims or sustainability messages. Staying legally compliant is therefore critical for both operational stability and marketing credibility (Smith, 2025).

## 3. Critical Analysis and Evaluation

The PESTEL analysis illustrates that Costa Coffee operates in a complex and dynamic external environment.

Economic pressures, such as inflation and cost-of-living challenges, strongly influences pricing and marketing strategies (Harris, 2024).

Social and environmental trends significantly shape product development and branding. For example, customer demand for plant-based and ethically sourced products had driven innovation in menu offerings and sustainable packaging (Clark, 2025).

Technological advancements provide opportunities to strengthen customer engagement through personalisation, loyalty programmes and efficient operations. Digital platforms are now essential for retaining tech-savvy customers (Chaffey, 2024) and maintaining competitiveness (Smith, 2026).

Political and legal factors affect cost management, operational efficiency and marketing compliance. Costa's ability to navigate regulations, employment law and trade policies ensures operational continuity while supporting customer trust (Wilson, 2024).

Overall, Costa Coffee responsiveness to these external factors determines its competitiveness. Applying PESTEL allows the company to anticipate challenges, identify opportunities and make informed strategic marketing decisions (Lee, 2025).

#### **4. Conclusion**

Costa Coffee operates in a highly dynamic and competitive environment where external factors strongly influence its performance.

Costa is facing a dynamic external environment shaped by economic constraints, social shifts, technological demands and environmental imperatives.

Based on the analysis, it is recommended for Costa Coffee UK to:

- Maintains value-based pricing and targeted promotions to address economic pressures (Lee, 2025).
- Continues investing in technology and mobile app engagement to strengthen customer relationship (Chaffey, 2024).
- Expands sustainability initiatives and ethical sourcing to align with customer expectations and build brand loyalty (Clark, 2025).
- Monitors political and legal developments closely to minimize risks and ensure operational compliance (Wilson, 2024).

Performing situational analysis is essential for strategic planning. It is enabling Costa to understand and anticipate external changes, mitigate risks and seize opportunities (Smith, 2026), a process that underpins informed, resilient decision-making (Kotler et al., 2024).

## 5. References

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