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Starbucks Plays to Local Chinese Tastes

By LAURIE BURKITT

BEIJING—After nearly 14 years of working to persuade China to buy into its foreign coffee culture, [Starbucks](#) Corp. is aiming to become more Chinese as it plans a rapid expansion in the country.

Belinda Wong, president of Starbucks China, said in an interview that Starbucks aims to roll out 800 new stores in the next three years to add to its existing fleet of 700. Over that period it will increase the number of employees to more than 30,000 from the current 12,000.



The company aims to capture a larger market by going more local and applying its cultural insights, Ms. Wong said. For instance, whereas kiosk-sized stores work well in the U.S., where office workers grab bacon-gouda sandwiches to go in the morning on the way to work, Starbucks has learned that Chinese consumers value space and couches on which to relax in the afternoons.

The coffee company is adding some stores that are nearly 3,800 square feet and can seat consumers who come with groups of friends and business partners. Starbucks also has discovered that Chinese tastes for coffee go only so far. It plans to introduce new Chinese-inspired flavors, building on existing favorites like red bean frappuccinos.

Localization is a critical factor in the success or failure of foreign companies in China. [Yum Brands](#) Inc. has thrived in China by adding fried shrimp and soy milk, among many other Chinese items, to its KFC outlets and fresh seafood bacon pizza and Thai-style fried rice to its Pizza Huts.

Businesses that have failed to grasp the local culture, importing alien models, have fallen out of favor. In September, [Home Depot](#) Inc. closed all seven of its remaining big-box stores in China after years of losses, having discovered that the do-it-yourself home improvement model doesn't work well in a do-it-for-me Chinese culture. [Best Buy](#) Co. closed its nine China outlets in February 2011 after discovering consumers needed washing machines, not espresso makers or stereos.

Home Depot said it is focusing on specialty stores in China now, having recently opened one paint-and-flooring store and one home-decorations outlet. Best Buy said it is working with its Chinese subsidiary,

Jiangsu Five Star Ltd., to sell more appliances.

Videos From the Archive



The Seattle based coffee chain has just eight branches in the Nordics but this is all about to change. WSJ's John Stoll has the latest on its plans to expand in the region. Photo: Reuters

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Starbucks's Ms. Wong said the Seattle-based company understands the complexities of operating in a country where consumers in smaller cities are just getting their first Starbucks and where established big-city coffee drinkers already need upgraded stores.

The coffee company has recently hired local graffiti artists to redecorate one of its older stores in Beijing's popular Sanlitun Village, a shopping district that, like New York's Soho, attracts the young and wealthy and sparks trends.

Starbucks is also coming to the realization that family expectations will have a big impact on its success.

To retain its employees, whose parents would rather their children be working behind bank counters than serving up Sumatra, Starbucks earlier this year launched a family forum,

inviting parents to hear testimonies from managers who have worked their way up the career ladder.

"We don't do one size fits all," said Ms. Wong, noting that over the past two years Starbucks has opened a Chinese design center to build out its new stores and has launched a research and development center to fill the stores with sandwiches like the Hainan chicken and rice wrap or the Thai-style prawn wrap.

The company is aiming to cater to noncoffee drinkers like Cheng Xiaochen, a 27-year-old English teacher who hates coffee but occasionally meets his students and business partners at Starbucks in the afternoon. "It's a good place to meet people," said Mr. Cheng. "But the coffee is so bitter it tastes like Chinese medicine." Mr. Cheng said he sticks to mint hot chocolate and looks for other sweeter flavors.

China remains a tea-drinking nation, but coffee sales rose 20% in 2011 from a year earlier, reaching 6.25 billion yuan (\$995 million), according to market research firm Euromonitor International.

China is an important growth market for Starbucks, whose executives want the country to become its largest market outside the U.S. The company doesn't break out China sales, but executives said this month that China-based sales have increased 52% year-over-year. They didn't offer further details.

Industry watchers say that although Starbucks has been successful in China, it faces challenges. Food companies from U.K.-based [Whitbread](#) PLC's Costa Coffee to Korean SPC Group's Paris Baguette, are expanding rapidly across China, said Torsten Stocker, an analyst for consultancy Monitor Group. "All of these are not only fighting to increase their 'share of stomach,' but also for top real-estate locations and the talent to expand and manage their stores," said Mr. Stocker.

Experts agree that corporate localization in China is crucial, as most consumers have culturally entrenched tastes that differ from Western ones. While China has an elite band of consumers who buy only foreign brands, the typical consumer is more parochial.

Still, some caution that Starbucks can't veer too far from its Western image. "It's extremely critical to keep authenticity and consistency," said Vincent Lui, a partner of Boston Consulting Group.

Such worries would be misplaced, Ms. Wong said, as Starbucks aims for the authentic experience. While Starbucks is planning to hype Chinese New Year more than ever this year, it has just rolled out its U.S. Christmas cups for the Chinese stores.

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