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## **EVALUATION OF COMPETITIVE STRATEGIES OF COFFEE RETAILING IN ASPECT OF MARKET ECONOMY**

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### **ABSTRACT**

*Coffee retailers are trying to improve both their products and services and to increase their market share. Companies are both competing and developing different strategies such as issues production, R&D, business model, customers, and innovations. The aim of this study is to determine the competitive strategies in the coffee retailing aspect of the market economy. For this purpose, firstly, in this sector, the major competitors, suppliers, and customers were researched and the general structure of the sector was determined. Secondly, size of the global market, industry, and demand growth rate and the future status of the coffee retail industry were determined. Finally, the bargaining power of customers and suppliers of the sector were evaluated. According to the evaluation obtained, it was understood that coffee retailing is an attractive, large and dynamic sector. In the analysis according to the study of Porter's five force model, important information was obtained for coffee retailing.*

**Keywords:** Coffee retailing, Development, Economic growth

**JEL Codes:** D21, F43, L25

## **PAZAR EKONOMİSİ AÇISINDAN KAHVE PERAKENDECİLİĞİ REKABET STRATEJİLERİNİN DEĞERLENDİRİLMESİ**

### **ÖZ**

*Kahve perakendecileri hem ürün ve servislerini geliştirmek hem de pazar payını artırmaya çalışmaktadır. Şirketler; üretim, Ar-Ge, iş modeli, müşteriler ve inovasyon gibi konularda farklı stratejiler geliştirmekte ve rekabet etmektedirler. Bu çalışmanın amacı, pazar ekonomisi açısından kahve perakendeciliğindeki rekabet stratejilerini belirlemektir. Bu amaçla ilk olarak, bu sektördeki başlıca rakip, tedarikçi ve müşteriler araştırılmış ve sektörün genel yapısı belirlenmiştir. İkinci olarak, küresel pazarın büyüklüğü, sanayi ve talep büyüme oranı ve kahve perakende sektörünün gelecekteki durumu belirlendi. Son olarak, müşterilerin ve sektörün tedarikçilerinin pazarlık gücü değerlendirildi. Elde edilen değerlemeye göre, kahve perakendeciliğinin çekici, büyük ve dinamik bir sektör olduğu anlaşılmıştır. Porter'ın beş kuvvet modeli çalışmasına göre yapılan analizde, kahve perakendeciliği için önemli bilgiler elde edilmiştir.*

**Anahtar Kelimeler:** Kahve perakendeciliği, Kalkınma, Ekonomik büyüme

**JEL Kodları:** D21, F43, L25

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## **1. INTRODUCTION**

After the 2008 crisis, the whole world suffered economic hardship. However, such as Chinese stock market troubles in 2015, Greece's economy situation, terrorism and falling oil prices left countries in a difficult situation (Ekonomik genel kurul raporu, 2015). Fed's tightening monetary policies influence on sectors to global market when United State President was change and agenda changed continuous. But after the 2013 global developing is began recovery all sectors. In this context, sectors seem differ according to internal and external influences.

Readymade food industry showed increase to growth in all sectors, according to old years. Coffee consumption is increased to according to old year. For this reason, coffee retails are growth from economic aspect. More than 60 countries in the world are producing this product and most of the economies of these countries depend greatly on coffee producing. The cultivation, growth and marketing of coffee beans are the basic building blocks of the coffee industry.

Coffee retailing has the second highest trading volume in the world after oil. It is said that about 1.6 billion cups of corn are consumed per day. When assessed for consumption, the United States is the largest coffee market now. Annual coffee consumption is up to 10 kg. per capita consumption is highest in the Central U.S. where coffee drinkers average 3.7 cups per day. Annual coffee consumption is 6-7 kg per person in Europe (Maharov, 2013: 1). 75% of annual coffee production is processed globally. According to the yearly consumption, it shows an average growth of 3% over the last 10 years (Lander, 2017). 44% of coffee consumption takes place in the United States and in the European Union (Global Consumption, 2017).

The consumer prefers different delicious coffees. The consumers are interest in sustainable coffee, coffeehouses, restaurants and others retails that have focused on coffee beans (IBISworld, 2017). The increase in coffee consumption accounts for the rises in the coffee shops. Also statistics show that there will be more coffee consumption in the future. For this reason, it is thought that market share will increase.

Sector dynamics also affect the situation of the industry and the future. It becomes easier to understand the market economy when these dynamics are compared to the criteria in Porter's five force models. In Porter's five force model, the competition among firms, the threat of substitute goods, the market dominance of suppliers, the power of buyers and the entry to the market are important.

First of all, it is necessary to examine the participants in the sector to make this analysis in coffee retailing. Coffee retailers, suppliers, substitutes, consumers are participant in the coffee industry. There are different beverages in coffee retailing. The production and consumption of these products are in the same place. Coffees prepared by dripping and brewing methods, coffee crowned with ethnic flavors, drinks prepared by espresso, organic coffees, concentrators coffees, various teas, instant coffee and beverages in this sector. However, current competitors produce different beverages and foods in coffee shops. Generally, sells a lot of products like tea, smoothies, bottled drinks and soft drinks. Also sandwiches, bakery products and pastries are sold in coffee shops. All of drinks can prepared both hot and cold. Also some coffee shops sell coffee or espresso-making equipment, grinders, mugs, and other accessories.

## **2. GENERAL STRUCTURE OF THE COFFEE INDUSTRY**

The most important element of the coffee industry is the production of coffee beans. Special conditions are required for the growth of the coffee bean. For this reason, the relationships between coffee bean producers and major coffee suppliers are different.

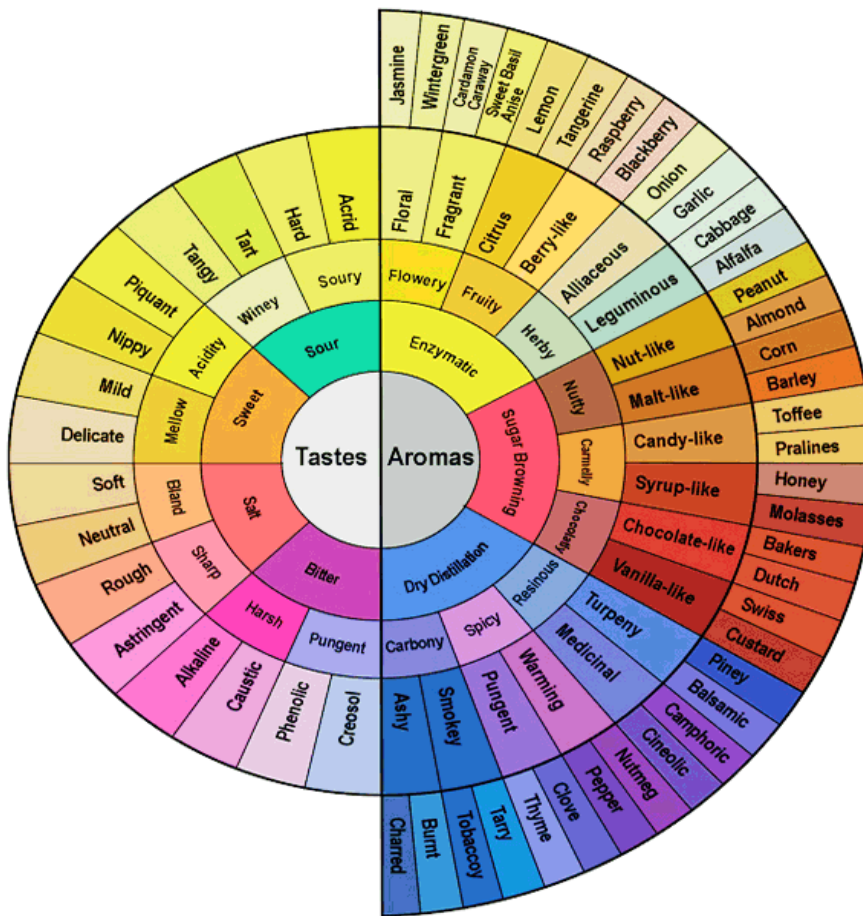
Suppliers is very important in this market because all coffee retailers depend on coffee bean producers. Coffee beans can be bought from different suppliers. However, there are some major coffee bean producers in the world. The largest coffee supplier in the world are usually in Brazil, Vietnam, Colombia. Some major companies are applying to different suppliers (table1). Some of them are constantly working with the same supplier. Therefore, special relationships can be established with suppliers in this sector. Looking at coffee beans producers in the world, it is understood that they spread over a very wide area. The top producing nations each produce millions of kilograms of coffee beans that find their way into the hands of eager consumers. These are the ten nations that the International Coffee Organization (ICO) named the world's top producers of coffee; Guatemala, Mexico, Uganda, Honduras, India, Ethiopia, Indonesia, Colombia, Vietnam, Brazil (World Atlas, 2017). As you can see, most production and sales executer is Brazil. This country also distinguishes itself from other coffee producing nations in that Brazilians process coffee with the dry process (unwashed coffee), where the coffee cherries are dried in the sun rather than washed in a wet process.

**Table 1:** Total Production by All Exporting Countries (In thousand 60kg bags)

Rank	Country	Coffee Production 2013	Coffee Production 2014	Coffee Production 2015	Coffee Production 2016
1	Afrika	16.243	15.987	16.229	16.353
2	Asia& Ocean	46.461	45.666	48.967	43.110
3	Mexico & Central America	16.597	17.116	17.291	17.740
4	South America	72.828	69.954	68.951	74.421

**Resource:** ICO (International coffee organization) Data (Date of receipt, 03.07.2017).  
<http://www.ico.org/search2.asp?searchtype=simple&searchtext=production>

In general, the power of suppliers is very limited. Because big companies are leading to all suppliers in the coffee sector. For this reason, buyers (big companies) are confused with the lives of suppliers. The major firms enter into co-operation with suppliers according to the political and economic situation of the country. However, major companies buy the coffee beans from these suppliers. There are many features to be aware of when buying coffee beans. These features include the features found in the figure1 below.



**Figure 1:** Chart of Coffee Specialties

**Resource:** Where Do the Best Coffee Beans in The World Come from? (Date of receipt, 23.03.2017).

<http://knowyourgrinder.com/best-coffee-beans-world-come-part-2/>

Companies choose coffee beans, according to the features on figure1. In fact, the most important criterion in choosing a supplier is the quality of the product you offer to your customers. Because if you buy coffee beans from different suppliers constantly, the taste of your drinks will vary. That's a customer loss. The type of coffee bean you choose also defines your products. For example, let's look at the differences between Arabica and Robusta (Eckel, 2017: 1).

*“...Arabica and Robusta beans are the most well-known species of coffee grown commercially for consumption. Robusta are hearty plants that are grown at lower*

*elevations. They have much higher caffeine content and are used mainly for commercial grade coffee that you'll find in grocery and convenience stores. Arabica are high grown (usually 3000 feet and up) with a much wider range of taste and, depending on the handling, are considered to be of much better quality. Good specialty coffee shops use exclusively Arabica beans (You know, the stuff in the fancy valve bag) with the possible exception of the addition of a good Robusta in some espresso blends..."*

As seen above your choice is very important to products. For example, you have chosen Arabica coffee beans. The next step is to make sure we're getting the best of the high-grown, because the whole point here is to find the world's best wholesale coffee for your business.

At this stage, you have already identified your preferred drinks with your preferred supplier. For this reason, it is very important how the company has made an agreement with the supplier. The selected supplier identifies the identity of the coffee. Then the roasting technique defines your brand. Companies usually make coffees with their own roasting techniques. This stage is very important because it is the process that changes the flavor of the cup. For this reason, there are different roasting techniques on the major competitors in the market.

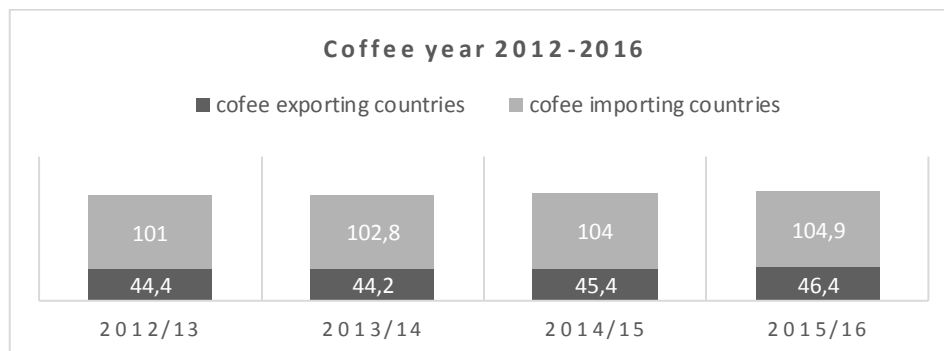
However, the number of intermediary companies is also very high. Some brands cooperate with intermediary companies and purchase coffee beans. For this reason, there are companies that market dozens of coffee beans such as Caffè Agust SLR, Interkom SPA, Saicaf SPA, Cafes Durban. However, companies that sector leaders like Starbucks generally prefer to cooperate with suppliers. For example, Starbucks is preparing a special protocol for suppliers. Working with producers who can meet the protocol requirements. It is identified in the protocol such as specifications coffee beans pick up, hygiene and storage.

Suppliers of coffee beans are an important part of the coffee retailing system after the suppliers. Because suppliers are the source of raw materials for drinks. For this reason, coffee retailers are alliance with suppliers on many subjects such as coffee making machines, bottling, technology. Many inland suppliers are required such as digital, interactive solutions, distributions and co-packing, logistics, energy, staffing, IT services, promotional products and food and ingredient manufacturing assembly.

On the other hand, substitutes are in this situation current competitors. Probably the major competition for the coffee industry is tea. companies in the retailing markets try to bring forward drinks with coffees. Competition with other drinks that are not the main focus of by coffee shops: Soda, Juice, Water, Beer, Sports Drinks. Consumers have limited discretionary

budget to spend on consumer goods, such as coffee; coffee shops are therefore fighting for a fraction of this budget. Nowadays countries like United Kingdom that are known to be a tea drinking society are drinking quite a lot of coffee these days and also considered to be a big coffee drinking culture in Europe. But in countries such as Turkey and India, more tea is have being drink. However, tea is not the only rival of coffee beverages. It is defined as substitutes for all bottled beverages and products such as herbal teas or specially prepared milkshakes. These substitute products are products that attract consumers and that easily change their preferences. Because of this, all of the retailing coffee companies are sell in drinks as well as substitute products containing coffee beans. The reason for this is that they come to the store and are convinced every time that they sell coffee drinks. Coffee consumption is also increasing because it is a tasteful and trendy beverage. For this reason, annual consumption of coffee is constantly increasing as seen in table 2.

**Table 2:** Coffee Exporting and Importing by 2012-2016



**Resource:** This table prepared using the ICO data. <http://www.ico.org/> (Date of receipt, 04.03.2017).

Coffee market is very higher. Major companies have a big pay in this sector. There is a lot of company is this sector but major brands more than have coffee shops and customers.

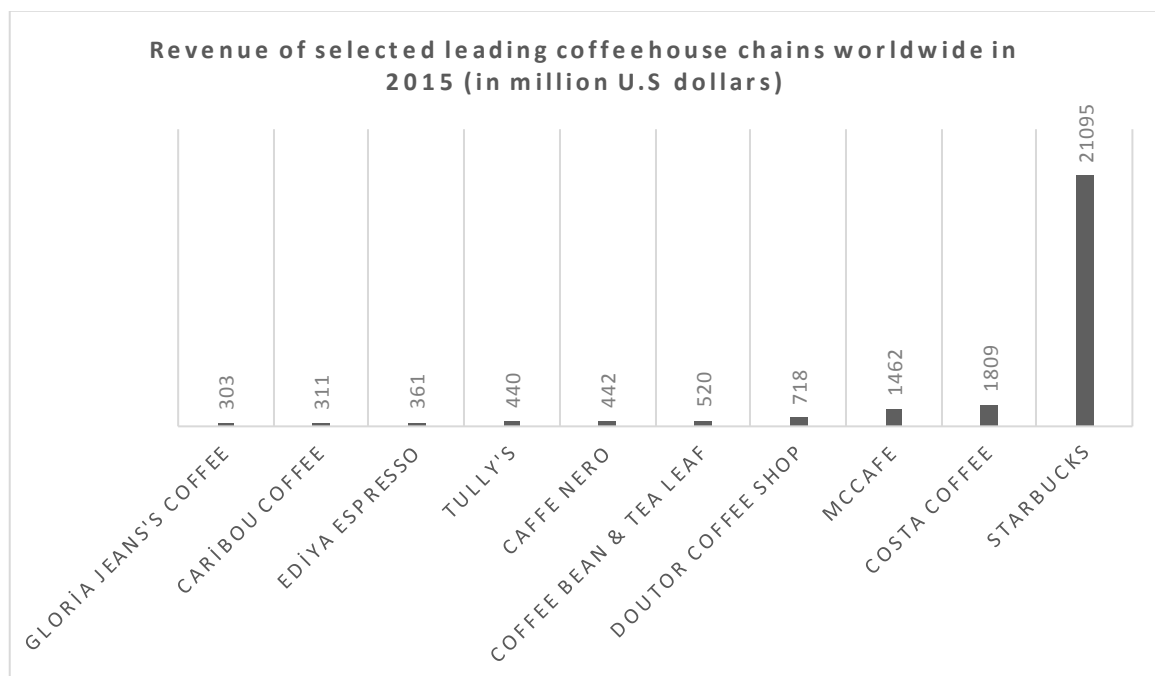
According to major coffee retail brands has such as Tim Horton 4.04 Billion, Costa Coffee 1.1 Billion, Dunkins 828.9 Million, Mcdonalds McCafe 1.4 Billion total revenue while Starbucks has revenue; 21.3 Billion (Yahoo Finance, 2017).<sup>2</sup> McDonalds has geographic market size very higher. There are shops in more than 100 countries. Starbucks shops in more than 70 countries, Dunkins 45 countries, Costa coffee 31 countries.

<sup>2</sup> Received from yahoo finance website (Date of receipt, 04.03.2017).



Major companies include Starbucks, Dunkin' Donuts, Costa coffee, McCafé, Caribou, Coffee Bean&Tea Leaf, and Diedrich (Gloria Jean's). Particular on supply of higher as imported from developing countries, price varies with the economic and political situation of the export country. Such as Starbucks, Caribou Coffee Shop Chains have contracts securing price stability. Thus limiting franchisors. However, farmers don't have the means to switch production. Farmers have a lack of knowledge. Companies are helping them to make train them, purchase at fair trade prices and provide technical assistance. The coffee shop industry in the U.S. includes 20.000 stores with combined annual revenue of about \$11 billion. Revenue of selected leading coffeehouse chains worldwide according to 2015 as follows according to table 3 (Statista, 2017):

**Table 3:** Coffee House Chains Revenue



**Resource:** Statista website data (date of access, 07. 02. 2017)

<https://www.statista.com/statistics/270091/coffee-house-chains-ranked-by-revenue/>

Coffee shops depend greatly on customer traffic and are most often located in areas with convenient access for pedestrians or drivers. Typical locations include downtown or suburban retail centers, shopping malls, office buildings, and university campuses. For small spaces like airports and grocery stores, some chains offer a kiosk format, without seating. Competitors can also be found in such as, convenience stores, gas stations, quick service, fast food restaurants, gourmet food shops, donut shops, filter coffee machines for home use.



The cost of advertising and promotions determines the prices of coffee retailing products. For this reason, it is necessary to pay attention to the strategies applied to compete. Because the costs of brand development, resource discovery, stocking, advertising and promotional activities are high (Davies, 1998: 140-146).

Coffee retailers are in serious competition in the market. However, some companies seem to be different and fast. Although the market is large, suppliers are located in certain regions. This is why coffee beans do not have the ability to grow everywhere. Coffee retailers number more than suppliers. As demand in the market increases, the production of coffee beans also increases. Major coffee retailers are constantly trying to increase their market share.

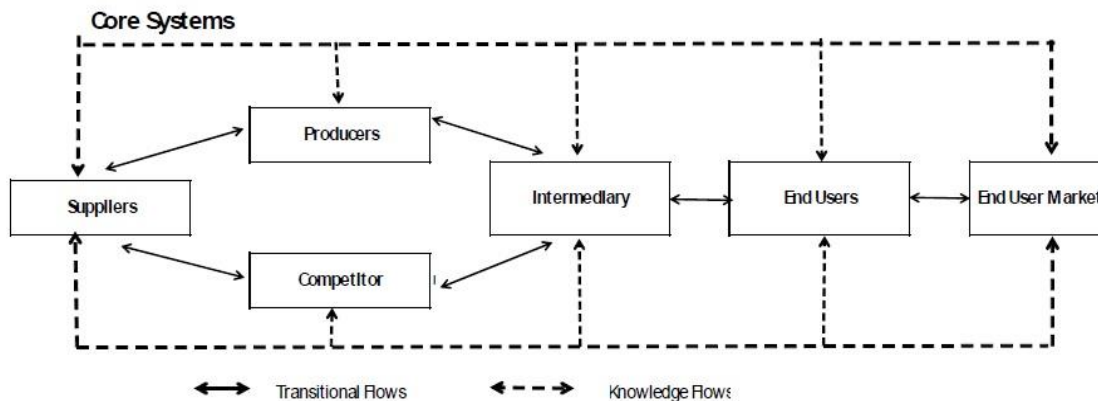
However, consumer situation is very important. Target market cover coffee drinks of like. According to the latest data from the 2016 National Coffee Drinking Trends (NCDT), between 2008 and 2016, past-day consumption of gourmet coffee beverages soared from 13% to 36% among 18-24 year olds, and from 19% to 41% for those 25-39. For espresso-based beverages alone, the jump become 9% to 22% for the 18-24 group and 8% to 29% for those 25-39. College students and young adults are attracted with coffee drinks (NCA, 2016). Newness made by major competitor brands cause to an increase in customer demand. Therefore, customers want other things, like drinking good quality coffee.

The situation is different for consumers. Such as Starbucks present higher quality food and beverages products and higher quality serves. The consumer first likes this service and then gets used to it. When consumers bored, they going to different coffee shops. For this reason, competitors are both competing against each other and trying to reach consumer expectations.

### **3. STRATEGIC FACTORS AFFECTING FUTURE OF INDUSTRY**

Products, consumers, suppliers and major companies of the retailing coffee market operate within a specific system. According to the Ian Chaston (2004) the macro environmental and core system knowledge is a critical issue. Participants in the core system affect the coffee retailing system. In other words, each unit in the system needs to be evaluated separately.

The main objective of system is to evolve an understanding of how any source of knowledge in both macros environmental and the core system can be utilized to exploit new opportunities and manage emerging threats (Chaston, 2004: 66).



**Figure 2:** Competition Power

**Resource:** Chaston, I. (2004). *Knowledge-Based Marketing: The Twenty-First Century Competitive Edge*, p. 75.

The Porter (2007) work supports Chaston's (2004) core system map. According to Porter five force (competitive rivalry, bargaining power of suppliers, bargaining power of customers, threat of new entrants, threat of substitute products) is very important this subjects in figure2. Coffee retail participants are new entrepreneurs, suppliers, competitors and customers. Current competitors are quite strong and they know the market.

*Bargaining power of suppliers:* Suppliers can have bargaining power by setting prices. But in coffee retailing, usually large firms set prices. Therefore, the power of the suppliers varies according to the terms of the agreement.

*The Power of Customers:* Customer can be a determinant to price and products. therefore, it is also very important to be able to respond to customer requests and requests. The brands that the customer likes are often strong competitors in the market.

*Threat of new entrants:* As Porter (2007: 2) noted, new entrants should know the threats and threats to compete, because coffee retailers need to develop strategies to compete. Conditions for entrepreneurs who want to enter coffee retailing seem rather difficult. Because existing retail investmen were made huge investments. For this reason, the new entrepreneur must make take risks.

*Threat of substitute products:* Coffee retailing has created a trend these days. There are different foods and drinks in this building. Some of which are substitute products. Different strategies are needed to keep and to these products on the market compete.

*Competitive rivalry:* According to Global Coffee Market (2016-2020) report, all places (Western Europe, Eastern Europe, North America, Asia Pacific, Latin America Middle East & Africa and Australasia) The competition in global coffee market is stiff and dominated by the big players like Nestle. Further, key players of the coffee market like The J.M. Smucker Company, Mondelez International Inc. and Strauss Group Ltd. In last few year companies like Starbucks, Dunkin Donuts and Mcdonald's, McCafe, Caribou Coffee and Gloria Jeans go into the fighting (Globe newswire, 2016: 1). All this companies offer coffee beans and ground coffee in retail and grocery stores around the world. Competitors in the global market different according to countries. For example, Starbucks, Caribou, Gloria Jeans, Roberts are competitors according to coffee world and coffee grains in Turkey market. However, competitors on the global market are also competitors at the regional level.

The driving factors in core system are affect the sector's future at the same time. For example, technology used in production and advantages of high level technology and machines are shorter waiting times for the customers and the ability to create a variety of fresh, new and unique flavors. On the other hand, cooperation very important factor for sector of future. Innovation and cost reduction partnerships, as well as geographic expansion and marketing opportunities.

However, the aforementioned factor together with the brand recognition is very important. Consumer and customers should believe in products and brand. Being a strong brand will increase customer loyalty in the market. It is important to provide quality service as much as quality products for it. Consumers always prefer quality, innovative, customer demanding brands.

It is technology at a factor that is important to other drivers such as alliances. The technology can be manufactured or purchased by the company. Many major retail coffee brands are buying technology from different companies. One of the purposes of cooperating with other companies is easy access to technology. In this regard Starbucks is again the leader of the sector.

The image of the firm influences this process. Major competitors are very successful in this regard. Major brands have large shares in the market. Even consumers who do not benefit

from their products and services know these brands. Many factors influence at this sector future in coffee sector. Coffee quality, variety of products, fresh and delicious products as well as coffee shops structure are very important. Many customers focus on the special atmosphere each store has and which is characterized by the location, music, interior design, seating or whether internet access is provided. However, the technology used is very important.

It seems that some firms are stronger by the according to Porter's five force and Chason's core system map. When sector analysis is done, Starbucks company is sector leader in the highest market share. For instance, Starbucks has made a cooperation with Spotify (music app) and provides support for Apple Pay. Starbucks attaches importance to the partnership for financial technologies. They already have agreement with VISA for Visa Checkout system. Therefore, Starbucks card filling can be made thanks to Visa Checkout alliance.

Starbucks entry timing is crucial. Because they applied the first varieties. Then there was the spread in the sector. Other companies began using similar technology strategies. Starbucks was able to use social technology to its advantage and bring customers back to its stores by giving them an online space to submit ideas and provide feedback on the brand and their experience with it (Adkins, 2016: 1).

Starbucks uses technology for product and services. Starbucks has also been recognized for its innovative use of technology. I think they have two most important technologies. Number one is digital technology for services number and number two is 'Clover'. Many Starbucks stores have super high-tech 'Clover' coffee machines, which connect to the cloud to communicate the performance of the machines and to track customer preferences (Elgan, 2014: 1).

One of the reasons Starbucks is the leader in sectoral analysis is investments. But it is also ahead of other companies making the same investment. Therefore, the reason for success is the applied strategies. Therefore, it is necessary to examine the strategies applied in the sector.

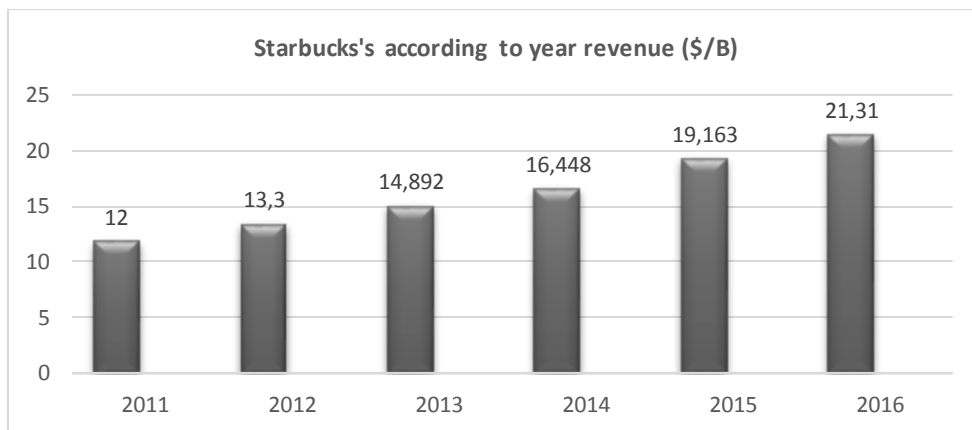
#### **4. SECTOR ATTRACTIVENESS THROUGH THE ASSESSMENT OF AVERAGE PROFITABILITY**

Such as Starbucks, Dunkin Donuts, McDonalds, Gloria Jeans Coffee company, among major competitors on the global market. Especially Starbucks is a leader and strong company among competitors. The profitability status and strategies of some of these companies in recent years are as follows.

#### 4.1. Starbucks' Strategy

Starbucks is one of the first names that come to mind for economic development because they have more than 24.000 retail locations in 70 countries, the coffee store is the indicator of success. Starbucks has stayed with the upper-scale of the coffee market when the first Starbucks opened in 1971. The boom is indicator of new opened stores. The outlets offer coffee drinks, food items, coffee beans, coffee accessories and teas. Starbucks tries to make a business out of human connections, and celebration of diversity and culture. Starbucks opens the coffee shops itself. There has not got franchising system. they making new investments through distributors. According to Starbucks' revenue over the years; the company's revenue has risen by \$21.31 Billion in 2016 from \$12 Billion in 2011. In the first six months of 2017, the total revenue is \$5.29 Billion and the net profit is \$0.65 Billion (Investing, 2017)<sup>3</sup>.

**Table 4:** Starbucks' Revenue Over the Years



**Resource:** Table4 was created using information from the yahoo finance site where Starbucks data is located (date of access 07.02.2017). <https://finance.yahoo.com/quote/SBUX/financials?p=SBUX>

Starbucks focused on product quality, economic accountability, social responsibility and environmental leadership (Harnrunghalotorn & Phayonlerd, 2016:5). They are successful customer relationship management. So, they did competence enhancing at the same time. Incremental innovation is unlikely to provide a dramatic change in business performance. Rather, it is merely a sequence of minor improvements to existing products to help maintain a

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<sup>3</sup> This information is taken from SBUX information on the investing.com finance page.

competitive advantage. For example, smart card system one of the important incremental innovation for Starbucks. They offer for to replace the money and present to gift.

Starbucks open innovation practices as internal idea and external idea. Work together both employees and customers into the development process. Information and ideas resulting in new products and processes for the formation of resource. In this way, Starbucks has become an icon. Starbucks innovations involve customer experiences. Thus the innovations of the company are carried out by customer cooperation. Starbucks customers involved in all Starbucks activities because they moving with customer expectations and suggestions for development of new product and differentiation of product. Firstly, customer can forward any requests, suggestions and complaints in the shop. If the request cannot be made immediately, it is forwarded to the management department.

Starbucks has new technology services planned in the short run such as while customer drinking coffee inside the store their phone will automatically start charging customer phone with wireless charging (if customer phone supports this tech). Tables prepared by Duracell and Procter & Gamble can charge smartphones without cables (Saral, 2014: 1). Recently, Turkish-German venture Fluxport became Starbucks wireless charging partner in Germany. They say that the wireless charging application will come to Turkey and other countries soon (Kara, 2016: 1).

#### **4.2. Dunkin' Donuts Strategy**

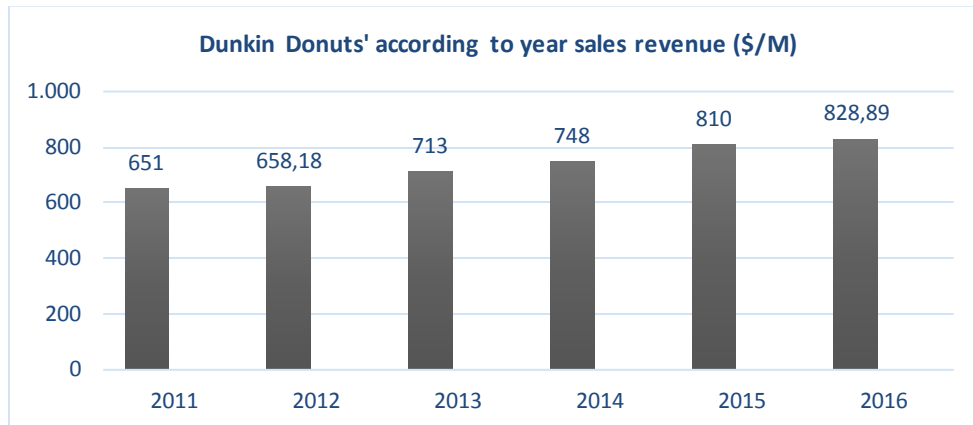
Dunkin' Donuts was founded in 1950 by William Rosenberg in Quincy, Massachusetts. Today, there are more than 12.000 Dunkin' Donuts restaurants and more than 3.200 international restaurants in 45 countries<sup>4</sup>. According to Dunkin Brands' revenue over the years; the company's revenue has risen by \$828.89 Million in 2016 from \$651 Million in 2011. In the first six months of 2017, the total revenue is \$190.67 Million and the net profit is \$47.47 Million (Investing, 2017)<sup>5</sup>.

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<sup>4</sup> Information reception site is Dunkin' Brands official web site

<sup>5</sup> This information is taken from DNKN information on the investing.com finance page.

**Table 5:** Dunkin Donuts' Revenue Over the Years



**Resource:** Table5 was created using information from the Dunkin' Brands Group Inc. NASDAQ: DNKN. (date of access 09.02.2017). <http://investor.dunkinbrands.com/releasedetail.cfm?releaseid=980495>

Imagine the world's largest bakery and you can understand what Dunkin Donuts does. Besides bakery items, coffee is a very big hit too. In fact, after 2003, Dunkin Donuts started concentrating more on its coffee than on its donuts. Dunkin Donuts sells bakery products, which are sweet and easily infected. This niche was Desserts like Donuts, Pastries, Bagels, Muffins, Cakes and whatnot to a bakery. There is always potential in the food segment, especially in the desserts and sweet market. So Dunkin donuts can always add fresh and delicious snacks to its menu to increase footfalls in stores. From a trademarked 31 flavors in Baskin Robbins, the brand has more than 150 flavors today.

Dunkin' Donuts has focused on becoming a cost leader in the U.S. coffee and snack shop industry which is defined as *"offering the same or better quality product or service at a price that is less than what any of the competition is able to do"* (Azarian, Kennedy & Steele, 2016: 10). One of the strategies their geographic expansion has been strategic. As you can see from the above image, location is the first criteria they keep for allowing a franchise to develop. Dunkin slowly changed the model to centralized manufacturing to ensure quality of the products. The transport was upgraded too to ensure that the product is always kept at the right temperature.

#### **4.3. McDonald's Strategy**

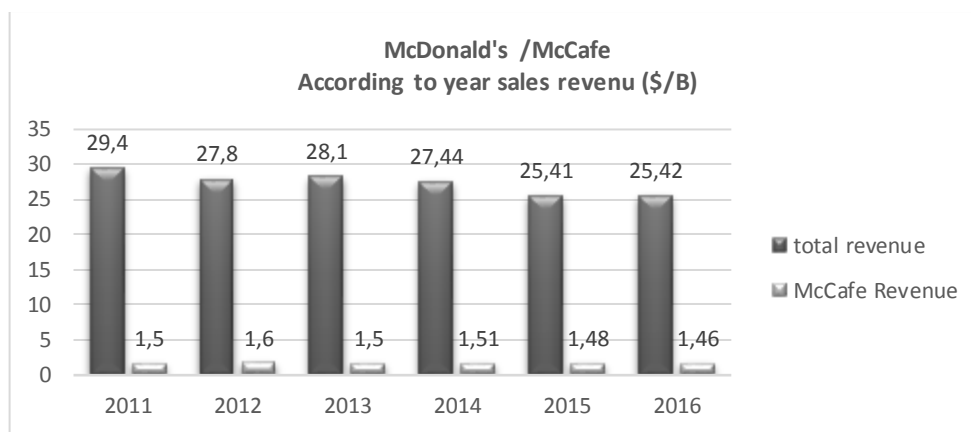
The Company operates and franchises McDonald's restaurants, which serve a locally-relevant menu of quality food and drinks sold at various affordable price points in more than 100 countries. McDonald's global system is comprised of both Company-owned and franchised



restaurants (Jurevicius, 2017: 1). The outlets offer Frappe, milkshake, smoothie, coffee, latte, iced coffee and hot chocolate.

According to McDonalds/McCafe' revenue over the years; the company's revenue has risen by \$21.31 Billion in 2016 from \$12 Billion in 2011. In the first six months of 2017, the total revenue is \$5,86 Billion and the net profit is \$1,21 Billion (Investing, 2017)<sup>6</sup>.

**Table 6:** Mcdonald's/Mccafe Revenue Over the Years



**Resource:** Table6 was created using information from the Yahoo Finance site where McCafe data is located (date of access 08.02.2017). <https://www.statista.com/statistics/208917/revenue-of-the-mcdonalds-corporation-since-2005/>

McDonald's menu includes hamburgers and cheeseburgers, Big Mac, Quarter Pounder with Cheese, Filet-O-Fish, several chicken sandwiches, Chicken McNuggets, wraps, french fries, salads, oatmeal, shakes, McFlurry desserts, sundaes, soft serve cones, pies, soft drinks, coffee, McCafé beverages and other beverages. Breakfast offerings may include Egg McMuffin, Sausage McMuffin with Egg, McGriddles, biscuit and bagel sandwiches and hotcakes.

However, this is due in part to the fact that McDonald's has a much larger menu. McDonald's has traditionally been known as a fast food restaurant and is not well-known for its coffee (Hawley, 2015: 1). However, after introducing flavored and iced coffees in the mid-2000s, McDonald's put its hat in the ring alongside Starbucks and Dunkin' Donuts.

McDonald's is one of the leading firms that is operating in the fast food industry. It has been successful because of its cheap food. It has offered nutritional value while raising awareness about health. Additionally, it has expanded into different markets through the use of innovative and creative strategies. Also even further threatening to coffee competitors is

<sup>6</sup> This information is taken from MCD information on the investing.com finance page.

McDonald's recent ability to increase its service and improve its stores by slowing down its expansion and reallocating funds.

#### **4.4. Evaluation of Major Brand Strategies**

When looking at general conditions of firms, Starbucks is much stronger than the others. It is Starbucks' open coffee shop and the spreading rate in the world is much higher than the others.

Starbucks has the biggest share in the global market. The reasons for this are at the beginning of the products and services. At this point they succeed to be the best brand. Brand loyalty can be defined as measuring the intentions of customers who have been satisfied with the brand within a certain price range to repurchase the same brand (Biong, 1993: 23). The key strategy for Starbucks being a brand is customer focus. Most important thing is value creation for Starbucks. Therefore, their largest network is customers. They are always customer-oriented work. Every request is made to turn the fulfillment attempt. They benefit from customer experiences. They are cooperating with them to create new tastes. Starbucks self-checking with confidential customer. Starbucks's "*My Starbucks Idea*" project shows the cooperation with customers. Many new products and ideas emerging thanks to this project. Both interact with customers beneficial to the company and customers.

Starbucks Coffee has aggressive long-term sales growth goals that include a distribution system worldwide. Consistent sales growth has been a strong driver of Starbucks' profitability. The best way for a company to improve profitability is by increasing sales revenue.

#### **5. COFFEE RETAIL ENTRY BARRIERS**

Coffee sector is quite attractive for new entrees. However, as in every sector, there are factors that should be paid attention to in this sector new entrants. In particular, companies like Starbucks seem to be a distributor in countries rather than franchising when looking at the business model. For this reason, it is not possible to open Starbucks by individual initiative. However, it is known that some companies give franchise. In this case, the severe conditions in the franchise contracts can leave entrepreneurs in a difficult situation.

If you are going to enter such a business by creating a new brand yourself, then you are entering a rather difficult way. If you do not have a large investment, you have to search for ways to compete at the local level. If you have a great investment opportunity, a good market

analysis is needed to cope with the main opponents. Also product selection, supplier, shop concept etc. strategies are needed.

On the other hand, when comparing coffee retailing with other sectors, it is understood that the sector has a large share among other sectors. The consumption of coffee comes with the choice of pleasure and preference of the individuals. Even if other products are developed for this reason, coffee types will not be affected in this respect. However, there may be ecological problems in the production of coffee beans. Or may be sectoral troubles.

## **6. WAYS TO BE SUCCESSFUL IN THE COFFEE RETAILING**

As in every sector, there are important criteria that provide success in this sector as well. One of these criteria is that the housewives should be properly prepared and served. For this reason, workers who know coffee preparation well and good machines are needed. When the right coffee bean, a good machine, and a well-grown barista come together, the customer understands that it is the best of the cabbage. When there is a change in the price or other specificity of a particular mark, the customer is likely to switch to another brand (Aaker, 1996: 42). As brand loyalty increases, the customer's sensitivity to changes in competitor products decreases (Mehta, Rajiv & Srinivasan, 2003: 3-5). Make coffee in the original flavor enhances the value of the brand.

The customer is as effective as a good coffee, offering something other than coffee. It is important to offer alternatives to customers who feel hungry or want to enjoy something extra for enjoyment. The quality of beverages served hot or cold makes it easy to choose. For this reason, having different beverages and foods will increase sales. You also need to set the order queue well in the store (Baskerville, 2012: 1). The fact that customers are not constantly in the market may suggest that shopping is less but having too many queues can be tiring and discouraging.

Other factor is coffee shops imagine. Because the customer wants to have a good time not just to drink good coffee. The properties, decorations and music influences in the coffee shop the customer's purchasing behavior. The choice of design, color, ergonomics and music in the coffee shop affects customers. These properties can be as important as coffee quality. In addition, the brand's service is affecting the customer. Other services such as wireless charging, wi-fi, work desk are affecting sales.

However, it is difficult to ensure that customers always come to the coffee shop. Different methods should be developed for customer loyalty. For example, applications such as

Starbucks pre-paid mobile share or gift Starbucks card or Caribou's gift coffee card can be used. Such practices are convincing that the customer will always go the same. However, there are many varieties that make customer choice difficult. If you are new to the market, there should be a few kinds and quality products. It is also important for product pricing that some products are at a lower price than others. Different prices will facilitate sales.

## **7. CONCLUSION**

In this study, competition strategies in coffee retailing were evaluated in terms of market economy. The study was based on five competencies of Porter's. In this context, the strategies applied by major coffee retailers have been researched.

As seen in the research, coffee retailing has a large share in the sector and increasing interest in the sector. Nevertheless, new brands are entering the sector every day. New entrepreneurs need to be able to cope with major competitors in the sector in order to survive in the sector. However, these brands are very strong. The strategies and business models applied by major firms make small firms difficult.

First of all, the competition in the sector causes the sector to grow and become stronger at the same time. As the major brands in the sector get stronger, the economic contribution increases. These contributions include innovation, R&D, business model and services. In particular, it increases sales of innovation used in product and service diversity. Strong brands are increasing their mobility in the market economy.

Secondly, the most common problem in the industry is the agreement between coffee bean growers and coffee retailers. International coffee organization (ico) is working on this issue. However, there is no standard yet. Some companies are having trouble with suppliers while some companies are having difficulties. Also experienced were economic crises influenced the coffee retailers. Decreasing coffee consumption negatively affects both major companies and suppliers. In addition, the increase in the cost of raising coffee seeds is affecting coffee prices negatively.

In addition, firms produce different coffee beans with special roasting methods of coffee beans from different suppliers. Existing and new coffees are prepared according to customer demands. The most successful company in this regard is Starbucks. Starbucks learns what its customers want and produces products accordingly. It also offers a personalized coffee-making special. It is also separated from others by technological services (wireless charging, wi-fi,

Spotify, mobile pay etc.). At the same time, Starbucks which encourages coffee consumption on this count, they have achieved to be a leader in the sector.

As you can see, coffee retailing has an important area of food and beverage industry. The impact of coffee retailing on the economy should not be ignored. The increase in coffee consumption in the world is encouraging coffee beans breeding. The economic consequences that affect the agricultural sector also have positive and negative effects on the global economy.

Those who want to enter coffee retailing should take great risks. Major companies have very strong strategies in the market. Therefore, new entrepreneur need experience, knowledge and high capital. Especially leading brands make entry into the sector more difficult.

The five force model of Porter is in line with these needs. For this reason, the strategies that the major coffee brands are applying support the importance of Porter's five force model. From here on, companies are determining the economic conditions of the market. Indirectly affecting other sectors such as agriculture, technology and the 4th industry.

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