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Challenges and opportunities of new retail horizons in emerging markets: The case of a rising coffee culture in China

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Abstract Economic growth and a rising middle class consumer base make emerging markets an attractive prospect for many international businesses. Changing patterns of retail in these countries present opportunities for business expansion that many are keen to capitalize on, but also present challenges for reaching their ambitions. This article examines the growth of the coffee shop industry in China—considering its key dynamics and drivers—in order to address questions about successful retail expansion in emerging markets. We aim to explore how changing consumer cultures have contributed to a rapidly growing industry and what strategies businesses have used to enter the market and maintain growth, as well as considerations for potential retail success in the future.

1. Opportunities brewing in emerging markets

Due to market saturation for some areas of retail in mature markets, combined with economic growth and rising middle classes in emerging markets, many international businesses are turning their attention to emerging markets for future growth plans in order to exploit the potential of these rapidly transforming markets (Kardes, 2016). Expansion into these markets requires careful consideration. As multiple cases have shown, there are many challenges surrounding different national cultures as well as institutional arrangements and existing domestic competition (Miotto & Parente, 2015).

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The coffee shop industry in China represents a fast emerging area of retail, reaching $3 billion in revenue in 2016; forecasts predict continued positive growth for many years (Euromonitor, 2017). Largely situated in cities, coffee shops in China are becoming an ever-present feature of the urban landscape. In 2017, Starbucks opened its first international reserve roastery in China, a 30,000 square foot roastery and coffee shop described in the media as a "coffee wonderland" (Dwyer, 2017). The roastery is located in Shanghai, a city with 600 existing Starbucks stores; by opening this style and size of store, Starbucks demonstrated the importance of the Chinese market in its operations. However, the factors behind the growth of coffee shops are multifaceted, driven by the ambitions of coffee shop chains to expand into new markets as well as changing consumer cultures.

This article explores the growth of the coffee shop industry in China and considers both the opportunities and challenges experienced in an emerging market. We utilize the example of China in an effort to demonstrate how some businesses are navigating the new retail landscapes and highlight potential strategies for operating in these regions. We conclude by outlining a series of recommendations for developing a business in the coffee shop industry in an emerging market—and retail more broadly.

2. Emerging markets opportunities: The transformation of retail and consumption in China

Emerging markets such as China, India, and Brazil have been experiencing economic growth, changing demographics, and cultural transformations with consequent changes to the urban retail landscape (Javalgi & Grossman, 2016; Wang, 2011). The evolution of the Chinese retail sector since the 1990s is one example of this. In first-tier Chinese cities, in particular, there is evidence of convergence with international norms and trends, making Chinese retailing less distinguishable from what is available elsewhere (Uncles, 2010). New retail formats—particularly super- and hypermarkets and shopping centers—have expanded, while traditional retailing (i.e., general merchandise stores, family-owned shops, and urban markets) has declined (Wang, 2011). Wang and Zhang (2005) identified three drivers of transformation in the Chinese retail sector: (1) retail deregulation—especially lower state control over individual retailers; (2) abandonment of state monopolies and subsequent opening to private businesses; and (3) introduction of new sources of capital in the retail sector such as foreign direct investment. The latter was made possible in part by the opening of the Chinese market for foreign retailers in the 1990s, which brought in new retail formats that were quickly copied by local retailers (Wang, 2011).

The other side of retail transformation in China is changing consumer preferences and demand. Chinese consumers are part of a growing Asian modernism; they are seeking novelty and hungry for experiences (Uncles, 2010). Rising incomes—associated with changes such as increased access to information and communications technology, international media, products, and brands—are driving the growth of a new generation of middle-class consumers (Kardes, 2016). These individuals are often more familiar with Western lifestyles and brands than traditional consumers in these countries and tend to hold aspirations for improving their lifestyle, often using purchasing choices as indications of both aspirations and status (Eyring, Johnson, & Nair, 2011; Kardes, 2016; Kharas, 2010; Sheth, 2011). This new consumer class—with a greater disposable income and growing awareness and interest in imported brands and trends—is an attractive prospect for many international businesses and presents new internationalization opportunities.

For many industries, it is not sufficient to transfer existing business models and practices used in Western markets into these new emerging markets that require greater local knowledge of the market, its particularities, and consumer behavior (Gamble, 2010). While rapid economic growth may present opportunities for expansion into international businesses, in many cases, it also means growing domestic competition which has the advantage of a greater understanding of the national market, its consumer base, and consumer cultures (He & Wang, 2015; Talay, Townsend, & Yeniyurt, 2015). There are complexities to many of these emerging markets and different processes of business hybridization must take place (Gamble, 2010). Some international businesses recognized this and engaged in partnerships with local companies in order to break into a market, thereby acquiring an existing local knowledge base. In some cases, complexities of the market restrict businesses development and do not allow enough autonomy, and in other cases this strategy has not led to the success that was hoped for (Doherty, 2009; Khan, Lew, & Sinkovics, 2015).

Some view emerging markets as unsaturated and poised for growth and the middle-class