



MARKET RESEARCH

Starbucks' entry into South Africa

August 2015

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Starbucks is due to launch in South Africa in 2016; a brand new market with new challenges.

The average Starbucks beverage costs R45 (\$3.50). How many South Africans will pay much more than R25 (\$2.00) for a coffee, even for artisanal coffee? How did the market react to the Starbucks' announcement?

This analysis reviews conversation data collected from social media and other online sources to establish what South Africans love and hate about this brand entering the fray.

BrandsEye is a web-based, market research application that tracks conversations online to make sense of how people feel about brands and products. **It's the fastest and easiest way to understand what people love and hate about a brand or topic.**

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Methodology

Online conversation about Starbucks (in South Africa) and other local coffee brands was collected from Facebook, Twitter, Instagram, blogs, forums and press sources. Tracking began on the day Starbucks announced its entry (July 14th 2015).

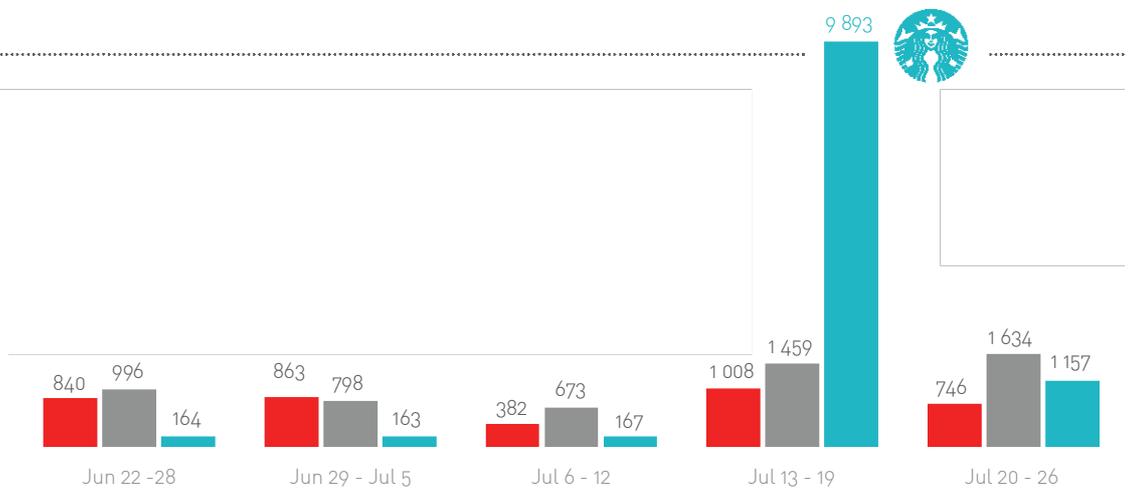
Historical tracking for each brand was also incorporated to understand the market prior to the influence of Starbucks' announcement. Within the period (June 1st – July 26th 2015), 21 055 mentions were recorded within this category.

South Africa's interest in Starbucks' entry

- Artisanal Brands
- Local Chains
- Starbucks

Local chains included Mugg & Bean, Seattle Coffee Co. and vida e caffe.

Artisanal brands included Truth Coffee, Origin Coffee, Bootleggers Coffee, Rosetta and Deluxe Coffeeworks



Social media is sometimes indicted as being an unreliable source of data for research. This is partly because a large portion of consumer generated content comes in response to brand content (e.g. competitions, polls) and offers no indication of how the customer perceives that the brand/product or service. Through careful exclusion, where applicable, this data set includes mentions that indicated a specific opinion towards a brand or product.

These mentions were initially processed by BrandsEye's proprietary algorithm, which establishes the location, language and sentiment of each mention towards a specific brand(s). It is acknowledged that machine learning is not as capable as human beings are at processing sarcasm, slang or ambiguous context.

Approximately 20% of the data set was processed by the BrandsEye Crowd platform to increase confidence in the results. BrandsEye Crowd Raters are asked to verify attributes of mentions with particular emphasis on sentiment (customer's perception of the brand) and to establish what each consumer is discussing e.g. service, quality, brand appeal etc.

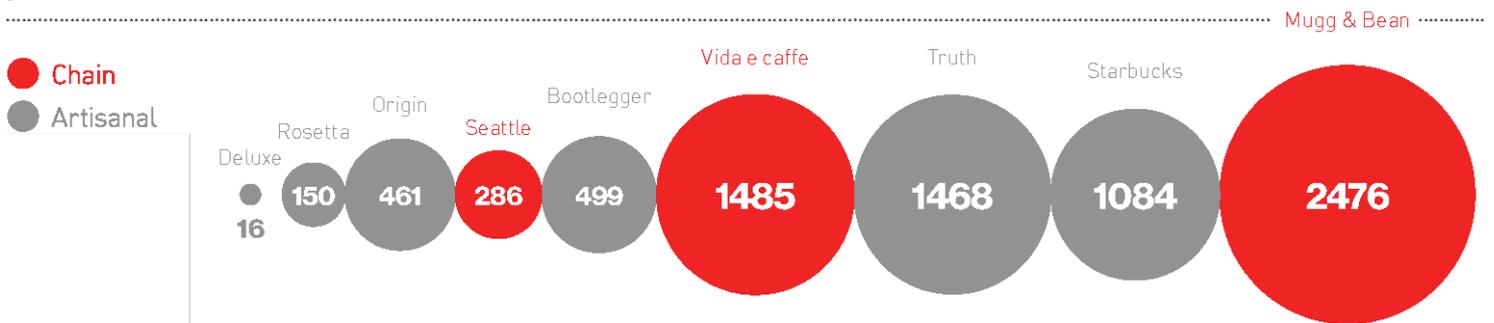


Findings

Which brands captivate the most attention of the local market?

According to the AIDA marketing communication model, if a brand can attract a customer's attention, they are more likely to facilitate their interest, desire and action. The extent to which that attention was captured between competing brands based on volume of conversation from consumers and their sentiment towards each brand.

Volume of local conversation, prior to Starbucks' announcement



Chain store, Mugg & Bean which is largest coffee retailer in the country, held the greatest share of voice within the local market. Thereafter the most share of voice was held by vida e caffe (also a nationwide chain brand) and artisanal brand, Truth Coffee.

Prior to the announcement of Starbucks' entry, their brand ranked 4th out of the brands included in this study. This may be attributed to the brand equity Starbucks holds internationally as consumers discussed how much they want Starbucks to come to South Africa or shared brand related content.



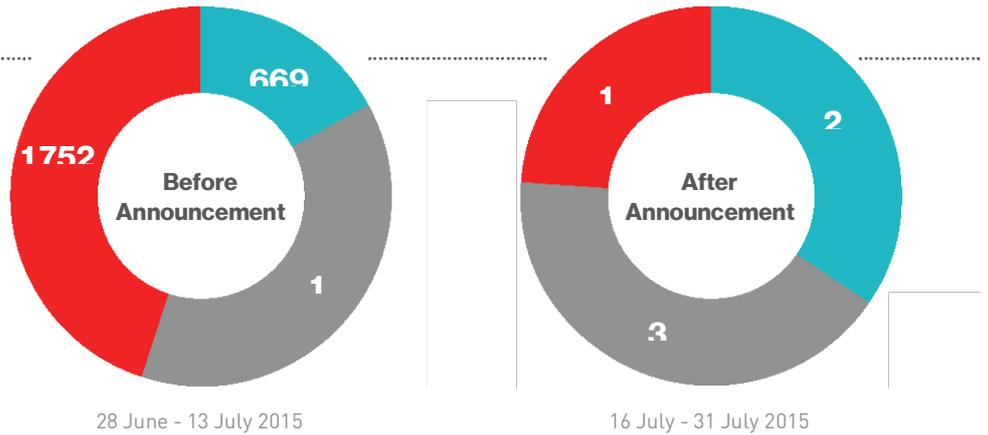
It is acknowledged that a portion of this conversation could have included consumers with South African location-data on their social profiles but who were overseas at the time.



When comparing share of voice before and after the announcement of Starbucks entering the market in 2016, Starbucks gained traction after the announcement*, increasing conversation about both local chains and artisanal brands.

Share of Voice

- Starbucks
- Local Chains
- Artisanal Brands



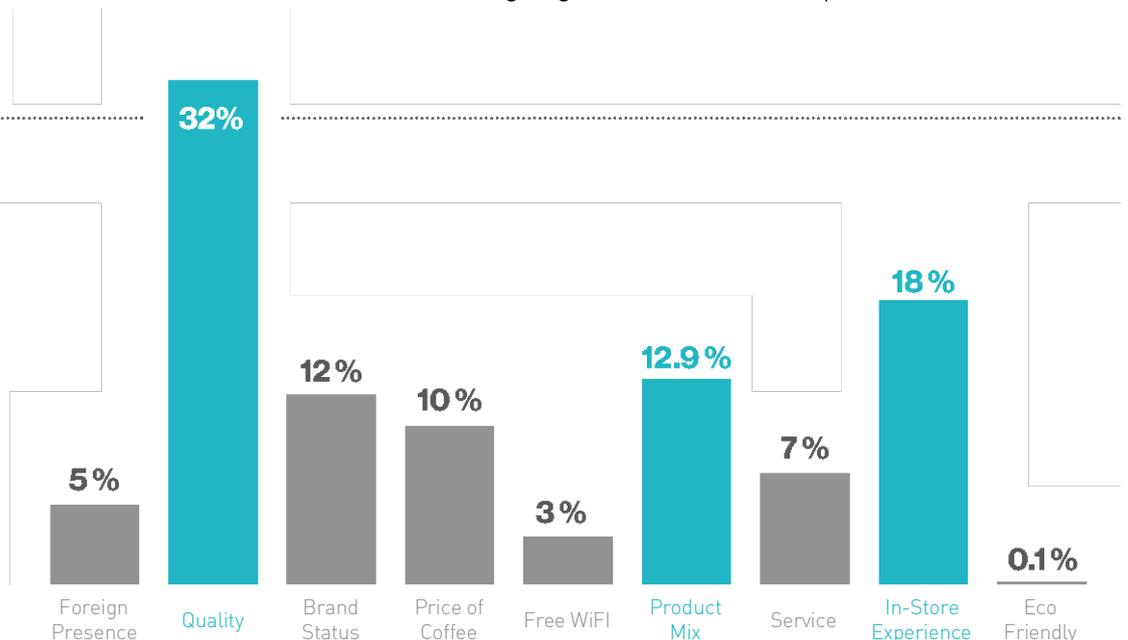
* Excluding category volumes both on the day of announcement & the day after, once category conversation volumes had normalised to offset for the skew towards Starbucks as consumers became aware of their entry.

What elements are considered to be the most important by local consumers?

South Africa is a mature coffee-drinking market with many brands selling a variety of options from accessibly priced 'basic' coffees to high quality artisanal offerings. Thus in order to present a relevant offering, a new entrant must understand the preferences of local customers. Conversation data was classified according to the elements listed below to gauge their relative importance.

Brand elements, according to consumers

- Important
- Less important





Quality was found to be the most important element when consumers mentioned any of the above brands, followed by in-store experience, what was on the menu (product-mix) and then brand status. Despite initial concerns as to what Starbucks would charge per cup, price only ranked fifth in the above scale, but was also linked to quality.

Price-sensitivity and quality

Based on the elements South Africans consider to be important, the brand should prioritise the quality of its offering in order to compete with artisanal brands. Existing brands provide high-quality offerings for up to R28 (±\$2.50) per cup of coffee. People expect Starbucks to enter the market at R30-R50 per cup (±\$2.50-\$4.00). For consumers who mentioned Starbucks' pricing specifically, 42% of authors were negative towards Starbucks.



Tsiki Mabala
@TsikiMabala

RT @Din_Claire: I won't lie, Starbucks is expensive. My people should be prepared to pay around R30 and up for 1 cup of coffee t.c...

16 Jul 2015 07:41



Mama's Baby
@MimiMels

Starbucks is so expensive though. I'm not even excited for it.

14 Jul 2015 10:15

David Donde (owner of Truth Coffee) proposed that Starbucks would help to raise average industry prices, allowing artisanal roasters to break the current R30 per cup ceiling and still provide a higher quality offering. Whilst consumers shared his article, his views weren't poorly received, despite his intention to raise prices.

Consumers who perceived Starbucks to be expensive indicated a preference for local artisanal brands who were "better and cheaper". Starbucks' "drip" coffee is perceived locally as being of very low quality.



I think Starbucks coffee is awful. Had it for the first time when we were overseas this year and it was horrible. Cold, weak, overpriced and over rated. SA has fabulous coffee shops. I'll continue to support them!

- Theresa Lycett McAllister (Facebook)



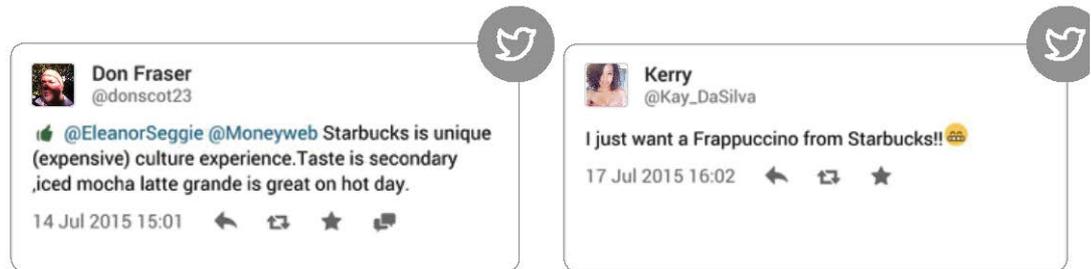
Talya Goldberg
@TalyaGoldberg

2 think Starbucks in SA is gonna be great for small lil coffee shops cos people will appreciate how much better & cheaper Deluxe etc is..! ha

14 Jul 2015 09:58



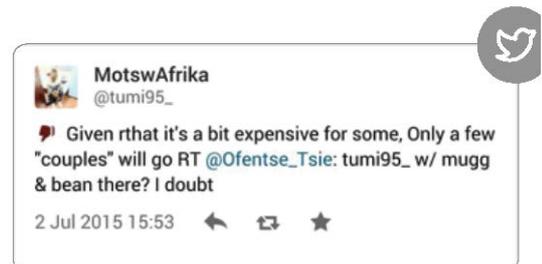
The promise of Starbucks' novelty blended beverages prompted high levels of excitement from South Africans who have had them before. Starbucks' Frappuccino® was the most discussed item (other than coffee) and accounted for 25% (86 mentions) of product mix-related conversation.



Will the local market pay more than ZAR 25 (± \$2.00 USD) for a cup of coffee?

South Africans will not willingly pay more than R25 (± \$2.00, USD) for Starbucks' coffee because they are not convinced its quality matches cheaper local offerings. However, even though blended beverages may be available at vida e caffee and Seattle Coffee Co., they are not as famous or do not exact as much excitement or have as wide a range as Starbucks' Frappuccinos®. The market may be prepared to pay a lot more for Starbucks' blended beverages as a result of their novelty factor and perceived value given the indulgence factor.

Of all of the tracked brands, Mugg & Bean has the most accessible coffee offering and even they are criticised for being overpriced.

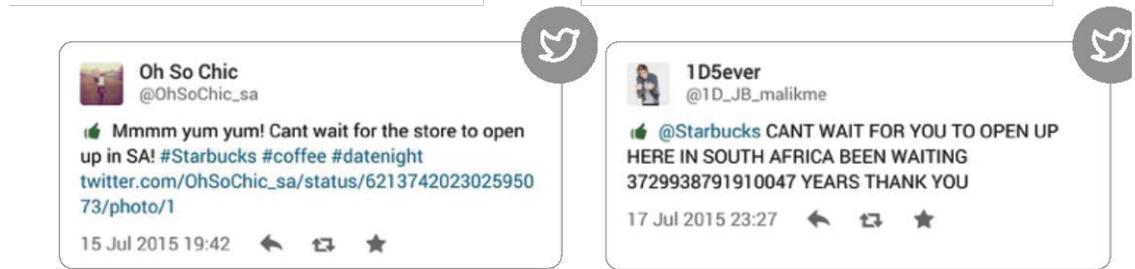


So either Starbucks won't be accessible to these consumers at all or at most, would be considered a splurge purchase.



Despite significant dislike for the brand from artisanal coffee fans, Starbucks still saw a lot of excitement from people who have had its coffee before or those who expressed anticipation for the brand's arrival due to its equity abroad. Fans seemed to utter a collective sigh of relief, given that the brand is "finally" coming to South Africa.

More people were positive about the promise of having Starbucks' baristas personalise their coffees than not. People expressed interest to see what their baristas will do with South African names.

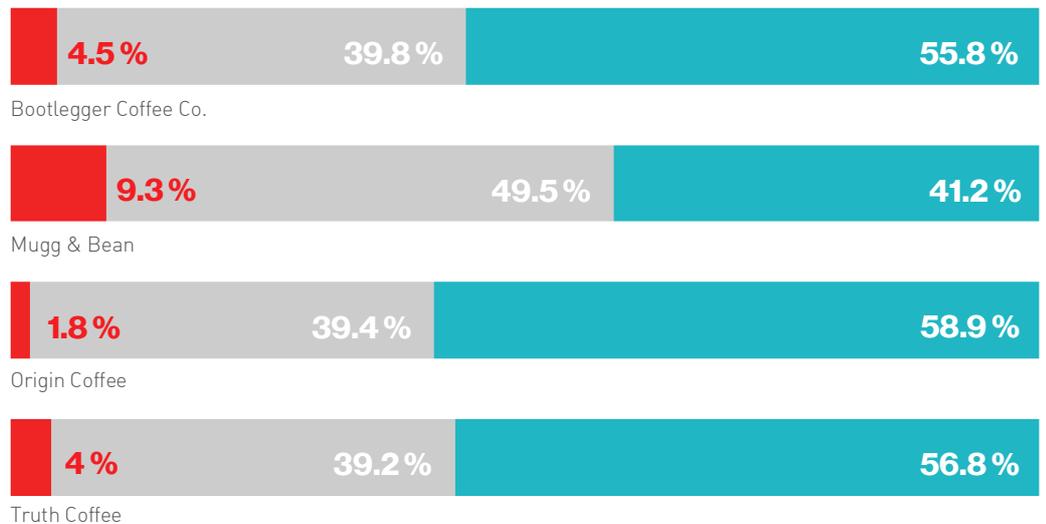


How do local consumers perceive existing chain brands? Do these expectations differ for existing artisanal brands?

When examining sentiment towards local brands, it became clear that there was a large difference in the way consumers interacted with chain stores in comparison to artisanal brands.

Perceptions & expectations of South Africa's coffee brands

- Negative
- Neutral
- Positive



Local chains saw both higher volumes of negativity and relatively less positive conversation than artisanal brands.



This came as a result of different expectations for each type of vendor. Consumers were typically intolerant of minor complications or inconveniences at local chains because they expected consistency of product and experience at every store. Despite chain brands' efforts on social media, customers experiencing service quality that doesn't meet their expectations are often not interested in dealing with the situation offline or interested in any resolution.

f



Berenger Parouty > **MUGG & BEAN SA**

6 hrs - Johannesburg

Your On the move menu and normal menu are not consistent - Americano coffee comes in 3 sizes on your On the move menu. in one size on your seat in menu. I phoned to get a delivery (Cresta), I asked for the easy "Americano" and was told that the Americano comes only in one size. Please sort your menus. restos and staff. Also the person who took my order was busy speaking to one of his colleagues, like for 5 mn,I had to wait he did not seem to work. I persevere, and try every 3-4 months. In hope that things will be better than last time. Apparently there does not seem to be any hope.



MUGG & BEAN SA Hi Berenger, we apologise for the inconvenience. Please send us your contact details so we can look into and provide you with feedback. Thank you.

Like Reply 3 hrs



Berenger Parouty I don't want to be contacted - I just want you to 1 - make sure your menus are aligned and 2 - remind your branches that it is NOT ok to have people waiting on the phone.

Like 2 hrs

In contrast, people tended to trust local artisanal brands more by giving them the benefit of the doubt or otherwise defending a brand they love in a case of dispute.

f



Roy de Gouveia > **Bootlegger Coffee**

21 Jul 2015 20:50

Went to your Kenilworth branch tonight which clearly was under pressure with loadshedding. Quinoa salad which clearly states with red wine vinaigrette on the menu, was told to us by the wainter, that because you don't have a Liquor License, he assumed you couldn't do a red wine vinaigrette. *Fail* Balsamic & Olive oil instead with dressing coming at the end of the meal. R75 uhmmmm not! Re-look!



Summer de Nobrega

It's new....the waitrons are young and still learning...they try hard...its only salad dressing...give them a break.

Like Reply 24 July 20:03



The brand will need to consider a community management style that will counteract the impression of being a large chain brand. Similarly, Starbucks will have to behave like an artisanal brand in order to meet more discerning coffee drinkers' requirements. Customer responses must be more personalised to convey authenticity.

However, because it is a chain, it will likely experience additional pressure to maintain the high levels of consistency that customers expect from other local chain brands. It was noted that in-store experience and product mix featured as the most important elements after quality. Furthermore, the primary cause for complaints regarding inconsistency related to stores' product mix. People expect chain brands to have the 'same thing they order at the other branch'.

As Starbucks will enter initially with one store, the opportunity exists to still behave like an artisanal brand offering a high-quality product (and possibly by not prioritising 'drip coffee' in this market) and providing customers with their expected favourites as well as novelty blended beverages.

For forthcoming branches, the brand should look at creating a unique ambience or create a unique look and feel for each store to mimic artisanal "craft" qualities.



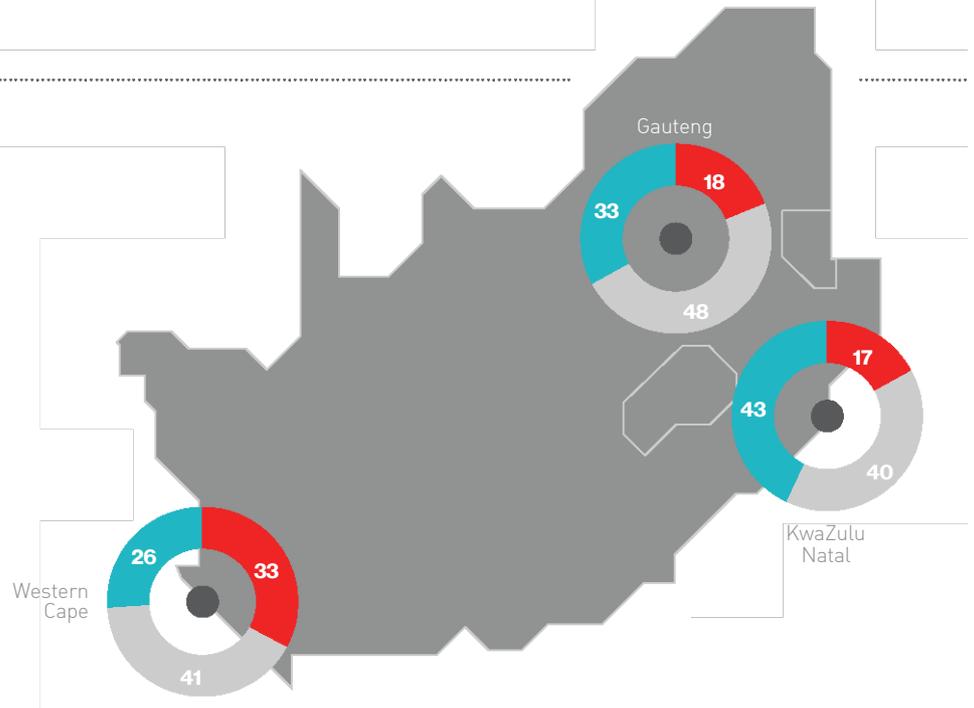
Starbucks outlets are renowned worldwide for having free wifi. While wifi was not identified as being very important, offering a decent connection in a country where internet access is relatively expensive may be enough of a draw-card to make Starbucks' expensive coffee easier to swallow.



How do local consumers perceive existing chain brands? Do these expectations differ for existing artisanal brands?

Sentiment to Starbucks' entry, by percentage

- Negative
- Neutral
- Positive



Whilst the data set recorded includes conversations across South Africa, this study has focused on three provinces, Western Cape, Gauteng and Kwa-Zulu Natal.

Artisanal coffee culture could be said to be the strongest in the Western Cape and was where Starbucks faced the most negativity. In contrast, consumers were significantly more positive to the brand in Kwa-Zulu Natal and Gauteng. The brand should consider opening a store in Durban (Kwa-Zulu Natal), after stores in Gauteng, in order to build brand equity locally prior to entering the more resistant Cape Town (Western Cape) market.



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Conclusionary Findings:

- After the announcement of Starbucks' entry into the market, the brand gained share of voice as well as increasing conversation about both local chains and artisanal brands.
- Individuals who anticipate Starbucks to be overpriced were more likely to buy from "better and cheaper" local artisanal brands, than local chains.
- If the brand aims to compete with artisanal brands, Starbucks will have to prioritise the quality of its coffee and behave more like an artisanal brand (online).
- Customers are really looking forward to Starbucks' blended beverages. Customers are also far more likely to pay a premium for these 'indulgent' novelty items.
- Artisanal brands enjoy relatively less negativity and more positive response than local chains, from customers.
- Customers have a higher expectation of service offered at local chains in comparison to artisanal brands.
- People from Kwa-Zulu Natal were much more positive towards Starbucks than people from the Western Cape. Starbucks should therefore consider opening a branch in Durban prior to entering the Cape Town market.



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