

Innovative Marketing Mechanisms in the Coffee Industry's Entire Supply Chain

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Abstract: On the basis of investigating the basic situation of coffee market in China, this paper combs the relevant literature, and combines the theory of industrial chain (value chain) , entrepreneur innovation theory, marketing theory and case study, this paper analyzes the present situation and development trend of coffee market in China, and probes into the important role of marketing in coffee industry and the mechanism of how to promote the value of industry chain and widen the market space, and draw relevant conclusions and give suggestions to the current coffee enterprises in China. China's coffee consumption market has great potential and growth space, in order to expand the market space, we must first understand the potential needs of consumers and lead them to make consumption behavior through marketing. Secondly, the whole industry chain marketing is an innovative activity of entrepreneurs, is through the combination of product innovation to create value for consumers process, the key point of the whole industry chain marketing is to carry on the combined product innovation around the consumer demand. Finally, to stimulate industry-wide innovation and achieve a better distribution of value, a“Consortium of entrepreneurs” needs to be formed in the coffee chain, thus realize the flow and distribution of value in the whole industry chain.

1. Introduction

In recent decades, China's coffee consumption market has experienced rapid growth, driven by the country's sustained economic development, the continuous improvement of living standards among the general population, and the global dissemination and influence of coffee culture. This market continues to demonstrate significant growth potential. Concurrently, coffee cultivation has gained popularity in regions such as Yunnan, Hainan, and Taiwan. Notably, between 2008 and 2013, areas like Pu'er in Yunnan even witnessed a trend of replacing tea plantations with coffee crops. Coffee, with its high commodity value and substantial economic potential, plays an important role in addressing China's long-standing challenges related to agriculture, rural areas, and farmers,

collectively known as the "Three Rural Issues."

Traditionally, Chinese farmers, particularly those in mountainous regions, have relied on participation in the tea industry as a vital pathway to poverty alleviation and wealth creation. The tea industry has significantly contributed to rural revitalization and environmental improvement. From a broader perspective, the development trajectories of tea and coffee present an interesting contrast. Since the beginning of the 21st century, the coffee market in China has expanded rapidly. In comparison, although tea has long been an international commodity, its global expansion has not matched the pace of coffee's domestic growth in China. From an international business standpoint, summarizing the experiences of value creation and market development within the coffee industry chain offers valuable insights for the tea industry and other sectors.

This paper primarily employs a combination of theoretical research and case study methodologies. It systematically reviews relevant literature on industrial chains (value chains), entrepreneurial theory, and marketing. Additionally, drawing from the author's internship experience at "Saturnbird" Coffee, the study incorporates contemporary popular coffee products as case studies. Through this approach, the paper thoroughly explores the critical role of marketing in value creation and market expansion within the coffee value chain. The integration of theoretical insights and practical examples provides a comprehensive analysis, highlighting the interplay between marketing strategies and the development of the coffee industry.

2. Literature review

The coffee value chain is a complex network involving multiple stakeholders, from farmers to consumers, and is influenced by various economic, social, and environmental factors[1]. In domestic markets, the coffee value chain is often characterized by smallholder farmers who face significant challenges in accessing markets and achieving fair prices[2]. Collective action and cooperatives have been highlighted as important means to enhance smallholders' market access and bargaining power. Similarly, certification schemes, such as Fair Trade and Organic, have been emphasized for their role in improving farmers' incomes and sustainability practices[3].

On the international stage, the coffee value chain is dominated by large multinational corporations that control significant portions of the market[4]. These corporations influence pricing and quality standards, often at the expense of producers in developing countries[5]. The impact of global value chains on local economies is notable; while integration into global markets can bring economic benefits, it also exposes producers to volatile international prices[6].

Sustainability and ethical considerations are increasingly important in both domestic and international coffee value chains. Sustainability standards have been found to lead to improved environmental and social outcomes but may also create barriers for smallholders[7]. Ethical sourcing initiatives, such as direct trade, can enhance transparency and fairness in the value chain, though their impact is often limited by scale and reach. Technological innovations are also transforming the coffee value chain[8]. Digital technologies have the potential to improve traceability and efficiency, while blockchain technology can enhance transparency and trust among stakeholders[9].

In conclusion, the coffee value chain is a multifaceted system that requires a balanced approach to address the challenges faced by producers, particularly smallholders, while ensuring sustainability and fairness. Future research should focus on the integration of technological innovations and the development of inclusive policies that benefit all stakeholders in the value chain. Most existing research approaches the topic from a macroscopic perspective, without delving into the micro-level, that is, without examining the industry chain from the core perspective of enterprises (products). Moreover, there are few studies that regard marketing as a core link in the

industry chain.

3. Mechanism analysis

3.1. Structure of the Coffee Industry Chain

The coffee industry chain can be divided into three main segments: upstream planting (green coffee beans), midstream deep processing (roasted coffee beans), and downstream distribution (coffee beverages). Value distribution is highly imbalanced, with approximately 1% allocated to upstream planting, 6% to midstream processing, and 93% to downstream distribution. The downstream segment is the most profitable due to its diverse channels, high product added value, and significant room for differentiated competition. It is also where marketing-driven value creation is most concentrated. The mainstream coffee products include instant coffee, ready-to-drink coffee, and freshly ground coffee. Instant and ready-to-drink coffees are sold at lower prices through supermarkets, convenience stores, and e-commerce platforms, while freshly ground coffee, though more expensive, offers better taste and a wider range of sales channels, such as coffee shops, Western restaurants, and self-service coffee machines.

3.2. Value Creation in Marketing

Marketing is not just about selling products; it can also create value by satisfying and shaping consumer demand. Consumers often do not know or cannot articulate their needs accurately, but they can make choices when they see products. Entrepreneurial innovation is crucial in this process. Astute entrepreneurs can understand latent consumer needs and guide purchasing decisions[10]. Marketing awakens consumer demand and helps develop stable purchasing habits. In the downstream segment of the coffee industry chain, marketing can create value for consumers through two main pathways: reducing prices and costs to transfer value, and satisfying multidimensional consumer needs. These pathways can be implemented concurrently.

3.3. Combinatorial Innovation and Marketing of Coffee Products

Creating demand can involve developing new functions and combinations of existing products to meet multidimensional consumer needs, known as combinatorial innovation. The evolution of the coffee industry can be divided into four eras: 1.0 (1773–1938) with boiled coffee beans meeting basic physiological needs; 2.0 (1939–1958) with improved instant coffee technology; 3.0 (1959–1986) with further advancements in production technology; and 4.0 (1985–early 21st century) with an emphasis on emotional and social experiences. The popular drip coffee bags combine characteristics of instant and freshly ground coffee, integrating emotional and social attributes into the product to create greater value. This type of innovation addresses the "split" consumption habits of modern consumers, who balance cost-effective and premium coffee products based on their needs. The coexistence of consumption upgrading and downgrading provides opportunities for combinatorial innovation in marketing.

3.4. The Relationship between Full-Industry-Chain Marketing, Organizational Innovation, and Entrepreneurs

To succeed, coffee enterprises must establish collaborative relationships across the entire industry chain. Full-industry-chain marketing helps achieve long-term cost and quality advantages by integrating upstream suppliers and downstream consumers. Entrepreneurs need to empower

other chain members to become decision-makers, forming an entrepreneurial consortium. This approach addresses the imbalanced value distribution by enabling members to innovate and compete autonomously, thereby facilitating value flow and distribution across the chain.

3. Case study

In 1989, Nestlé Group launched its “1+2” three-in-one instant coffee in China, and it took over three decades of operation for coffee culture to truly take root in the country. In 2017, Nestlé held a 72.3% market share in the instant coffee segment, but during the 2019 Tmall Double 11, a coffee brand named “Three Tones Half”, founded in Changsha in 2015, broke Nestlé’s monopoly. It became the first domestic product to top the coffee category on Tmall Double 11 and continued to lead in 2020’s Double 11 and 618 shopping festivals.

According to official reports from Three Tones Half, in the first half of 2021, the brand achieved nearly 400 million yuan in sales, surpassing its full-year sales in 2020. The brand has also been favored by capital markets. From 2019 to early November 2020, the Chinese coffee industry saw 19 financing events involving 12 companies, with Three Tones Half alone completing five rounds of financing in less than two years, averaging one every three months. In May 2021, CITIC Industrial Fund and CGV Capital invested in its Series B+ round.

The reason for Three Tones Half’s popularity lies in its combinatorial product innovation led by founder Wu Jun and its full-industry-chain marketing. In 2018, the team launched “ultra-soluble mini-can specialty coffee,” which quickly captured the specialty coffee market. This coffee uses the freeze-drying technology, certified in the 1970s but costly, to remove moisture from coffee liquid through rapid freezing and sublimation, resulting in finer, more soluble coffee extract that retains more flavor compounds. According to the brand’s promotion, the coffee powder dissolves in cold water, hot water, or milk within three seconds, combining the convenience of instant coffee with the flavor of specialty freshly ground coffee. The brand also adopted a bold packaging design, abandoning traditional bags in favor of colorful mini cans. Priced competitively at 5–10 yuan per can, Three Tones Half based its systematic full-industry-chain marketing on the internet.

Firstly, Three Tones Half strives to meet consumer needs by addressing their pain points to create value. As mentioned earlier, most coffee consumers today have “split” consumption habits. With “ultra-soluble” as its core selling point, the brand ensures “a good coffee in three seconds,” satisfying consumers’ basic needs for convenience, low price, and high cost-effectiveness, while also meeting their emotional needs by delivering high-quality coffee and enhancing their sense of ritual.

Secondly, Three Tones Half has precise consumer positioning, targeting “discerning coffee lovers” who have more refined palates than average consumers. These consumers’ positive experiences with the product are more likely to influence others. Initially, the brand conducted online marketing through the “Xiachufang APP,” sending samples to bloggers to create a viral effect and quickly entering the market. As the product matured, the brand expanded its online flagship stores and offline retail stores to further consolidate and expand its market presence and brand influence, which in turn was converted into greater benefits, such as its latest collaboration with the well-known South Korean barista brand FRITZ and its packaging recycling “Return Voyage Program”.

Three Tones Half’s combinatorial innovation is reflected in its product, which combines the characteristics of several generations of coffee, meeting consumers’ multiple needs. It offers the convenience of instant coffee, the high quality and ritual of freshly ground coffee, and certain social needs. For example, promoting its “diverse ways of drinking,” the brand has sparked a wave of consumer interaction on daily sharing apps like Xiaohongshu. Additionally, focusing on the

growing consumer demand for aesthetics, Three Tones Half has introduced packaging in various colors and patterns to enhance visual satisfaction and encourage consumers to share.

4. Conclusion and insights

4.1. Conclusion

This paper integrates the theories of industry chain (value chain), entrepreneurial innovation, and marketing. Through literature review and case studies, it analyzes the current status and development trends of China's coffee market, explores the important role of marketing innovation in the coffee industry, and examines the mechanisms for enhancing the value of the industry chain and expanding market space. The following conclusions are drawn:

Firstly, China's coffee consumption market has enormous potential and room for growth. The market size of China's coffee industry reached 2654 billion yuan in 2023, with a three-year compound annual growth rate of 17.14%. The per capita annual coffee consumption is still low compared with mature markets like Japan, South Korea, and the United States, indicating significant room for expansion.

Secondly, full-industry-chain marketing is an innovative activity of entrepreneurs, which is a process of creating value for consumers through combinatorial product innovation. Full-industry-chain marketing, based on meeting consumer needs through combinatorial product innovation, is the key to success. For example, the brand Three Tones Half has achieved remarkable success by combining the characteristics of several generations of coffee, meeting consumers' multiple needs for convenience, high quality, and social interaction.

Lastly, to stimulate innovation across the entire industry and achieve better value distribution, it is necessary for all participants in the coffee industry chain to form an "entrepreneurial consortium" to facilitate the flow and distribution of value across the entire chain. This approach can help optimize the supply chain, enhance product innovation, and improve the overall competitiveness of the coffee industry.

4.1. Insights

Firstly, it is widely believed in the market that freshly ground coffee is an upgraded alternative to instant coffee. However, such a one-sided emphasis could be misleading. At the current stage, the needs of coffee consumers include both aspects of consumption upgrading and downgrading. Products that lie between instant coffee and freshly ground coffee can be seen as an upgrade to the former or a downgrade to the latter.

Secondly, when expanding the market, it is necessary to appropriately shift the focus to product innovations that are functional, emotional, and social, represented by "new-type instant coffee," "drip coffee," and ready-to-drink coffee. It is not enough to rely solely on short-term business model innovations. To fundamentally expand market space, it is essential to create value for consumers by meeting their multidimensional needs through product and combinatorial innovation.

Thirdly, coffee is an important object in international business activities, and the coffee industry chain spans the globe. Enhancing the value of the coffee industry means optimizing resource allocation on a global scale. The coffee industry should take each link as an innovation point and conduct full-industry-chain marketing in the form of a "consortium of entrepreneurs," thereby shining in international business activities.

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