

Case Study

Starbucks: Challenges and Product Strategy in India

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ABSTRACT

Starbucks is one of the leading American coffee retail chain. As per the report of The Associated Chambers of Commerce of India (December 2011) report, India is a nation of tea drinkers, as India consumes 75% of world's tea implying that, in India, people love to drink tea. They prefer tea over coffee. The data reveals that coffee consumption in India is only 100 grams per capita as compared to countries like Japan which consumes 3 kg per capita. Coffee drinking in India does not have the value in terms of drinking a cup of coffee but to socialize for business meetings or for friendly and family gatherings. Starbucks capitalized on this trend and the product offering was not coffee but the retail store and its ambience with customized food offerings for the consumers. The company had to identify the right prices as compared to its major competitors - Cafe Coffee Day and Barista Lavazza. The case analyzes how Starbucks has gone through years of challenge entering the Indian market and how its product strategy was changed to meet the expectations of the Indian consumer who likes socialization apart from drinking tea. Starbucks has attempted to sell Indian emotions in its ambience offering Indian products to Indian consumers.

Keywords: Tea, Coffee, Retail, Starbucks, Product, Strategy.

1. Overview

Brand Consultant Harish Bijoor points out that "Coffee is a lifestyle drink whereas tea is a beverage". This means that in India coffee is being consumed for socialization rather than for the taste. Therefore, there is a greater potential in Indian retail café market rather than substitution of preparation of coffee at home. Starbucks has identified the trend and rolled out its first café chain in India in 2012 to cater to this outgoing segment of the market after government allowed 100% Foreign Direct Investment in Single Brand Retail. The major competition for Starbucks arises from Café Coffee Day popularly called 'CCD' and Barista.

2. Starbucks: The Company

Starbucks was founded by English Teacher Jerry Baldwin, history teacher Zev Siegel and writer Gordon Bowker who had developed a passion for knowing about different types of coffee beans and this zeal motivated them to start their own business trading coffee beans. Taking inspiration for knowledge of different types of coffee beans from Alfred Peet who owned Peet Tea and Coffee, the three founders developed a passion for trading coffee beans. A person working at coffee vending machine seller Howard Schultz joined the company and undertook responsibility of Marketing and Retail Store development after repeated requests to the founder. When he was working at Starbucks, Howard Schultz once visited Milan in Italy to attend a conference where he visited a cafe and was impressed upon the style of Baristas (people serving coffee) and the product variants offered in the form of Lattes, Espresso etc. with friendly atmosphere and light Italian music in the background. Schultz proposed a similar format of coffee to the founders but faced very

strong resistance from them. Finally Schultz was frustrated as his viewpoints differed from that of the founders and he decided to start his own 'café' business. The thought of a separate business found support from the founders who also helped him work with the company until he found his new venture in the form of stores named 'Il Giornale'. At a later stage, Starbucks founders decided to sell the business and identifying this as opportunity, Howard Schultz bought Starbucks. Starbucks instilled a mission of "inspiring and nurturing the human spirit of one person, one cup and one neighborhood at a time".

3. Starbucks: Geographical Diversification

Starbucks is globalizing aggressively and increasing its store count and had realized that retail store development strategy is the key to success in cafe market. The company had more than 18000 cafes worldwide in 62 countries out of which 13,000 retail stores are located in North America and 255 in New York City. The expansion plans of the company were to increase retail stores to 1,300 worldwide in 2013 out of which the 600 stores were planned for China. New geographic territories are being identified for diversification into new countries. Product Mix expansion in the form of acquisition of companies like Tazo Tea to focus on the tea drinking markets and LaBoulange bakery further specify its intention of product mix expansion. The company is focusing on 'think global, act local' strategy. The company has been looking at adaptation along with the standardization across the globe. The company is customizing its products across Europe also. An example of its product modification is in Britain where lattes are loved by the people although Starbucks offer diluted lattes and therefore the company is adding an extra shot of espresso so that it becomes thicker. Identifying that French

an ambience and experience for the customers along with food and beverage is the complete market offer by Starbucks. This ambience and experience along with food and beverages has been customized by Starbucks for different markets. A research of Indian consumers also supported the fact that most of the Indian consumers go to a café not to have a beverage but as a meeting spot with their friends and relatives and therefore, Starbucks is aiming at providing the best of consumer experience. This is the reason that its stores have been given traditional Indian looks. Starbucks restaurant at Connaught place in New Delhi has henna patterns on its floors and ropes and chatai (traditional Indian mats) along with pictures of the Indian spices on its walls; its another store in Delhi located in Select City Walk Mall is having wooden paneling that is locally crafted to give it an Indian look; its another store at Pune has localized railings and there is an extensive display of copper antiques. Each store has specialist designers who aim to combine the traditional elements of Indian Culture in the modern settings. The product mix is a combination of standardized offerings with customization of offerings. The food menu has been modified to include products such as wasabi kotumbwadi, murg kathi wrap, chicken makhani pies which are offered alongside the English Muffins. The product mix of the company consists of 35 food items and 28 drinks which include 19 coffee drinks and 9 non-coffee beverages as depicted in Table 1 that was available on official website of Starbucks (as on Nov. 17, 2013).

The products are offered at a relatively lower price in India as compared to prices worldwide. While in China 12 ounce Cappuccino costs consumer \$4.34, Indian unit of Starbucks offers the same at \$2.14. Though it seems that Starbucks offers value to customers in India but the major competitor Café Coffee Day offers the same coffee at a price of \$1. The company has strong product line depth among its food offerings and coffee offerings.

6. Competition

There is a strong competition in India from the market leader - Amalgamated Bean Coffee Trading Company Limited which has a strong retail network in India through its Café Coffee Day (CCD) branded outlets across India. In addition to CCD, the other competitors in India include Barista, Costa Coffee, Coffee Bean and Tea Leaf, Mocha, Gloria Jeans and Dunkin Donuts. McDonalds has

launched McCafe in India which can again give a tough competition to Starbucks. While Starbucks has launched 25 cafés in India within one year of its launch from October 2012 to October 2013, the coffee giant in India Café Coffee Day already has more than 1500 cafes whereas Barista Lavazza and Costa Coffee are having more than 100 café stores in India. The Indian café market was estimated to be Rs. 1400 crore which was considered to be growing at 13-14% per year in the year ending March 2013.

Although Starbucks market share is low as it is new entrant, the U.S giant coffee retail chain is growing and tapping the Indian market aggressively as the CEO of the company Howard Schultz has pointed out that "Starbucks plans to open thousands of stores in not too distant future." But this will require stronger efforts of the company in developing the retail infrastructure across the country as the competitor Cafe Coffee Day already has a huge retail store network of more than 1500 stores and plans to add 500 new retail stores and is unperturbed by the entry of Starbucks which has only about 34 retail stores (as in January 2014).

7. Conclusions

Starbucks has grown very significantly worldwide including India where retail stores are expanding at a very rapid pace. The company's focus worldwide has been a three pronged strategy – geographic diversification, retail store development through real estate acquisition and product line extensions to improve the depth of the product mix. There were two major challenges for the company in India which included restriction on foreign direct investment in retail and finding the right partner to develop its business in India. The product mix expansions have been done after researching the Indian consumers and acceptability of elaichi mava products to cater to the needs of the discerning Indian consumer. Along with customization in the product categories, Starbucks has identified that Indian consumers drink coffee for socialization and therefore, the company has adapted not only the products but also the ambience of its retail stores in India to give the stores a traditional Indian look. The vision of Starbucks to have one cup and one neighborhood is directed towards Indian society and it is to be seen how the venture with Tata group progresses in the long run.

people love Espresso but they believe that Starbucks espresso is not up to the standards of French Espresso, the company developed a variant in the form of lighter blonde espresso taste. The company planned to have drive through cafes in Britain because British people prefer take-aways. In a similar way, China products were customized and the company did not go for standard American products but modified them according to local tastes by launching variants such as green-tea flavored coffee which was not present in its global portfolio. This is also the reason for the success of Starbucks in China where the American brands such as Burger King, Dunkin Donuts and Krispy Kreme could not make much impact. Starbucks is a very successful high-margin earning brand especially in Asian markets such as China and it is a result of the premium pricing of the company.

Starbucks is tapping global markets through both organic growth strategies of expansion as well as inorganic growth strategies through acquisitions and strategic alliances. The company went for a strategic alliance for product development with the French dairy giant Danone to develop yoghurt based products jointly. The company is expanding in Columbia through joint ventures with its two Latin American partners – Alsea and Group Nutressa and both these groups have worked as licensed partners for Starbucks for 10 years across Mexico, Argentina, Peru and Chile and cover around 500 Starbucks outlets in these nations. The company has expanded its business in India through a joint venture with Tata Global Beverages.

4. Starbucks: Challenges in Indian Market

Starbucks struggled to enter in India since the year 1999 when the company acquired Tazo Tea for \$8.1 million although this interest was limited to sourcing teas from India and had tied up with McLeod Russel, Apeejay Tea, Warren Tea and Chamong Tea Exports in India. In 2010, the company initiated talks with Tea Board of India to get license for importing and selling Darjeeling Tea. The interest of the company in India to enter through opening retail stores became more prominent when Starbucks initiated talks with Tea Board of India to open its Tazo tea outlets in 2006. Tazo tea of Starbucks took a social initiative in 2002 in collaboration with Mercy Crops and other Indian tea sellers in Assam in Darjeeling such as Apeejay Tea, Warren Tea etc. and was named 'Community Health and Advancement Initiative (CHAI)' which aimed at supporting the tea growing communities, which are in poor conditions in Assam, with the health services and opportunities for economic development. This initiative of Starbucks provides employment opportunities to these tea growers to upgrade their skills to learn something new and become more employable. The primary challenges acted for the company as barriers to entry into the Indian market. These include restrictions on Foreign Direct Investment (FDI) in retail and finding a right partner to enter the Indian

market. India has been planning to open up the retail sector in India to foreign companies but had long faced opposition by the political parties and the government coalition partners. Indian government announced opening up of 100% FDI in retail in 2012 with the restriction that the foreign retailer should source 30% of raw materials from Indian small industries or village and cottage industries. Howard Schultz has emphasized that the company's major challenge was to find a right partner to tackle the complexity of the Indian market and it would have been difficult for the company to enter India without a suitable partner. Starbucks realized the importance of real estate in the business of retail store development and Tata was the right partner with experience in retailing and large real estate owned by the group across India.

After all these problems, challenges and realizing its social responsibility initiatives, finally Starbucks capitalized on the huge opportunity of tapping the Indian market with the launch of its first Starbucks store in India at one of the historic buildings of Tata Group at Horniman Circle that is upscale part of Mumbai city on Friday, 19 October 2012. As compared to a typical Starbucks store which is 1500 sq. ft of space on an average, this Mumbai retail store is three times larger with a space of 4500 sq. ft. The company opened its first store in Delhi on Feb. 7, 2013. The retail stores in India have been more customized according to local tastes and flavors and the ambience and product offerings have been adapted to the Indian market with local brewing and roasting of coffee rather than importing. India is having a huge potential as identified by Starbucks that the coffee consumption in India was 1,08,000 metric tonnes which was 80% increase over the previous decade. Another indicator of a huge potential of India was the estimates of KSA Technopak, a retail consultancy firm. According to this retail consultancy firm, the revenues from café business in India account for \$230 million and are expected to grow 13-14% per year to reach \$410 million within next five years. The firm estimates that there are around 1,950 cafes in India and the country is expected to add another 1000 cafes in the next 5 years. Starbucks has successfully entered the Indian market and since its one year of operation from October 2012 to October 2013, It was able to open 25 retail stores as joint ventures.

5. Starbucks: Product Mix in India

Starbucks is a global company in terms of its logo and brand name and is always bringing premium offering for the consumers, targeting upscale market. In this way, the standardization has been done across the world in terms of its unified strategy of targeting similar market segments worldwide and having a unique brand identity aimed at satisfying similar needs by serving as a meeting place for the people to share their moments or discuss business. The market offer from Starbucks is more of marketing of the place rather than the product coffee. Therefore, creating

Table 1: Starbucks: Product Portfolio in India

Beverages/Drinks		Foods
Coffee		Pastry/Cakes
Espresso Beverages <ol style="list-style-type: none"> 1. Cappuccino 2. Caffé Latté 3. Iced Caffé Latté 4. Caffé Americano 5. Caffé Americano 6. Espresso 7. Caffé Mocha 8. Iced Caffé Mocha 9. Caramel Macchiato 10. Iced Caramel Macchiato 11. White Chocolate Mocha 12. Pumpkin Spice Latte 	Frappuccino Blended Beverages <ol style="list-style-type: none"> 1. Espresso Frappuccino 2. Caramel Frappuccino 3. Mocha Frappuccino 4. Java Chip Frappuccino 5. White Chocolate Mocha Frappuccino 6. Green Tea Frappuccino 7. Pumpkin Spice Frappuccino 	<ol style="list-style-type: none"> 1. Chocolate Truffle Gateau 2. Chocolate Raspberry Crunch Cake 3. Blueberry Delight Cake 4. Coffee Jelly Tiramisu 5. Red Velvet Orange Cake (contains egg) 6. Lemon Loaf Cake (contains egg) 7. Lemon Jazz Cheesecake (contains egg)
Non Coffee Beverages		Cookies
<ol style="list-style-type: none"> 1. English Breakfast Tata Tazo Tea 2. Early Grey Tata Tazo Tea 3. China Green Tips Tata Tazo Tea 4. Green Tea Latte 5. Chai Tea Latte 6. Starbucks Signature Hot Chocolate 7. Tata Tazo Iced Shaken Hibiscus Tea 8. Tata Tazo Iced Shaken Green Tea 9. Tata Tazo Iced Shaken Black Tea 		<ol style="list-style-type: none"> 1. Cornflakes & Black Current 2. Butterscotch and Almond Cookies 3. Oatmeal & Raisin Cookie (contains egg) 4. Fudgy Chocolate Chip Cookie (contains egg)
		Muffins
		<ol style="list-style-type: none"> 1. Blueberry Muffin (contains egg) 2. Double Chocolate Muffin (contains egg)
		Croissants
		<ol style="list-style-type: none"> 1. French Butter Croissant (contains egg) 2. Pain de Chocolate (contains egg)
		Sandwich/Panini/Savory
		<ol style="list-style-type: none"> 1. Basil Tomato & Mozzarella Cheese Sandwich 2. Cheesy Spinach Sandwich 3. Mediterranean Focaccia with Roast Vegetables 4. Wild Mushroom Pocket 5. Tandoori Paneer Roll 6. Chatpata Paratha Wrap 7. Char grilled potato pepper sandwich 8. Mediterranean Cheese Roulade 9. Barley & Chlorophyll Pinwheel 10. Garden Vegetable Quiche (contains egg) 11. Murg Kathi Wrap 12. Star Club Sandwich 13. Murg Tandoori Kebab Sandwich 14. Chicken and Mushroom Pie 15. Salmon & Cheese Croissant 16. Chicken & Veg Lattice 17. Chicken Mozzarella turnover 18. Chicken & Spinach Quiche 19. Reshmi Kebab Roll 20. Egg and cheese on English Muffin (contains egg)

Source: Starbucks Official Website: Foods and Drinks

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