

Entry plan into international market essay sample

[Business](#), [Company](#)



Executive Summary:

The following report consists of the entry mode chosen by STARBUCKS to enter the Indian Market of Coffee House. This Report will give you a better understanding about an organization's require to expand globally.

Globalization plays a very important role for any organization. It helps the company to expand over different areas and connect with different people.

The report depicts about the entry mode chosen by STARBUCKS to invade the Indian market. It also briefs about the competitive Environment faced by STARBUCKS to gain the desired market share. It also consists of the Political, Economical, Social and Technological Analysis faced by STARBUCKS and the Corporate Strategy used to survive among the rivalry. This report clearly discusses the Strength, Weakness, Opportunities and Threats faced by STARBUCKS in the Indian Economy and how they have been successful to overcome them. Followed by the conclusion part which states how successful was the chosen entry mode and growth of STARBUCKS in its new market.

Introduction

Globalization means growth of a company to global or international boundaries. It is consider being a process where the economic, cultural and social activity of a particular organization is carried to an international level. It helps in the exchange of ideas, goods and services between the people of different nations which overall leads to the expansion of the society of a country. To expand globally, a company has three key questions to answer:

“ The essential act of entrepreneurship is the new entry. It can be accomplished by entering new or established markets with new or existing goods or services. New entry is the act of launching a new venture, either by a start-up firm, through an existing firm or via internal corporate venturing” (Lumpkin and Dess, 1966)

Starbucks a very popular coffee house started back in 1971 where they were the retailer of whole bean coffee, tea and spices with just one simple store. But today they have millions of customer with nearly 18000 outlets spread over 60 countries. Starbucks mission is to inspire and nurture every human being with one cup in one neighborhood at a time.

Unlike many other famous brands for coffee like Coffee Bean, Costa; Starbucks also invaded the Indian market recently to earn their rupee income. Indian café market saw a tremendous increase in the sales of \$230 Million in the year 2012 and the figure is expected to rise as high as to \$410 Million by 2017. The Starbucks effect entering the market at this moment shall help the sales to double up in the next five years.

Entry Mode Chosen by Starbucks and Its Success:

The Company Background:

Starbucks started to operate in Seattle’s Pike Place Markets, Washington in 1971. It was originally named as Starbucks Coffee, Tea and Spices and is later changed to Starbucks Coffee Company. In 1982, Howard Schultz joined the company as the director of marketing and changed its strategic direction. He sets to establish Starbucks as “ The Third Place” – a place

between work and home, committed to building trust with customers and contribute to community. Howard Schultz bought over Starbucks in 1987, thus becoming its president and CEO. Under his smart stewardship, Starbucks has grown phenomenally in statue to become a multinational specializing in the specialty coffee market with over 13000 outlets, spanning 40 countries. The headquarters of Starbucks is currently situated at Seattle, Washington, United States. Starbuck's Coffee Company is a huge and enormously popular chain of coffee shops that sell varieties of coffee and other beverages, pastries, sandwiches and coffee-related accessories and equipment in the U. S. and many other countries.

They also provide free Wi-Fi-service. Starbucks aims to become a leading global company through making a difference in peoples' lives all around the world. This goal is quite close to being achieved as proved the Starbucks current locations in international markets and the successfulness of these ventures. The current countries in which Starbucks are located in are: Australia, Bahrain, Canada, Hong Kong, Israel, Japan, Kuwait, Lebanon, Malaysia, New Zealand, Oman, Peoples Republic of China, Philippines, Qatar, Saudi Arabia, Singapore, South Korea, Switzerland, Taiwan, Thailand, United Arab Emirates, United Kingdom, and the United States. The first Starbucks store in Malaysia opened on 17 December 1998 at KL Plaza in Jalan Bukit Bintang, Kuala Lumpur.

In just few short years, Starbucks has emerged as the dominant brand of specialty coffee in Malaysia offering regular coffee or decaffeinated beverage, fresh food like pastries, cakes and muffins. In Malaysia, Starbucks

Coffee International and Berjaya Corporation Berhad jointly own Starbucks. The company operates Starbucks stores throughout Malaysia and is committed to offering the world's finest coffee while enriching Malaysians' lives one cup at a time. To date, the company has over 115 stores all over Malaysia. Starbucks will continue to expand its global operations in the future and adapt to the overall outcomes and perceptions of their global and domestic customers.

The mission statement of Starbucks is :

1) To inspire and nurture the human spirit – one person, one cup and one neighbourhood at the same time. 2) To establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles while we grow. Starbucks has a clear set of guidelines to be followed and used as a direction tool for the future of the business. The guidelines or principles are as follow: Provide a great work environment and treat each other with respect and dignity. Embrace diversity as an essential component in the way we do business. Apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee. Develop enthusiastically satisfied customers all of the time. Contribute positively to our communities and our environment. Recognize that profitability is essential to our future success. Besides that, the company do have another mission which is to establish Starbucks as the most recognized and respected brand in the world.

The overall company operations are based around purchasing and roasting high-quality whole bean coffees and selling them along with fresh, rich-

brewed, Italian style espresso beverages, a variety of pastries and confections, coffee-related accessories and equipment. The attainment of this goal is boosted by the rapid expansion of new retail stores, in addition to the development of many new opportunities in terms of products and distribution channels. As the mission stated above, I feel that Starbucks actually have the potential to reach the target. Starbucks has stated a specific target which is being the most recognized and respected brand in the world. Currently, Starbucks have diversify their “ coffee experience” to the globe which at first only a common coffee shop in Seattle’s Pike Place Markets. Moreover, their target is typically measurable and attainable.

Entry into India:

Organizations planning to internationalize need to make important decisions when choosing the best mode of entry into international and global markets. The reason why we chose India for market entry is because of its vast nation with large population, diverse growing economy, and attractive fast growing market compared with the domestic market in which U. S-based Eco-Pave operates. India is the second country with the highest FDI flow, exhibit 1, and foreign investment has been India’s main vehicles of growth in the economy, [1]. After considering India’s key elements, joint-venture came out as the best choice for Eco-Pave road laying material, in order to make the best use of its resources into the Indian Market. Eco-Pave sees opportunity to pave India’s roads, in the hope of greater sales volume to achieve economies of scale, thus reducing the cost of production. Also, by establishing a joint-venture in India, Eco-Pave not only expands its business but also protects itself from foreign firms to enter its domestic market. As in many developing

countries, India's transportation system needs attention and logistics infrastructure is a real challenge for them [2].

In order to meet Western standards, India will have to improve their roads and that's where Eco-Pave road laying material comes into to play. Furthermore, Joint-venture is quite common in India because it encourages foreign collaborations to facilitate capital investments, imports of capital goods, and transfer of technology [3]. Besides, joint venture may be " a corporate entity formed by an internal company and local owners," (Ball et al., 2013) p. 332, thus sharing risks and rewards. This can be a good approach for U. S. -based organizations since local owners or partners have the knowledge of the country's market and possibly political and business contacts to make market entry easier. Mistakes can be costly in India's market and that's why both joint-venture partners need to contribute hard to measure inputs properly to achieve significant control over operations. This is why Eco-Pave's manager prepared an economic outlook data, exhibit 2, to analyze its capability of securing the resources to respond to the road laying material market opportunities in India.

Also a statistics table was prepared to better address the major constraint in India's economic development and infrastructure, exhibit 3. An investment such as road construction is subject to government approvals and one of the biggest missions of the Government of India (GOI) today is to improve roads. India is seeking to invest \$1 trillion in infrastructure during the 12th Five-Year Plan (2012-2017) and is looking for private sector participation to fund half of this massive expansion through the Public-Private Partnership (PPP)

model, [4]. The Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry, Government of India (GOI) has released the consolidated FDI policy of India 2012, effective from April of this year, according with the Corporate Laws of India.

As they stated, “ the consolidated FDI policy of India 2012 reflects the intent and objective of the GOI to attract and promote foreign direct investment (FDI) in order to supplement domestic capital, technology and skills, for accelerated economic growth.” Certainly, various sectors will benefit from this policy and specially India’s industrial activity. US-based managers need to be very aware of the logistical challenges when choosing a business location in India. Parameters such as state and government support, physical infrastructure, political networks, cost and availability of power, labor availability and cost, laws, work culture and customers preference, and proximity to resources and/or markets. On balance, after a careful analyzes of the political and cultural environment of India as well as the various types of legal systems Eco-Pave is sure that joint-venture is the best mode of entry choice.

Starbucks Corporation entered Indian Coffee house market as a Joint Venture with TATA Global Beverages as TATA Starbucks Limited both owing 50% share in the company. The outlets are branded as Starbucks “ A Tata Alliance”. Starbucks made attempts to enter India by an alliance with Kishore Biyani Future Group about three years ago, but the plans were rejected by Foreign Investment Promotion Board (FIPM). Starbucks entering India

through joint venture was a safe move since it had a lot of tensions and apprehensions about the uncertain future in the Indian market.

Every country has different kinds of demographics, people of different culture and the world trade which is changing at a very fast pace, and this makes difficult for a company to determine any changes. Starbucks entry was successful due to a Joint Venture with a partner from a host country, because TATA is fully aware of the market conditions in India, the demographics and expectations of the people of India. In this phase the new entering company just needs to provide their technology, talents and should know how to expertise whereas the host company helps by providing the domestic market knowledge and their own local technology. When the two good things combine together, it becomes out to be a successful, prospective and collaboration model of business for both the companies.

Starbucks looks to expand globally. (2012). Retrieved from <http://blogs.ubc.ca/taylorcarkner/>

Why Starbucks – TATA will work?

MoU (Memorandum of Understanding) has made collaboration between the two companies for roasting and sourcing coffee beans in India at TATA Coffee's Corporation. As India's coffee market are growing at a very rapid pace having a potential of 500 coffee bars, so there seems to be a good roasting of the coffee between the two companies. Both companies have shared and committed towards responsible business values. They shall also help the local farmers to learn the techniques of growing coffee in a better way contributing towards the society. India has a very vast dynamic market

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and both the companies are focusing on exploring the local opportunities of growing coffee with farmers within the TATA ecosystem. Also a partner like Starbucks shall help TATA to capture the domestic market opportunities of India.

Starbucks teams up with Tata to enter India. (2012). Retrieved from <http://forbesindia.com/article/special/starbucks-teams-up-with-tatas-to-enter-india/32152/1>

Starbucks Competitive Environment:

As India is a country with a very vast dynamic market; the list of competitors is also vast. Over the recent years, India has seen many international brands coming and establishing business in India, due to which there has been an increase in the competition. Similarly, Starbucks also has to face a number of existing competitors in the Indian café market. Barista: it gives the experience of authentic Indian coffee. It is one of major Indian coffee chain and also gives a restaurant experience. It mainly targets the young adults and corporate customers and is very popular in metropolitan cities like Delhi, Mumbai and so on.

Café Coffee Day: another very famous coffee offering a great variety of beverages and bakery items is very popular especially among college going students and teenagers due to its budget pricing items. Costa Coffee: It is also a very famous International Coffee house recently entered India targeting the high class people has become very popular and has established a very strong presence of its image among coffee lovers. These coffee houses has already strengthened their foothold in the Indian market, but

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Starbucks with the help of TATA who has a vast knowledge of Indian market and Starbucks' own strong brand image together will be able to overcome these competitors in the market and establish a new market share for their own company.

Starbucks PEST Analysis:

Political Factors:

Economic relations between coffee growing countries and US affect Starbucks to source the best coffee beans. Different Environmental and Consumer Protection Laws in different countries. Starbucks products affect due to increase in tariff.

Different legal system in different states of India:

Economical Factors:

High currency exchange rate affecting the external suppliers of Starbucks. The high increase of annual GDP growth rate in India is 5.8% since last 20 years. Currently the GDP growth is 6.1% in 2012. The increase in the inflation rate of India, which was 7.81% in September 2012. Unemployment rate in India is reduced from 11.7% to 9.4% in 2012. Social Factors:

People changing trends and shift in the taste from tea consumption to coffee consumption. Increase of Health Conscious People in India has shifted people's thinking to trust and rely on International Brand. The growing trend of people of considering the coffee house and a place of meeting corporate clients and as a recreational place to hang around with friends and families.

Technological Factors:

Advancement in the Indian technology like the Indian Energy Consumption. Increase in social networking sites usage in India helped Starbucks to promote easily. Changing trends in India of making payment through credit or debit and the Introduction of Starbucks member's card helped Starbucks to increase its customer loyalty.

Starbucks Corporate Strategy:

Strategy of Rapid Expansion of the stores: Starbucks has started a three year project as expansion strategy to open as many outlets as possible in the existing markets and also to research and expand in the new and developing market. This will help them to increase their coffee-lovers customers worldwide. The new approach of “ Starbucks Everywhere” is a strategy to meet the needs and demands of their customers in every corner of the world. Starbucks has also started to increase its consumer products channel in the South Pacific Region through Company Owned and Company Operated or Licensing the International Store expansion. This has helped Starbucks to create a new subsidiary of Starbucks Coffee International. Employee Training and Recognition: Starbucks has a unique system to recruit and hire their staffs and store managers.

Every staff hired undergoes a number of screening and training programs before they can represent Starbucks in front of the customers. Starbucks training programs help every staff to increase their confidence level in the area of customer service. Starbucks also has a number of employee recognition programs on monthly and annual basis to retain their best and

excellent employees. Store Ambience: The Starbucks store designs, planning and construction is always a unique one. Their store designs are sustainable and reflect of what they area and what they do. They always design their store using the responsible sustainable materials and practices. A coffee house should be a welcoming and a familiar place, inviting different people to connect, therefore every Starbucks store design always reflect the unique character of their neighborhood in which they serve.

Product Line: Starbucks is the market leader in the coffee retailer area with a strong brand name. It offers a huge and wide variety of products to its customers giving Starbucks a competitive advantage over its competitors. It offers products starting from various kinds of coffee, smoothies, refreshers, bakery products, yogurts, hot breakfast, food nutrition and so on. The Starbucks menu is prepared keeping the neighborhood in mind. Coffee Purchasing Strategy: Starbucks unique purchasing strategy of coffee is the only reason for its success. They believe in building strong and close relationship with its suppliers and exporters, regularly checking the agricultural condition and yielding of the crops. They are also continuously searching different sources and varieties to meet and increase the Starbucks level. They are always contributing towards the sustainability of coffee farmers and also help in the conservation of the environment. They also provide different coffee cultivation methods that help to protect the biodiversity resulting in a healthy environment.

SWOT Analysis:

SWOT chart is a strategic planning tool used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieving that objective. Starbucks perhaps is the most popular branded coffee shop around the globe and it even spread to in our country, Malaysia. The price for a cup of black coffee in our local cities is around RM1. 00. Whereas for the black coffee in Starbucks is around RM9. 00. But then, the business for Starbucks is still doing quite well. What makes Starbucks so successful? What is that in Starbucks catch the attention of customer who is willing to pay for a cup of coffee almost 9 times the price of a local coffee shop? In order to understand it, SWOT analysis may be useful for it. The followings are the SWOT analysis of Starbucks:

Strength

Starbucks is widespread in globe. The company operates about 16, 120 retail store locations, the majority of which are company owned and operated across 49 countries worldwide based in Seattle, Washington, United States. There are 11, 068 (6, 764 Company Owned, 4, 304 Franchised) in United States, followed by nearly 1, 000 in Canada and more than 800 in Japan. In our country (Malaysia) only, there are franchises opened all along the country such as in Kuala Lumpur, Selangor, Genting Highlands, Kuantan, Shah Alam, Putrajaya, Penang, Kota Kinabalu, Kuching, Ipoh, Langkawi, Johor Bahru, Negeri Sembilan, Kuantan, Kerteh, Cameron Highlands and Malacca. The company's widespread presence provides it with widespread brand recognition. This is a type of product positioning where all people whenever

they see Starbucks logo or hear about Starbucks, they know that Starbucks is famous for coffee products.

Some people come visit Starbucks to drink the world's best coffee. Some visit to be alone with their thoughts or together with a best friend. Some visit to listen to the incredible music. Some even visit Starbucks to take part in a neighborhood event. Starbucks outlets are located either in shopping mall or new commercial complex. This is because places crowded with people will most probably in this location. Starbucks settle on this hot spot will definitely increase their sales exponentially. This is a segmentation strategy used by Starbucks. Here, Starbucks is using geographic segmentation and psychographic segmentation. In geographic segmentation, Starbucks chooses places that are crowded with people. While in psychographic segmentation, Starbucks chooses the types of people that like to enjoy coffee and coffee-related products. Starbucks outlets are WIFI ready for Internet connection. As easy as ordering their latte, Starbucks customers can check e-mail, surf the Web, watch streaming video in the comfort of Starbucks via a fast, reliable standards based wireless Internet connection for notebook computers.

Weakness

Starbucks coffee is pricey. Some consumers may not afford to purchase a 9 times more expensive latte. A new survey by Rasmussen Reports shows that 73 percent of Americans say Starbucks coffee is overpriced. Only 6 percent disagreed and 21 percent said they were unsure. This would affect the sales of the company. Starbucks is lacking of internal focus (too much focus on

expansion). They purchase the Hear Music as Starbucks retail music concept and record label in Cambridge, Massachusetts. Starbucks has also agreed to a partnership with Apple to collaborate on selling music as part of the “coffeehouse experience”.

In October 2006, Apple added a Starbucks Entertainment area to the iTunes Store, selling music similar to that played in Starbucks stores. Starbucks doesn't focus on their coffee instead of focusing in Music Entertainment. Starbucks has lower return on equity than peers. The company's five year average returns on equity have been lower than the industry average. Its five year average return on equity was 13. 65% as compared to the industry average of 15. 09%. The company would need to effectively manage its finances to ensure that returns are at par or higher than industry average. Starbucks is a premium brand commanding premium prices. As competitive forces increase, the company could be condescending by lower price rivals such as McDonalds, Costa Coffee or Coffee Bean.

Opportunities

The company has the opportunity to expand its global operations. Starbucks also have numerous overseas opportunities such as in Asia. Countries such as India and the Pacific Rim nations have the potential for development of new market. Indeed, it is even invading Europe, despite Europe's age-old coffee culture. Younger generation of locals prefers Starbucks like of environment. Most of the young generation like to hang out place like Starbucks which give them nice environment for having a fine latte. In this situation, Starbucks are using demographics segmentation strategy to target

the market, which are the younger generations who like to hang out.

Younger generation like to try out various kind of coffee instead of a normal black iced latte. More locals are seen to use Starbucks as a place for sale promotion or business discussion.

Threats

Starbucks success has led to the market entry of many competitors and copy cat brands that pose potential threats to them. These types of competitors are known as analyzers. Competitors that uses this strategy let other organizations take the risks of product development and marketing and then imitate or perhaps slightly enhance on which product that seems to work best. The market for coffee may not grow and stay in favour with customers; maybe another type of beverage or leisure activity will replace coffee in the future. This is because young generations nowadays prefer to hang out more in cyber cafes, shopping complexes, clubs, and discos. To them, coffee is a drink just for the old generations. Younger generations prefer to drink soda drinks rather than coffee and coffee-related products. Nowadays peoples are more aware of health consciousness. Consumer trends may go toward more healthy ways and away from caffeine. This is because high consumption of caffeine can lead to cancer and also cause addiction. This point will cause lots of health consciousness people to avoid consuming coffee. Starbucks are exposed to rises in the cost of coffee and dairy products. This is because Starbucks has competitors that keep on lowering their costs and offers promotions to attract customers. This causes price wars among competitors and they tend to cut costs gradually to get customers.

Conclusion:

Though India is considered a nation which loves tea, but in the recent years India's tradition of drinking tea changed to loving coffee and this has helped India to develop a new coffee lovers market. Analyzing and keeping the above facts in mind consider it considered a very intelligent move by Starbucks to enter India in a Joint Venture with TATA which provided them with a feasible and low risk option to invade India.

Starbucks appeals to local palates with New Delhi store. (2013). Retrieved from <http://www.firstpost.com/business/starbucks-appeals-to-local-palates-with-new-delhi-store-616716.html>

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