

Free research paper on investing in india: the coffee beanery

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Introduction

The turn of the century has witnessed massive changes in the business environment. Multinational Corporations have emerged and are doing business in vast locations of the globe. These multinational corporations have taken advantage of globalization and liberalized economies to expand their operations beyond continental and cultural borders. India, Malaysia, Singapore, China and similar emerging economies, commonly referred to as 'Tiger' economies, present excellent business locations for such globalized expansion. While such businesses appear to record massive growth, several challenges have come into play. For instance stiff competition, political influence, government regulation, cultural differences and dissimilar consumer behavior in different locations have a huge influence on international expansion . The Coffee Beanery is a chain of coffee stores with its origins in the United States. The company, just as other coffee houses, relies on economies of scale to report commendable profits and therefore seek to expand to vast locations. India is one such location. With immense growth in the recent past, India presents a good location for an international expansion by Coffee Beanery. This paper review will analyze the state of foreign direct investment (FDI) in India by reviewing the policies and government regulation regarding FDI. The paper will provide a succinct analysis of ways the company can mitigate foreign exchange risk as well as maximizing profits by leveraging on government policies. Finally, the research paper will propose the best management mechanism for Coffee Beanery in India.

The Coffee Beanery

The Coffee Beanery is a company concerned with the specialty coffee services industry. The company was started in 1976 at Dearbon Michigan by JoAnne and Julius Shaw. The company's main area of business is specialty coffee and their main interest has been franchising. Coffee Beanery has had a successful expansion pedigree both in the United States and beyond. In the United States alone, Coffee Beanery has presence in over 100 locations distributed in different locations around the country. At the international level, the business organization has taken advantage of emerging economies and expanded into China, Cyprus, United Arab Emirates, Guam, Qatar and Lebanon . The franchise is now one of the leading coffee houses in several nations including countries in Europe.

The franchise business that Coffee Beanery is concerned with is a model that has been used over decades of years. The concept is based on a business that has recorded much success and therefore invites others to open a branded business at a fee. Coffee beanery initially invested in a chain of coffee stores and after recorded results and attaining a recognized brand, the company allowed others to open branded stores and pay loyalty fees to the mother company. The company has however taken measures to provide the franchisees with coffee beans. The company sources it coffee from Guatemala, Kenya and Colombia and processes the coffee to the best of conditions . Therefore, franchisees that opt for coffee from the mother company can do so.

Review of specialty coffee industry in India

The specialty coffee or beverages industry has recorded immense growth in several parts of the globe. There appears to be big business opportunities in the world of specialty coffee. Several multinational companies are expanding and in the process registering commendable growth. One of the most successful multinational corporations in the international coffee business is Starbucks. On October 2012 Starbucks opened its first store in India with plans to invest another \$500 million over the next five years . The company appreciates that while most Indians still believe in a steaming cup of hot milky tea in the morning, there is a new and growing appetite for coffee gourmet coffee. Empirical evidence indicates that middle and upper class consumers represent the target for specialty business. Therefore, evidence of a growing middle class ensures a stable future for the specialty business. Starbucks intends to cash in the new Indian market for coffee.

While Starbucks may be the ' new kids on the block', other companies have had a long presence and an elaborate business organization in India . Several businesses have long ventured into the Indian coffee specialty market. Barista Lavazza is perhaps one of the most formidable competitions in the Indian coffee industry. Barista was a local Indian firm in formed in the year 2000 and embarked on a massive expansion program. With immense success recorded in its operations, international businesses gained interest for the company and was bought by the Italian coffee giant Lavazza. Today, the company, trading as Barista Lavazza, has operations in several locations in the India and is perhaps the biggest coffee chain in India

A similar business with a strong foundation in India is Café Coffee Day. The

company, also started in India, has recorded massive growth in India. With such growth, Café Coffee Day is one of the biggest coffee houses in India. These two organizations are biggest coffee businesses in India and they present both formidable competition and operational benchmark . While on one hand, they may appear as business hurdles, the Coffee Beanery may use the two businesses to analyze their weaknesses and counter such weaknesses.

Challenges and Advantages of FDI in India

India presents one of the greatest locations for FDI. This is due to the basic reason that India is both a heavily populated nation with a good access to international shipping and transport routes. India is the seventh largest and the second most populated nation in the world. The country is also known for its diversity in culture and convergence in its geography. Unlike China, India is seen as more liberal country due to two main reasons. One, India is a nation that is considered a good consumer of technology and therefore new technology seems to penetrate into India. No wonder several services companies in the United States have shifted most of their services into India. Secondly, India is commonwealth state and therefore an English speaking nation. For that reason, setting up business is relatively easy as most of the population can understand English making communication with the company's management rather easy. This presents one of the greatest advantages of investing in India.

Moreover, India is classified as one of the fastest economies in the world . Grouped into the new emerging economic superpowers, India economy is set

to grow at a monumental growth over the next decade. Together with China, Russia, Brazil and Mexico, commonly referred to as the BRIC economies, these nations are expected to be next driver of international growth . The reason for such growth has been attributed to a burgeoning middle class. The recent rise in Asia's economy is traced to a recent growth in the middle class that has been economically empowered and have since become a huge consuming populace. China, India, Brazil and Russia has a growing middle class mainly concentrated in Urban centers and this ready-to-spend community has become the prime target for most businesses. In the same regard, India has huge cities filled with a young working population . This population will be a good business opportunity for Coffee Beanery. One challenge that Coffee Beanery will have to contend with is the stiff business competition in the India coffee industry. The Indian community is one with several cultures and one culture that the community holds dearly is the preference of tea (chai) over coffee. To this end, tea has a bigger business as compared to coffee. In addition to a small section of the population enjoying coffee other coffee outlets such as Barista and Café Coffee Day present formidable competition.

Minimizing foreign Exchange risk

A foreign exchange risks is the possibility of a firm running into adverse cash flow problems due to the unpredictable nature of the foreign exchange rate. The foreign exchange business relies on the supply and demand of international currency vis-à-vis the current economic conditions of the host economy. Therefore, the rate tends to changes at a very fast rate due to

consistent changes in market forces. Either, foreign currency exchange business is subject to speculation and thus some distorted information may lead to unexpected changes in the exchanges rate as traders look either make money or mitigate the possibility of future losses. Hence, a company investing in a foreign market should make all effort to ensure that changes in exchanges rate does nor adverse their operations in the new investment frontier.

One of the best ways to mitigate the exchange rate risks is to have a hedging strategy. The hedging strategy ensures that a business entity gets to trade in foreign currency are a predetermined exchange rate. Commonly referred to as the FX option contract, the business enters into an agreement with a trader to exchange international currency at a certain price (strike price) without regard to changes in market prices.

Government policy and maximum profits

One policy that the Indian government has adopted with regard to FDI is the Automatic Entry Route for foreign investors . In this policy, the foreign investor does not require prior approval either by the Government of India or the Reserve Bank. Here, the company simply seeks a local partner and continues to register the business without much hurdles.

The automatic entry mode is very good in terms leveraging on maximizing profits. The company will be under local tax regime and therefore the company will operate as though it is a local firm. Either, other options such as funding and duty on imports will be the same for local businesses and therefore no additional charges will be levied on the company. With such an

entry mode, Coffee Beanery will enjoy a conducive business environment for operations.

Financial Management, Marketing and HR needs

The financial management structure that can be adopted by Coffee Beanery in India is dependent on the entry mode the firm will use. Eifert (2007), argues that the modes of entry can be divided into two broad categories. These are equity and non-equity modes. Equity modes of requires the multinational business to directly invest in the new market. A multinational business can either invest through a joint venture or via an independent venture. A joint venture is type investment in which the multinational company involves itself with strategic partners with similar interest. In this mode, the multinational firm usually seeks a local firm in order to have a strategic advantage since one of the partners originates from the target market. A second kind of equity mode, the independent venture, is where the parent international corporation decides to have a subsidiary of the business in which it fully owns the entire operation. Such independent venture may be done either by acquiring an existing business or by a new venture commonly referred to as Greenfield venture .

Coffee Beanery is a business in the catering sector. Such businesses rule out non equity investment such as export or contractual modes. This is due to the fact that a gourmet business is all about service and therefore non equity entry mode severs the effort to maintain quality services. Thus the financial management system will either be based on a joint venture capital system and Greenfield venture.

Marketing

There are several marketing strategies that an international business seeking to expand can adopt as they seek to expand into new markets.

According to Hitt, Ireland, & Hoskisson, (2010), delving into a new market first begins by making a decision on the approach the company will adopt with regard to the product. Common marketing strategy that can be adopted with respect to the product is extension . The extension strategy is where the international businesses corporation simply introduces its original product to the new market without any alterations. This is strategy is associated with products that have a global reputation such as Coca Cola or gourmet coffee. Hence, in marketing such a product, reference is made to the global success of the product.

A different strategy that can be adopted is adaptation. This strategy appreciates that different markets have different consumer behavior and therefore adjusting the product to suit the taste of the new market is only suitable . A frequent case is where businesses from developed nations are seeking to invest in developing countries. Here, multinational firms are forced to adjust pricing and also other features that may not suite the new frontier.

Coffee Beanery has the advantage of using both strategies in its expansion into India. This may be so because some of the products, particularly gourmet coffee, have internationally recognized methods of preparation and therefore altering the product may be detrimental to the business. In the same regard, exquisitely identified international cuisine cannot be altered.

Therefore, in advertising and promoting such product, Coffee Beanery should

maintain that product is at internationally recognized standards. On the other side, other components of the menu may be altered to meet Indian Standards.

On the human resource side, the company may rely on more of Indians at the helm of company with a few expatriates to follow up on the financial side. This will allow company to do much on the local scene as compared to a company run by foreigners.

Conclusion

The 21st century has experienced enormous improvement in information technology and globalization making the world smaller and smaller.

International business conglomerates have taken the advantages of globalization and expanded into diverse geographical locations. The main objective of these multinational businesses is to improve their balance sheets as well as report profits. India presents one of the best locations of doing business. India's population is now composed of an affluent middle class that could provide the best clientele for such businesses as The Coffee Beanery. The government of the India has also taken concerted measures towards ensuring a free business environment. However, Coffee Beanery has the challenge of addressing the patent issue that prevails in India as well as stiff competition from a myriad of gourmet outlets in the Indian market.

Additionally, the firm has to decide on the entry mode into the new market as well as the product promotional strategy as they venture into the new market. A Greenfield venture as well as adapting different product marketing strategies may lead to desirable results for the firm. All in all, India is ripe for

business and it will be detrimental for any growth oriented business to overlook such an emerging economy.

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