

# An india pestle analysis economics essay



**ASSIGN  
BUSTER**

## **INTRODUCTION**

Starbucks is a multinational espresso bar. The first Starbucks opened in 1971 and took their name from the classical story of Moby Dick, since it appeared that the name was adequate for the company that imported the best coffee for the citizens of Seattle. Howard Schultz bought this coffee company in Seattle in 1987 and soon he managed to transform the six local coffee shops to a public national company with over 250, 000 employees and over 1300 stores. During the decade of the 2000's, Starbucks had opened coffee shops in more than 43 countries and over 15, 500 regions. Only in 2002 Starbucks featured more than 5600 coffee shops. Now Starbucks is the global market leader of espresso bars ( Starbucks , 2012 ).

Over the last few years Starbucks have decided to expand to the diverse market of India. India is the second biggest country in the world in terms of population and seventh biggest by geographical area. India nowadays is considered to be one of the emerging powers. India's economy is one of the fastest expanding in the world, and it is forecasted that India will be the fifth largest consumer market by 2025. If today the Indian middle class counts 300 million people, a number compared to the entire EU market, it is only expected for this number to grow over the years, as this new market grows in power ( Worldscibooks , 2012 ).

## **INDIA PESTLE ANALYSIS**

In order to assess Starbuck's decision to expand their business activities in the Indian market, it is essential to analyse all the factors which affect such decisions. These factors include the political, economic, social, technological,

ethical and environmental issues. For that reason the PESTLE analysis is used.

## **Political Factors**

Political factors refer to the governmental policy in terms of the economy, the goods and services provided, political decisions made in vital areas of business, education and workforce, as well as the decision made concerning infrastructure.

**Political Situation:** The political situation in India can be characterized as stable. It has a federal republic Democracy, which comprises political stability with effective governmental policies.

**Privatization:** India has reduced the political interface in the management of enterprises, thus leading to improved efficiency and productivity of businesses. Privatization in India has been carried out in several stages; such as, deregulation, de - reservation, and disinvestment ( Privatization in South Asia )

## **Economical Factors**

Economical factors include interest rates, taxation changes, economic growth, inflation and exchange rates.

**Taxation Policy:** India features a well structured tax system. There are several different taxes or mandatory contributions that a business in India has to make. These include a corporate income tax, Central sales tax, social security contributions, employee's state insurance contribution, dividend tax, property tax, fuel tax, tax on insurance contracts, vehicle tax ( pollution

tax ), state VAT, CENVAT ( Excise Duty ), tax on interest, income surcharge, education cess and secondary and higher education cess ( doingbusiness , 2012 ). Tax system in India is considered to be favorable for a business expansion ( KPMG, 2012 ).

Economic reform: Since 1991 India has started to move towards a a more industrial policy. The Government reduced the number of industries under compulsory licensing to six , Policy towards foreign capital was liberalized , and the Foreign Investment Promotion Board ( FIPB ) was setup to promote and channelize foreign investment in India ( Ahuja et al, 2006 ).

Interest rates: An increase in interest rates means that investment and expansion plans are suspended as a result of falling sales for Starbucks and their suppliers. Also, mortgage repayments are rising and therefore, consumers have less disposable income to spend on luxury items such as coffee. Low interest rates should have the opposite effect. With India's interest rate as high as 8%, a business expansion at the present could prove to be dangerous ( Bank of India , 2012 ).

Inflation: Inflation is a prerequisite for an increase in prices. Business costs will rise for Starbucks, in the event of an inflation growth, as well as the costs of wear and therefore the menu cost will increase too and Starbucks will have to create new pricing lists. Furthermore uncertainty is created in the decision making process, because inflation redistributes money from lenders to borrowers. With the Indian inflation rates varying around 9 and 9, 5 % such redistribution of income is likely to take place ( Trading Economics , 2012 ).

## **Social Factors**

Social changes in a country has a significant impact on the demand for a firm's products, as well as the availability and willingness of people to work.

Demographics: India's population is aging. From a total of almost 1, 1 billion people, a 31, 8 % are under 14 years old, 63, 1 % are between 15 and 64 years old and a 5. 1 % is over 65 years. Thus the greatest percentage of population is the working population.

Lifestyle: India's lifestyle is more connected to tea, the production and consumption of which is considered more of a small ceremony than just a habit. However coffee consumption has started to augment between people over 15 years old, who consider consuming coffee as a sign of adopting a more common and global lifestyle ( Srivastava , 2002 ).

Attitude towards work and leisure: Indian culture differs in terms of leisure days in comparison with the rest of the world. As Sunday is considered to be a leisure day for most of the world, this does not correspond to the Indian culture, as for them Friday is the official leisure day.

## **Technological Factors**

New technologies create new products and new processes. India is already a big market in the mobile sector and new operators will launch there their services soon.

Software: The annual growth rate of India's software exports has been consistently over 50 percent since 1991. More specifically India's software

industry has grown to 5, 4 billion dollars in the beginning of the 2000's  
( Indian Embassy , 2012 )

Power Sector: India has a great percentage of self sufficiency in terms of total power energy needs. The Government of India and its agencies and institutes have recently developed a number of plans and strategies involving power sector technology ( International Energy Agency , 2011 ).

## **Legal factors**

The factors influence the legal environment in which a company usually operates. In recent years significant changes have been made in the legal environment in India which influence the way in which companies operate. Such changes include the disability discrimination legislation, an increase in the minimum wage and greater requirements for firms to recycle. In general legal changes can affect a firm's costs and demand .

International Trade regulations: After 1992 India has started to implement regulations which strengthen imports and exports in the country. Through the foreign trade act, provisions for further development are made, as well as routes of collaboration between the central government and the foreign trade are established ( Indian Government , 2012 ).

## **Environmental Factors**

Environmental Factors include the weather and climate change. The general move towards more environmental friendly products and processes is affecting demand patterns and creating business opportunities.

Climate: The climate in India with the long monsoons and the equally long dry periods creates a challenge which needs to be met by the organizations. Infrastructure has to be such that can make businesses viable in such diverse climate.

Air pollution: Of the 3 million premature deaths in the world that occur each year due to outdoor and indoor air pollution, the highest number are assessed to occur in India. Organizations have to establish internal regulations and standards in order to help in the decrease of this ratio.

## **COMPETITOR ANALYSIS**

Five forces Porter competitor analysis is an important tool for analyzing the structure of an industry on strategic processes. It helps the trader to stand out in a competitive environment. Porter has identified five competitive forces that shape every industry and every market. These are: The threat of entry, buyer power, the power of suppliers, threat of substitutes and competitive rivalry.

The threat of entry includes: Economies of scale, high or low entry costs, not an ease of access to distribution channels, the cost advantages not related to the firm size, the action of the government and the importance of diversification. There will always be a constant pressure on Starbucks to react and adapt to the pressures of new entrants. The easier it is for a new market entry, the greater competition in the market. For that purpose Starbucks have signed an MoU with Tata Coffee in India, which allows them a future market entry thus balancing the potential featured threats ( Starbucks , 2011 ). Since local foreign-investment rules limit a foreign single-brand

retailer to holding 51% of its joint venture with a local partner, it might prove to be a challenge for Starbucks to enter to the Indian market.

The power of buyers: Buying power is likely to be high under certain conditions. A concentration of buyers may occur, especially if the volume of purchases is high, the industry consists of many small businesses, there are alternative sources of supply, cost of raw materials is a high proportion of total costs, the cost of switching is low and poses little risk. The cost of switching between suppliers is low for Starbucks, especially due to the large number of suppliers Starbucks have.

The power of suppliers: If the market is dominated by a few large suppliers and instead of multiple sources, the bargaining power of suppliers is likely to be high, despite the fact that suppliers usually have a limited amount of power. With Starbucks being the most famous

Coffee chain stores, with sales worldwide of \$ 3. 28 billion in 2002 and continuing to expand, they should still be able to require coffee beans for some time. It's safe to say that suppliers need Starbucks equally if not more than Starbucks that need them. However, having signed an MoU with Tata Coffee in India, the power of buyers might prove to be high in this case and Starbucks might need to seek for alternative buyers in the Indian markets.

The threat of substitutes: This threat occurs when a need for substitution appears and therefore substitutes occur for some products. An example would be for Starbucks to offer an alternative drink if a customer wants to switch from using coffee to tea. " Indianizing " the Starbucks products so that they meet the taste of Indians will be a challenge for the people in



Starbucks. Some of the moves likely to be made are adding some Indian teas, coffees and food, such as vegetarian sandwiches.

**Competitive Rivalry:** Many factors contribute to the intense rivalry among existing competitors in an industry. This is most likely to be high when the entry is possible, when the threat of substitute products exists, and when suppliers and buyers are seeking to exercise market control. For this reason, the competitive rivalry is in the center of the diagram. Competitive rivalry in India will be high for Starbucks, since the coffee houses are considered as the “ first and foremost meeting places”. Competitors of Starbucks would include 2200 coffee cafes amongst which, Cafe Coffee Day, a unit of Amalgamated Bean Coffee Trading Co., which now is the largest chain of coffee retail stores, the Luigi Lavazza SpA-run Barista Lavazza chain of espresso bars and Whitbread PLC-operated Costa Coffee stores as well.

## **BUSINESS STRATEGY**

By signing an MoU with Tata Coffee in India, Starbucks has chosen the alliance strategy for entering this new market, and more specifically has achieved so through a joint venture. A joint venture is an association of persons, natural or legal, by which they seek a common purpose through the use of common means. The intended purpose of a Joint Venture ( and hence also its length ) differs from that of other business strategies and company types in the sense that it is not a constant but a unique business type and is usually associated directly with a certain project.

The option of a joint venture was only natural due to the local foreign investment laws which occur in India. A joint venture is a constantly more

commonly used method for internationalization, which guarantees low operational cost, a better competitive position and learning of new business capabilities. In the case of Tata Starbucks Ltd, two companies formed the venture, an international and a local company . The most crucial conditions for the formation of a joint venture are possession of additional benefits, the timing of opportunities for both firms and the existence of barriers to full union, either economic, financial, legal or political. The venture, Tata Starbucks Ltd, will spend 400 crore initially and open 50 Starbucks cafe across the country by the end of the calendar year. The initial stores planned in Delhi and Mumbai in August. The move is part of the \$ 10-billion-plus US firm's strategy to focus on emerging markets such as India and China to drive future growth rates. Although some of the cafes will be stand alone outlets, some others might be roofed under the Tata hotel chain Taj.

A Joint venture is a controversial entry mode to new markets for a company, as it minimizes the cost and the risk in rational levels for both venturing companies, while it also offers the opportunity to the one to learn from the other. Furthermore it is yet another way of entering markets in countries where constraints exist and it is also considered as a method of exchanging technological knowledge and the development of international experience in the contemporary global environment. Apart from the aforementioned benefits however, joint ventures feature some disadvantages. The main disadvantage of this business strategy is that the total control of all the parameters of the venture is not feasible and therefore it is possible that problems might occur, mostly because of the lack of full correlation between contribution and effect, even though this situation is more structured than

the rest. It is of course necessary that the participants of the joint venture must be able to protect their strategic advantages, the potential to share control and of course to compromise to the demands of each culture. It is considered of great importance that a venture takes place between the management of the companies involved, which can either strengthen or dissolve a joint venture.

The company's value chain is very important for any manager, as they are required to optimize every link of the chain in order to maximize the intake of the customer value. For Starbucks, the value chain of suppliers is associated with the place of origin of the coffee beans they use to manufacture the final product. The best coffee varieties are selected from around the world with the most rich and interesting flavor. They test more than 150, 000 cups of coffee a year in order to select the best flavored coffee beans. Usually the selected variety of Arabica beans has the most refined taste ( Starbucks, 201 ). Understanding the importance of the value chain suppliers, Starbucks maintain close relationships with coffee exporters, with whom they work every day and whom they train constantly. If Starbucks wants to use the joint venture with Tata Coffee in order to promote the strategy of value creation they have already established internationally, they must maintain their position towards the quality of the product serve and even look for alternatives suppliers closer to the Indian district apart from Tata Coffee.

However the value chain needs to be associated with the resources the company has. The company's value chain consists of:

The infrastructure of the company, which in the case of Starbucks is how they want to run their organization and the implementation of optimal planning, economic policy and quality control. Starbucks has decided to produce high quality coffee and quality control is directly related to this decision.

The administration of human resources, on which Starbucks has taken important decisions, such as that all employees are equal. Even the waiters who are partly employed receive bonuses for their work, such as free coffee and health coverage to feel that their company appreciates them and gives them value, so that they can and will in turn provide high quality services, thus increasing the value of the customers.

Technology Development is also crucial, which Starbucks uses in every department of the company, either to train their workforce, or for the manufacturing of their products, or to control their stock.

Supply, ie the way in which Starbucks acquired the highest quality of coffee beans.

Operations, or else the procedures followed for the manufacturing of products.

Internal and external logistical structures, namely the processes of receiving the coffee beans from suppliers, storing them and the procedures to be followed until the end user receives the purchased product.

The service, which covers all activities that enhance the value of the product. In this area the staff is included, which ensures that every customer who

visits Starbucks has a unique experience, thanks to the friendliness of staff, their efficiency of service and product quality.

All these create the competitive advantage of the company, which offers the added value to consumers / customers. The fundamental capabilities provide businesses significant competitive advantage through the activities, skills and expertise and general knowledge to produce the product. The comparative advantage of this offers increased value to customers. The goal is for Starbucks to focus their attention on the fundamental skills that really affect their competitive advantage. For Starbucks, this includes knowledge about the best grown coffee beans, what is the best way to prepare the final product in order to make the best cup of coffee, but also knowledge of how best to approach a foreign market. The comparative advantage of high value and has helped them both to diversify their product and to assume leadership in the field of coffees and drinks.