

Problems faced by starbucks in india



Jump to: SWOT Analysis of Starbucks| PEST Analysis of Starbucks

Starbucks Coffee Company has gone through some major makeovers throughout its existence. Starbucks was initially a small entrepreneurial business partnership, which sold only roasted coffee beans, tea, and spices. Later on, Starbucks took on a director by the name of Howard Schultz, who had great vision for the company, but whose ideas were rejected. Schultz went on to later purchase the corporation and grow it to what we now know as one of the largest and most loved coffee chains in the country. Having expanded into several other countries, such as Canada, Japan, and China, Starbucks yearned to step foot in the Indian market and leave its footprint there. However, this invasion would not be as easy as they had hoped.

Case 7: Starbucks Coffee Company

Founded in 1971 by Gordon Bowker, Jerry Baldwin, and Zez Siegel, Starbucks was simply a place for consumers to purchase high quality, dark roasted, whole coffee beans. As is the coffee addiction trend, this was a popular investment for the partners. The business did very well and had expanded to five retail outlets within ten years. In 1982, Howard Schultz joined the company as the director of Retail Operations and Marketing. While on a business trip in Milan, Italy, he had an epiphany. Fresh brewed coffee was not limited to households, as Milan alone had 1, 500 coffee bars. He wished to expand Starbucks to sell freshly brewed coffee as well, and to bring the coffee bar experience of Italy home to the states and to Starbucks' clientele. Schultz' suggestions were shot down, pushing him to leave the company and give life to his visions on his own. Having worked out many initially neglected concepts, his coffee bar, Il Giornale, became a huge success, reaching

around \$500, 000 annual sales by mid 1987 and having attained three locations, one of which was opened in Canada.

Current Situation

In 2006, Schultz announced Starbucks' intent to expand into the countries of Russia and India. India's conditions for market entry were pretty favorable, and it seemed like a great time to make their move. The population is high and the majority of the population is youthful and is expected to remain youthful for years to come. It has become a place for many companies to outsource production and services, and is simply all around a great opportunity. However, there are also constraining factors for economic growth. Yet when the government announced permission, per their approval and certain restrictions, for Foreign Direct Investment in retail trade of single brand products, several chains announced their intentions to take advantage of this opportunity.

Current Performance

Starbucks coffee houses serviced, entertained, and provided a cultural atmosphere to over 40 million customers in its 7, 600 retail locations in the United States alone. Starbucks entered markets regions at daily rates through a strategic plan that phenomenally gained success in China, Asia, and Japan becoming the leader in specialty coffee around the world. By the end of 2006 and with careful environmentally scanning through strategic measures based on the objectives, mission, and having a vision for the Starbucks brand, Starbucks entered joint ventures, partnerships, and market segments which increased its sales to over 300% reaching \$103 million in 2 years; that is, from 1990 to 1992. Starbucks offers an assortment and well

desired variety of premium coffee fitted to the cultures of its retail outlet locations. Despite the intense competition Starbucks next destination was to reach into the market segments of India and Russia; however, many economic, technological, political-legal, and socio-cultural factors existed. Starbucks faced constraints of encompassing the productions of its high quality premium coffee beans at the risk of distributions and control of workers well-being, and its established trade relationships.

Corporate Governance . Having seen the accuracy of his visions in his own coffee bars, Schultz decided to purchase the assets, including the company name, of Starbucks when they became available for sale in 1987. He refaced his Il Giornale stores to Starbucks stores, and promised his investors growth. Schultz then began his journey to take over the world, several Starbucks locations at a time. In 1992, after seeing drastic growth over the past three years, the corporation went public, raising \$29 million from their Initial Public Offering. Schultz then went on to dominate the U. S. market with the company's high quality products and services. After having taken over the market, the company began working on new products as well. Initially, Schultz refused to franchise the company name for fear that he would lose the business model he had worked so hard to build. He wanted to ensure that customers everywhere received the same quality, experience, knowledge, and service during their visit no matter what location they walked in to. Even partnerships were closely examined and evaluated before receiving approval. Corporations had to be reputable and value the Starbucks name and image if they wished to serve the brand.

Current Performance. Since the inception of Starbucks after being purchased by Schultz, the corporation has been growing rapidly and successfully in North America. In 1994, the company was formed into Starbucks International, wishing to expand its footprint to other countries. The company had three goals in mind: prevent competition from gaining the lead in other countries, benefit from the high number of coffee drinkers in other populations, and build on the growing demand for Western brands. Starbucks began opening international locations in 1996. Having done their homework, Starbucks saw great opportunity in Japan, as it was a rapidly growing market for coffee, especially specialty coffee, and chose that as their first targeted location. The company continued to grow into other countries and dominate markets well into the early 2000s. Japan is the company's largest revenue source outside of North America, and the chain continues to thrive in all the countries it occupies.

Strategic Posture . Starbucks has announced their intention to enter the Indian market numerous times now. In order to enter the market successfully and strongly, and with the intent to remain there for years to come, they need to find a trustworthy, competent partner. The company is still working on finding that partner, in which they can put their trust, to hold true to the Starbucks name and brand. Although the Indian market is a great opportunity, the company holds its values and business model to be more important. Starbucks has made efforts to stay green by using recycled cups, and even revamping the menu to include healthier selections. They have formed Starbucks Entertainment, are planning to publish books, and coming up with new ideas on a regular basis. " Schultz is dead serious about taking

his company Hollywood – and beyond (Horovitz, 2006).” Schultz has worked hard to build and grow his brand. Therefore, they will not partner with simply anyone.

Discussion

Within the industry markets that Starbucks faces is a problem reflected by the absence of empowerment and the responsibility of co-operative structures that go beyond the global supply chains engaged in ‘shared’ responsibilities within poorer countries. Starbucks faced a dilemma regarding the well-being of its workers where constraints of resources, health concern, and fair trade agreements rested on the consumers buying decision to buy fair trade products. There seems to be big plans in the making for corporate conglomerates with no real social responsibilities and only strategic maneuvering; yet, Starbucks marketing mechanism was not through the media but by word of mouth which was a far reach into the homes and lives of those who consumed not just coffee or tea but Starbucks coffee.

Starbucks coffee now left with its very own strategy and vision embraced by a coffee culture is threatened in a market that has to contend with its workers and its coffee producers well-being and earmarked by “ threats of market-based sanctions in the form of reputational damage” (MacDonald, 2007) if it failed to comply with activist demands regarding health concerns and economic governance.

What are the strengths and weaknesses of Starbucks' International?

What are the opportunities and threats facing Starbucks'?

SWOT ANALYSIS

Strengths

- #1 specialty coffee retailer
- 11, 000 stores in 36 countries w/ 10, 000 employees
- 40 Million customers weekly
- Uncompromising quality, customer service and relationships (captured social aspect of coffee)
- Knowledge (advice in brewing)
- Sophisticated Store development (6-mo. opening schedule)
- Expansion strategy (20 more stores 1st 2 yrs)
- Took advantage of higher coffee consumption rates in other countries
- Used joint ventures and licenses to enter foreign markets
- Product pricing
- Large Company (quick to expand)

Weaknesses

- Too many stores in the same radius
- Cultural issues (Japan food & coffee), no smoking
- High cost (Rent & labor)
- No In house facilities (Roasting)
- Less control of stores on US soil
- Tea drinking countries opposed coffee

Opportunities

- Starbucks to offer the finest coffee in the world to India within the next 18 months.
- Starbucks had an awesome image, more than offering fine coffee, great music, great people, a comfortable/upbeat meeting place, and sound advice on brewing at home.
- Made locations in high-traffic (e. g. Malls, busy street corners, and grocery stores)
- Starbucks strategically gained a foothold in the market it entered and quickly moved on to the next market.
- Starbucks became the leading player in Boston overnight
- Starbucks was able to build a plan to open stores daily.

Threats

- Starbucks postponed entry into India in the face of problems in Japan and recently entered China
- Japan originally a tea drinking country, with a per capita consumption of coffee in 1965 of 300g/day
- Starbucks was opening stores too close to each other which affected their brand image
- Starbucks gained intense competition who took advantage by including elaborate food menus, and had separate smoking areas.
- Japan had high rent and cost of labor
- China was traditionally a tea drinking company

Opportunities (continuation):

Much like China, India has traditionally been a tea culture, yet a growing coffee culture is emerging, among the country's young adults.

Starbucks did joint ventures, licensing, and partnerships internationally.

Joint Ventures helped to get their name out there with a reputable company already doing business there for years so they have the "know-how" when it comes to the customers of that region and their demands

Threats (continuation):

China had inadequate infrastructure, bureaucracy, regulatory and foreign investment controls, the reservation of key products for small scale industries, and high fiscal deficits constrained economic growth in India

India was the largest producer and consumer of tea

Starbucks faced the challenge of the increasing obesity rate in India.

Starbucks was the target of consumer health groups against high-calorie and high fat products which led to obesity, heart disease and cancer

What are the strategic factors facing Starbucks? PEST Analysis

The strategic factors facing Starbucks is maintaining its identity while pursuing its product reach within the international markets where its premium prices for its products are served in poorer countries.

Political and Legal factors: Starbucks sought after potential joint venture partnerships in India and Russia.

To prepare for the interpersonal business relationships, partnerships and future business endeavors, Starbucks sought to acquire a competitive intelligent strategy by gathering key information such as scouting locations and meeting with government officials prior to entering these markets to fully gain the additional market knowledge required for its success.

Government actions impacted Starbucks as a challenge with exchange control, trade agreements, trademarks, and other foreign regulations all of which protected the working farmers and their rights.

Economic Factors: The Starbucks product and service offerings allowed in Japan were twice that much in the United States and yet Starbucks incurred huge losses due to the surmounting consumption of the Japanese intake of its gourmet and premium priced coffees. In 1997 alone Starbucks opened 10 stores in prime locations; thereafter, Starbucks reined with profits from the 3. 17 grams of coffee consumption per day allowing in 2002 Starbucks to open well over 360 stores. The strategy Starbucks initialized in its mission, objectives, and vision to be a success was to be the first to move to get a head start on the competition; however, analysis indicated that Starbucks cultural and high traffic locations were too close to one another and the socio-cultural aspect this affected the Starbucks brand image.

Starbucks coffee entered new markets with new leadership that recognized the culture, history, and quality behind premium coffee; however, the no-smoking policy, high rent, and cost of labor in Japan posed great challenges to Starbucks.

Starbucks incurred additional losses with the exchange of materials.

Starbucks only offered India ground roasted premium coffee beans, Japan did not have a roasting facility; therefore, Starbucks paid additional shipping costs to allow shipment of its coffee from its roasting facility in Kent to Japan.

Socioeconomical Factors: The vision imposed by Mr. Schultz, the new owner of Starbucks, no longer wanted coffee to be sold as a produce but instead wanted the Starbucks coffee to reach into the heart and soul of its consumers. The coffee consumption rates in different international markets such as in the Asian markets where coffee market is in the development stage, Starbucks faced the challenge of having to educate the market and future consumers about the quality of coffee, the experience, and the idea of coffee away from health concerns.

Pricing decisions in India posed a great challenge to Starbucks due to the increase in disposable income and economic situations that affected their idea about coffee which included:

- Shifts in demographics and social trends such as the age of the coffee consumer.
- The obesity rates which have an impact on corporate responsibility programs.
- Competitive disadvantages over better service than Starbucks Western style.

Technological factors: Maintaining the Starbucks coffee culture without impact to its foreign trade relations impacted the commerce in China many were opposed to the Starbucks culture of a Western coffee chain.

In China the traditional consumption of tea was dominant over coffee and preference was made to instant coffee as opposed to the Starbucks premium fresh roasted coffee partly because coffee was mainly for sophisticated urban consumers.

Does Starbucks' possess a distinctive competency? If 'yes', does it fit the Indian market?

We absolutely believe that Starbucks does possess a distinctive competency. They are the leader in high quality, dark roasted, whole Arabica coffee beans. They also offer such a large variety of flavors. Their extensive product line also appeals to the different tastes of their heterogeneous consumer base. Given that the company has expanded to encompass a lounge, creating a "homey" feeling, and serve food items as well, the atmosphere is very inviting and welcoming, attracting the variant crowd.

The environment Starbucks locations create for the public would mesh extremely well in the Indian market. Coffee consumption in India is growing drastically, although too different likings. The current coffee bars in India provide some similar environments to that of Starbucks, and the ones which are different appear to be simple enough to where Starbucks can meet the needs of the Indian consumers, should it choose to adjust slightly. For example, there is a Garden Café, and a Cyber Café, as well as a Highway Café. If Starbucks wishes to stay competitive and can do so without hurting their current image, they can create similar cafés with the same type of peaceful "home away from home" environment which they currently strive to achieve.

However, simply due to the number of coffee shops in India, and the fact that much of the Indian population has no preference for filtered coffee over instant, it may present a difficult situation for Starbucks to remain competitive as far as pricing, quality, and overall reasons why the consumers should select their brand over the existing ones. During a company conference call on May 3, 2006, Howard Schultz wrapped up his portion of the discussion with a statement of motivation and goal declaration. " Looking ahead, the ambition and the level of enthusiasm to continue to grow present us with greater opportunity than ever before. With a long growth trajectory and so much opportunity ahead, we will strive to continue to provide the highest quality products and service and protect our brand and reputation as we innovate and grow into the future (Schultz, 2006)."

What are the keys to success in Starbucks' operating in India?

For Starbucks to be successful in India they must concentrate on the home country's food habits and especially the current and upcoming Indian beverage market.

In the United States the Starbucks current menu consist of muffins, yogurts, sandwiches, paninis, cookies and cakes. Though these delicious treats are suffice to the general public from area to area here in the states, the diversity of India's culture make it thus that dishes are distinctive from one region to another. What we do know is that spicy foods and sweet foods remained popular across the board in India as well as wheat's, rice and gravy based dishes.

What this means for Starbucks is that certain locations will have to make offerings that are very specific to that region as there is no one size fits all for this culture. If Starbucks were to offer dishes at its locations, they would need to have the food cooked and prepared in a way that was native to the residents. Starbucks would also need to take in account if the locations would be primarily in northern or southern India, as South Indians consume most coffee.

Another key to Starbucks success is how they introduce themselves into the Indian beverage market. Similar to the food habits of Indian residents, taste and preferences for beverages is determined by your geographic location. Most Northern Indians are tea drinkers and an occasional coffee drinker; I suggest Starbucks should figure out how to convert those casual drinkers to full time coffee drinkers. The reason being is the growth of quick service chains that is continually expanding in India, in an article by The Economic Times they expressed that the quick-service restaurant market is worth \$13 billion and grows roughly 25-30 percent a year and that India's entire food service market is worth \$64 billion (" Starbucks, dunkin donuts," 2011). Because of this large amount of growth, Starbucks target market should be the young and the trendy. India's population has 700 million people who are under the age of 30 which accounts for 60 percent of their population (" Starbucks, dunkin donuts," 2011). For example hometown cafes like Café Coffee Day, Italian Barista and Costa are receiving positive responses from the youth and these cafés are gaining popularity among their group (Mohapatra, 2010).

With the consistent growth of the coffee industry at 5 to 6 percent a year (Mohapatra, 2010) I see no reason why Starbucks shouldn't be successful in India if our suggestions are followed.

What products does Starbucks' offer?

Starbucks coffee is an expensive high premium coffee grown from Arabica beans, which accounts for approximately 10% of the total worldwide coffee purchases. The coffees are sold under the Starbucks, Seattle's Best Coffee and Torrefazione Italia brands and include:

Hot drinks: Venti, Grande, Tall, and Short and

Cold drinks: Iced Venti, Iced Grande, Iced Tall, and Frappucino to name a few.

Starbucks Coffees: Regular, Decaffeinated, Starbucks VIA (ready brew French roast), Starbucks Reserve (exotic, rare, and exquisite coffees), Coffee from mild to extra bold.

Starbucks international: Starbucks Latin American, Africa Arabia, Asia Pacific, Multi-Regional, Specialty, Organic, Whole Bean, and Ground coffees, syrups, and powdered blends. Starbucks Beijing offered coffee beverages, 15 varieties and blends of the finest Arabica coffee beans, fresh baked pastries and desserts. Starbucks Japan included an elaborate food menu.

Starbucks offers coffee pods, filter packs, portion packs, and instant coffee products.

Starbucks offers coffee gifts, gift boxes, gift packs, brewing equipment, drink-ware including espresso machines, coffee makers, coffee presses, grinders, teakettles, teapots and accessories including gift cards and delivery of its products.

Starbucks stores also offered fresh pastries and sandwiches. (Japan)

Are circumstances appropriate at this time for Starbucks' to successfully enter into the Indian market?

I believe that circumstances are appropriate for Starbucks' to successfully enter into India. With a newly signed agreement with Tata and a growing young adult generation, Starbucks' can have a strong impact on the coffee market in India. Starbucks' remain rooted to its core beliefs and objectives if it is going to succeed in India. The agreement with Tata, a gold medal Robusta coffee producer, shows that Starbucks' is not abandoning its premium and rich culture. It will continue to produce its tasteful and premium coffee to the India urban community. India's population is also one of the youngest in the world. According to a study by 2020 the average age of an Indian person would be 29 years old. This young generation will help shift the country from a primary based tea drinking company to more of a coffee based country. This younger generation in India also has a taste for Western culture. Starbucks' is a strong Western company that can have a strong impact in India.

Starbucks' will face challenges with coffee competitors that have made their imprint on the Indian community. These competitors are Café Coffee Day, Qwiky's, and Barista. Starbucks' still has competitive western advantage

when compared to these other competitors. Their prices are also said to be in line with its competitors, giving Starbucks' a chance to succeed. To enter the Indian market successfully they must understand that the Indian people are focused on leading a healthy lifestyle. Starbucks' high calorie, fat products will pose a challenge of successfully entering the market. With good management and a strong strategic plan, Starbucks' can successfully conquer these challenges in India. The Indian market is growing and Starbucks' has the culture and product to succeed.

What are the 3 reasons that Starbucks' International pursues international expansion?

Starbucks International pursues international expansion with the sole desire to recreate the Italian coffee culture with these important variables in mind.

1. To take on its competition early on from gaining a head start in international markets.
2. To build upon its growing desire for the Western brands
3. To benefit from the higher coffee consumption rates in different countries.

Monitored Trends in the International Society and International Natural Environments

Political-Legal: Environmental protection laws, foreign trade regulations, stability of government, attitudes towards foreign companies, tax laws, and anti-trust regulations impacts the governance and the strategies preempted by Starbucks.

Economic: GDP, Inflation rates, Wage/Price controls, Disposable and discretionary income of international markets reflects consumer demands and sales.

Sociocultural: Lifestyle changes, rate of family formation, growth rate of population, age distribution of population, health care, living wage, and unionization.

Technological: Total industry spending for R&D, focus of technology efforts, patent protection, new products, and environmental awareness standards that would allow for better management of crops, more efficient farming, reduction in cost, increase yields, and decrease environmental impact.

8b. Are each of these criteria met in the Indian Market?

Yes, these 3 criteria are met in the Indian market. Since there are only three big name coffee spots in India, Starbucks' is acting early before other coffee companies in North America or Europe mimic their idea of entering the Indian market. Many retail giants are entering India at this time, it is important that Starbucks' enters to get a head start on the competition. By entering now Starbucks' may obtain certain locations that are likely to be profitable before competitors or other retail giants acquire the space. Since Western brands are popular among the younger generation in India, Starbucks' has met this criterion in the Indian market. With one of the youngest populations in the world, the Indian market will see an increased demand for Western products by this generation. Starbucks' comfortable atmosphere and its ambiance of an extended family will make coffee more beloved in the Indian market if they choose to enter. Coffee consumption has

also seen a steady rise recently. In 2005 coffee consumption in India jumped to 85, 000 tons. Starbucks' is hopeful that this consumption will steadily increase over the years. If they enter the market now they have a strong chance of succeeding. With the increased consumption of coffee in this primarily tea-based country, the Indian market has met Starbucks' International criteria of benefiting from a growing coffee consumption rate.