

# Positioning of Starbucks in India: Issues and Challenges

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**Abstract:** Indian consumer market's magnetism is attracting various foreign players specifically in the retail sector as India has been placed at the first position in the category of countries with the best opportunity for investment in the retail sector in a survey by A.T. Kearney's 2005 on Global Retail Development. The rising disposable incomes of the middle class and youth's proportion in the total population are the main reasons which attracted Starbucks products in India. This case is an attempt to put light on various opportunities and challenges which Starbucks coffee may face in a country like India which differs in many ways from other markets where Starbucks coffee is the market leader. In a country like India which differs in many ways from other markets where Starbucks coffee is the market leader, will it face opportunities or threats? On the surface they do appear to be succeeding where others are failing. If anybody is going crack the Indian market from the outside, it could well be Starbucks.

**Keywords:** Brand Awareness, Opposition Share, Strategic Alliance.

## I Introduction

The largest coffee house in the world, Starbucks was established by Jerry Baldwin, Gordon Bowker and Zav Siegl in Seattle, Washington (Pike Place Market) on March 30, 1971. Starbucks has its network of stores in 61 countries, with 20,366 outlets in different areas of the various countries and serves around 70 million customers per week. Howard Schultz is the chairman and president of the Starbucks. In Starbucks customers enjoyed the unexpected forms of the products which are different and new, at home, and on the go.

## II Related Work

### *Product Variety offered*

More than 30 blends and single-origin premium coffees are available in the Coffee menu. The handcrafted beverages include fresh-brewed coffee, hot and iced espresso beverages, Frappuccino coffee, non-coffee blended beverages, smoothies and tazo teas. Merchandised items consist of coffee and tea-brewing equipment's, mugs, accessories, packaged goods, music, books and gifts. Fresh food is also served like baked pastries, sandwiches, salads, oatmeal, yogurt parfaits and fruit cups acc to the store.starbucks.com/

Handcrafted Beverages: Fresh-brewed coffee, hot and iced espresso beverages, Frappuccino coffee and non-coffee blended beverages, smoothies and Tazo teas. Merchandise: Coffee- and tea-brewing equipment, mugs and accessories, packaged goods, music, books and gifts. Fresh Food: Baked pastries, sandwiches, salads, oatmeal, yogurt parfaits and fruit cups. Starbucks and Seattle's best coffee brands like whole bean and ground coffee are some consumer products available at Starbucks, besides Starbucks VIA Ready Brew, Starbucks K-Cup portion packs, Tazo tea filter bags and tea latte concentrates. [www.starbucks.com/menu/drinks/evolution-fresh](http://www.starbucks.com/menu/drinks/evolution-fresh)

*Consumer Products:* Coffee and Tea: Whole bean and ground coffee (Starbucks and Seattle's Best Coffee

brands), Starbucks VIA Ready Brew, Starbucks K-Cup portion packs, Tazo tea filter bags and tea latte concentrates.

**Ready-to-Drink (RTD)** Starbucks bottled Frappuccino coffee drinks, Starbucks Discoveries chilled cup coffees, Starbucks Doubleshot espresso drinks, Starbucks Doubleshot Energy+Coffee drinks; and juiced teas. Starbucks Ice Cream: Super-premium coffee and coffee-free flavors. [www.starbucks.com/menu/drinks/evolution-fresh](http://www.starbucks.com/menu/drinks/evolution-fresh)

#### Markets/Revenue/Profit

(<http://www.reuters.com/finance/markets/>)And(<http://www.moneycontrol.com/stocksmarketsindia/>).

Starbucks have the 32,187 stores in 84 countries including 12,973 in the United States, 1,897 in China, 1,550 in Canada, 1,088 in Japan and 927 in the United Kingdom. At Starbucks there are 151,000 full time employees engaged with this brand. The total revenue of Starbucks was US\$ 4,239.6 million U.S dollar (2014). Products of the Starbucks serve its menu worldwide. Starbucks act as a responsible company which takes care of the all concept related to environment and individual like, ethical sourcing, environmental stewardship and community involvement. Starbucks create a connection between the use of products with justice and with human that's term they called diversity. Starbucks mainly focus on the four areas, viz., partners (employees), customers, supplier and communities. Starbucks receive the many awards for their best performance and quality products. "No. 1 Most Popular Quick Refreshment Chain", Zagat's

Survey of National Chain Restaurants- 2009-2011, one of the Most Admired Companies in America Fortune- 2003-2012, one of the World's 50 Most Innovative Companies Fast company- 2012, one of the World's Most Ethical companies Ethisphere-2007-2012, one of the 100 Best Corporate Citizens Corporate Responsibility/Business Ethics- 2000-2012. Starbucks chairman Howard S. posted a blog named let's come together, America in which they are spirit of connectedness and humanity which is powerful. It is the Starbucks new tradition to bringing people together. They spread the message "come together on customers' cup."

**Revenue/ Sales growth of Starbucks (Fiscal 2015 Financial Highlights, Starbucks Coffee Company)**  
<http://investor.starbucks.com/phoenix.zhtml?c=99518&p=irol-reportsannual>.

Year	Net Revenue In billion
2007	\$9.4
2008	\$10.4
2009	\$9.8
2010	\$10.7
2011	\$11.7
2012	\$13.3
2013	\$14.9
2014	\$16.4
2015	\$19.2

Starbucks Corporation Fiscal 2011, 2012 & 2013 Annual Report.

SELECTION OF MARKET- Why Starbucks Choose India



*India beverages and fast-food industry scenario:* Growth rate was recorded with double growth in Indian food and beverages sector in the last few years and some of them grow 30% annually acc to the business.mapsofindia report. Demand of fast food and beverages is increasing day by day because now the purchasing power among youth is high. India is fast emerging as a leading producer and consumers of packaged food products, non-alcoholic beverages, alcoholic beverages, dairy products and meat acc to the business.mapsofindia report to the fast food chain growing day by day now it will become second most populous country in the world. Many global chains like McDonalds, Dominos, subway, KFC, Cafe Coffee day, Barista, Costa coffee have entered in the Indian market. With the announcement of government's foreign investment reforms in Indian retail sector in 2012, Starbucks and Dunkin Donuts also penetrated the Indian market. Indian food and beverages sector is growing positively due to growing sales, reforms in organized retail sector and rapid urbanization acc to the report given by business.mapsofindia. India is the world's fifth biggest coffee producer and presently they export 70% to 80% of their production.

**Positive Points-** In a developing country like India most of the people are traditionally tea-drinking, so in order to attract customers coffee chains have focused on providing an ambience where people can relax and spend time with each other. With an increase in the purchasing power of the customers and due to rapid growth of globalization, more people have been employed and are earning money. With the growth and development of our economy, Indians have **become** more status seekers and crave for enjoying their weekend with friends and family.

**Negative Points-** Starbucks face competition from established competitors like Costa coffee, Barista and Cafe coffee day.

*Global brands face the dilemma of whether to go solo or tie up with a local partner.*

### **ENTRY MODE OF STARBUCKS IN INDIAN MARKET NOT INDIVIDUAL BUT WITH THE LEADING BRAND TATA**

*Starbucks Choose a Local Partner-* Global brands like Starbucks do to maximize their chances of success in India Starbucks choose to enter with the TATA because Tata is a leading brand in the market and people easily recall Starbucks with the help of Tata, because people have faith on this existing brand. Starbucks' decision to partner up with India's TATA Global Beverages shows a focus on leveraging multiple benefits.

The TATA Group is one of India's ethically-driven brands, India produces coffee beans in only a few places; the other sourcing option was importing the beans. But this would have hiked input costs significantly. TATA's coffee plant in Karnataka has also been contracted to supply beans to Starbucks' globally, creating mutual synergies.

Many of the foreign brand enter in Indian market and survive but some year back new Coffee leading company enter in Indian market viz; Starbucks. Government announced the foreign investment reforms in retail sector. Indian beverages market is positively growing in sales due to organized retail and rapid urbanization due to that reason in January 2012 Starbucks came to India with the Tata global beverages viz; Indian company. They entered with Tata by making 50:50 joint ventures and named as Tata Starbucks Ltd. After that Starbucks open his first store in Mumbai in October 2012 at Horniman circle of south Mumbai with a space of 120 customers and after that Starbucks open 4 more store in Mumbai at Taj Mahal palace and in Oberoi hotel and 3 stores in Delhi at Indira Gandhi International Airport.

Now, in total Starbucks have 14 outlets in New Delhi by (24 Jan.2013), 4 outlets in Gurgaon (10 July 2013), 29 outlets in Maharashtra which includes 23 outlets in Mumbai and 6 in Pune (8 Sep. 2013), 10 outlets in Bangalore (22 Nov. 2013) , 1 in Chennai ( 8 July 2014) and 1 in Telangana Hyderabad (1 October 2014).

As of July 2014, Starbucks operates 59 outlets in 7 cities of India. In those stores they are getting the profits. The consumption of coffee market through cafes in India is about \$140 million of the country's annual sales of about \$667 million. A cup of plain coffee cost about Rs 10 at a big restaurant in India and when it compared with western style café it seems to be very low and affordable coffee because the price of coffee in western cafes is 60-80 Rs and which is keeps on increasing. The partnership with Tata helps Starbucks to access some prime location for its outlets one is the Elphinstone building, which is owned by Tata sons, and Taj Mahal hotel is also Tata property.

Till now Starbucks getting the positive response from the market and they are planning to open more outlets in the India. Coffee shop industry has been growing 25% CAGR for a few years. Retail consultancy report predicts that \$230 million café market in India will swell to \$410 million by 2017, with the number of cafés rising from 1950 to 2900 in the next five years.

**Industry profile** This Starbucks deals with the food and beverages industry because they are selling variety of products that are deals with food and drinks. According to 2012 report from 2009 to 2011, sales of regular soft drinks declined by 1.9% to \$27 billion, the reason for this decrease the sales were changing in consumers taste. From 2001 to 2011, annual bottled-water consumption soared 56% to 26 gallons per person. At the same time, annual soda consumption fell 16%, to 44 gallons (about 281 single-serving bottles) per person. 80% of Americans consumed at least one such beverage every two weeks, Americans drink soda than drink energy drinks and coffee. One of the most popular energy drinks on the market has around 160 milligrams of caffeine, drinks contain half the caffeine of many large coffees and Starbucks coffee has 330 milligrams of caffeine, and a 16.5-ounce Panera frozen mocha has 267 milligrams. The amount of money spent by Coca-Cola, PepsiCo, and the American Beverage Association fell to \$10 million in 2011.

**Leading beverages Industry in India:** Tea and coffee are the major sector in beverages industry these are sold in domestic market as well as overseas in market. The production capacity of coffee market is 19,600 tones which is USD 87 million market, soft drinks like juice constitute USD 1 million producing 284 million per years. Pepsi and cola-cola also two leading brand in Indian market. Minerals water market produces 65 million, 4.9 each month. Tea and coffee have shown the excellent growth in the Indian beverages market.

### ***Challenges Starbucks facing in conquering Indian context-***

Starbucks entered in the Indian market but they have to face many challenges from existing players like Costa Coffee, Barista and Café Coffee day. Others factors which act as a barriers for the Starbucks are changing habit of customers, external environment of business which includes various political, legal, Social, technological and environmental factors, Climate changes, internal factors which includes training, infrastructure, better facility, variety of products. because here India's largest coffee chain is café coffee day and it has nearly 1,200 outlets and the strategy of café coffee day is to open one outlet in every third day and this was also followed by the Barista which have the more than 200 outlets in the Indian market and Barista also have its own plans and strategy to expand its business at huge level. Next is the costa coffee which entered in Indian market in 2008, they have 75 stores and in future they are planning to increase this four-fold over the next three years. So, if Starbucks want to survive in the Indian market they have to cop up with various challenges in the Indian market.

### ***Competitor's analysis (Indian market major sales players) - Café Coffee day***

Café coffee day has a 15 year head start in the market so it deal with the consumers taste, sensitivity regarding price and know the dynamics of market.

Today café coffee day captures the 65% market in terms of market share and stores and the future plan of café coffee day is to expand its outlets and planning to open 2000 outlets by the end of 2014. So for Starbucks it's now difficult to lead in the market and operate many outlets in India because café coffee day increasing the gap among both of them.

The menu at CCD is effective when relate with pricing, menu mainly focus on sweet sugary drinks preferred by teens and location captured by them is the area of every youth hub like IT/ITES offices + educational institutions, CCD is tough competition.

### ***Barista***

Barista Lavazza (slightly more premium than CCD) & Crème (catering to higher end clientele), it has about 200 outlets notching up about 300 crores in revenue per annum. With Barista there are some disturbance occurs with the management which give negative impact, it result in lack of focus, conflicting strategy and non-cohesive operational code. They have though managed to retain (not maintain) the first guitar each outlet sanctioned. It has progressively lost market share to CCD and has allowed Costa to gain a foot hold among the up end of market.



Costa is the 3rd competitor for the Starbucks after CCD and Barista; it is affecting the market leader (CCD) but eating the shares of Opposition (Barista). A non-starter itself, failing inexplicably to capitalize in terms of swiftness of expansion and increasing market share, whilst Barista was fighting its inner demons. Over the last 5 years has managed to notch up only 50 outlets, mainly in metros, catering to almost exclusively premier clientele. Starbucks has always stressed on uniformity of processes and preparations. This could backfire in India as it did in Israel where consumers ditched Starbucks.

Brand awareness is also one of the challenges for star bucks, people are not aware. There are political, economic, social, technological, legal and environmental factors.

**Compatibility,** 'Coffee is not my cup of tea- India is a tea drinking country. India is one of the largest tea producers in the world, though over 70% of the tea is consumed within India. Tea is culturally rooted in India. Starbucks will have to identify a product mix that balances catering to their customers (tea and Indian cuisine) with doing what they do best as a company (coffee first, tea second). The more they focus on coffee initially, the more they risk alienating their customers.

**Indian consumer being price conscious-** While CCD may charge around Rs 40 for a coffee and the wayside shops charge Rs 10, Starbucks \$2.5 for a short latte would seem to be very expensive.

**Political factors-**In India there are some political factors which gave the impact on them they are regulation for controlling of business and the spending power of consumers and other businesses. The political environment in India as a whole, the bureaucracy complications, it is safer for Starbucks to enter India via a joint venture or a strategic alliance with an Indian company that can provide a buffer from possible political tension. Furthermore, Starbucks can face some opposition from the existing competitors (CCD, Barista, etc.) through the use of political influence and delaying tactics.

**Economic factors-** In the metro and big cities Starbucks entry will be easy because in that place environment for Starbucks is favorable. Mumbai is regarded as the country's financial center and accommodates many foreign financial organizations as well as many IT companies. Delhi and Bangalore, other major cities with population totaling just below 20 million, are call-center hubs and many international IT companies are situated there. But star bucks have to face the problem in others area where people don't prefer coffee. The price is one of the factors because for Indian people spending around 125 and more than that for just a cup of coffee is not in their favor. But the Indian Government is still working on improving unfavorable factors such as widespread poverty, inadequate physical and social infrastructure, bureaucracy, limited non-agricultural employment opportunities, regulatory and foreign direct investment controls, insufficient access to quality basic and higher education, and the imbalance of rural-to-urban migration. The Indian population is still heavy tea drinkers. The consumption of tea per person in 2000 was reported to 44 liters in comparison to 1.2 liters of coffee. Another good substitute is the instant coffee. It is reported that 65 % of households bought instant coffee and only 18 % bought filter coffee.

**Environmental factors-** coffee beans are the main thing which maintains the quality of coffee. There are many factors which are kept in mind while growing coffee. Sufficient water & trees and a diverse flora & fauna are important for growing coffee beans. But in India, increasing population and economic development will lead to a number of environmental issues like uncontrolled growth, urbanization, industrialization, intensification of the agriculture and destruction of the forest. The growing population has an adverse effect on natural resources and the environment. And also weather in India does not remain same during whole year. Here hot summers stay for a long time that is also one of the reason people doesn't prefer strong coffee, because in US and Europe the temperature remain low, which results in more demand for strong and hot coffee.

**Legal factors-** The coffee retail market in India consists of mainly homegrown brands. The biggest ones are Coffee Café Day (CCD), followed by Qwiky's and Barista Coffee. These companies are considered as threats to Starbuck's entry in the Indian market because they are offering similar and sometimes identical products. CCD, for instance, the company which pioneered the concept of specialty coffee in India, has wide range of café formats with almost identical concept used by Starbucks. Besides, CCD has presence all around the India. The same company also sells merchandise and is involved in heavy marketing, such as establishing relations with the Indian movie and television series industry. Furthermore, CCD's best-seller – the cold Frappe – is a direct competition to Starbuck's Frappuccino.

It is also mentioned that the infrastructure in India is weakly developed, which might result in difficulties or larger amounts of costs incurred in the business operations of Starbucks. In addition the retail environment in India is largely unorganized and dominated by small and individually owned businesses.

### ***Opportunities for Starbucks in Indian context-***

Starbucks offer the different types of products like in burgers there are three varieties; breakfast burger, lunch burger & dinner burger, to avoid the disturbance Starbucks use a different type of strategy they make a different cabin for children at Starbucks, better and advance infrastructure, and free Wi-Fi facility for the customers, the reasons for that is today the standard of living of Indian people increasing day by day as people are focusing more on education, the expansion of western brands created liking for these brands, expansion to new market and product.

### ***Positioning Strategy Used by Starbucks in Indian Market***

For the best positioning of their brand in Indian market they done a survey in which they include the IIM Bangalore and asked the attributes which they consider important while go for a coffee. As the outcomes display that **Ambience, service quality, Taste, Price and Service Time** are amongst the 5 most important aspects that café visitors look for and Starbucks have all these attributes which help to make Starbucks successful in Indian market.

**Price skimming strategy**, Starbucks cut the prices of coffee to maintain their position in the market and to make the customers base. Now, Starbucks cutting the prices of packaged coffee sold in grocery stores by 10% with an interest to attract the new customers and in order to remain in the competition. The price will drop from \$9.99 to \$8.99 for a 12-ounce bag of Starbucks. It will help them to enhance the value that they have given to their existing packaged coffee customers and hopefully increase the frequency and attract new customers. Last time Starbucks charges the \$2.55 profit per bag but that time it will drop to \$1.55 Starbucks already has plenty of \$6 barista-brewed drinks to capture the top of that market, but a bag of \$10 coffee is very much in the middle." Plus, "Starbucks has been working hard to grab grocery-store shoppers' dollars by expanding the array of products it has available in those stores," wrote Mary Beth Quirk at Consumerist. Dunkin' Donuts have been lowering their prices, so the pressure is on Starbucks to do the same." Starbucks strength lies in the high end market, however, in the tough economy; it is looking at expanding its base by capturing the low-end market.

Starbucks is also expanding aggressively in markets and economies which traditionally do not go for high end coffee. On an average, Starbucks's lattes cost \$5 a cup. Starbucks has already slashed its prices for the Indian market. In India, Starbucks comes with popular chains like Café Coffee Day and Barista's Lavazza. Apart from that, small coffee and tea haunts are very popular in India, which sell at very low prices. Starbucks charges substantially lower in India than its China rates. Starbucks' price cut will amount to a 65% cut in its profit margin. The Starbucks price cut move comes after its competitors started the trend a few months ago, due to the decreasing cost of the commodity. In February, Starbucks coffee to cost an average of Rs125 – higher than the Rs60-75 that Café Coffee Day charges but lower than the Rs150 other international chains in India charge and now Starbucks charge 80 Rs for coffee. Like the Success in China they are getting because they understand customer's needs- China traditionally has been a tea-drinking country but we turned them into coffee drinkers." In 1999 Starbucks entered in China and presently having more than 570 stores in 48 cities.

By 2015, it plans more than 1,500 stores in 70-plus cities. Starbucks exciting growth story in China could be identified with its ability to customize Chinese food items such as a traditional local Chinese food for the Dragon Boat Festival and few other favorites. Corporate executives in China love the Starbucks store ambience and the free unlimited Wi-Fi facility. So same strategy they are applying in Indian market.

### ***Questions***

1. India is a country where people prefer tea over coffee. What strategies will you suggest to Starbucks to overcome the challenge imposed by customer's taste and preference?
2. Starbucks enjoys a reputation of premium brand with high prices, is now attempting to offer the products at lower prices in India. Do you think this low pricing strategy will work in India without harming the brand image of Starbucks?



3. In a growing economy like India, what opportunities you see for Starbucks even in the presence of competitors like Café Coffee day, Barista, Costa Coffee etc.
4. Do you think the Starbucks' strategy for uniformity of processes and preparation will work in a country with diversified sub cultures like India.

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