TATA STARBUCKS: HOW TO BREW A SUSTAINABLE BLEND FOR INDIA INSTRUCTOR'S NOTES

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CASE DESCRIPTION

This case is primarily intended for use in the corporate strategy section of a business policy or competitive strategy course. It can be used as an overview of the many decisions and actions that an organization has to undertake to sustain a competitive advantage. This case can also be used to augment discussions of strategic analysis, specifically both internal and external environmental analysis and strategic formulation.

The case is rich enough for advanced and graduate students, and has been developed in a manner that will allow students to diagnose the root(s) of the company's issue(s) as detailed in the case, and then form opinions and suggestions for any strategy that the company should pursue. In doing this, students should consider the activities, history, and goals of the company as presented.

It would be effective at the business strategy level, especially, to discuss the implications of industry life cycles, and at the corporate strategy level to discuss implications of diversification. The case also lends itself to discussions of strategic implementation and the effect of leadership on innovation, especially when trying to maintain a mature brand.

CASE SYNOPSIS

Starbucks entered the Indian market in October 2012 by forming a 50:50 joint venture with the Tata Group. The Indian Café market offered a lot of potential for the new Tata Starbucks alliance. While India was a nation known for its tea drinkers, sipping coffee and socializing at coffee shops was becoming increasingly popular. Domestic consumption of coffee had risen up 80% in the past decade.

The joint venture appeared to be at the crossroads of an important strategic decision. It could either revert to a plan to grow its store count aggressively much like it did in the US. It is possible that this was the original intent. After all, the initial launch pricing had been set to be competitive with Café Coffee Day's (CCD) pricing (coffee drinks available for as low as Rs 100[1]). Alternately, it could choose to embrace a premium-priced, niche approach similar to the one it had used successfully in other Asian countries like Japan and China. The premium offering would then cater to an older, business elite with higher spending power. This would result in less rapid growth with a cherry-picked list of high profile, business-friendly locations that could also allow it to build a premium brand with premium pricing.

Would Starbucks and Tata under Davda's leadership finally be able to crack the code for sustained success in the competitive and complex Indian market? While Davda appeared proud

[1] Assumed 50 Rs = 1 US Dollar

of what the alliance had achieved at the 2014 Starbucks annual shareholders meeting, some critical strategic choices would need to be made to ensure the long term success of Starbucks in India.

TEACHING PLANS

Given Starbucks' history, goals, and current strategy in emerging markets, the focus of general discussions should center on what the issues were and whether there were ideas presented in the case that might sustain improvement for the Tata Starbucks joint venture. Details in the case provide the basis for discussion and analysis of strategies, potential markets and products, diversification, organizational structure and leadership, and external factors such as the economy, the industry and the global market.

As a General Discussion Business Case: It is sufficient here that the instructor simply allows students to speculate and discuss what they think is right/wrong with the company, what they think of the company's decisions and what they think of the company's future, possibly using a simple SWOT analysis.

One approach to help move students through this process is to put them in groups and ask them to discuss within their groups what they think about Tata Starbucks' competitive environment as detailed in the case, using either a simple SWOT or Porter's 5 forces model (detailed use of this follows in the teaching note). In smaller classes, have the students put their answers on the board. This will allow students to see where they agree and where they disagree and, in that manner, foster further discussion.

The instructor's role in this scenario is to guide students through the discussion such that they begin to realize that there are key tensions or issues in this case that must be addressed before conclusions can be drawn. At this point, in-depth analysis of the issues is more difficult without instructor direction. However, students can still see that their conclusions rely on certain assumptions regarding the organization's internal environment, its external environment, its business and corporate strategy alternatives and then its ability to implement those decisions. In general, then, students should begin to develop some ideas about the strategic direction for Avon, based on what's been tried in the past.

As an Advanced Case: It is assumed that students at this point in the class have been exposed to the various frameworks associated with different types of analyses. The instructor should feel comfortable in this application being more direct in guiding the discussion and asking students to incorporate various types of analyses into the discussion, such as the previously mentioned 5 forces framework, VRIN analysis, generic competitive and diversification strategies, as well as the implementation challenges of an emergent strategy. Here is where additional assigned reading might prove helpful. As a way to conclude this strategy discussion, students could be asked if they would recommend Tata Starbucks seek additional alliances to penetrate the market, why or why not.

In terms of environmental analysis, this case could encourage a discussion of external environmental forces (such as demographic, socio-cultural, technological and political-legal issues), how these forces relate to Porter's five-force model; and therefore how such forces affect the ability to sustain performance in an industry. In terms of internal analysis of the firm, a discussion of value-chain and resource-based analyses could provide hints for how integration challenges across the value-chain activities in diverse product lines could affect growth and performance. Are synergies present?

As a business-level strategy case, this case can be used to discuss Porter's generic competitive strategies (is Tata Starbucks a differentiated product line or have they utilized a combination or niche strategy), the advantages and disadvantages of those strategies and how the implementation of those strategies might be affected by the life cycle of the industry.

As a corporate-level strategy case, this case can be used to discuss advantages and disadvantages of various diversification strategies, in specific helping students to understand the many issues associated with the decision to diversify a business, and the importance of assessing core competencies and synergies.

ICEBREAKER

Since Starbucks is a household name among most US students, a good icebreaker would be to ask for a show of hands of those who drink Starbucks regularly versus those who do not. It is likely that a large number of students will be regulars. Next, the instructor can ask the students for what they think is the secret to Starbucks' success in the US.

After some discussion on this topic, the instructor can switch gears to find out how many students have been to a Starbucks location outside the country. It is likely that the number of students who have had this experience will be relatively small. Students can then be asked to ponder whether they think Starbucks' success drivers would be the same outside the US.

SUMMARY OF DISCUSSION QUESTIONS

Here is a list of suggested discussion questions. The instructor can decide which questions to assign, and also, which additional readings or exercises to include to augment each discussion.

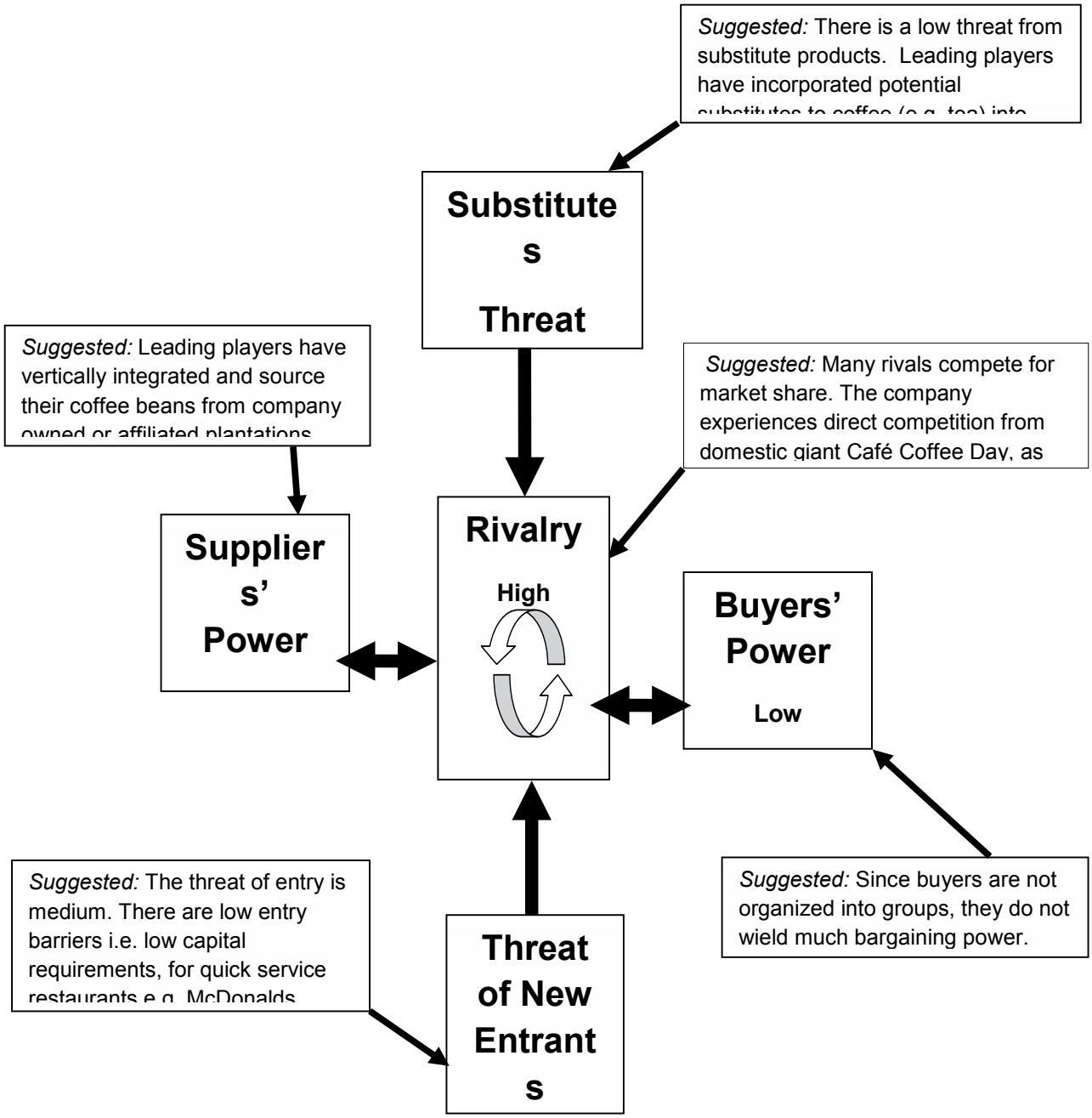
- What key forces in the industry environment affect Tata Starbucks' choice of strategy?
- What internal resources does Tata Starbucks have that may give it a competitive advantage over other foreign and domestic players within the Indian café market?
- What should Tata Starbucks do to ensure sustained growth and profitability within the Indian café market?
- How should Starbucks tackle the emerging threat from the quick service restaurant category e.g. McCafe?

DISCUSSION QUESTIONS AND RESPONSES

1. What key forces in the industry environment affect Tata Starbucks' choice of strategy?

To answer the question about the current forces in the Indian café market that affect Tata Starbucks' ongoing strategy, it is necessary to assess the segments of the external competitive environment that include competitors, customers and suppliers, substitutes and new entrants. Porter's five forces model allows strategists to anticipate where the industry might be most vulnerable (see Figure TN1).

Figure TN1 Porter's Five Forces



Suppliers – Low Threat

The suppliers in the Indian café market appear to have low bargaining power. The leading players are vertically integrated. Both Tata Starbucks and Café Coffee Day source their coffee from company owned plantations. Through the joint venture, Tata Starbucks is able to source coffee beans from plantations owned by the Tata Group in the Coorg region. Café Coffee Day is part of the Amalgamated Bean Coffee Trading Company Ltd (ABCTCL) conglomerate that produces and trades coffee beans on the international market.

Buyers – Low Threat

Since the company's products are sold via retail locations, the end consumers are the buyers of the products. Buyers are not organized into buying groups and hence, do not wield much bargaining power with regards to the pricing of coffee products. However, this dynamic could change in the future as Tata Starbucks competes more directly for share with Café Coffee Day. This would involve a price war as both players woo the large younger, more price conscious and socially active demographic.

Industry Rivalry – High Threat

The company operates in a highly competitive industry and experiences competition from an entrenched domestic leader (Café Coffee Day) and experienced foreign players (Gloria Jean Company). A strong marketing response can be expected from one or more players, as Tata Starbucks attempts to grow volume and market share.

New Entry – Medium Threat

The threat of new entrants is medium. Large real-estate related capital investments would otherwise create a big entry barrier for new entrants. However, the impending threat from quick service restaurants (QSRs) like McDonald's and Dunkin Donuts raises the threat level as these players can leverage existing real estate to begin to sell coffee at minimal incremental costs. In the case of McDonald's, McCafe counters could easily be introduced throughout the country with minimal structural adjustments to existing McDonald's locations.

Substitutes – Low Threat

There is low threat from substitute products like tea because the leading players have included tea-related drinks to their menus. Ordinarily, this could have been a big threat within a tea-drinking nation that has tea sellers at every street corner selling tea at nominal prices.

2. What internal resources does Tata Starbucks have that may give it a competitive advantage over other foreign and domestic players within the Indian café market?

Analyzing the Internal Environment

To answer the question of how to support a competitive strategy, it is important to consider the concept of the *resource-based view* of the firm, and the three key types of resources: tangible resources, intangible resources, and organizational capabilities. Tata Starbucks' profile might look like the following:

Tangible Resources

Human

Tata Starbucks has a strong community of "partners" who represent the face of the company while serving coffee. The company is known to have a rigorous recruiting and training process to make sure that these brand ambassadors enhance the customer experience in each store.

Physical

Individual stores are known to be designed tastefully to enhance the customer experience. The stores cater to both the practical needs (free internet, spacious seating) as well as emotional needs (cultural artifacts, pleasant music).

Technological

Starbucks has been implementing a number of technology related offerings to enhance customer experience. A smartphone application allows customers to place coffee orders prior to getting to the store thereby reducing the time spent waiting in line. Loyalty cards reward customers for repeat purchases at the store.

Intangible Resources

Human

The company invests heavily in its "partners" and this translates into high motivation and a positive attitudes towards work. By owning a share of the company even at the most junior levels, employees feel a sense of ownership and pride.

Innovation and creativity

Tata Starbucks has been innovative in its selection of sites for stores, the interior designs for each store. It has also been creative in developing a store menu that appeals to both the seasoned coffee drinker as well as the dabbler and snacker.

Reputation

Both partners in the Tata Starbucks joint venture enjoy a solid reputation of being respectable companies that care about quality and social responsibility.

Organizational Capabilities

Starbucks is known to invest in training and education programs for its employee "partners". The partnership with Tata also provides the local muscle to negotiate attractive rental/purchase prices for its new stores. The Tata partnership also gives the joint venture access to company owned coffee plantations. This vertical integration helps minimize supply and pricing uncertainty.

Determining whether the internal resources are valuable, rare, difficult to imitate, or difficult to substitute (VRIN) can help a firm sustain competitive advantage. The VRIN analysis provides a deeper understanding of how a company stacks up in terms of critical resources that are needed for any company to compete effectively in the market.

FORMULATING BUSINESS-LEVEL STRATEGIES

Several types of competitive strategies can be used, including the three generic strategies to overcome the five forces and achieve a competitive advantage:

- Overall cost leadership
  - Low-cost-position relative to a firm's peers
  - Manage relationships throughout the entire value chain
- Differentiation
  - Create products and/or services that are unique and valued
  - Non-price attributes for which customers will pay a premium
- Focus strategy –
  - Narrow product lines, buyer segments, or targeted geographic markets
  - Attain advantages either through differentiation or cost leadership

3. What should Tata Starbucks do to ensure sustained growth and profitability within the Indian café market?

   Within the US, Starbucks was able to achieve success in two phases. It first established a strong quality and premium brand image for itself. It then expanded the number of stores to flood out the competition and satisfy the coffee drinking needs of every potential customer. Tata Starbucks can consider a similar strategy within the Indian café market.

4. How should Starbucks tackle the emerging threat from the quick service restaurant (QSR) category e.g. McCafe?

   Tata Starbucks could use its premium quality image and branding to tackle the new entrants. QSR's usually differentiate on convenience and speedy service ("fast food"), not

high quality. It could continue to leverage the elevated experience it offers in its cafes which are more professional and quiet than QSR locations.

As a wrap-up, let students know that at this point, it is not clear which business strategy is best. They don't have to pick one strategy, just use this discussion to explore the implications of how strategy is developed, and what are the pros and cons for each business decision. Whatever decisions students come to can be checked by asking "is this strategy sustainable"?

TEACHING NOTE REFERENCES

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