

**FINAL EXAMINATION****BACHELOR OF ACCOUNTANCY (HONOURS)****BACHELOR OF BUSINESS ADMINISTRATION (HONOURS)****BACHELOR OF BUSINESS ADMINISTRATION (HONOURS) HUMAN
RESOURCE MANAGEMENT**

COURSE	: STRATEGIC MANAGEMENT FOR ACCOUNTING / STRATEGIC MANAGEMENT
COURSE CODE	: MGT4453 / MGT4343
DURATION	: 3 HOURS

INSTRUCTIONS TO CANDIDATES:

1. This question paper consists of **THREE (3)** questions.
2. Answer ALL questions in the Answer Booklet provided.
3. Please check to make sure that this examination pack consists of:
 - i. The Question Paper
 - ii. An Answer Booklet
 - iii. The Case Study title "Starbucks Coffee Company: The Indian Dillema"
4. Do not bring any material into the examination hall.
5. Please write your answer using permanent ink.

MYKAD / PASSPORT NO. : _____

ID. NO. : _____

LECTURER : _____

SECTION : _____

DO NOT OPEN THE QUESTION PAPER UNTIL YOU ARE TOLD TO DO SO*This question paper consists of 2 printed pages including the front page*

Instructions: Answer ALL questions.

1. Stakeholders have different levels of power and interest that influence organizational decision-making. Using the Mendelow Framework, discuss **FOUR (4)** stakeholder categories and recommend suitable management strategies for each category with relevant business examples.

(20 marks)

2. Based on the case titled “**Starbucks Coffee Company: The Indian Dillema**” given, answer the following questions:

- a. Demonstrate **ONE (1)** of each element of the SWOT analysis: Strengths, Weaknesses, Opportunities, and Threats.

(20 marks)

- b. Illustrate **TWO (2)** strategies that Starbucks Coffee company has implemented at each level: corporate, business, and functional respectively.

(30 marks)

- c. Interpret **FIVE (5)** strategy implementation activities carried out by the Starbucks Coffee company.

(15 marks)

(Total: 65 marks)

3. A Malaysian automotive manufacturing firm aims to achieve world-class operational performance. As a management consultant, evaluate **THREE (3)** benchmarking approaches that would help the company identify performance gaps and implement effective improvements.

(15 marks)

(TOTAL: 100 MARKS)

END OF QUESTION PAPER

SECTION C

International Issues in Strategic Management

CASE 5

Starbucks Coffee Company:

THE INDIAN DILEMMA

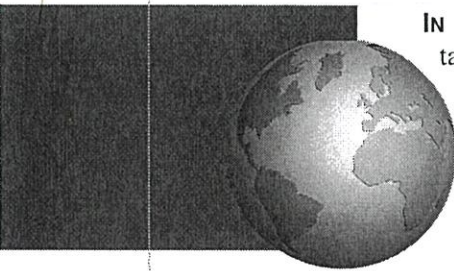
Ruchi Mankad and Joel Sarosh Thadamalla

As the world's second most populous country, with more than 1 billion people and growing at 6% per year, we see unique and great opportunity for bringing the Starbucks experience to this market (India).¹

HOWARD SCHULTZ, CHAIRMAN, STARBUCKS CORPORATION

India is an important long-term growth opportunity in the Asia Pacific region. We're looking at our own strategy . . . We believe there is a growing affinity for global brands.²

MARTIN COLES, PRESIDENT, STARBUCKS COFFEE INTERNATIONAL



IN 2006, STARBUCKS COFFEE COMPANY (STARBUCKS), the world's No.1 specialty coffee retailer had over 11,000 stores in 36 countries of the world and employed over 10,000 people (see Exhibit 1). Every week over 40 million customers visited Starbucks coffeehouses. The company had over 7,600 retail locations in the United States, which was its home country and its biggest market. After phenomenal success in the United States, Starbucks entered one country after another and popularized its specialty coffee worldwide.

During the 1990s, Starbucks concentrated its expansion efforts mainly in Asia. In 1995 it entered Japan and by late 1990s Japan had become the second-most-profitable market for Starbucks. In 1999, Starbucks entered China and by 2006 Starbucks had become the leader in specialty coffee in China and had moved China up to the No. 1 priority.³

After Japan and China, Starbucks expressed its intentions to enter India. In 2002, Starbucks announced for the first time that it was planning to enter India.⁴ Later it postponed its entry as it had entered China recently and was facing problems in Japan. In 2003, there was news again that Starbucks was reviving its plans to enter India. In 2004, Starbucks

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EXHIBIT 1

Starbucks Timeline

- 1971: The first Starbucks, under partners Gordon Bowker, Jerry Baldwin, and Zez Siegel, is opened across from Pike Place Market in Seattle, Washington.
- 1972: A second Starbucks store is opened in Seattle.
- Early 1980s: Zev Siegel leaves the company. Jerry Baldwin takes over management of the company and functions as CEO. Gordon Bowker remains involved as a co-owner but other projects take up most of his time.
- 1982: Howard Schultz joins the company, taking charge of marketing and overseeing the retail stores.
- 1984: Starbucks acquires the five stores in San Francisco's Peet's Coffee and Tea chain.
- April 1984: Starbucks opens its fifth store, the first one in downtown Seattle. Schultz convinces the owners to test an espresso bar, making this Starbucks the first to sell coffee beverages. It becomes a huge success.
- Late 1984: The Starbucks founders are still resistant to installing espresso bars into other Starbucks locations and Schultz becomes increasingly frustrated. He has visited the espresso bars of Milan, Italy, and has a vision of bringing Italian-style espresso bars to America.
- Late 1985: Schultz leaves Starbucks and starts the Il Giornale Coffee Company.
- April 1986: The first Il Giornale store opens.
- March 1987: Baldwin and Bowker decide to sell the Starbucks Coffee Company.
- Aug. 1987: Schultz acquires Starbucks and rebrands all of his Il Giornale coffee houses with Starbucks name.
- 1992: Starbucks goes public with its initial public stock offering. At this time it has 165 outlets.
- 1996: The first Starbucks opens outside of North America in Tokyo, Japan.
- Sept. 1997: Starbucks Chairman Howard Schultz publishes a book called *Pour Your Heart Into It: How Starbucks Built a Company One Cup at a Time*.
- 1999: Starbucks enters Hong Kong and China.
- April 2003: Starbucks purchases Seattle's Best Coffee and Torrefazione Italia from AFC Enterprises and turns them all into Starbucks outlets. By this time, Starbucks has more than 6,400 outlets worldwide.
- Oct. 4, 2004: XM Satellite Radio and Starbucks Coffee Company announce the debut of the Starbucks "Hear Music" channel on XM Radio. The station will feature 24-hour music programming featuring an "ever-changing mix of the best new music and essential recordings from all kinds of genres."
- Sept. 8, 2005: Starbucks announces plans to donate funds and supplies to the Hurricane Katrina relief effort, worth monetary donations over \$5 million as well as donations of coffee, water, and tea products.
- Late 2005: Starbucks and Jim Beam Brands Co., a unit of Fortune Brands Inc., introduce a coffee liqueur product in the United States and announces plans to launch the product in 2006 in restaurants, bars, and retail outlets where premium distilled spirits are sold. The product will not be sold in company-operated or licensed stores.

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SOURCE: Compiled from www.starbucks.com.

officials visited India but according to sources they returned unconvinced as they could not crystallize on an appropriate partner for its entry. In mid 2006, a Starbucks spokesperson said, "We are excited about the great opportunities that India presents to the company. We are looking forward to offering the finest coffee in the world, handcrafted beverages, the unique Starbucks experience (see **Exhibit 2**) to customers in this country within the next 18 months."⁵

EXHIBIT 2
The Starbucks
Experience

Howard Schultz believed that Starbucks did not sell just a cup of coffee but provided a Starbucks experience, which he defined as, "You get more than the finest coffee when you visit a Starbucks—you get great people, first-rate music, a comfortable and upbeat meeting place, and sound advice on brewing excellent coffee at home. We establish the value of buying a product at Starbucks by our uncompromising quality and by building a personal relationship with each of our customers. Starbucks is rekindling America's love affair with coffee, bring romance and fresh flavor back to the brew.⁶

Starbucks' outlets provided a captivating atmosphere. Its stores were distinctive, sleek, and comfortable. Though the sizes of the stores and their formats varied, most were modeled after the Italian coffee bars where regulars sat and drank espresso with their friends. Starbucks stores tend to be located in high-traffic locations such as malls, busy street corners, and even grocery stores. They were well lighted and featured plenty of light cherry wood and artwork. The people who prepared the coffee are referred to as "baristas." Jazz or opera music played softly in the background. The stores ranged from 200 to 4,000 square feet, with new units tending to range from 1,500 to 1,700 square feet.

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SOURCE: Compiled by IBS Ahmedabad Research Center.

About Starbucks

The Initial Years

In 1971, three partners, Gordon Bowker, Jerry Baldwin, and Zev Siegel opened a store in Seattle to roast and sell quality whole coffee beans. The trio had a passion for dark-roasted coffee, which was popular in Europe but yet to catch on in the United States. They chose Starbucks Coffee, Tea and Spice as the name of their store. The name Starbucks was taken from the name of a character from the novel *Moby Dick*. They chose the logo of a mermaid encircled by the store's name. The store offered a selection of 30 different varieties of whole-bean coffee, bulk tea, spices and other supplies but did not sell coffee by the cup. The popularity of the store grew and within 10 years, it employed 85 people, had five retail stores which sold freshly roasted coffee beans, a small roasting facility, and a wholesale business that supplied coffee to local restaurants. Its logo had become one of the most visible and respected logos.

Howard Schultz and Starbucks

Howard Schultz, who was later to lead Starbucks, was born in 1953. He started his career as a sales trainee at Xerox.⁷ After three years at Xerox, the 26-year-old Schultz joined a Swedish housewares company, Hammerplast, which sold coffee makers to various retailers and Starbucks was one of its major customers. In 1981, Schultz visited Starbucks while on a business trip to Seattle. After visiting the company and its owners, he was completely fascinated. He realized that the specialty coffee business was close to his heart and he decided to be a part of Starbucks. In 1982 Schultz joined Starbucks as director, Retail Operations & Marketing.

In 1983, while on a company trip to Milan, Italy, Schultz observed the immense popularity of coffee, which was central to the national culture. In 1983, there were around 200,000 coffee bars in Italy and 1,500 coffee bars in Milan alone. The espresso⁸ bars in the cities had trained baristas⁹ who used high-quality Arabica beans to prepare espresso, cappuccino, and other drinks. Schultz witnessed that though each coffee bar had its own individual character, all provided a sense of comfort and the ambience of an extended family. During his week-long

stay in Milan, he made frequent visits to espresso bars. These visits were a revelation to Schultz, which he described in his book¹⁰ thus:

As I watched, I had a revelation: Starbucks had missed the point, completely missed it... The connection to the people who loved coffee did not have to take place only in their homes, where they ground and brewed whole-bean coffee. What we had to do was unlock the romance and mystery of coffee, firsthand, in coffee bars. The Italians understood the personal relationship that people could have to coffee, its social aspect. Starbucks sold great coffee beans, but we didn't serve coffee by the cup. We treated coffee as produce, something to be bagged and sent home with the groceries. We stayed one big step away from the heart and soul of what coffee has meant throughout the centuries.¹¹

Schultz was convinced that he could recreate the Italian coffee culture in the United States through Starbucks and differentiate it from other specialty coffee suppliers. After returning, he tried to convince the owners to build Starbucks into a chain of Italian style espresso bars, but they refused. In 1985, Schultz left Starbucks and launched his own coffee bar; Il Giornale¹² coffee bar chain. The first Il Giornale store was opened in mid-1986 in a well-known office building in Seattle. The décor of the store resembled an Italian style coffee bar. The baristas wore white shirts and bow ties. All service was stand-up and no seating was provided. National and international newspapers were hung on stands. Only Italian opera was played. The store offered high-quality coffee in whole beans and in espresso drinks, such as cappuccino and caffè lattes.¹³ It also offered salads and sandwiches. The menu was covered with Italian words. With the passage of time, many changes were done in the store décor based on feedback from customers. Chairs were added for those customers who wanted to stay longer in the store. Carryout business constituted a large part of the revenues, so paper cups for serving carryout customers were introduced. The store gained popularity and within six months the store was serving more than 1,000 customers a day. A second store opened in Seattle, six months after the first store. For the third store, Giornale went international and opened a store in Vancouver, British Columbia, in mid-1987. By this time, the sales in each store had reached around \$500,000 a year.¹⁴

The New Starbucks

In early 1987 the founders of Starbucks decided to sell the assets of Starbucks, including its name. As soon as Schultz came to know about the decision, he decided to buy Starbucks. In August 1987, Schultz with the help of investors bought Starbucks, including its name, for \$3.8 million.¹⁵ All the stores were consolidated under the name Starbucks. Schultz promised the investors that Starbucks would open 125 stores in the next five years.

Starbucks first always gained a foothold in the market it entered and then moved on to the next market. Starbucks entered Chicago in 1987. Chicago proved a difficult market and presented several challenges to the company, initially. It took around three years for Starbucks to become successful in Chicago and by 1990 it was able to build a critical mass of loyal customers. Starbucks entered Los Angeles in 1991 and achieved success without much struggle. As in other markets, Starbucks did not advertise its locations heavily but relied on the word-of-mouth promotions by the consumers.

Between 1990 and 1992 sales at Starbucks increased almost 300% and reached \$103 million. Earnings reached to \$4.4 million in 1992. Starbucks came out with an IPO¹⁶ in 1992, which was very successful and raised \$29 million for the company.

In 1993, Starbucks opened its first store in Washington, D.C. After succeeding in Washington, Starbucks opened stores in New York and Boston in 1994. Starbucks opened stores at places that were home to many opinion makers. Within a short duration, Starbucks was rated

as the best coffee in New York. In Boston after opening a few company-owned stores, Starbucks acquired the leading competitor, The Coffee Connection. The Coffee Connection was founded in 1975 and had around 24 stores in Boston in 1994. It specialized in light-roasted gourmet coffee and had a loyal customer base in Boston. After the acquisition, Starbucks became the leading player in Boston overnight.

Hot drinks at Starbucks were available in four cup sizes: Venti containing 20 oz.,¹⁷ Grande containing 16 oz., Tall containing 12 oz., and Short containing 8 oz. Cold drinks were available in three cup sizes; Iced Venti—24 oz., Iced Grande—16 oz., and Iced Tall—12 oz.¹⁸ In 1994, Starbucks launched Frappuccino, a cold drink made from coffee, sugar, low-fat milk, and ice. It became an instant hit and drew many non-coffee drinkers also to the store. In 1995, more than three million people visited Starbucks stores each week.¹⁹

Over time and with experience, Starbucks developed a sophisticated store-development process based on a six-month opening schedule. The process enabled it to open a store every day. In 1996 alone, Starbucks opened 330 outlets. It also refined its expansion strategy. Schultz said, "For each region we targeted a large city to serve as a hub where we located teams of professionals to support new stores. We entered large markets quickly, with the goal of opening 20 or more stores in the first two years. Then from that core we branched out, entering nearby spoke markets, including smaller cities and suburban locations with demographics similar to our typical customer mix."²⁰

Starbucks was opposed to the concept of franchising. Schultz believed that, "If we had franchised, Starbucks would have lost the common culture that made us strong. We teach baristas not only how to handle the coffee properly but also how to impart to customers our passions for our products. They understand the vision and value system of the company, which is seldom the case when someone else's employees are serving Starbucks coffee."²¹

Starbucks initially believed in selling coffee only through its own outlets. But with the passage of time, to broaden its distribution channels and product line, it started to enter into strategic alliances. Schultz said, "When we enter into any partnership, we first assess the quality of the candidate. We look for a company that has brand name recognition and a good reputation in its field, be it hotels or airlines or cruise ships. It must be committed to quality and customer service. We look for people who understand the value of Starbucks and promise to protect our brand and the quality of our coffee. All these factors are weighted before financial considerations."²²

The first strategic alliance Starbucks entered was with the real estate company Host Marriott wherein Starbucks licensed Marriott to open Starbucks outlets at select airport locations. Starbucks licensed Aramark²³ to open Starbucks stores at a few college campuses. Other partnerships were with the department store Nordstrom, the specialty retailer Barnes & Noble, the Holland America cruise lines, Starwood hotels, Dreyer's Grand Ice Cream, and United Airlines. Under a joint venture with PepsiCo Inc.,²⁴ a new version of Frappuccino was bottled and sold through grocery stores.

Starbucks maintained a non-smoking policy at all its outlets worldwide. It believed that the smoke could adversely affect the aroma of its coffee. For similar reasons, its employees were required to refrain from using strong perfumes.

Focusing on Asia

In 1994, Starbucks International was formed and Howard Behar became its president. Starbucks pursued international expansion with three objectives in mind: to prevent competitors from getting a head start, to build upon the growing desire for Western brands, and to take advantage of higher coffee consumption rates in different countries.²⁵ Starbucks entered new markets outside the United States either through joint ventures, licenses, or by company-owned operations. In

1996, Starbucks entered Japan, Hawaii, and Singapore. In 1998, it entered Taiwan, Thailand, New Zealand, and Malaysia, and in 1999, it opened stores in Kuwait, Korea, Lebanon, and China. During the 1990s Starbucks concentrated its expansion efforts mainly in Asia. Schultz said, "The maturity of the coffee market in Europe was very strong and was not going to change much over the years. The Asian market share was in its developmental stage and we had an opportunity to position Starbucks as a leader in a new industry, and in a sense, educate a market about the quality of coffee, the experience, and the idea of Starbucks becoming the third place between home and work in those countries."²⁶

Starbucks in Japan

As its first international destination, Starbucks chose Japan because it was the third-largest coffee importer in the world after the United States and Germany and the largest economy in the Pacific Rim. Japan originally was a tea-drinking country and the per capita consumption of coffee in Japan in 1965 was only 300 grams per year.²⁷ Owing to the decade-long promotional activities of coffee companies and coffee associations, coffee became immensely popular in Japan and by 1990s the per capita consumption of coffee had reached 3.17 kilograms.²⁸

In the Japanese coffee industry, specialty blends were the fastest growing segment. Gourmet coffee accounted for 2.5% of the 1.2 billion pounds of coffee imported by Japan annually. The average per capita consumption among gourmet coffee drinkers had doubled from 1990 to 1.5 cups a day in 1997.²⁹ An industry analyst said, "The Japanese have taken to coffee like a baby to milk."³⁰

In 1995, Starbucks entered Japan with a joint venture—Starbucks Coffee Japan, Ltd. with a leading Japanese retailer and restaurant operator, Sazaby Inc. In 1996, Starbucks opened its first shop in the upscale Ginza shopping district, Tokyo, Japan. The décor and logo of the stores were similar to its U.S. stores. The menu remained the same but with slight variations. The store also offered Starbucks coffee beans and coffee-making equipment as well as fresh pastries and sandwiches. The store gathered a huge crowd on the opening day and Japanese lined around the block to get a taste of the Starbucks coffee.

The initial sales volume in Japan was twice as that in the United States. Starbucks rapidly expanded and by 1997 it had 10 stores at prime locations. Despite the slump in economic growth in Japan in the late 1990s, Starbucks remained profitable. Japan had become the most profitable market for Starbucks outside North America. The success of Starbucks and the growing popularity of coffee propelled other players to enter Japan.

By 2002, Starbucks had opened over 360 stores in Japan. But in the same year, Starbucks incurred huge losses in its Japanese operations. According to analysts, Starbucks was opening stores too close to each other, which affected its brand image. Food menu was another reason, for Japanese consumers, food was a major part of the coffee experience. The no-smoking policy of Starbucks also displeased many. As a result many competitors took advantage and included an elaborate food menu with coffee and had separate smoking areas. Other challenges that Japan presented to Starbucks were high rent and cost of labor. The land rent rate in Tokyo was more than double that of Seattle. Moreover, Starbucks did not have a roasting facility in Japan; it had to ship coffee from its roasting facility in Kent.

After cost-cutting exercises and introduction of new products based on consumer research, Starbucks Japan returned to profitability in 2004. By 2006, Starbucks had over 600 retail locations in Japan.³¹

Starbucks in China³²

A key component of our development in the China market was finding the right business partner who understands the marketplace, and, more importantly, share similar values, vision, and business philosophy.³³

Howard Schultz

Starbucks had begun its groundwork for entering China since 1994 and entered China in 1999. Starbucks decided to first enter Hong Kong. In Hong Kong, Starbucks created a joint venture, Coffee Concepts (Hong Kong) Ltd., with Maxim's Caterer, a food and beverage company that had 46 years of experience in Hong Kong. Maxim had a thorough know-how of establishing and running businesses in China. Maxim was also the business partner of Hong Kong Land Company, which had cornered a lot of real estate market in Hong Kong. Maxim provided Starbucks with valuable insights about Chinese preferences.

After Hong Kong, Starbucks opened a store at Beijing through a joint venture with Beijing Mei Da Coffee Co. Ltd.³⁴ The first Starbucks store opened in 1999 at the China World Trade Center, Beijing. The store opening was celebrated according to Chinese traditions. The store offered a complete menu of Starbucks internationally acclaimed coffee beverages, a selection of more than 15 varieties and blends of the finest Arabica coffee beans, freshly baked local pastries and desserts, and a wide selection of coffee brewing equipment, accessories, and service-ware. The ambience and décor of the store were kept similar to its stores in the United States. After Beijing, Starbucks opened stores in Shanghai. As in other markets, Starbucks did not market, advertise, or promote its stores in China and relied mainly on word-of-mouth promotion. Starbucks selected high visibility, high traffic locations to open its stores.

By 2002 Starbucks had expanded to 50 outlets in China. Pedro Man, the then-president of Starbucks Asia Pacific said, "These are still early days of our expansion in the China market. Our approach is very focused. We plan to open one store at a time, serve one customer at a time."³⁵

In 2003, Starbucks raised its stake in its joint venture operations in Shanghai to 50%. In mid-2005, Starbucks became the majority owner of its operations in Southern China. The first wholly owned and operated Starbucks store opened in Qingdao³⁶ in 2005 and by mid-2006, there were nine wholly owned stores in Qingdao, Dalian, and Shenyang.³⁷

Starbucks had to face many challenges in China. In its initial years, many were opposed to the opening of a Western coffee chain in China, which was traditionally a tea drinking country. Another challenge it faced was the dominance of instant coffee among coffee drinkers. Specialty coffee was limited to mainly urban consumers. Competition had also grown intense and many domestic and foreign players were setting up specialty coffee shops. Despite the challenges, Starbucks achieved significant success in China and became the leader in specialty coffee. By 2005, China contributed to little less than 10% of the global sales of Starbucks and by 2008, Starbucks expected to derive 20% of its revenue from Chinese locations.³⁸

The Next Destination

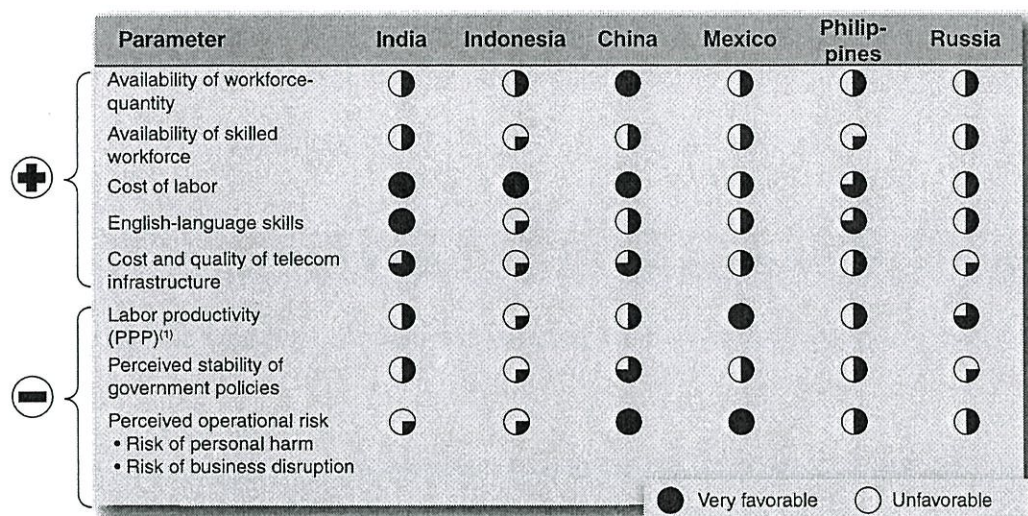
In 2006, Schultz said,³⁹ "We are equally excited about two other major markets we intend to enter during 2007—India and Russia (see **Exhibit 3**). We are in discussions with potential joint venture partners. Meanwhile, we are scouting locations, meeting with government officials—all toward gaining additional market knowledge and building critical relationships to make our market entries a success."⁴⁰

About India

India had embarked on a series of economic reforms since 1991. The reforms included liberalization of foreign investment, significant reduction in tariffs and other trade barriers and significant adjustments in government policies.⁴¹ The reforms over the years had resulted in higher growth rates, lower inflation, and significant increase in foreign investment (see **Exhibit 4**). In 2006, India was ranked as the fourth-largest economy in the world in terms of purchasing power parity⁴² and the tenth-most-industrialized country in the world.⁴³ In 2006, the middle class⁴⁴ in India was estimated at around 250 million and was growing in double digits in urban and second tier⁴⁵ cities.⁴⁶ The spending power had increased considerably in the recent years (see **Exhibit 5**). According to a report⁴⁷ by KPMG,⁴⁸ disposable incomes remained concentrated in urban areas, well-off and affluent classes, and double-income households. Consumers in the age group of 20–45 years were emerging as the fastest growing consumer group.

India's population was one of the youngest in the world and was to remain the youngest in the coming years (see **Exhibit 6**). In 2000, one-third of India's population was below 15 years

EXHIBIT 3
India's Performance
against Competing
Nations



(1) Labor productivity for India highest in IT services vis-à-vis competing nations

Note: Russia and China included as they will compete in specific areas despite aggregate shortages; Israel and Ireland not included because they are not expected to be significant competitors due to lack of manpower

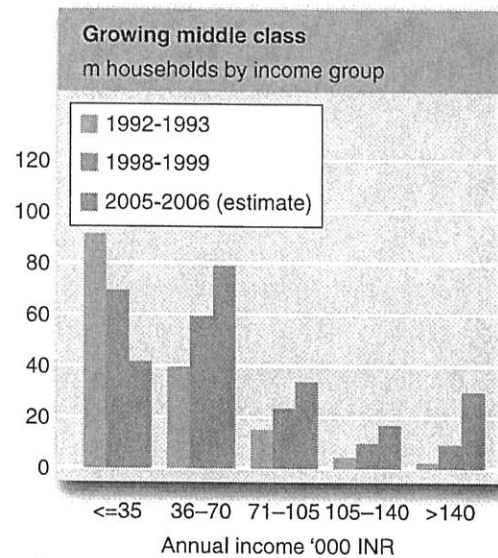
SOURCE: "India's new opportunity – 2020," Report of the High level strategic group in consultation with The Boston Consulting Group.

EXHIBIT 4
Pricewaterhouse
Coopers 2004/2005
Global Retail &
Consumer Study
from Beijing to
Budapest–India

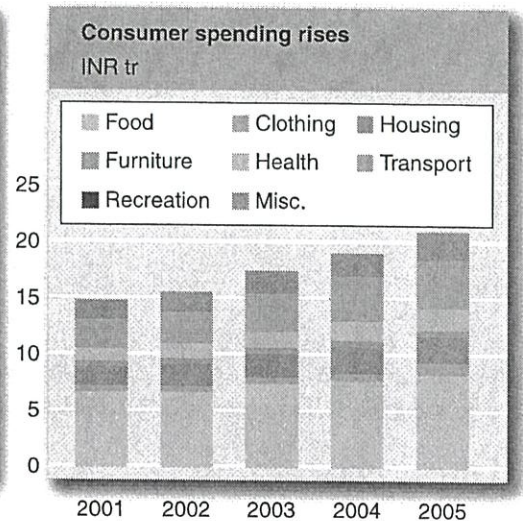
Key economic indicators	1999-00	2000-01	2001-02	2002-03	2003-04
GDP growth (%)	6.0	4.4	5.6	4.3	8.1
CPI (%)	3.4	3.7	4.3	4.0	4.6

SOURCE: Reserve Bank of India.

EXHIBIT 5
Growing Middle
Class and Increase
in Spending



SOURCE: NCAER, DB Research.



SOURCE: MSPI, DB Research.

EXHIBIT 6
Population
Distribution

Aging population	2001	2006 (projected)	2011 (projected)	2016 (projected)
0-14 years (%)	35.6	32.5	29.7	27.1
15-59 years (%)	58.2	60.4	62.5	64.0
60 and above (%)	6.3	7	7.9	8.9

SOURCE: Statistical Outline of India (2003-2004).

of age and close to 20% of its people were in the age group of 15-24 years. The population of Indians in the age group of 15-24 years in 2000 was around 190 million, which increased to around 210 million by 2005. The average age of an Indian in 2020 would be 29 years, compared to 37 years in China and the United States, 45 years in Western Europe, and 48 years in Japan.⁴⁹ India had emerged as a prime destination for business process outsourcing (BPO) companies, which employed mainly the young people. The real estate market in India was also undergoing a boom.

Mumbai was considered the economic and financial center of India. It housed headquarters of numerous Indian companies and many foreign financial service providers.⁵⁰ Many IT companies, financial service providers, and business process outsourcing companies had sprung up in Mumbai. Delhi was the third biggest city in India, had the seat of the government and the most important city in the northern India. Delhi and the neighboring towns of Gurgaon and Noida were established as the call-center hubs. Another prominent city was Bangalore, which was also known as India's Silicon Valley. Many famous Indian and global IT companies were present in Bangalore. In 2005, there were a total of 35 cities with population more than 1 million in India (see Exhibit 7).

However, there were certain factors that constrained economic growth. The factors included inadequate infrastructure, bureaucracy, regulatory and foreign investment controls, the reservation of key products for small-scale industries, and high fiscal deficits.⁵¹

EXHIBIT 7

India's Largest Cities/
Urban Areas

Rank	City / Urban Area	Population
1	Mumbai (Bombay)	16,368,000
2	Kolkata (Calcutta)	13,217,000
3	Delhi	12,791,000
4	Chennai	6,425,000
5	Bangalore	5,687,000
6	Hyderabad	5,534,000
7	Ahmadabad	4,519,000
8	Pune	3,756,000
9	Surat	2,811,000
10	Kanpur	2,690,000
11	Jaipur	2,324,000
12	Lucknow	2,267,000
13	Nagpur	2,123,000
14	Patna	1,707,000
15	Indore	1,639,044
16	Vadodara	1,492,000
17	Bhopal	1,455,000
18	Coimbatore	1,446,000
19	Ludhiana	1,395,000
20	Kochi	1,355,000
21	Visakhapatnam	1,329,000
22	Agra	1,321,000
23	Varanasi	1,212,000
24	Madurai	1,195,000
25	Meerut	1,167,000
26	Nashik	1,152,000
27	Jabalpur	1,117,000
28	Jamshedpur	1,102,000
29	Asansol	1,090,000
30	Dhanbad	1,064,000
31	Faridabad	1,055,000
32	Allahabad	1,050,000
33	Amritsar	1,011,000
34	Vijayawada	1,011,000
35	Rajkot	1,002,000

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SOURCE: India's national census of 2001.

The Retail Environment

In 2006, the Indian retail market was estimated at US\$350 billion. The market was largely unorganized and dominated by small and individually owned businesses. Organized retailing accounted for only 3% of the market, but by 2010, the share was expected to reach over 10%.⁵² Modern and organized retail channels such as hypermarkets, supermarkets, department stores, discount stores, etc. were sprouting in a big way. Retailing in grocery accounted for more than three-quarters of overall retailing sales.⁵³ In 2005, non-grocery retailing grew by 14% in sales value compared to 2004.⁵⁴ Department stores were the frontrunners in growth in non-grocery retailing and the number of department stores had grown by 24% per year since 1999–2000.⁵⁵ Department stores were largely frequented by the high-income and the upper-middle segment. Specialty retailing was also increasing (see **Exhibit 8**).

In early 2006, the Indian government permitted Foreign Direct Investment (FDI) up to 51% in retail trade of single-brand products with prior government approval. FDI was subjected

EXHIBIT 8**Key Players of the Indian Organized Retail Sector**

Food Retail Channels					
Category	Company	Group Name	No. of Outlets	Net Sales (2003–04)	Future Plans
Hypermarkets	Big Bazaar	Pantaloon Retail	9	2300	Over 22 stores by 2006
	Giant	RPG Group	2	900	21 stores by 2007
Supermarkets	Food World	RPG (51%) & Dairy Farm (49%)	93	3519	Not Available
	Nilgiris	Nilgiris	30	2550	20 new outlets in 3 years
	Food Bazaar	Pantaloon Retail	12	1650	Over 30 stores by 2006
Discount stores	Subhiksha	Viswapriya group	143	2350	Over 55 new stores by 2006
Cash & Carry	Margin free markets	Independent retailer	300	540	Not Available
	Metro Cash & Carry	Metro Group of Germany	2	650	Wait and watch
Non Food Retail Channels					
Category	Company	Group Name	No. of Outlets	Net Sales (2003–04)	Future Plans
Department stores	Shoppers Stop	K Raheja Group	14	4040	11 new stores by 2006, venture in food retailing
	Westside	Trent Ltd.	15	1555	6 new stores by 2006, venture in food retailing
Specialty retailing	Lifestyle	Landmark Group	7	2400	13 new stores by 2006
	Globus	R Raheja Group	7	1100	8 new stores by 2006
	Pantaloon	Pantaloon Retail	16	2500	Over 21 stores by 2006
	Ebony	DS Group	8	820	2 new stores by 2006
	Music World (Music)	RPG Group	125	600	14 new stores by 2006
	Tanishq (Jewelry)	TATA	65	3900	Over 75 stores by 2006
	Health & Glow (Pharma)	RPG Group	24	282	3 new stores by 2006
	Crossword (Book)	Shoppers' Stop (51%), ICICI Ventures (49%)	18	370	Over 28 stores and turnover of 680 million by 2006

SOURCE: Compiled by IBS, Ahmedabad Research Center from 2004/2005 Global Retail & Consumer Study from Beijing to Budapest – India, www.pwc.com.

to three conditions; products could be sold under a single brand, the products should be sold under the same brand internationally and the products needed to be branded during manufacturing.⁵⁶ Any addition to the product or product categories under the single brand would require fresh government approval.

Many single-brand global retail giants such as Gap and Zara announced their plans to enter India and many were in the exploration stage. Many domestic conglomerates also had big plans. One of the leading Indian conglomerates, Reliance Industries, announced its plans to invest US\$3.4 billion in retail in India and establish a chain of 1,575 stores by mid-2007. Another group, K Raheja Group, had plans to open 55 hypermarkets by 2015.⁵⁷ In 2006, India was ranked as the top destination for retailers according to A.T. Kearney's⁵⁸ Global Retail Development Index (GRDI) (see Exhibit 9).

EXHIBIT 9

A. T. Kearney's Global Retail Development Index (GRDI)

2006 Rank	Country	Region	Country Risk	Market Attractiveness	Market Saturation	Time Pressure	GRDI Score
		Weight	25%	25%	30%	20%	
1	India	Asia	55	34	89	76	100
2	Russia	Eastern Europe	43	59	53	90	85
3	Vietnam	Asia	43	24	87	81	84
4	Ukraine	Eastern Europe	42	37	76	81	83
5	China	Asia	58	40	57	86	82
6	Chile	Americas	67	57	47	48	71
7	Latvia	Eastern Europe	58	50	31	88	69
8	Slovenia	Eastern Europe	78	52	25	70	68
9	Croatia	Eastern Europe	57	51	28	91	67
10	Turkey	Mediterranean	46	59	64	40	66
11	Tunisia	Mediterranean	58	40	79	25	65
12	Thailand	Asia	57	39	49	72	64
13	Korea, South	Asia	68	73	35	36	63
14	Malaysia	Asia	66	49	54	38	62
15	Macedonia	Eastern Europe	32	32	75	64	61
16	United Arab Emirates	Asia	78	67	33	25	60
17	Saudi Arabia	Asia	53	46	67	30	59
18	Slovakia	Eastern Europe	61	51	23	78	58
19	Mexico	Americas	54	67	47	28	57
20	Egypt	Mediterranean	45	35	81	35	60
21	Bulgaria	Eastern Europe	48	37	52	65	55
22	Romania	Eastern Europe	45	40	53	60	54
23	Hungary	Eastern Europe	65	50	17	76	53
24	Taiwan	Asia	83	69	32	6	52
25	Bosnia and Herzegovina	Eastern Europe	31	18	71	75	51
26	Lithuania	Eastern Europe	59	52	32	55	50
27	Brazil	Americas	46	56	64	16	49
28	Morocco	Mediterranean	45	31	76	30	48
29	Colombia	Americas	39	42	65	37	47
30	Kazakhstan	Asia	48	15	99	8	46
Key	☐ On the radar screen ☐ Lower priority ☐ To consider		Legend 0 = high risk 100 = low risk 0 = low attractiveness 100 = high attractiveness 0 = saturated 100 = not saturated 0 = no time pressure 100 = urgency to enter				

SOURCE: www.atkearney.com.

Food Habits

India had a diverse cuisine that varied from region to region. Both vegetarian and nonvegetarian cuisines were eaten. Spicy food and sweets remained popular in India (see **Exhibit 10**). In 2006, a nationwide survey⁵⁹ was conducted that threw fresh light on the eating habits of Indians (see **Exhibit 11**).

EXHIBIT 10
Indian Cuisine

In India, the food habits differed across diverse religions and regions. There was no single style of Indian cooking and no single national dish. Styles of cooking and commonly used ingredients differed from region to region and from one household to another. The Hindu and Muslim cultures played a pivotal role in the development of the Indian cuisine. The Portuguese, the Persians, and the British also made important contributions to the Indian cuisine scene.

Overall, wheat and rice were the staple foods. Gravy-based dishes were prominent throughout India. The essence of Indian cooking revolved around the use of spices, which served both as appetizers and digestives. The other main ingredients of Indian cooking were the milk products—ghee and curd. Dals or pulses were also used across the country. Vegetables differed across regions and with seasons. The style of cooking vegetables was dependent upon the main dish or cereal with which they were served. Several customs were associated with the way in which food was consumed. Traditionally, meals were eaten while sitting on the floor or on very low stools, eating with the fingers of the right hand.

The Indian cuisine included a host of beverages, desserts, and paan for a grand finale. Buttermilk, an accompaniment to Indian meals, was made by vigorously churning yogurt and water. It was called lassi in the north and mor or majige in the South. Tender coconut was available in plenty in the coastal areas and was consumed to beat the summer heat.

Coffee was more popular in South India, and tea in North India. Indian tea grown on the mountain slopes of Darjeeling, Munnar, and Coonoor was exported the world over. Coffee was primarily grown in Karnataka.

Bottled drinks included various brands of lime, orange, and cola. Other fruit-based drinks—apple, guava, mango, and tomato—were available in tetra packs and tins. Alcoholic beverages included gin and rum. Fenny, a cashew or palm extract, was popular in Goa.

SOURCE: Compiled from <http://www.geocities.com/Tokyo/Shrine/4287/cuisine.htm>.

EXHIBIT 11
Key Findings of
The Hindu-CNN-IBN
State of the Nation
Survey

Category	Persons	Families*
Vegetarians	31%	21%
Vegetarians who take eggs	9%	3%
Non-Vegetarians	60%	44%
Mixed eating habits	-	32%
*Family includes parents and spouses. Figures are for families where everyone falls in the same category. 32% of families have mixed eating habits.		
Those who consume*	Rural	Urban
Tea/Coffee	83	96
Cold drinks	22	44
Eat out in restaurants	-	23
*Figures in percentage for those who consume either daily or once or twice a week or once or twice a month.		

SOURCE: Yogendra Yadav, Sanjay Sharma "The food habits of a nation," www.hinduonnet.com, August 14, 2006.

Indian Beverage Market

The Indian beverage market is chiefly composed of milk, tea, coffee, bottled water, carbonated soft drinks, fruit beverages, distilled spirits, beer, wine, and others (see **Exhibit 12**). Consumers in different parts of the country had different tastes and preferences. The middle class was the biggest consumer of beverages. Consumption in rural areas had stagnated as a majority of the

EXHIBIT 12
Indian Beverage
Market

A. Change in volume by category—2001–2005

Segment	2000/01	2001/02	2002/03	2003/04	2004/05
Milk	3.0%	4.7%	2.1%	2.2%	2.0%
Tea	3.2%	3.1%	3.0%	3.0%	2.9%
Bottled Water	51.9%	63.7%	45.6%	32.7%	23.8%
Coffee	6.7%	6.2%	2.9%	2.0%	2.0%
Carbonated Soft Drinks	20.0%	25.0%	−5.0%	−15.0%	−5.0%
Distilled Spirits	4.3%	14.9%	11.6%	11.3%	10.4%
Beer	7.6%	8.2%	6.6%	5.3%	6.3%
Fruit Beverages	15.6%	20.6%	48.8%	23.9%	23.2%
Wine	—	—	—	18.0%	19.3%
Subtotal	3.4%	4.7%	2.9%	2.8%	2.8%
All Others ¹	0.8%	0.5%	0.8%	0.9%	0.9%
TOTAL	1.2%	1.2%	1.2%	1.2%	1.2%

Note: ¹Includes tap water, vegetable juices, powdered drinks, and miscellaneous others.

SOURCE: Beverage Marketing Corporation.

B. Per Capita Consumption by Category

Categories	Liters Per Person					
	1995	1996	1997	1998	1999	2000
Beer	0.5	0.5	0.6	0.6	0.7	0.7
Bottled Water	0.1	0.1	0.1	0.2	0.3	0.5
CSDs	1.0	1.2	1.2	1.5	1.6	1.8
Coffee	2.0	1.2	1.3	1.3	1.3	1.2
Distilled Spirits	0.3	0.3	0.4	0.5	0.6	0.6
Fruit Beverages	0.1	0.1	0.1	0.2	0.2	0.2
Milk	41.2	41.7	40.2	40.7	40.1	40.5
Tea	49.7	50.9	49.2	52.5	48.2	44.2
Wine	0.0	0.0	0.0	0.0	0.0	0.0
Subtotal	94.9	96.0	93.1	97.5	93.0	89.7
All Others*	631.9	630.6	633.6	629.3	633.7	637.0
TOTAL²	726.7	726.7	726.7	726.7	726.7	726.7

Categories	Gallons Per Capita					
	1995	1996	1997	1998	1999	2000
Beer	0.1	0.1	0.2	0.2	0.2	0.2
Bottled Water	0.0	0.0	0.0	0.1	0.1	0.1
CSDs	0.3	0.3	0.3	0.4	0.4	0.5
Coffee	0.5	0.3	0.3	0.3	0.3	0.3
Distilled Spirits	0.1	0.1	0.1	0.1	0.1	0.2
Fruit Beverages	0.0	0.0	0.0	0.0	0.0	0.1
Milk	10.9	11.0	10.6	10.8	10.6	10.7
Tea	13.1	13.4	13.0	13.9	12.7	11.7
Wine	0.0	0.0	0.0	0.0	0.0	0.0
Subtotal	25.0	25.2	24.5	25.8	24.4	23.8
All Others ¹	166.9	166.6	167.4	166.3	167.4	168.3
TOTAL²	192.0	192.0	192.0	192.0	192.0	192.0

Note: ¹Includes tap water, vegetable juices powders, and miscellaneous others.

²Rounding errors

SOURCE: Beverage Marketing Corporation.

rural population depended on agricultural products. Also, most of the advertisements were targeted at the urban population living in cities, and very few advertisements targeted the rural market. The Indian hot-beverage market was dominated by tea. India was the largest producer and consumer of tea in the world and accounted for 29% of the total production and over 20% of the total consumption globally.⁶⁰ Most of the Indians consumed tea at least twice a day, in the morning and in the afternoon. Tea, perceived as having health benefits, was extensively and easily available, but more than half was available in unpacked or loose form. Milk followed tea as the second-most-popular drink. Coffee was third in the hot beverage market. The total soft drink market (carbonated soft drinks and juices) was estimated at US\$1 billion per year. Mineral water market in India was a US\$50 million industry.⁶¹

Indian Coffee Market

Between 1947 and 1996, coffee consumption in India had remained stagnant at 50,000 tons per year. Since 1996, coffee consumption witnessed a steady rise reaching 85,000 tons in 2005.⁶² The late 1990s saw the emergence of trendy coffee bars, specialty coffee serving chains that started replacing the conventional and old-fashioned coffee houses.

According to market research studies, coffee was mainly consumed in the urban areas (71%) and to a much lesser extent in the rural areas (29%).⁶³ The people in southern states of India largely consumed coffee (see **Exhibit 13**). The people in the northern states were generally not coffee drinkers, but drank coffee and experimented with various flavors as a fashion statement. The consumption of instant coffee and filter coffee⁶⁴ was almost equal on the national level. But region-wise, filter coffee was more popular in the south and the proportion of instant coffee was very high in the non-south regions.⁶⁵ The Coffee Board of India⁶⁶ undertook research studies in 2001 and 2003 regarding the consumption of coffee and attitude of coffee drinkers in India (see **Appendix 1**).

The size of the total packaged coffee market was 19,600 tones or US\$87 million.⁶⁷ According to industry reports, the gourmet coffee market in India in 2004, which was still in its nascent stage, held potential for 5,000 cafes over the next five years.⁶⁸ As mentioned by Schultz, "Much like China, India has traditionally been a tea culture, yet there is a growing coffee culture emerging, especially among the country's young adults. Also like China, there is a growing interest in Western consumer brands and luxury products."⁶⁹

Competitive Scenario

Homegrown brands dominated the retail coffee market. Coffee Café Day (CCD) pioneered the concept of specialty coffee in India followed by Qwiky's and Barista Coffee.

EXHIBIT 13
Per Capita
Consumption of
Coffee in India –
State-wise

States	1981	1991	2001
Tamil Nadu	0.633	0.425	0.493
Karnataka	0.498	0.370	0.350
Kerala	0.179	0.070	0.143
AP	0.109	0.062	0.077
Total South	0.362	0.237	0.267
Total for Non-South	0.009	0.004	0.005
Total for all States	0.094	0.076	0.062

SOURCE: http://indiacoffee.org/newsletter/2004/april/cover_story.html.

Café Coffee Day

*To be the best café chain in the country by offering a world class coffee experience at affordable prices.*⁷⁰

CCD Mission statement

CCD, India's first coffee bar was established in 1996 in Bangalore by the largest exporter of coffee in India, the Amalgamated Bean Coffee Trading Company (ABCTCL). By 2002, CCD had 50 outlets in 9 cities, which increased to 326 outlets in 65 cities by 2006.⁷¹ CCD offered a wide variety of Indian and international flavors of hot and cold coffee, hot chocolate, cold drinks, ice creams, pastries, sundaes, quick snacks, and powder coffee.

Customer Profile at CCD

The best-selling item at CCD in summer was Frappe⁷² and Cappuccino in winters. In northern states, hot coffee was the most popular. Country-wise, on an average, the sales of cold coffee exceeded the sales of hot coffee.⁷³

CCD also sold merchandise such as caps, T-shirts, bags, mugs, mints, and coffee filters at its outlets. Other brands were also promoted in a CCD outlet through innovative and interactive use of posters, cards, danglers, leaflets, contest forms, etc. CCD had tied up with popular television serials and also ran promotion contests for many brands. It had also tied up with some popular Indian movies where CCD was featured in some of the scenes.

By 2006, CCD had six café formats; Music Cafés, Book Cafés, Highway Cafés, Lounge Cafés, Garden Cafés & Cyber Cafés. Music Cafés provided customers with the choice of playing their favorite music tracks on the digital audio jukeboxes installed in the café. CCD had 85 Music Cafés out of which 32 cafés also allowed the customers to watch their favorite music videos through video jukeboxes. Book Cafés offered the customers bestsellers and classic books to read while enjoying coffee. CCD had allied with a leading Indian book distributor for supplying books that would appeal to the customers. There were 15 Book Cafés in 12 cities. There were highway cafés on two important highways in the country that provided coffee and clean restrooms to relax. CCD had three Lounge Cafés at Delhi, Kolkata, and Hyderabad, which provided exquisite interiors, an exotic menu, and theme music. It had hostesses to assist who were looked upon as fashion icons. There were two Garden Cafés at Bangalore and Delhi amidst famous gardens. Cyber Cafés at Bangalore and Delhi allowed the customer to surf while enjoying coffee. CCD had plans to come out with more formats like sports Café, singles café, and fashion café.

In 2006, ABCTCL earned revenues of 3.5 billion INR.⁷⁴ It had plans to increase its outlets to 500 by June 2007 by opening 3–4 shops per week and increase its revenue to 10 billion INR.⁷⁵

Speaking on competition with other players, Sudipta SenGupta, marketing head, CCD said: We don't have any competition because we are not competing with the others. In fact we are aiding each other in creating and growing the coffee culture. All of us have a distinct identity. We sure do!⁷⁶

Qwiky's

Two software engineers, Shashi Chimala and Shyam, opened the first Qwiky's outlet in Chennai in 1999. They were inspired by the specialty coffee bars in the United States. The menu at Qwiky's included varieties in hot Italian coffee, Indian coffee, specialty hot coffee, cold coffee, frappes, milk shakes, tea, other beverages, desserts, and snacks. It targeted youths in the age group of 18 to 30 years. By 2002, the annual revenues of Qwiky's were 43 million INR.

Qwiky's had three types of formats; Qwiky's Coffee Pubs were stand-alone coffee bars, Qwiky's Coffee Islands were outlets within big stores, multiplexes, and movie theatres, and Qwiky's Coffee Xpress were coffee kiosks. By 2006 it had over 20 outlets in nine cities in India and one franchise in Sri Lanka. Qwiky's had plans to open more outlets in metropolitan and

large cities in India and abroad through franchising its business. It had joined with retailers such as Lifestyle, Music World, and Ebony to open store-in-store outlets.

Barista

The first outlet of Barista Coffee Company Limited (Barista) was established in 2000 in Delhi by an investment company,⁷⁷ promoted by Amit Judge. Barista offered a range of hot coffee, international coffee, cold coffee, ice cream, cold non-coffee, ice cream sundaes, add-ons, other beverages, and fast food in their outlets. Coffee and other products at Barista were priced high and its target audiences were youth from the upper-middle-class segment. The coffee at Barista was made with high-quality Arabica coffee beans and baristas (brew masters) were invited from Italy to make new blends. Brotin Banerjee, vice president of marketing, Barista, said, "Our inspiration was the traditional Italian Espresso bars where the idea is to create a 'home away from home.'"⁷⁸ In 2001, Barista entered into a strategic alliance with Tata Coffee Ltd. (Tata), the largest coffee producer in India. Tata later acquired a 35% stake in Barista. The alliance allowed Barista to enlarge its distribution network and set up outlets in the Taj Group of hotels owned by Tata and its other allied businesses.

The outlets also offered many merchandise such as mugs, flasks, coffee-made candles, coffee filters, coffee cup miniatures, soft toys, and chocolates.⁷⁹ The outlets also gave away gift certificates that could be redeemed at any Barista outlet. By 2003, Barista became a chain of over 100 cafés (mainly in the northern cities), had sales of 650 million INR, and served 35,000 customers daily.⁸⁰ It had surpassed CCD in sales, which had over 50 outlets by 2003. In 2004, Amit sold 65.4% stake of the company to an NRI⁸¹ businessman, Sivasankaran (Siva), who later in 2004 bought the remaining stakes from Tata as well. After the acquisition, Siva revamped the chain, opened more Barista outlets in Southern cities, and began franchising its outlets. It started opening up a new outlet every 10 days. A new look was given to its outlets by making changes in its seating arrangements, in-store merchandise, and providing a better youthful ambience of the store.⁸² The brew masters maintained friendly relations with the customers and called them by their first names.

Barista joined with specialty retailers such as the music retailer Planet M, the book retailer Crossword, and the Taj Group of hotels for setting up espresso corners in their premises. It also launched a concept called Bancafe, a coffee shop within the bank premises and joined with the bank ABN AMRO.⁸³ By 2006, Barista had over 130 café chains.

Others

Costa Coffee, owned by the UK-based Whitbread plc, opened its first coffee retail chain in Delhi in late 2005.⁸⁴ It entered India through a joint venture agreement with RK Jaipuria Group of India. It had plans to open 300 outlets in India by 2010. Costa coffee, which had 100 outlets in nine countries, was the first international coffee, chain to enter India. In India it priced its coffee, which was locally competitive.

After Costa Coffee, Orlando-based coffee chain Bernie's entered India through a franchising agreement with an Indian company and set up its first outlet at Delhi.⁸⁵ The company had plans to invest around 750 million INR and open 300 stores across the country in the next five years. The world's second-largest specialty coffee company, Australia-based Gloria Jean's also disclosed its plans to enter India and set up 20 outlets in seven large cities in India by 2006.⁸⁶ Illy, an Italian-based coffee chain, was also in exploration stages to enter India.⁸⁷

The Road Ahead

In 2004, Starbucks had signed an agreement with Tata to source premium coffee beans. Tata had won a gold medal for the best Robusta⁸⁸ coffee in the world at the international cupping

competition, Grands Crus de Café held at Paris.⁸⁹ The agreement was the first instance when Starbucks decided to source coffee from anyplace other than South America and Indonesia. Tata had met all the stringent standards and conditions followed by Starbucks such as quality, soil, water, pest, waste and energy management, forest and biodiversity conservation to workers' welfare, wages and benefits, living conditions, health, safety, etc. Hamid Ashraff, managing director, Tata Coffee, said, "Starbucks deal with Tata Coffee is yet another significant milestone to show how Indian coffee is gaining acceptance in the international market."⁹⁰

In mid-2006, a Starbucks spokesperson said, "We are excited about the great opportunities that India presents to the company. We are looking forward to offering the finest coffee in the world, handcrafted beverages, the unique Starbucks experience to customers in this country within the next 18 months."⁹¹ Starbucks was said to have been in talks with several probable partners (see **Exhibit 14**) for their much-talked-about entry in India. The marketplace was full of many such speculations that Starbucks had finalized their Indian partner but there was no confirmation from Starbucks. In an interview with a leading Indian newspaper,⁹² Coles said, "When we open a new market, we take time to make sure we have the right joint venture partner or licensee to help develop the brand. As it is very important for us to find a partner with the right business and retail experience as well as cultural fit for Starbucks, the process can be a long one. We will open each market when the time is right, one store at a time."⁹³

Starbucks sounded firm on its Indian ambitions and seemed prepared to meet the challenges that the Indian market could pose for Starbucks. Starbucks products were priced at a premium and the per capita income in India was lower compared to other markets where it was already present. Coles said, "We price our products competitively in each market, so product prices in India would be locally competitive."⁹⁴

Speaking on competition with the traditional Indian beverage tea, Christine Day, president of Starbucks Asia Pacific Group said, "India is a tea-based culture. We're not saying coffee is a substitute. We're saying Starbucks is a place to hang out, to eat and drink, to see and be seen."⁹⁵

Another significant challenge that Starbucks could face was the increasing rate of obesity and obesity related diseases such as diabetes, high blood pressure, and heart diseases in India. In 2005, 25 million Indians suffered from diabetes, which according to estimates by WHO⁹⁶ would increase to 57 million by 2025.⁹⁷ Starbucks was said to have been on the target of many consumer health groups worldwide who planned to campaign against the high-calorie and high-fat products that Starbucks sold and which could lead to increased obesity risk, heart diseases,

EXHIBIT 14

Some of the Probable Partners, Starbucks Reported to be in Discussion

Group	Assets	Financials
Anil Dhirubhai Ambani Group (ADAG)	Runs Java Green coffee chain in its Reliance Webworld stores, businesses in energy, finance, telecom. Plans to venture in pharma retail	Operating Profit ADAG Group— INR 50 billion (As on May 2005)
K Raheja Group	Owner of Shopper's Stop, 19 department stores in 10 cities in India (2006)	Shoppers' Stop Revenues— INR 6.75 billion (year ending March 2006)
Pantaloon Retail	Owner of Pantaloons, Big Bazaar, Food Bazaar. 100 stores in 25 cities in India (2005)	Group Revenues—INR 10.73 billion (year ending June 2005)
Planet Sports	Licensee of Starbucks in Indonesia, Licensee of Marks & Spencer in India, 25 stores in India	Turnover in India—INR 0.3– 0.4 billion (2005)

SOURCE: Compiled by IBS Ahmedabad, Research Center.

and cancer.⁹⁸ For instance, Banana Mocha Frappuccino with whipped cream, offered by Starbucks, contained 720 calories and 11 grams of saturated fat.⁹⁹ According to the consumer groups, Starbucks should use healthier shortenings¹⁰⁰ and publicize its smallest cup size, short, which was available but did not appear on the menu card. Starbucks provided information about the nutritional value of each of its offerings on its Web site and in-store brochures. The health groups insisted that the information should also be provided on its menu card.¹⁰¹ A Starbucks official said they were actively researching alternatives to high-fat products.

Starbucks had expressed its interest in entering India several times in recent history. In 2002, Starbucks announced for the first time that it was planning to enter India.¹⁰² Later it postponed its entry as it had entered China recently and was facing problems in Japan. In 2003, there was news again that Starbucks was reviving its plans to enter India. In 2004, Starbucks officials visited India but according to sources they returned unconvinced as they could not agree on an appropriate partner for its entry. Banerjee of Barista said, "We've been hearing about them [Starbucks] coming for the last 3 to 4 years. We don't know why they are not here yet. If they do come, we still believe we have a number of factors to our advantage." Cole commented: Without sounding arrogant, we are looking at our own strategy. There is nothing that keeps us doing business in India."¹⁰³

Appendix 1: Salient Results of the Studies Undertaken by The Coffee Board of India

Consumption of Coffee in India

- Consumption of coffee was 19% when compared to tea at 85%. Consumption was the highest in the South at 31% while it ranged between 35% in the weak coffee zones: North, East, and South.
- Per capita consumption of coffee (among all respondents—both drinkers and non-drinkers) was 0.33 cups against 1.77 cups for tea. However, coffee consumption among drinkers was at 1.76 cups compared with that of tea at 2.1 cups.
- About 41% of the respondents were non-drinkers of coffee and 40% were occasional drinkers.
- Consumption was the highest among the age groups of 15–24 and 35–44 years. The proportion of non-drinkers was the highest in the age group of 55+ years.
- Coffee consumption dipped from 11% at home to 6% outside.
- Coffee was consumed as the first cup only by 23% of coffee drinkers, including in the South.
- Penetration level was found to decrease from higher socioeconomic class (SEC) to the lower socioeconomic class. Penetration of filter coffee was highest in South India. In the rural areas of South India, instant coffee had a higher level of penetration than filter coffee.
- Visiting cafes was not a frequent habit. Of all respondents surveyed, about 12% visited cafes and there was a greater tendency among the upper SECs to visit cafes. About 10% have ever visited cafes; the highest proportion was higher among men and the younger age groups (15–34 years).
- The average number of cups of coffee consumed increased marginally from summer to winter.
- The North had an increased consumption of cold coffee in summer, showing 60% consuming cold coffee at least once a week in summer.
- Around 65% of households bought instant coffee and 18% bought filter coffee. Among filter coffee drinking households, 49% were branded coffee drinkers and 51% were unbranded coffee drinkers. In the South, filter coffee was bought mostly from R&G (Roast & Ground) outlets.
- Amongst coffee consumers in the rural areas, a majority were light drinkers, consuming 1–2 cups every day. About a fifth of rural consumers consumed coffee occasionally.
- A majority of the rural households (71%) bought packaged and branded coffee powder. Of those, 47% bought instant coffee, and 53% filter coffee.

Attitude Toward Coffee Consumption

- Coffee at home was significantly different to coffee outside. Rating for coffee outside home was better than tea outside home, specifically in the North and the East.
- Coffee from vending machines rated significantly more satisfactory in the North as compared to the East or the West. Consumers in the North believed that making filter coffee was time-consuming.
- In the weak coffee markets, the key barriers to coffee appeared to be its bitter taste (East) and its inconsistent taste outside. High price of coffee was also felt as a barrier in the South and the North.

- The knowledge levels on coffee appeared to be relatively weak in the North and East.
- While consumers in the North believed that instant coffee was convenient and tasted good, the seasoned coffee consumer in the South believed that all instant coffee contains chicory and that filter coffee is the gold standard in coffee.
- Respondents in the North, followed by East, appeared to be most positively inclined to consume more coffee at home if the price was less, they were reassured on health, and they could try different recipes.
- Respondents in the North, followed by West and East, appeared to be most positively inclined to consume more

coffee outside if the price was less, consistently good coffee was more easily available outside, and they were reassured on health.

- In South, consumers believed that they would consume more coffee at home if their family & friends consumed coffee.
- In the East, there appeared to be a certain level of eagerness to learn about making “just right” coffee and they would make filter coffee if they knew how to make it well.

SOURCE: S. Radhakrishnan “Coffee consumption in India—Perspectives and Prospects,” www.indiacoffee.org, April 2004.

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