Set 1

JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

PGDM/ PGDM (M)/ PGDM (SM)

TRIMESTER-IV; Batch 2022-24

END TERM EXAMINATIONS, OCTOBER 2023

Course Name	STRATEGIC MANAGEMENT	Course Code	20704
Max. Time	2 Hours	Max. Marks	40

Instruction: Read the cases carefully and answer ALL of the questions below:

Cases- Coffee Wars in India: Starbucks 2015 & Coffee Wars in India: Café Coffee Day 2015

(All questions carry equal marks)

Q1. Appraise the Indian market and highlight the opportunities and challenges for the company? Analyze the various strategic options available to the firm and assess Starbucks entry strategy in India.

Q2. If you were in the position of the top management team of Starbucks, what goals (short-term and long-term) would you propose? Justify with reasons.

Q3. Assess Café Coffee Day's competitive advantage, using a suitable tool. Evaluate the actual or potential challenges, if any, which CCD may encounter while competing with Starbucks?

Q4. As Siddhartha and Madhav of CCD, you have to respond to Starbucks entry. In this context answer the following: (5 marks each)

a. You may consider a slight course correction **OR** contemplate a more substantial and daring investment in upgrades and expansion. Justify.
b. Illustrate the various implementation components to support the above strategic choice that you would propose in response to Starbucks entry.

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Coffee Wars in India: Café Coffee Day 2015

In early January 2015, V. G. Siddhartha, founder and chairman of Café Coffee Day (CCD),[a] and director Venu Madhav visited one of their newly renovated cafés in India's IT capital, Bengaluru (see **Exhibit 1** for photos). As they sipped a cappuccino and discussed CCD's future strategy, their moods reflected the improved ambiance inside and the beautiful winter weather outside. CCD held roughly a 45% market share in India's retail coffee market. Over the previous two years, the coffee market had expanded from $230 million to $270 million, while CCD grew revenues from $108 million to $120 million.[1] Siddhartha and Madhav kept a steady pace of increasing the number of CCD outlets and rationalizing the company's network. By early 2015, there were 1,538 stores (1,486 cafés, 46 lounges, and 6 squares), up from 1,469 (1,421 cafés, 46 lounges, and 2 squares) two years earlier. Although Tata Starbucks had captured 10% of the market in terms of value since 2012, Madhav noted that "this is as per our expectations." With the market expected to grow 20% annually, Siddhartha and Madhav were very buoyant about CCD's future.[2] They even planned an initial public offering (IPO) of the holding company in mid-2015 that they hoped would raise between $150 and $200 million.

After Starbucks' initial entry, CCD's response was a "slight course correction." Madhav explained that "our strategy has been to keep doing what we are doing in a much better and bigger manner. There has been no change in the way we are engaging with the brand and the consumer." CCD began by upgrading about 150 of its stores, while letting the leases on some of the older and slightly rundown properties lapse. It also focused on innovations in its food and beverage offerings, introducing four new food items in 2014. Madhav sought to fill in certain menu gaps compared to the competition, launching a Snowy Vanilla Frappe. CCD also marginally raised its product prices. For instance, it increased the price of a small cappuccino from 66 Indian rupees (Rs. $1.05) to Rs. 79 ($1.25).[b] This helped counter inflation yet still maintain a big price advantage over Starbucks, which had raised its prices four times in the last two years. In January 2015, Starbucks' small cappuccino was priced at Rs. 120 ($1.98). These measures helped CCD increase its average sales per day per outlet from roughly $240 in 2013 to $300 in 2015. However, these store sales were still low compared to Starbucks' average of $1,200 to $1,400. Finally, CCD invested heavily in improving service levels. Madhav explained the

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[a] Officially registered as Amalgamated Bean Coffee Trading Company Limited.

[b] A conversion rate of 1USD = 63 rupees has been used for all currency conversions.

Professor David B. Yoffie and Associate Director Rachna Tahilyani (India Research Center) prepared this case. It was reviewed and approved before publication by a company designate. Funding for the development of this case was provided by Harvard Business School and not by the company. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

commitment to customer service: "While training is an ongoing process, we are now committing resources to it compared to before."

With the Indian retail coffee market poised for exponential growth, Siddhartha and Madhav discussed the appropriate strategy for CCD. Madhav was convinced that they needed to drive incremental improvements similar to their strategy of the last two years:

> After having achieved our current scale of over 1,500 outlets, there is no frantic rush to go after numbers. Rather we need to relook at what an ideal café experience should be. We need to decide whether we should stick to the current square, lounge, and café formats. Or should we consider two or even one format? We have realized that if we want a continuous throughput of customers, a café needs to be leisurely spaced. Hence, for new outlets, we are targeting slightly larger spaces of about 1,000 square feet. In addition, we need to renovate the remaining 650–700 stores at a rate of about 100–150 a year.

Consistently revitalizing the food and beverage menu was also important to sustained success. Starbucks had the advantage (and higher costs) of delivering food seven days per week, while CCD's supply chain delivered every other day. This meant that Starbucks had more fresh food. Madhav noted:

> Food is going to play a very critical role going forward as we are seeing a shift in consumers' need state towards food and beverage. Currently, food contributes about 30% to 35% of our revenues compared to 25% at Starbucks. Through food innovation, we want to increase this by 2% to 3%. Though this is minuscule in percentage terms, it will improve our beverage sales and thus help our overall pie grow.

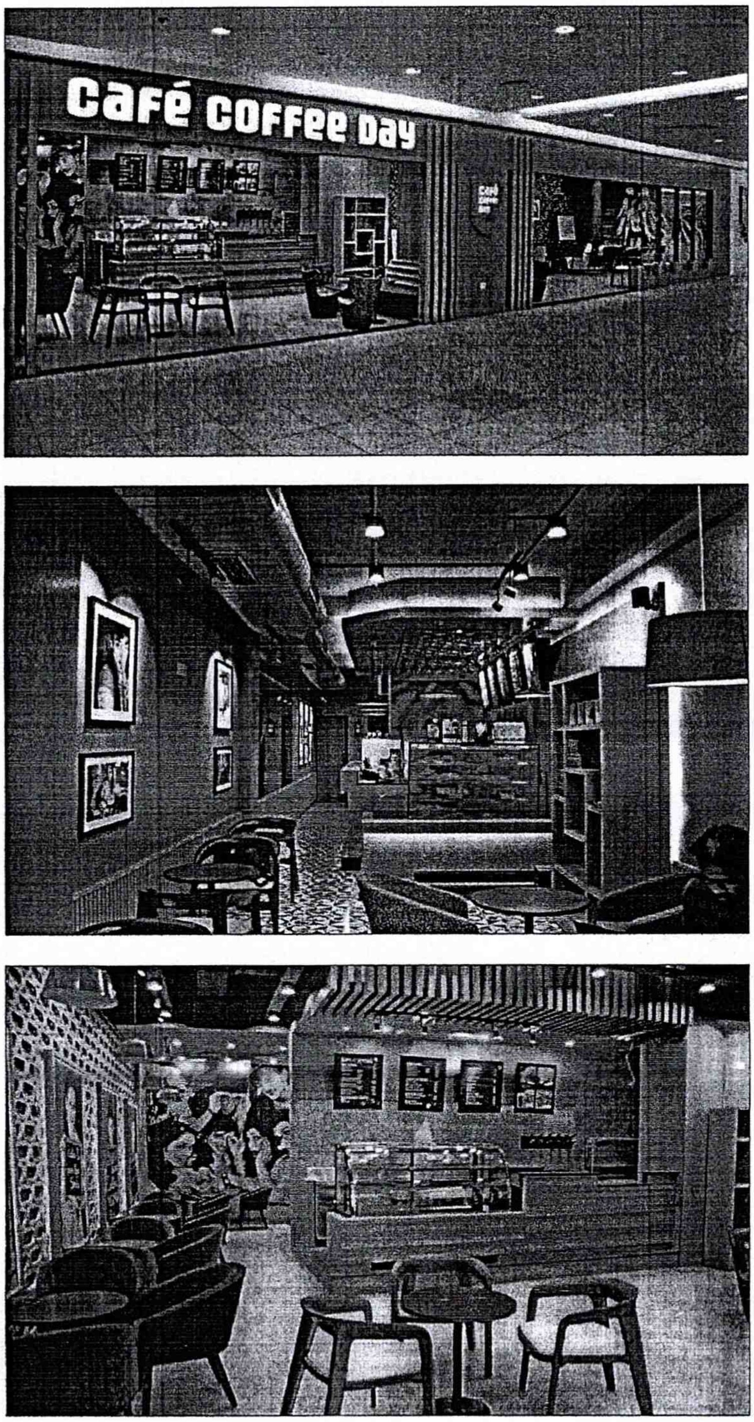
Siddhartha supported his managing director's strategy, though he also believed that CCD needed to be prepared for Starbucks scaling to 500 stores by the end of 2017:

> I tell my team, we have to be *mentally prepared* for taking on increasing competition. We need to spot trends and lock in prime properties ahead of the curve. We need to improve our service levels quicker. We need to accelerate our food innovation strategy. We need to embrace technology even more for increasing efficiencies at cafés, as well as strengthening consumer engagement. Finally, we need to be ready to renovate cafés faster, 300 stores in a year instead of the current 100 to 150, and relocate some of our smaller stores at a faster pace.

Siddhartha maintained his lofty goals for CCD. He continued to expect that CCD would have outlets in 20 countries by 2025 and would be recognized as one of the top three coffee brands in world.

With an IPO on the horizon, Madhav and Siddhartha debated the future. Should they stay the course and be "mentally prepared" or should they pull the trigger? What evidence would they need to shift direction?

Exhibit 1 Café Coffee Day New Stores



Source: Company documents.

Endnotes

[1] Shramana Ganguly, "Indian Café Market to be $410 million Industry by 2017: Technopak," *Economic Times*, October 19, 2012, http://articles.economictimes.indiatimes.com/2012-10-19/news/34584301_1_technopak-share-cafe-market, accessed January 2015; and Pallavi Srivastava, "Indian Retail Coffee Market: The Good, The Bad and The Ugly," *Economic Times*, September 7, 2014, http://retail.economictimes.indiatimes.com/news/food-entertainment/food-services/indian-retail-coffee-market-the-good-the-bad-and-the-ugly/41926340, accessed January 2015.

[2] Ganguly, "Indian Café Market to be $410 million Industry by 2017: Technopak"; and Srivastava, "Indian Retail Coffee Market."

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Coffee Wars in India: Starbucks 2015

In January 2015, 27 months after Starbucks' launch in India, John Culver, Group President, Starbucks Coffee China and Asia Pacific, Channel Development and Emerging Brands; Avani Davda, CEO of Tata Starbucks; and Harish Bhat, a member of the Group Executive Council of Tata Group and former CEO of Tata Global Beverages, reflected with pride on what they had accomplished. With 65 stores across six locations, India was the fastest-growing new market in Starbucks' history. In fact, to sustain this drive, Tata Starbucks increased its authorized capital in August 2014, raising the total to $55 million.[1] Culver said:

> The last two years have exceeded our expectations [Indian customers] embraced Starbucks and they are beginning to make it a part of their daily rituals, frequenting our stores on a daily basis. Equally what we have seen is that they are using our store as the third place between their work and their home and they come to our stores with friends and families and use Starbucks as a gathering place.[2]

Davda added, "We have elevated the coffee house experience in the market and we have created spaces that people love."[3]

Tata Starbucks had evolved since its entry into India. While inflation had forced Starbucks to increase its prices in India, they remained slightly lower than in North America and other markets in Asia Pacific. One of the largest costs continued to be real estate, where prices in India's tier 1[4] cities rivaled real estate prices elsewhere in the world. Bhat noted, "We learned the key is always location, particularly on the crowded streets and malls." The good news was that in India, Starbucks had one of the lowest-cost sources of milk in the world and the ability to procure coffee locally from Tata Coffee's estates, which mitigated some of the cost pressures.

Tata Starbucks had also tweaked its people practices to suit Indian requirements. Adapting Starbucks to Indian culture was progressing well, but required a new way of managing its stores. Deepa Hall, Director of Operations, Tata Starbucks, explained:

> We have about 1,200 partners [employees] and it is important to create a culture of warmth and belonging, where everyone is treated with respect. Each partner at the store is responsible for its success. We teach people to voice their opinions and challenge the status quo.

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Starbucks was also focused on maintaining low turnover, which was an endemic condition in the fast-food industry in India. Starbucks provided more development opportunities to its partners and competitive compensation: Tata Starbucks set its salaries at a premium compared to the Indian fast-food sector. It was also the first company in the sector to offer a six-month maternity leave. These moves helped keep turnover at levels below the industry average in India.

Starbucks realized that the profile of its customers in India was slightly different from its global audience. Its customer segment included 70-year-olds as well as 16-year-olds who came in with their grandparents. Often people outside the target income segment saved up to visit the store. Starbucks was an aspirational brand for many. Davda said, "Our brand has a cachet in the country and people come in with huge expectations." Starbucks' challenge was to meet these expectations, convert the occasional visitor into a loyalist, and drive repeat business. In some of its stores, it launched a loyalty program to connect with its customers. The plan was to gradually extend this program.

As Starbucks grew in India, the management focused on multiple measures of success. The Indian press had made wild predictions in Starbucks' early days, suggesting the company would have hundreds of stores within its first two years. But Davda did not hesitate to correct the public perception: "Success is defined by more than store counts." For Starbucks, throughput, average ticket size, revenue per store, customer satisfaction, and repeat business were all equally important. "At the same time," Culver added, "we want to be thoughtful about how we build our company here in India that not only has successful stores but that takes care of its partners. We want to continue to make investments in them and even in the local community."[5] In March 2014, Tata Starbucks publicly reported its first full year of operations: revenues were $15 million, with an $8.2 million loss.[6] Management explained that heavy, upfront investments drove the early losses, but most stores quickly became profitable on a stand-alone basis.

With two years of experience behind them, all of the senior members of the Starbucks management team believed that they had learned a great deal. Hall argued that the most important lesson was that the team had developed a clear "vision on how the stores would look, feel, and operate. It was great knowing where I was going, because it made it much easier to get there." Bhat stated that it was "a surprise to see how warmly the Indian consumer has embraced Starbucks. We did not anticipate the initial long queues, nor did we expect the stores to continue to buzz with activity till late in the evening." At the same time, delivering a consistent Starbucks Experience remained challenging. Davda learned that "how we treat our partners will determine our success. They are our first customer and we need to give them an honest and authentic experience."

Culver, Davda, and Bhat contemplated Starbucks' future in India. While they all agreed that Tata Starbucks was off to a great start, they also acknowledged that this was only the beginning. Competition was not high on their list of concerns. Bhat commented that he "deeply respected the competition" and appreciated that some competitors were rapidly expanding store locations and "aggressively advertising." He believed that "there is room for many coffee players in India and we should remain focused on delivering the right experience." Davda had a similar perspective: "Given the heritage of coffee in India, how should Starbucks weave itself into the fabric of India?" Davda did not want to play a price game with competitors in India: her most pressing question was: "How do we innovate to generate growing value and respect the heritage of the culture and the country at the same time?"

Endnotes

[1] Sagar Malviya, "Starbucks to Raise Authorized Capital to Rs 350 Crores," *Economic Times*, August 20, 2014, http://articles.economictimes.indiatimes.com/2014-08-20/news/53029001_1_350-crore-starbucks-coffee-company-authorised-capital, accessed December 2014.

[2] Suneera Tandon, "We are making Significant Investments in India: Starbucks' John Culver," *Livemint*, November 5, 2014, http://www.livemint.com/Companies/pHc7cRSXOrr2fKk9cc3fhO/We-are-making-significant-investments-in-India-Starbucks-J.html, accessed December 2014.

[3] Tandon, "We are making Significant Investments in India: Starbucks' John Culver."

[4] Tier 1 cities were those with a population greater than 4 million, as per McKinsey.

[5] Tandon, "We are making Significant Investments in India: Starbucks' John Culver."

[6] Sagar Malviya, "Starbucks Outshines Coffee Chain Rivals in First Full Year in India," *Economic Times*, November 17, 2014, http://articles.economictimes.indiatimes.com/2014-11-07/news/55871913_1_tata-starbucks-starbucks-experience-coffee-chain, accessed December 2014.