Market Entry in India: The Curious Case of Starbucks

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Abstract

We examine Starbucks' entry strategy in India, as well as the antecedents to the entry. Employing Dunning's eclectic paradigm and Ghemawat's AAA framework offers unique insights to understand the entry. By analyzing publicly available data, we undertake an in-depth case study. We argue that Starbucks simultaneously enjoyed ownership, location, and internalization advantages, and thus, aptly chose equity participation as the entry mode. Our unique contribution lies in concluding that Starbucks enjoyed high, medium, and low advantages for Ghemawat's dimensions of adaptation, aggregation, and arbitrage. Further, we introduce extensions to the AAA framework.

Introduction

Economic liberalization through changing institutions fuels the growth of emerging economies. Enterprises need adequate strategies to deal with a fast-changing environment and unknown institutions in this context.[1] A few empirical studies focusing on the entry success of multinational corporations have made relevant contributions to this topic as stated by Johnson & Tellis.[2,3,4,5] However, these studies suffer from significant limitations, often rooted in time-specific contexts and a restrictive definition of success, such as market share, which is too narrow for a comprehensive evaluation.[5]

We examine how Starbucks entered India through a strategic alliance and then successfully competed in this market, by employing the "ownership – location – internalization" (O-L-I) eclectic paradigm,[6,7,8,9] as well as the "adaptation – aggregation – arbitrage" (AAA) framework,[10] and thereby proposing specific additions to the AAA framework. The uniqueness and

idiosyncrasy offered by the Indian market drive the choice of this single organization as a case.[11,12]

The internal motives of entering strategic partnerships and business relationships are rooted in transaction cost theory and the resource dependence theory.[13,14,15] Partnerships, particularly in emerging markets are means of risk sharing.[16] Often, firms collaborate to access new markets[17] or resources.[18] To choose an appropriate partner is the key for successful alliance management.[19] Firms controlling strategic resources that are difficult to access are the most successful ones.[20] Distinct from the resource- and industry-based views, the "strategy tripod" includes the institution-based view of international business strategy.[21,22] The institutional consideration can be transferred to alliances in that they are not only a tool for accessing resources or markets but also for dealing with a new and unknown institutional environment.[22]

Starbucks Corporation is a coffeehouse chain headquartered in Seattle. It has in excess of 28,000 stores in more than 60 countries, and is the largest coffeehouse chain in the world, ahead of Costa Coffee of the United Kingdom.[23,24] Starbucks serves beverages, whole-bean and instant coffee, tea, pastries, and snacks. Most outlets also sell merchandise such as branded mugs.[25] The company has been expanding its footprint rapidly, with two stores opening every day on average since 1987.[26] After an extended period of an exclusive focus on North America, Starbucks decided to expand overseas. The first move outside North America was with a joint venture (JV) in Japan.[27] Whenever possible, the company tries to control and internalize the whole value chain,[28] and thus avoids partnerships.

India has become a central player in the world economy;[29] it is currently the seventh largest economy in total and is the second most important emerging market according to its gross domestic product (GDP),[30] with growth rates consistently at the top of the world rankings and currently growing faster than China.[31] However, most of the research that studied internationalization in emerging economies focused on China as the setting. In earlier days, companies entered these markets to access low-cost factors, acquire resources, and secure supply,[32,33] whereas today the primary motivation is seeking new markets. In general, market entry into India is less successful compared to China, which makes India more challenging for corporations and consequently a more exciting field for research.[33]

This paper is an outcome of a case-based research.[34] The choice of a single case, namely, Starbucks, was justified as it offered a unique setting[11] of an initial false start followed by a joint venture-based foray in the emerging economy of India. We scanned the internet for all the relevant newspaper articles and other pieces that reported any information concerning

Starbucks' market entry in India. After that, we organized the information chronologically for the event study. Next, we prepared the case based on the mapping of the developments with the AAA and the OLI frameworks. Both the authors undertook the analysis independently, and convergence in the findings triangulated the results and avoided any possible interpretation bias.[35]

Starbucks' entry into the Indian market

After a false start in 2007 with an Indonesian franchise partner and the Indian Future Group,[36] Starbucks finally announced its plan to enter India in 2011.[37] Early entry has several benefits,[38] such as access to critical resources and markets in an Indian perspective.[39] Starbucks had to be cautious due to the earlier missed opportunity, and therefore entered India through a 50:50 JV between Tata Global Beverages and the Starbucks Corporation, branded as "Starbucks – A Tata Alliance." The selection of a local partner in emerging markets is primarily a crucial step in establishing a successful business there.[40] For Tata Starbucks Ltd, the coffee is sourced and roasted locally.[41] It is the first time that the enterprise runs an outlet based on a partner-owned roasting facility outside its plants.[42] The case is a typical example of a collaboration between an emerging market firm and a firm from a developed country.[43] Starbucks offers the conventional resources of a company entering emerging markets, such as technical capabilities, intangible resources, and willingness to share expertise, what is demonstrated clearly through a strong brand.[43] Starbucks' specialized technical knowledge in building unique stores is beneficial for its global operations. The outlets provide the atmosphere of a local coffee shop rather than that of a fast food restaurant.[44] Tata offers access to India-specific resources, local market knowledge, and a strategic network.[43] Through this alliance, Starbucks also obtained the expertise to deal with an unknown institutional environment, which is an additional strategic advantage.[21]

Why does Starbucks go abroad?

The reasons for a company's international expansion span four categories.[9] First is market seeking, in which corporations aim to satisfy a particular or several foreign markets through their product. Consequently, it would be a demand-seeking FDI. Second, there are resource-seeking companies, trying to gain access to natural resources, knowledge, or labor. These are instances of supply-oriented FDIs. Third, there are efficiency-seeking firms. They are searching for a more efficient division of labor or try to specialize their existing portfolio of assets. Fourth, there are strategic asset-seeking companies. They mainly work to protect their ownership

advantage through the acquisition of assets.[8,45] Seeking a new market is the primary reason for Starbucks' entry into India. India is a high-growth market that is under-penetrated[46] making it an appropriate destination for Starbucks to expand its footprint. Furthermore, Starbucks has attained better access to a supplier through the JV, so that the company exploits sourcing capabilities. The JV with Tata has given Starbucks access to a local network and firms.[47]

Analyzing Starbucks' market entry based on Dunning's Eclectic Paradigm

Three factors are crucial for determining the overseas activities of corporations: ***o***wnership-specific advantages, ***l***ocation advantages, and ***i***nternalization advantages.[6, 7, 8, 9]

Ownership advantages

Ownership-specific advantages are rooted in the tangible or intangible resources owned by a corporation.[48] These resources can be seen as providing an advantage over competitors in the foreign market[8] and are mainly rooted in the resources a specific firm controls or accesses.[48] Larger firms tend to have more resources than smaller ones when it comes to ownership advantage.[5,49] One of the most critical resource is a *trademark*. Starbucks is aware of the value of its global brand, mainly that customers perceive Western brands as offering quality and service, ready to establish a premium brand in emerging markets.[5,50] The "Starbucks" brand was trademarked in 10 Indian languages as early as 2008, demonstrating Starbucks' interest in protecting its brand-based competitive advantage.[51] The cups serve as mobile billboards and additional *advertising* items.[52] The overall brand signals pleasure from various sensory modalities, such as the great aroma of its coffee specialties and providing aurally pleasing retail outlets allowing relaxation.[53] In a way, Starbucks also sells lifestyle and attitude. Therefore, customers are willing to pay premium prices.[54]

Also, Starbucks is well known for caring for its employees, such as supporting baristas by paying tuition fees,[55] which leads to a strategic, reputational advantage.[56] Other benefits are company stock options and free or discounted products.[57] Starbucks invests in its employees, that then strengthens the workforce.[58] Training and education programs help to improve the *production technique*. The practice involves sending the best baristas to new markets to support the establishment of the Starbucks *culture* and ensuring the well-known high level of global standards.[50] The whole production is designed to limit waiting time due to highly standardized processes, despite the 87,000 different product combinations in an average store.[59]

The company realized that success is not only determined by price and service but is a function of variables such as location, product quality, and interiors, among other criteria.[60] Starbucks is well known for its focus on *innovation*, e.g., the use of apps to make payments,[61] being among the first companies to accept mobile payments. Furthermore, the management sees Starbucks as an *experience provider*,[62,63] rather than a coffee shop. Through similar store formats, outlets provide comfort and an ambiance leveraging customer pull.[47] Starbucks continuously surveys its customers to improve their experience. Part of the experience is the customer-friendly *design*. Tables are round to prevent lone drinkers from feeling alone and awkward.[62]

The company actively leverages *adaption* and can gain profound knowledge in doing so (as we will elaborate later). In every country, Starbucks adapts to the local culture but keeps its basic global business model. In India, tables consist of solid local teak, hand-carved wooden display screens, Indian paintings, et cetera.[64] High *entrepreneurial skills*, such as knowledge in real estate, help the company to set up new unique outlets, what impacts the customer experience.[47] We may thus conclude that Starbucks has the skills and superior resources to earn economic rents that are sufficient to counter the expenses of going abroad.

Location advantages

Location advantages mostly concern economic, political, or institutional factors in the targeted countries,[65] such that countries attract companies to undertake value-adding activities there. The more these advantages add up to the ownership advantage of a company, the more likely it is that the company will invest in the country.[8] Market potential regarding growth and size is one of the fundamental pillars of successful overseas operations. The opportunity to establish a sustainable market presence in an emerging market[66] made India an attractive target for Starbucks. The Indian retail coffee market is estimated at core value of RS 1,700, with current expected *growth* estimated at around 20% driven by more Indians who are benefiting from a higher disposable income. Westernization and a change in consumption habits are additional drivers. Also, Indian customers neglect mental barriers to spending RS 200–400 for a cup of coffee supplemented with food.[64] Starbucks was able to win several Tata companies exclusively as suppliers for India and consequently gained access to *raw materials*.[47] This is in line with the trend for increasing the internal value chain, limiting uncertainty and facilitating sustainable competitive advantage.[67]

Through its customer experience and ambiance, Starbucks offers a comfortable place in which to spend time. Thus, Starbucks looks out for customers who are attracted to its concept.[47] John Culver, president of

Starbucks China and Asia Pacific, says, "India is one of the most exciting markets in the world with a very diverse and dynamic culture, and we are excited about the great opportunities the Indian market offers".[68] In India, the *level of wages* for staff are low compared to the relatively high price charged for a cup of coffee.[69] This results in lower spending on personnel costs and leverages higher returns from the business itself.

Internalization advantages

Internalization advantages focus primarily transaction cost in the OLI paradigm. The basic question is to outsource or to internalize a process.[48] It is often used because agency problems arising from external contractors are feared, mainly grounded in transaction cost theory, when control modes are low, and the institutional environment in the target country is challenging.[70] Particularly when enforcement of outsourcing contracts is tempting and costly, companies observe increasing transaction costs linked to principal-agent issues.[71] Starbucks' business model is more focused on service than production, shifting its core competencies toward capabilities, such as the tacit knowledge of baristas, which are difficult to transfer. However, when running a subsidiary in a highly risky and complicated environment, partnering with a local firm may be of value.[72] In our case, Starbucks brings some internalization advantages, while Tata brings knowledge of the market, such as how to run a business in India, as well as a strategic network.

Table 1. The OLI framework of the eclectic paradigm[8,90]

		Categories of advantages		
		Ownership advantages	**Internalization advantages**	**Location advantages**
Form of market entry	**Licensing**	Yes	No	No
	Export	Yes	Yes	No
	FDI	Yes	Yes	Yes

Making sense of the market entry – The OLI framework

The combination of the three OLI factors determines how a company enters a market. We see mainly ownership-specific advantages and location advantages, whereas the internalization advantages are somewhat weak at first glance. We may thus conclude that foreign direct investment (FDI) is

the most desirable form of market entry (see Table 1). Due to the challenging environment, the FDI strategy is linked with a JV strategy, responding to the circumstances as the following discussion demonstrates.

Analyzing Starbucks' market entry based on the AAA framework

According to Ghemawat, scholars tend to make two assumptions when defining global strategies. The first underscores the balance between local responsiveness and economies of scale, and the second concerns the direct linkage between a focus on economies of scale in worldwide operations and global strategies. Also in his perspective, the goal of global strategy should be to deal with differences arising at borders. Companies often focus only on the tensions between economies of scale and adaptation, thereby ignoring responses to the challenges of cross-border integration. Instead, multinational enterprises need to decide on the extent of the focus on the three types of strategies addressing three questions: First, are differences among regional or national markets exploited? Second, should economies of scale be achieved through global or regional operations? Third, should local relevance be maximized to boost performance?[10] To respond to these issues, Ghemawat established the AAA framework that we henceforth employ in the context of Starbucks in India.

Adaptation

Creating local business units in markets carrying out steps of the value chain independently is an example of adaptation mostly used when companies start doing business outside their home markets.[10] This concerns the change of elements in a company's offer to meet local needs.[73] Some degree of adaptation is fundamental in every market, e.g., adjustment to the legal system.

Traditionally, India is a tea-drinking country, with a low coffee culture compared to the West,[46] where coffee is often the on-the-go beverage. Starbucks offers globally renewed products as well as domestic products, with both local sourcing following a global brand and a regional product approach. Consequently, the product adaptation and variation strategies are reflected in the menu through "Indianization," such as Reshmi Kebab, Murgh Kathi Roll, Konkani Twist, and other Indian-flavored options, as well as localized merchandise items such as mugs, leveraging on the spending per person and motivating repeated visits. In India, Starbucks earns around 25% from food compared to 20% globally,[42] indicating extended visits due to the provision of a place in which people can spend time, relax, and meet friends. Thus, Avani Davada, CEO of Tata Starbucks, claims to have established a "third place," namely a place between the office and home, including free Wi-

Fi and co-working opportunities.[42,63,64,74] The company modifies the design of its stores in India according to the location. The first store in Mumbai has hand-carved wooden screens, painted vintage trunks, old leather-bound books, and tables of Indian teak. The Pune store has copper artifacts, reflecting the rich history of the location, and a traditional Indian swing.[42] The means of searching for locations has also been adapted to the Indian circumstances, with a focus on prime locations.[75] The regulatory environment, national culture, and the local business community shape Indian business culture. In particular, bureaucracy (red tape) profoundly impacts business life.[76] Law enforcement is weak at several stages, mirrored in the Transparency International Corruption Perceptions Index in which India ranks 76th out of 167 countries.[77] To overcome these challenges and to adapt to the local environment, a domestic partner is beneficial.[76] Starbucks chose Tata as a partner to compensate for its lack of institutional knowledge in India. While CCD runs multiple formats through a franchise model, Tata and Starbucks decided to run the outlets exclusively.[42] Tata has previous retail experience through its chains. Moreover, Starbucks will extend its operations to other Tata firms, such as the Taj Hotel chain.[78] Consequently, adaptation concerning informal institutions could be developed with the help of Tata's tacit local knowledge. To sum up, Starbucks comes with the advantage of being a known brand in its target market. It needs to find the right locations and the right business model, provide a uniformly excellent experience (made difficult by a franchising model) to customers and get the product mix and pricing right. Furthermore, the alliance with Tata helps it adapt to the unknown institutional environment.

Aggregation

Starbucks uses an aggregation strategy to complement its adaptation strategy. The company aims to exploit economies of scale through partial execution of global operations, mainly through standardizing products and services or grouping its development and production processes.[10] The aggregation strategy stems primarily from its ownership advantages that are universally applicable such as a strong *brand*, symbolizing a unique coffee *culture*[50] and thus creating customer pull. Similar store formats have been established across India, what contributes to a tailored but at the same time standardized experience of consumption.[47] Further expansion leverages these processes. *Standardized operations* allow the efficient launch of stores, efficient production techniques, and high bargaining power when purchasing equipment and store interiors. Starbucks uses the same Swiss branded coffee machine almost everywhere as a critical resource, which is considered as a *secret weapon*.[79] This enables cost-efficient operation, training, and

maintenance supported by a global purchasing system of most goods, underlining an aggregation strategy. At a more localized level, Starbucks aggregates through focusing primarily on centers allowing to run several outlets in the same city. Through the JV with Tata, Starbucks has extended its global supplier network, thereby creating mutual synergies.[47]

Arbitrage

Arbitrage exploits differences between markets, often by splitting processes of the value chain among different locations and thus diversifying levels of production costs and expertise.[10] Starbucks sells merchandise from around the world in its stores,[42] produced in a few factories. In India, a Westernized product is sold at a high price, while at the same time production inputs such as labor remain at a local level.[69] The business model of standardized product quality in all outlets is typical of US food and beverage companies. The company has applied a likewise concept even to India. To sum up, a Westernized product is sold for a price above the substitutes' price levels, produced under low-cost conditions, indicating slight arbitrage elements.

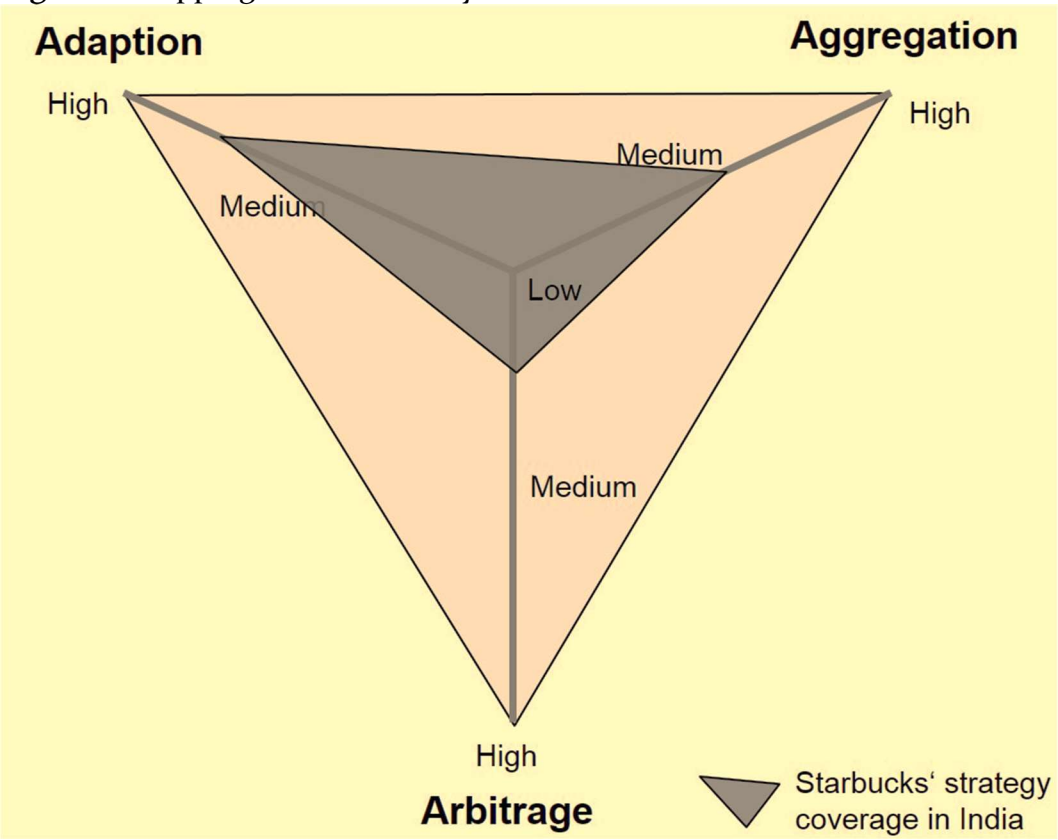
Making sense of the market entry—AAA framework

The company has followed a robust adaptation strategy, typically maximizing local relevance and satisfying Indian market needs. Starbucks adapts product ranges and store interiors as in most markets, leveraging customer experience. However, global standardized elements remain in the store design. A strong indication of this strategy is the choice of a local partner. Consequently, the scale of adaptation can be described as medium/high.

Starbucks enters new markets with a standardized model, leading to a similar store layout and management practices. In line with this, aggregation strategies focus on exploiting economies of scale through creating regional or global operations, e.g., standardizing products or services. Thus, Starbucks runs an aggregation business in every country, with substantial adaptation elements in India. Therefore, in the AAA framework, the aggregation should be scored medium.

When Starbucks entered India, only small differences between markets were exploited. In Starbucks' case, limited arbitrage is evidenced. Hence, the scale of arbitrage can be labeled close to low. Figure 1 maps Starbucks' market entry strategy along with the adaptation – aggregation – arbitrage framework.

Figure 1. Mapping Starbucks entry into India to Ghemawat's AAA framework



Discussion

Our study indicates that the OLI framework partly explains the JV route of market entry for Starbucks. The framework has the potential to illustrate its appropriateness regarding FDI but cannot describe how a local partner can help to deal with the institutional environment. Despite the argument that the OLI framework does not always guarantee superior firm performance,[80] we demonstrate that it is a valuable tool in determining foreign operations. The OLI framework is both descriptive and normative.[81] It is not a full theory and is hard to confront with scientific data,[82,] but we demonstrate that it is a tool with high practical relevance and potential. We also argue that this route itself may entail various alternatives, ranging from organic entry to equity JVs, and ultimately acquisition-based entry.[83]

The AAA framework is a well-accepted tool for defining a company's strategy when entering a new market with space for interpretation. During the analysis, we found two distinct levels. First, there is a marketing part that encompasses the product portfolio, store layout, and location. Second is the level concerning the corporate structure as a response to the local formal and informal institutional environment of the target market, critical for emerging

market operations. The framework should be extended in this direction. The AAA framework mainly covers the *status quo* and does not take into consideration the rapidly changing environment of emerging economies. Therefore, we propose the addition of a new dimension describing how a company transforms itself to respond to the changing environment. The inclusion of the strategy trypod has significant potential here because the corporate management often undervalues institutional issues.[22] Another component that should be added is the ability to react to new entrants. Particularly in emerging countries, global players try to enter the market, resulting in short-term heavy competition. However, competition from small local players should be considered and responded to accordingly. The instrument is very general at the expense of sharpness. It is therefore required to have a clear view of each component. For this reason, the instrument must be extended. Complementary instruments should be used, such as the cultural, administrative, geographic, economic (CAGE) instrument,[84] or the adding volume, decreasing costs, differentiating, improving industry attractiveness, normalizing risks, generating and deploying knowledge (ADDING) framework[85] so as not to neglect any detail when forming a strategy.[86] In combination with the OLI framework, the AAA framework is a valuable tool for analyzing and determining the corporate strategy of MNCs entering emerging markets.

Before concluding, we acknowledge a few limitations that beset our study. We relied primarily on public sources such as newspapers and analyst reports. Primary data have been kept deliberately beyond the scope of this project. We believe this design to be apt, since reliable information is publicly available, and we took care to access multiple sites when considering particular information and thereby triangulated the information.[87] Both the authors independently analyzed the data, and the convergence in analysis argues against any interpretation bias.[35,88,89] Nonetheless, there is significant potential for further studying the outcomes through surveys or other scientific instruments that might confer higher validity.

Conclusion

The paper discusses Starbucks' India entry strategy, as well as the reasons and drivers thereof. The Indian market is idiosyncratic, and among emerging economies has a lower success of market entry than China.[5] Starbucks came to India mainly because it was seeking a new market. A lesser additional benefit lay in the fact that the Indian partner was also a high-quality sourcing company.

Starbucks had ownership advantages. These advantages, coupled with the location advantages of a fast-growing economy with a growing middle class,

enticed Starbucks into the Indian market. Owing to the unknown institutional framework and high cultural distance, Starbucks allied with the local firm Tata Beverages. We demonstrate that in the given case a partner with a close business relationship with a partner is essential to access local resources and knowledge as well as to deal with the unknown institutional environment in the target region. The business was mainly built by importing the business model and adapting the business model to suit local conditions. Starbucks uses a similar approach to run its business around the world. Therefore, there is also an aggregation strategy for India.

Starbucks faces new challenges in continuously launching new outlets. It will be interesting to follow if the company succeeds in establishing meaningful presence in the whole country as the premium coffee destination in India.

Discussion Questions

- *To what extent can Dunning's OLI framework explain Starbucks' entry in the Indian market?*
- *Of the three dimensions of the AAA framework, viz., adaptation, aggregation, and arbitrage are all those dimensions equally critical in making sense of Starbucks' market entry?*

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Endnotes

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