FACULTY OF BUSINESS

FINAL EXAMINATION

Student ID (in Figures)	:	
Student ID (in Words)	:	
Course Code & Name	:	**MGT3114 Corporate Strategy**
Semester & Year	:	May – August 2022
Lecturer/Examiner	:	Joseph Choe Kin Hwa
Duration	:	3 Hours

INSTRUCTIONS TO CANDIDATES

1. **This question paper consists of 2 parts:**
   PART A (40 marks) : TWO (2) Case Study Questions. Answer ALL of the questions. Answers are to be written in the Answer Booklet provided.
   PART B (60 marks) : THREE (3) Structured-Type Questions. Answer ALL of the questions. Answers are to be written in the Answer Booklet provided.
2. **Candidates are not allowed to bring any unauthorized materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.**
3. **This question paper must be submitted along with all used and/or unused rough papers and/or graph paper (if any). Candidates are NOT allowed to take any examination materials out of the examination hall.**
4. **Only ballpoint pens are allowed to be used in answering the questions, with the exception of multiple choice questions, where 2B pencils are to be used.**

WARNING: The University Examination Board (UEB) of BERJAYA University College regards cheating as a most serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from BERJAYA University College.

Total Number of pages = 7 (Including the cover page)

PART A : **CASE STUDY QUESTIONS (30 MARKS)**

INSTRUCTION(S) : Answer all **TWO (2)** questions. Write your answers in the Answer Booklet(s) provided.

TATA STARBUCKS: A BREW FOR INDIA?

In January 2019, Tata Starbucks appointed new CEO, Navin Gurnaney, who replaced Sumitro Ghosh who had been CEO for the previous three years. Speaking on the announcement, Ajoy Misra, Managing Director and CEO, Tata Global Beverages Limited praised Ghosh for establishing a strong foundation. Misra then shifted focus to the future saying, "We are pleased to bring on a seasoned leader like Navin, who is focused on operations excellence, relevant innovation and developing high-performing teams, and look forward to continued brand and business growth for Tata Starbucks in India.

Tata Starbucks Pvt. Ltd in India is a joint venture of U.S. beverage company, Starbucks, and Tata Global Beverages. Begun in October 2012, at first Tata Starbucks, under founding CEO Avani Davda, offered the usual Starbucks coffee menu in India, which was not successful. By early 2019, Tata Starbucks had refined the India-specific strategy, as a more promising path for future growth and success among Indian customers. One of the first things they did was to introduce Starbucks Teavana with 18 diverse varieties of tea to serve the Indian market. Although the start of the venture had been disastrous, Tata Starbucks became EBITDA (earnings before interest, tax, depreciation, and amortization) positive this year after its sales doubled in fiscal year 2018. In the annual report of Tata Global Beverages, it said Tata Starbucks had boosted sales by 28 present in FY18. Due to recent success, the company announced to open more than 25 stores across India in 2019.

Starbucks had had its eye on the large Indian market for some time before the joint venture was initiated. An attempt to enter the market several years earlier had failed due to complications with the Indian government and foreign direct investment (FDI) restrictions. The company had withdrawn its application then, but when India's esteemed Tata Group knocked on its door with a partnership opportunity, Starbucks eagerly responded. A 50-50 joint venture was formed, and Starbucks coffee was introduced to the Indian market in October 2012 with a generous initial investment of $80 million. The Tata Global Beverages board of directors expressed excitement about the potential of the newly formed joint venture between the company and Starbucks. "Through Tata Starbucks, your company offers the legendary Starbucks coffee experience, backed by the trust of the Tata name, to the Indian consumer," announced Cyrus P. Mistry, chairman of Tata Global Beverages.

The Indian cafe market certainly seemed to offer a lot of potential for the new Tata Starbucks alliance. While India was a nation known for tea drinkers, sipping coffee and socializing at coffee shops was becoming increasingly popular. Domestic consumption of coffee had risen 80 percent in the past decade. Given these encouraging trends, Starbucks CEO Howard Schultz believed that India could one day rival the company's successful venture in China. The Indian coffeehouse market was strong and growing at a robust rate of above 11 percent. Success in the Indian café market would require overcoming the usual two key challenges of competition and profitability. The market in India is intensely competitive, with multiple domestic and foreign players. The most formidable competitor of the Tata Starbucks venture is domestic giant Cafe Coffee Day (CCD), with its strategy of flooding the market with its cafés, closely mimicking what Starbucks has done in the United States. CCD had been the market leader since its beginnings as a "cyber café" in 1996. As the retailing arm of the nearly 150-year-old Amalgamated Bean Coffee Trading Company Limited (ABCTCL), it had the benefit of sourcing its coffee locally from a network of ABCTCL-owned coffee plantations and using ABCTCL-manufactured coffee-roasting machines. This allowed CCD to insulate itself from global price fluctuations and serve coffee at lower prices than the competition. Most of the foreign competitors relied on imported coffee and foreign roasting machines. It also made CCD the destination of choice for the youth in the country who had limited money to spend and were looking for socially acceptable places to socialize. The majority of India still disapproved of socializing at bars, and cafés offered a respectable alternative. An industry study showed that the CCD brand was synonymous with coffee for most coffee drinkers in India.

At the same time, high real estate costs and rental rates, along with competitive pricing pressures and India-specific cultural preferences, make it extremely difficult for new coffee companies in India to recover their initial investments. Industry watchers said that the coffee business in India was becoming a difficult one to turn profitable even after years of operations. High rental expenses and intense competition had left most foreign players struggling to achieve profitability despite years of trying. According to industry estimates, rentals could account for 15 to 25 percent of the cost of running a café chain. Typical monthly rental market rates were 200 to 300 rupees (Rs) per square foot of real estate. Then, there was the investment in making the stores appealing to customers, finding people to run them, and building a food and beverage menu that was hip enough to keep 18- to 24-year-olds-the target market for many coffee chains-coming back for more. CCD had found a way around this problem by entering into a revenue-sharing deal, paying 10 to 20 percent of a unit's proceeds as a fee. Coffee bars were a sit-in concept in India, where consumers generally hung around such outlets for hours, unlike the global phenomenon of grabbing coffee on the go from generally tiny outlets and kiosks.

Other international entrants like the UK's Costa Coffee, the U.S.-based Coffee Bean and Tea Leaf Company, and Australia's Gloria Jean's Coffee experienced similar profitability challenges. Costa Coffee entered the market in 2005 and soon found its stores were too small to handle the peak-time crowds. The Coffee Bean and Tea Leaf Company started out in 2007 and tried to entice customers by offering new menu items each month. Gloria Jean's Coffee entered the market in 2008 hoping it could crack the profitability code by serving coffee in more kiosks, which required a lower capital investment. However, achieving profitability continued to remain elusive for most international players.

In addition to traditional coffee chains, the Indian café market was being encroached upon by other quick-service restaurant (QSR) options like McDonald's and Dunkin' Donuts. These players threatened to steal market share with lower-priced options for drinking coffee at existing quick service establishments. One of the major advantages for these chains over Starbucks and other competitors was the already-existing network of locations in the country that allowed ready access and brought down establishment costs. Further, this ubiquity and lower pricing would enable these players to tap into the larger demographic segments that made up a large section of the Indian population.

Former Tata Starbucks CEO Avani Davda admits that the initial consumer experience was a humbling one. Tata Starbucks opened its first store with a lot of fanfare in the trendy Horniman Circle area of Mumbai. Despite having a high-profile local partner, Starbucks was unable to use its name to secure any discounted rates in renting real estate. The first store was located in a Tata Group-owned 4,000-square-foot site that had been vacant for a while. As of February 2019, Tata Starbucks had expanded to over 145 locations across the country in major metropolises such as Mumbai, Delhi, Pune, and Bengaluru. Yet this was still well short of initial expectations. Clearly, something had changed in management's expectations of the size and pace of the venture's growth. Quarterly earnings presentations boasted of robust store profitability, but with no numbers provided, possibly pointing to a slower and more selective approach to expansion. In its first full year in the Indian market (12 months ending March 2014), Tata Starbucks reported losses of $7.8 million more than half its total sales of $14.34 million during the same period.

Gaining market share among the youth of the country was critical for Tata Starbucks to tap into a large demographic segment. India's population showed a pronounced skew to younger age brackets and lower incomes when compared to countries like Japan and the United States. Building a presence within these segments as CCD had done was critical for success in the long term. Alternatively, instead of trying to saturate the country with stores at once, the venture could choose a premium priced, niche approach similar to the one Starbucks had used successfully in other Asian countries, like Japan and China. The premium offering would cater to older business elite with higher spending power. This would result in less rapid growth, with a cherry-picked list of high profile, business-friendly locations, allowing the venture to build a premium brand with premium pricing.

For sustained success, Starbucks needed to penetrate the domestic young and middle-income markets. Starbucks laid out plans for different formats, such as "abbreviated stores" that would be smaller in size and stores at college and school campuses. The stores in India began experimenting with their food menu. While Starbucks globally offered blueberry and chocolate muffins, it wanted to serve local innovations at its Indian locations. Coinciding with its first anniversary in India, the company launched a new, local India Estates blend. This blend was Tata Starbucks' special country-specific coffee, developed thoughtfully with Tata for the Indian market, and it reflected the high-quality Arabica coffee available in India. The company also launched the Indian Espresso Roast, which was sourced locally through a coffee sourcing and roasting agreement between Starbucks and Tata. It was felt that the coffees captured the essence and rich heritage of the Indian coffee history. To enrich the experience of Indian customers, Starbucks now unveiled a modern tea experience with 18 different varieties of premium tea in its stores.

The challenge facing CEO Gurnaney and Tata Starbucks was a difficult one. How could the company maximize the long-term success of the venture in India? Doing so would mean going beyond “the westernized and the wealthy” targeting that had worked so well in relatively older and more affluent Asian markets. Former CEO Ghosh had emphasized positioning the company to be socially responsible by promoting worker rights in India, saying, “We are proud to be a progressive workplace in India and will continue to engage in discussions with our partners to determine how to make their experience better and more valuable in line with the mission and values of both Tata Global Beverages and Starbucks.” While the partnership with Tata was occasionally helping in negotiating for good real estate, Starbucks still needed to figure out how to leverage the partnership to win over the larger young and middle-income demographic segments. Store financials needed to be managed to maintain profitability. Though at first Starbucks appeared optimistic about the success of Teavana as the company focused on offering products exclusively according to the taste of the Indian customer, some critical strategic choices would need to be made to ensure the long-term success of Starbucks in India?

Adopted from Dess, G., McNamara, G., Eisner, A., & Lee, SH. (2021). Strategic management: text and cases, 10th Edn. McGraw-Hill, New York. p C114-C122.

Question 1

Critically analyse the industry forces that affects Tata Starbucks using the Porter’s Five Forces framework.

(20 marks)

Question 2

Discuss the key drivers behind the success of the joint venture between Tata Global beverages and Starbucks coffee company from the year 2012 onwards.

(20 marks)

END OF PART A

PART B : **STRUCTURED-TYPE QUESTIONS (60 MARKS)**

INSTRUCTION(S) : Answer all **THREE (3)** questions. Write your answers in the Answer Booklet(s) provided.

Question 1

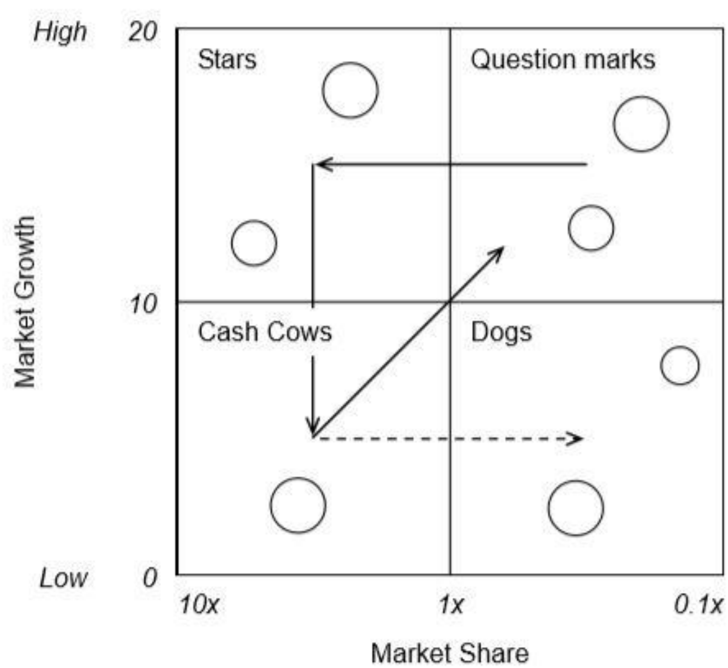
As a Strategic Planner in a large fast-food restaurant chain with more than 400 employees across Malaysia, your Managing Director has asked you to prepare a report outlining the implementation of Balanced Scorecard in the restaurant chain.

Prepare the report.

(20 marks)

Question 2

You have just been appointed as a consultant by the headquarters of a large diversified retail organisation with several operating subsidiaries. Using The Boston Consulting Group (BCG) Matrix below, analyse the contribution of each subsidiary.



(20 marks)

Question 3

Organisation structures can have major implications for organisational priorities and interactions in the marketplace. Structures therefore need careful alignment with strategy.

Explain **FIVE (5)** main organisational structural types in terms of their strengths and weaknesses.

(20 marks)

END OF QUESTION PAPER