



## UNIVERSITY EXAMINATIONS

### MAIN EXAMINATION

2022/2023 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER

FOR THE DEGREE OF MASTER OF BUSINESS  
ADMINISTRATION

**COURSE CODE: MBA 880**

**COURSE TITLE: ADVANCED STRATEGIC MANAGEMENT**

**DATE: 30/01/2023**

**TIME: 9.00AM-12.00PM**

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### **INSTRUCTIONS TO CANDIDATES**

- 1) Answer Question **ONE** (Compulsory) and **ANY OTHER THREE** Questions
  - 2) Candidates must hand in their answer booklets to the invigilator while in the examination room
  - 3) Credit is given for legibility, clarity and use of relevant examples
  - 4) Question **ONE** is **40 marks** while Questions **2-5** carry **20 marks** each
  - 5) Clearly write your **Registration Number** on each answer sheet used
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**TIME: 3 Hours**

**KIBU** observes **ZERO** tolerance to examination cheating

## QUESTION ONE

Read the case study provided below and answer the following questions

### STARBUCKS COFFEE COMPANY EXPANDING INTO INDIA

#### Current Situation

Starbucks is a provider of high-end coffee products and more importantly, a relaxed experience. Starbucks as it is known today was purchased in 1987 and has seen tremendous amounts of growth over the years. The company is known globally and does business internationally, although it's headquartered in the United States. Starbucks has historically had a differentiation strategy, with prices comparably high and uniquely high-quality products, service and environment for the consumer. This differentiation strategy is used with a horizontal growth strategy internationally. Starbucks currently has a market expansion strategy focused around Asia, and has recently seen both problems and great sales figures arise from this market in China and Japan. The objective of this strategic campaign is to capitalise on the highly dense Asian market, with its high population and growing wealth. In 2002, Starbucks announced that it intended on breaking into the Indian market, however has failed to do so four years later. The problem facing Starbucks right now is whether or not to expand into India and if the company were to expand, how it would go about doing so. If Starbucks does decide to expand into India with a promising strategy, there is still the problem of finding a suitable partner currently in India to form a partnership with. Environmental scanning involves the external factor analysis and the external opportunities and threats that face Starbucks. These will later be addressed in terms of how they can be taken advantage of or avoided. The opportunities that Starbucks may take advantage of are the Indian interest in Western brands, the geographic popularity of coffee, the characteristics of the Indian population, and the market for the product. Threats to Starbucks include the obesity and obesity-related disease rate in India, the beverage habits in India, barriers to entry, the conflict seen within global policies, and established competition. The internal factor analysis shows the internal strengths and weaknesses that Starbucks has and will either use to an advantage or try to minimise. Starbucks' strengths include its strong company mission, vision and values, the company's brand awareness, the experience Starbucks has in expanding into global markets, high buying power and high quality products. Weaknesses of Starbucks include the lack of a presence in India, which is a highly populated country, Starbucks' premium priced products, small product breadth and the company's corporate

structure. These external and internal factors are then combined in the strategic factor analysis show the most influential factors of a company's environment. The internal factors chosen by a weighted score include the experience in expanding into global markets, the strong company mission, vision and values, the small product breadth and the premium priced products.

The external factors chosen based on a weighted score include the Indian population, the geographic popularity of coffee, established competition and beverage habits in India. These factors are also given a time range in regard to when they affect the company, such as Starbucks' experience in expanding into global markets will help them in the long run rather than immediately in the short run.

These important factors of the environment are then used in a TOWS Matrix to show different business strategies that can be used based on these factors. One SO strategy that can be used is to examine past successful global expansions in Starbucks' history and imitate the methods used there and the lessons learned in these countries. An example of a ST strategy is to acquire the best Indian ingredients for local Indian tea for use in Indian Starbucks. One WO strategy within the TOWS Matrix is to increase product breadth by adding more varieties of coffee, beverages, snacks, etc. This is more likely to appeal to a broader range of the population and will make it easier for Starbucks to penetrate into the Indian market. A WT strategy that Starbucks may wish to use is to set a price penetration strategy when first expanding into India. It has been stated that Starbucks will adjust its prices for India, but these prices should be lower than the competitors' in order to gain immediate customers.

### **Recommendation**

*It is recommended that Starbucks expand into India immediately, as to avoid letting its current competition expand. Starbucks cannot carry over its same business operations as it had in other countries however, and must instead adapt and change as it did in Japan. Recommendations for the expansion of Starbucks into India include: Contact Pantaloons Retail in regards to forming a partnership in India. This possible partner has over 100 stores in Indian cities, where the target market of Starbucks lives. The partner also owns Big Bazaar, Food Bazaar, and Pantaloons, which have comparably high sales and would be good start-off locations for Starbucks outlets. The group has revenues of \$10.73 billion, as of 2005. Advertise heavily in urban areas. This is where Starbucks' target market lives, so this should be where the Starbucks' brand is recognised the most. Use the challenges faced when expanding into China and Japan as examples to adapt*

quickly to the customer need. Certain needs can be met to satisfy the new customer base while still maintaining the same vision, mission and values. Adjust Starbucks positioning to reflect its differentiation strategy. The local competition already has a dominating amount of market share and provides the service in India that Starbucks is known for in the U.S., only better than Starbucks does. Instead of being known as the place to get gourmet coffee in India, position Starbucks to be the place to relax in style with a coffee. Continuously analyse the competition's expansion methods.

Starbucks has vast experience expanding and can capitalise on any mistakes made by the competition. Consider expanding product breadth in the future to include a larger variety of tea-based products, primarily iced teas, and preferably using Indian-grown ingredients. This larger product line should also include spices that may mix well with tea, coffee or other Starbucks products. It is believed that if Starbucks uses this strategy with these guidelines, then it will be able to effectively expand into India.

### **Strategy Implementation Plan**

Starbucks must contact Pantaloons Retail to form a partnership with this company. In doing so, Starbucks will have its foot in the door in India. Pantaloons Retail also operates several chains of retail stores, which Starbucks could set up small outlets inside of, or in cooperation with. It is also likely that the experience this partner has with the food industry (Food Bazaar) in India will be beneficial to the initial Starbucks development team. It can only be assumed through the company's current fiscal situation and its projected sales that Pantaloons Retail has high brand name recognition and a good reputation in its field, which is essential in a partnership with Starbucks. Starbucks will be implementing a market expansion strategy, focused around horizontal growth through differentiation.

### **Action Plan**

CEO, Howard Schultz, must contact CEO of Pantaloons Retail about forming a partnership in India. This is the first step in forming a partnership with the firm, so this action must be taken immediately. In three months, plans for the installation of Starbucks outlets in Pantaloons Retail owned centres must be underway. If partnership is agreed upon, nine months is the cut-off date in which one Starbucks outlet is to begin construction within a Pantaloons Retail store. As a precaution, Howard Schultz should remain in contact with another possible partner, the K Raheja Group. Operations managers should inquire with third party manufactures in India about

the local supply of raw materials, and focusing on acquiring locally grown ingredients for spices and teas. This action must start immediately, at least six months prior to the first opening of a Starbucks branch in Mumbai, India. The CEO will be directly responsible for overseeing the timeliness and effectiveness of this action. This is expected to lower variable costs due to non-international shipping, with a contingency plan of shipping raw materials from Starbucks' prior roasting facility in Kent. An international advertising team will be sent to Mumbai, India, two months prior to the installation of the new Starbucks branch to ensure proper advertisements are in place for the incoming store. This team will stay abroad for one year until a localised advertising team can be trained in India. The CMO will be responsible for overseeing the timeliness and effectiveness of this team. This action is in an attempt to increase sales, but requires a high rate of fixed costs in terms of advertising expenses and salaries. The contingency plan for this action is to hire a local advertising consultant firm located in India. This may drastically modify the general message of the marketing mix of Starbucks in India, and may be more expensive, but may be more effective in reaching the target audience due to cultural familiarity.

### **Evaluation and Control**

Starbucks encountered several problems when expanding into China and Japan, which need to be avoided when expanding into India.

*Japan: Starbucks locations too close in proximity, Lacked enough food options for Japanese culture. No-smoking policy conflicts with Japanese societal habits, High rent, High cost of labour Starbucks didn't have a roasting facility in Japan.*

*China: Many opposed a Western coffee chain in China - traditionally a tea country and dominance of instant coffee intense competition. These concerns will be assessed and adjusted if needed, every quarter, using the balanced scorecard approach as follows:*

□ Financial: How are Starbucks sales figures progressing compared to the projected sales for the year in India? Are any locations of Starbucks gaining/losing profitability? Is this due to close proximity to another Starbucks? Is Starbucks in India keeping up with the growing market trends towards coffee in India? If not, compare to competition and instant coffee manufacturers. How does the contribution margin of Starbucks in India compare to other international markets? Is there a higher fixed cost/variable cost rate that needs to be allocated for and if need be, used to readjust pricing?

- Customer: Conduct in-store surveys bi-annually to get customer feedback and suggestions. This will give insight into any problems like lack of variety in food or problems with Starbucks policy like the no-smoking policy. Conduct geographical surveys to see if any region is less likely to have Starbucks consumers in it. This may be due to cultural opinions towards Western business expansion.
- Internal Business Perspective: Examine weak points within the new Starbucks outlets in India on an individual basis. Are there any outlets that do not reflect the differentiation strategy used by Starbucks? How can this be adjusted?
- Innovation and Learning: Are sales and brand awareness increasing at a rate in India that would warrant further expansion? Are there opportunities that are not being taken advantage of? After these evaluations are assessed, control can be implemented on an organisational level. After every financial quarter, these factors must be recognised and adjusted to maximise Starbucks' market expansion growth strategy and ensure a solid future for Starbucks in India.

**Questions:**

- (a) Prepare a SWOT Analysis and, **[10 Marks]**
- (b) TOWS Analysis for Starbucks for Indian market scenario. **[10 Marks]**
- (c) Suggest measures and strategy for Starbucks for successful expansion in Indian market. **[10 Marks]**
- (d) Assess the inherent weaknesses of SWOT and TOWS analysis for use in the above case **[10 Marks]**

**QUESTION TWO**

- a. Analyze the different ways in which the external environment can be explored, and for what purposes **[10 Marks]**
- b. Explain the implications of diversification strategies **[10 Marks]**

**QUESTION THREE**

- a. Porter's Model helps with the structural analysis of the environment. How does this model work? [10 Marks]
- b. Explain the various types of business level strategies. [10 Marks]

#### QUESTION FOUR

- a. "Culture eats strategy for breakfast." These words often attributed to Peter Drucker are frequently quoted by people who see culture at the heart of all great companies. Recommend a framework for managing the strategy-culture relationship based on Pearce and Robinson framework. [10 Marks]
- b. Explain how the balanced scorecard can be used to set short-term goals. [10 Marks]

#### QUESTION FIVE

- a. Provide reasons as to why the various corporate level strategies may be adopted [10 Marks]
- b. The BCG (Growth-Share) Matrix is old but has stood the test of time. How significant and practicably usable is it today, in the light of vast developments in management tools that help assess market conditions? [10 Marks]