K.J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES & RESEARCH
PGDM (RM) / PGDM (COMM) – I TRIM
2018 – 20 BATCH
Business Perspectives in the Global Context

Marks: 50 Duration: 3 hours Date : 25/09/2018

1) **Analyse the following case study and present your recommendations based on the key takeaways from it.** (15)

Starbucks in China

For years, Starbucks was the undisputed king of coffee in China. It single-handedly created a market of coffee drinkers in a nation of tea lovers, cashing in on a wave of affluent Chinese who looked to Starbucks as an aspirational brand. The country quickly became the coffee chain's second-largest market after the United States. A report by the United States Department of Agriculture (USDA) reflects that coffee consumption in the mainland has almost doubled since 2012-13, moving up from 1,628 to 3,215 by June 2017-18 (thousand 60-kilogram bags). In the backdrop of a growing economy, the expanding disposable incomes and changing demand patterns have supported the growing trends. While the demand is still a fraction when compared to that in the U.S. or Japan, the potential for growth is at play.

But Starbucks's dominance in China is increasingly under attack, as growth begins to slow and competitors aggressively target coffee drinkers. Starbucks executives have come under scrutiny for being slow to adapt to technological shifts and retail trends in the country, namely delivery. China is one of Starbucks's most important markets, especially as the company's domestic one cools. It has raised prices to offset decreasing foot traffic into United States stores. And last week, Starbucks lowered its growth projections for the year. But the company has also recently seen sales in China drop. Same-store sales in the most recent quarter fell by 2 percent, after increases in the previous two quarters.

In a bid to revitalize its China operation, the company announced what it called a strategic "new retail" partnership with the Chinese tech giant Alibaba. The partnership will allow Starbucks to pilot delivery services next month with an Alibaba subsidiary, Ele.me, and establish what it called delivery kitchens in Alibaba's Hema supermarkets. Starbucks will also integrate across Alibaba's platforms to create a virtual Starbucks store so Chinese customers can have more personalized experiences, the two companies said. "This is rocket fuel for our digital flywheel strategy in China," Kevin Johnson, the chief executive of Starbucks, said Thursday at a news briefing in Shanghai. The Seattle-based company will pilot delivery services from 150 Starbucks stores in Beijing and Shanghai and plans to expand that to more than 2,000 stores across 30 cities by the end of the year, Starbucks and Alibaba said in a joint statement. Starbucks expects to start seeing some of the benefits from the partnership in the next quarter and the full impact in 2019, Johnson said.

The delivery program will leverage Ele.me's 3 million registered riders, with an aim of delivering orders within half an hour. Starbucks will establish "Starbucks Delivery Kitchens" inside Hema stores and use the supermarket's delivery system to fulfil Starbucks delivery orders. Starbucks had no formal online delivery in China before this deal. Instead, unapproved third-party delivery services had filled that gap by picking up bulk orders for their own customers. Analysts have said an official delivery arrangement would push up costs for Starbucks. Starbucks said its delivery menu will only contain items that can meet its half-hour deadline, but did not specify whether it will charge for the deliveries. Its pilot delivery program in Manhattan and Seattle a few years back fizzled partly because it charged too much: $5.99 per delivery.

For Starbucks, analysts say the "new retail" is partly an attempt to fend off competition from Luckin Coffee, a Chinese start-up. The company, which was started in Beijing in January with two stores, has since opened more than 800 branches in 13 cities around the country. Its co-founder Guo Jinyi has been vocal about the company's ambitions to surpass Starbucks. Luckin Coffee, a local startup that wants to go toe-to-toe with Starbucks, charges less than $1 per order and has said its deliveries took an average of 18 minutes.

Perhaps no phenomenon has created as much buzz for transforming the consumer experience in China than "new retail." From Alibaba to JD.com, e-commerce companies are encouraging consumers to merge their offline and online shopping experiences by visiting brick-and-mortar stores but placing their orders online and finding out more information about their products through their smartphones.

Jeffrey Towson, a private-equity investor and a professor of investment at Peking University who has been vocal about Starbucks's failure to be nimble in adopting digital strategies, said Thursday's announcement could help Starbucks move beyond its traditional reliance on brick-and-mortar transactions. He added, "This is really bad news for Luckin Coffee." Luckin is positioning itself as a mass-market alternative to Starbucks so it can win over customers willing to pay $3.50 for a latte — 20 percent below what Starbucks charges. It offers customers discounts if they order more and is giving them half off food orders for the next five months. Customers can also choose whether they want to pick up their coffees at a store or have them delivered in 30 minutes. It is still too soon to say whether Luckin will succeed in a country rife with start-ups that burn through cash and go bankrupt overnight. And it can be hard to compete in the long run against the scale of a brand like Starbucks. Mr. Guo, Luckin's co-founder, pointed out that Starbucks is not dominant in countries like Canada, where there is Tim Hortons, and Britain, which is dominated by Costa Coffee. "Each place has its own local brand, and these local brands are now the leaders," Mr. Guo said. "I believe that in China, anything can happen in a place that is so conducive for innovation and entrepreneurship." In May, Luckin sued Starbucks, arguing that the American chain had signed exclusive contracts with commercial property owners that barred other coffee shops from entering the space if a Starbucks was already there.

It's not going to be easy to oust Starbucks, which has 3,400 stores in more than 140 cities in China and plans to nearly double that by 2022. Ben Cavender, senior analyst of China Market Research, a consultancy based in Shanghai, estimates that Starbucks has a 70 percent share of the market, blazing past coffee chains like McDonald's McCafe and Costa Coffee. But the company must prove it can stay on the cutting edge. "The challenge is that consumers are much pickier about the experience they get now; they have other good options that have standardized quality and potentially a more interesting environment," Mr. Cavender said. "So Starbucks has to do a better job. It's not a clear win anymore."

When asked about the competition posed by Luckin, Mr. Johnson said, "I think certainly as people look at the market opportunity in China as it relates to coffee, we expect there will continue to be more competition." What Starbucks has going for it is a large following, especially in big cities like Beijing and Shanghai. On Tuesday, as the summer sun bore down on the trendy Sanlitun neighborhood of Beijing, customers lined up for coffees. Wang Qi, 25, who works in media, said she preferred Starbucks to Luckin because of the environment. "You can sit down and have a proper cup of coffee," Ms. Wang said. Zhao Ting, who is also 25 and works in media, said, "Everyone trusts this brand." But not everyone has remained loyal. Wang Shanshan, a 35-year-old who drinks coffee once or twice a week, said she had switched to Luckin because she thought its coffee tasted better than Starbucks'. Plus, there are the discounts. "They are giving one free if you buy two, five free if you buy five," Ms. Wang said. "I think it's pretty good."

If figures are anything to go by, they are a clear indication that AR will soon become an inseparable part of retail in coming times and Starbucks and Alibaba have started to build on it to engage customers by providing a great experience at the store, all of which is instrumental in driving sales. Overall, with its all-new, technology-enabled store in Shanghai, Starbucks will be able to capitalize on the rising demand levels for coffee as well as cater to the appetite of the increasingly sophisticated tech-enabled shoppers in China.

Augmented Reality (AR) has begun to leave an impact on the world of retail. It is projected that AR will generate $120 billion in revenue by 2020 (Manatt Digital Media) and it's time to leverage this enriched experience with consumers. Starbucks' Shanghai outlet is powered by Alibaba, which allows customers to use their mobile devices around the roastery for the new-age AR experience. This is accessible through the custom-designed roastery digital web-app platform or on Alibaba's Taobao app. Guided by Jack Ma's vision, "In the coming years, we anticipate the birth of a re-imagined retail industry driven by the integration of online, offline, logistics and data across a single value chain", Alibaba has been working to bring advanced technology to a brick-and-mortar store. This merger of online and offline shopping is dubbed "New Retail" by Alibaba and is expected to offer more efficient, flexible and fulfilling shopping experience to its customers. The engagement of customers via mobile applications enhanced with AR is more likely to strengthen its bond with shoppers. A survey conducted by Retail Perceptions throws interesting insights into how shoppers perceive AR and how they prefer to engage with the technology as they shop. The survey shows that 40% consumers are willing to pay more for a product if they could experience it through AR, while 61% prefer to shop at stores that offer AR and 71% claim that they would shop at a retailer more often if they offered AR.

Sources: https://www.nytimes.com/2018/08/02/business/starbucks-china-alibaba.html
https://indianexpress.com/article/business/starbucks-partnership-alibaba-china-5288173/
https://www.nasdaq.com/article/starbucks-and-alibaba-bring-an-augmented-coffee-experience-cm887379

2 A Why should one study business perspectives? Give examples to justify your point of view. (10)

OR

2 B Explain PESTLE and SWOT in detail focusing on their use in business analysis.

3 A Explain Indian thought leaders, Ram Charan and CK Prahalad's' perspectives on business. (10)

OR

3 B Explain Philip Kotler's contribution to management thought and its current relevance. Give examples.

4 A Write short notes on any 02 of the following focusing on their relevance (or lack of) in today's businesses: (15)

(a) Fredrick Taylor's and Henry Gantt's management strategies
(b) Abraham Maslow' Hierarchy of Needs
(c) Hofstede's indices
(d) The importance of data in business analysis with special reference to Hans Rosling

OR

4 B Analyse the following case study and present an argument for or against Nike's strategy:

Research suggests that consumers respond better to brands that display corporate responsibility, with 73% of people believing that companies should do more than just offer a product or service.

As it happens, many brands are already doing their bit, commonly drawing up 'social good' strategies to raise money or fight for a chosen cause. However, more often than not, this is done somewhat behind-the-scenes – not as part of a consumer-facing strategy.

So, what about the brands that are taking a stand for everyone to see? Recently, we've seen a few more examples of brands wading in on current social or political issues, and using them to inform advertising. It's a risky strategy, certainly. Pepsi is a prime example of a brand that appeared to clumsily jumped on a social issue and fell flat on its face. Then again, with 57% of consumers said to be willing to boycott brands who do not share their social beliefs – it's one many brands are willing to take. With this in mind, here are a few examples that have worked favourably in recent times.

Yoplait: In order to engage a new or forgotten-about audience, yoghurt-brand Yoplait decided to tap into a common public debate: mum-shaming. This relates to the often preachy or patronising information given to mothers about how to be a good parent, and the shaming of those who do not follow it. Its latest campaign, 'Mom On', depicts mothers addressing common criticisms they face, such as judgement over breastfeeding, going back to work, and even drinking alcohol.

While the ads do not focus on a current event or overly-contentious subject, they are certainly bold in their stance on a specific issue, with the clear potential to offend those who might not agree. This made the campaign hugely memorable, standing out amid a sea of similar and formulaic ads from competitor brands.

Airbnb: Just nine days after President Trump signed an order to temporarily close America's borders to refugees, Airbnb aired an ad during the coveted Super Bowl spot in direct response to the decision. The ad, called "We Accept" showed a montage of people of different nationalities along with the words: "We believe no matter who you are, where you're from, who you love or who you worship, we all belong. The world is more beautiful the more you accept." Alongside being one of the most-talked about and praised Super Bowl ads, it also helped to enhance and promote Airbnb's wider positioning on issues of race and diversity. Let's not forget, the brand has come under fire itself for supposed racial discrimination occurring on its platform. In this sense, the ad served as further reassurance that the brand now takes a no-nonsense policy on the matter, and made its own political stance perfectly clear.

P&G: Issues relating to gender and sexuality have increasingly been in the spotlight of late, with a number of brands throwing out gender norms to portray a more diverse and progressive image.

With its phenomenally successful 'Like a Girl' campaign, P&G is one brand that's already well-known for its support and empowerment of women and girls. Last year, it took this one step further with 'We See Equal' – a campaign designed to fight gender bias and work towards equality for all. The multi-channel campaign, which ran on social media channels as well as TV, depicted boys and girls defying gender stereotypes. The timing was pertinent, as it ran soon after the US general election, when discussions about gender and gender equality were particularly fraught. Due to this, it was vital that the campaign did not seem like another brand jumping on board a politically-charged bandwagon. Luckily, with a history of promoting the issue – plus a reported 45% of managers and a third of its board being women – P&G's clear dedication to equality within its own workforce meant that it came across as authentic and a genuine push for change.

As millennials increasingly look to make a difference in the world, their attention turns to brands that also demonstrate this promise. Brands are expected to take a stance on the issues of the day: 60 percent of millennials are "belief-driven buyers" according to Edelman. That means brands need to decide how and when, not if, they will weigh in on important issues. Nike joins big-name (and highly successful) companies like Google, Patagonia, and Starbucks to make bold political statements of late.

Nike: Nike lit social media on fire over the weekend with its new "Just Do It" campaign featuring Colin Kaepernick, the controversial and political quarterback. Kaepernick hasn't played in the NFL for a couple of years, and many (including Kaepernick, according to a lawsuit he filed against the league) believe that's partially due to his decision to kneel during the national anthem in protest of the treatment of people of color in the United States. Even for Nike, this was perceived as a bold and risky move. Kaepernick isn't a signed athlete at the moment, mainly because some people view his form of protest as disrespectful. We won't debate the merits of Kaepernick's protest here. We can, however, examine the decision of a major brand to essentially back a controversial political statement.

Nike may be taking a stand on behalf of Kaepernick and his political views, but that doesn't mean Nike is giving away money senselessly. They've clearly done their homework and decided this campaign would benefit them. And so far, they're right: One estimate says Nike received $43 million worth of media exposure in one day just by unveiling this campaign. Expect that number to rise as the conversation continues. Responses and takes from sites such as Business Insider, Fast Company, and The Undefeated all agree—this was a business decision and a savvy one at that. Getting political for its own sake is a short-sighted move and one that may backfire. Before getting controversial, it's important for brands to understand the impact of taking a side. Who are the company's customers? How will they view this move? For Nike, which is aiming for those belief-driven millennials, this decision may have been unexpected, but it's understandable.

Sources: https://econsultancy.com/purchase-with-purpose-how-four-brands-use-social-good-to-drive-consumer-loyalty/
https://socialmediaweek.org/blog/2018/09/what-nikes-kaepernick-campaign-teaches-brands-about-going-political/