

The Starbucks Effect

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Mumbai The recently announced Tata-Starbucks alliance, which will see the world's largest coffee chain Starbucks opening up cafes in India through a first-of-its kind co-branding partnership with Tata Global Beverages, could lead to an explosion in the R1,900-crore coffee retailing segment, with number of cafes doubling in five years.

According to industry estimates, coffee retail is a fairly under-penetrated market with only 1,600-1,800 cafes, but has the potentials to absorb another 2,300-2,700 cafes over the next few years.

Cafe market is estimated to grow 30% in five years, with top 24 cities accounting for 70% of new additions, says a report by retail consultancy Technopak Advisors.

"When an iconic brand like Starbucks enters market, it widens the scope of business and increases opportunity for all players," says K Ramakrishnan, president, marketing of Cafe Coffee Day (CCD) which is the market leader with 1,250 cafes.

While Starbucks has announced launch of 50 cafes this year at various locations like colleges, universities and railway stations to take on CCD's popularity, retail consultants reckon that the company's positioning and product pricing will remain premium.

"Starbucks will not dilute its premium positioning for Indian market," says Purnendu Kumar, vice-president, retail, Technopak. "Railways might be a part of their rollout strategy, but getting licences will be very difficult," Kumar added. Incidentally, quick service restaurant McDonald's has been trying to do that for years with no success.

Experts say that most important challenge for Starbucks will be to find right locations at right rentals. "Two things work in Starbucks' favour. First, a strong brand awareness among its target segment and second, presence of an able domestic partner — Tatas," says Kumar.

As Starbucks prepares to charm a tea-drinking nation, home-grown coffee chains such as CCD is also gearing up for expansion. It looks to open 1,000 new cafes by 2014, and take the cafe culture beyond metros and tier-I cities.

"There are 5,700 cities and towns where there are immense opportunities to grow cafe business," says Ramakrishnan of CCD.

Other cafe chains like Barista Lavazza and Costa Coffee, which entered the market a few years ago, also plan to expand steadily. More recent entrants like Gloria Jean's, Coffee Bean & Tea Leaf, Illy Cafe and Testa Rossa that operate in higher end, are also expanding their footprint in the country.

"There's a spurt in the coffee retailing business and the entry of Starbucks will only expedite this process," says Nithin Mathur, consumer research analyst at Espirito Santo Securities, a brokerage house.

In last five years, Costa Coffee had saturated the Delhi-NCR region with 45 outlets. "We're planning a west-centric expansion now, along with a focus on Chennai and Punjab," said Santosh Unni, chief executive officer, Costa Coffee in an earlier

interaction with FE.

While cafe owners are bullish on the market, India's capita coffee consumption continues to be dismal. According to Indian Coffee Board statistics, it is only 85 gram every year, compared with Brazil's 4.8 kg and Finland's 12 kg.

"India is not a coffee-drinking market," says CCD's Ramakrishnan. "Cafe is synonymous with a conversational hub and the beverage is just an add-on."

To ensure that such add-ons keep attracting consumers to cafes, coffee chains need to keep innovating their menu. "With the entry of international cafes, there's so much threat to Indian players," says Technopak's Kumar. "But they have to constantly ramp up offerings to woo consumers," he added.
