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Starbucks Enters India With Tata's Help

By MEGHA BAHREE

MUMBAI—Starbucks Corp. is setting up shop across India and it may give the government a much-needed pick-me-up in the process.

The coffee retailer said Monday it is entering India in a joint venture with the Tata Group, India's flagship conglomerate. The agreement paves the way for the company to set up cafes around the country and sell Indian coffee globally.

Starbucks has set up a joint venture with Tata Global Beverages Ltd., which owns Eight O'Clock Coffee in the U.S. The two companies will start in India with an investment of $80 million and plan to add funds as the business expands.

The venture, known as the Tata Starbucks Ltd., says it expects to open the first cafe as early as August in either Delhi or Mumbai, India's two largest cities. It plans to simultaneously roll out cafes across those two cities before it ventures into other parts of the country. It aims to open 50 cafes by the end of this year.

Getty Images

The Starbucks logo on a coffee shop in San Francisco.

Until now India has remained one of the last untapped markets for the Seattle-based coffee retailer which is already present in 57 countries. While India is a nation best-known for its tea drinkers, the concept of drinking coffee and socializing at coffee shops is becoming increasingly popular. Domestic consumption of coffee rose to an estimated 108,000 metric tons in 2010, up 80% in the past decade, according to the latest available government figures.

It's a big win for Starbucks, which is counting on emerging markets for additional growth. In the U.S., the company closed hundreds of outlets amid the recession, and while the majority of its profits are still derived domestically, the company is competing against other multinationals such as McDonald's Corp. that have already established a bigger overseas presence. Coffee purveyor Dunkin' Donuts, a unit Dunkin' Brands Inc., last year entered into a pact with an India-based company to open 25 to 30 Dunkin' Donuts outlets over the next three years.

Starbucks also recently changed its financial reporting structure to reflect the geographic regions from which its sales and profits are derived. Its Chinese and Asia Pacific region in the latest quarter reported the biggest bump in same-store sales.

The move was flagged last January when Starbucks signed an initial agreement with Tata Coffee Ltd., a unit of Tata Global Beverages, to source and roast premium coffee beans from India. It is setting up a facility for this in the south of India, the coffee hub of the country. The two companies had, at that time, said they would explore the possibility of opening Starbucks retail stores in India.

At the time, Starbucks Chairman Howard Schultz said in an interview that India could one day rival China, where the company had announced plans to more than triple the number of outlets to about 1,500 in five years.

Starbucks' announcement is likely to give a shot in the arm to the Indian government, too.

For more than a year, the government has been besieged by a string of corruption scandals and its critics have accused it of suffering from a "policy paralysis," a reference to its having passed very few major new initiatives since being elected to a second term in office in 2009. It also ran afoul of many foreign companies and investors in recent months after reversing a decision to allow 51% foreign direct investment in supermarkets and department stores. The reversal blocked entry into India for the likes of Wal-Mart Stores Inc.

The government did allow 100% foreign investment in single-brand retail. Until now, single-brand foreign retailers like Nike Inc. could hold only 51% of an Indian joint venture. Starbucks is classified as a hospitality business rather than a retailer and was allowed to have 100% ownership in India prior to the new policy for single -brand retail. Still, analysts said its arrival will be viewed positively by other foreign brands that may have become skeptical about India's prospects.

"A brand of the stature of Starbucks sends a very strong signal to retail and food services companies world-wide," says Saloni Nangia, senior vice president at Technopak, an Indian research firm. "All the vacillation related to FDI and the to-and-fro that was happening by the Indian government was creating a doubt on how the Indian economy will pan out. This is an opportune moment for the country as it sends out a very positive signal."

Starbucks had been looking for a partner in India since about 2007. John Culver, president of Starbucks China and Asia Pacific, said in an interview that he didn't believed the company had missed out on India's economic boom years. A few years ago, India's Gross Domestic Product was seeing almost double-digit growth. The government expects GDP for the year ending March 31 to come in at around 7% and few economists think it'll do much better in the coming year.

"I don't think we're late to the game," said Mr. Culver. "We are very optimistic and very bullish on the opportunity that exists in India."

R.K. Krishna Kumar, director at Tata Sons Ltd., the holding company for most of the Tata investments, added: "This joint venture sends a very strong signal that business is as usual in India. I hope this will reverse the negative impression."

Starbucks says it will offer its core products of espresso-based drinks and food items as well as add some Indian variations. "We will offer a premium product and experience and it will be priced to what the market can bear," said Mr. Culver.

Tata Starbucks plans to have its cafes in malls, airports, and near where its customers work and live, the company said. While several cafes will be standalone stores, some might also be set up at the Tata Group-owned Taj Hotels.

Foreign food brands have had a turbulent history on the subcontinent. Coca-Cola Co. was banned here for 16 years until the mid-1990s for refusing to divulge its secret recipe. Kentucky Fried Chicken about 15 years ago became the focal point for some Indian farmers and politicians to protest what they viewed as a threat to India's rich culinary culture.

But in recent years many brands, including McDonald's Corp. and Yum Brands Inc.'s KFC and Taco Bell, have been expanding their presence across the country, thanks to the more international tastes of India's young people and its growing middle class who have increased exposure to Western culture and are driving up demand.

—Julie Jargon contributed to this article.