AN EMPIRICAL STUDY ON STRATEGIC ALLIANCES OF MULTI-NATIONAL COMPANIES IN THE MODERN GLOBAL ERA-A SELECT CASE STUDY

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ABSTRACT

In this era of global competition, companies are adopting various forms of collaboration with domestic and international counterparts to find a space in the global marketplace and help in strengthening their competitive advantage. A strategic alliance is one of the major strategies for growth of international business companies.The present study analyses the conceptual framework of strategic alliances, various theories and motives behind formation of strategic alliances with special orientation to Indian Industry and firms. Strategic alliance is a contract between two or more organizations to cooperate in a particular business activity. By this, both the companies get benefits from the strengths of the other and achieve competitive advantage. The formation of strategic alliances has been advanced after the globalization and seen as a quick response to liberalization.

The case study of Tata Starbucks Strategic alliance is taken for this paper. Tata Global Beverages Limited and Starbucks Coffee Company announced a strategic alliance between the second largest branded tea company and iconic international coffee brand in the world. The 50:50 joint venture, named TATA Starbucks Limited, owns and operates Starbucks cafés, branded as Starbucks Coffee "A Tata Alliance." The first store has opened at Mumbai and subsequently 2 stores are opened at New Delhi in India on October, 2012. Presently, it owns and operates 60 stores in all the major cities in India. The alliance is expected to be very fruitful to both the companies in the long run. The report seeks to strategically assess the viability of this strategic alliance by peeping into its myriads of dimensions.

Keywords: Strategic Alliance, Globalization, Liberalization, International Business.

INTRODUCTION

In this era of global competition, companies are adopting various forms of collaboration with domestic and international counterparts to find a space in the global marketplace and help in strengthening their competitive advantage (Dodgson, 2018). A strategic alliance is one of the major strategies for growth of international business companies. The present study analyses the conceptual framework of strategic alliances, various theories and motives behind formation of strategic alliances with special orientation to Indian Industry and firms (Crossan & Inkpen, 1995).

Strategic alliance is a contract between two or more organizations to cooperate in a particular business activity. By this, both the companies get benefits from the strengths of the other and achieve competitive advantage. The formation of strategic alliances has been advanced after the globalization and seen as a quick response to liberalization. This will lead to ambiguity and complication in the business environment, Xu et al. (2018). Strategic alliances include the knowledge sharing and expertise between the associates as well as the reduction of costs and risks in areas such as relationships with vendors and new product development and new technologies. Strategic alliances are rational and response timely to penetrate and make rapid changes in technology and economic activity (Khanna, 2018).

Strategic alliances become an important type of business activity in most of the industries particularly in view that companies are competing in the global world and should adapt and respond to the various changes driven by Liberalization, privatization and globalization, which increased customer needs and business complexity, Zaefarian et al. (2017). Strategic alliances are not a solution for each and every company at every situation. But, through strategic alliances firms can progress their competitive positioning, supplement critical skills, gain entry to new markets and share the cost and risk of major development assignments (Rothaermel, 2015).

REVIEW LITERATURE

Michael E. Porter, 1990- Strategic alliances are long-term agreements between firms that go beyond normal market transactions but fall short of merger. Forms include joint ventures, licenses, long-term supply agreements, and other kinds of inter-firm relationships.

Dussauge & Garrette (1995), an alliance is a cooperative agreement or association between two or more independent enterprises, which will manage one specific project, with a determined duration, for which they will be together in order to improve their competences. It is constituted to allow its partners to pool resources and coordinate efforts in order to achieve results that neither could obtain by acting alone. The key parameters surrounding alliances are opportunism, necessity and speed.

Yoshino & Rangan, (1995) a strategic alliance is a partnership between two or more firms that unite to pursue a set of agreed upon goals but remain independent subsequent to the formation of the alliance to contribute and to share benefits on a continuing basis in one or more key strategic areas, e.g. technology, products.

Gulati (1998) strategic alliances are voluntary arrangements between firms involving exchange, sharing, or co-development of products, technologies, or services. Strategic alliances are critical to organizations for a number of key reasons:

1. Organic growth alone is insufficient for meeting most organizations' required rate of growth and return.
2. Speed to market is very crucial and essential, and alliances greatly improve it.
3. Complexity is increasing in today’s global world, and no single firm has the required total expertise to serve the customer as good as possible.
4. Alliances can cover rising research and development costs and expenses.
5. Alliances facilitate access to global markets in marketing the products and services.

Strategic Alliances Have Some Characteristics

1. Two or more organizations (business units or companies) make an agreement to achieve objectives of a common interest considered important, while remaining independent with respect to the alliance (Cobianchi, 1994).
2. The partners share both the advantages and control of the management of the alliance for its entire duration.
3. The partners contribute, using their own resources and capabilities, to the development of one or more areas of the alliance (important for them).This could be technology, marketing, production, distribution, R&D or other areas (Beamish, 1998).

Benefits of the Strategic Alliances

There are four potential benefits that international business may realize from strategic alliances:

1. **Ease of market entry:** Advances in telecommunication, information technology and logistics and supply chain management have made entry into foreign markets by international firms very easier. Entering into foreign markets deliberates benefits such as economies of scale and increases opportunity in marketing and distribution (Anderson & Narus, 1984).The rate of entering an international business and international market may be beyond the capabilities of individual firm, but by entering into a strategic alliance with an international firm, it achieves the advantage of fast entry while keeping the cost low. Choosing a strategic partnership as the entry mode may overcome the hindrances like embedded competition and intimidating government rules and regulations de Villa et al. (2015).
2. **Shared risks:** Sharing the risk is another common reason for undertaking a strategic alliance i.e., cooperative arrangement when a market has just opened up, or when there is much instability and ambiguity in a particular market where sharing risks becomes mainly important (Beamish, 1984). The competition and competitive nature of business makes it very difficult for a business to enter a new market or launch a new product. But by forming a strategic alliance, a firm can reduce or control its risks to the optimum (Doz & Hamel, 1998).
3. **Shared knowledge and expertise:** Many companies are competent in certain areas and lack expertise in few areas; as such, forming a strategic alliance can allow ready access to knowledge and expertise in an area that an organization lacks. The knowledge, expertise and information that an organization gains, can be used not only for the alliance project, but also for all other projects and purposes (Contractor, and Lorange, 1988). The knowledge, expertise and information can range from learning to deal with government rules & regulations, production knowledge, or learning how to acquire resources. A learning organization is always a growing organization (Bleeke & Ernst, 1991).
4. **Synergy and competitive advantage:** One of the reasons for firms enter into a Strategic alliance is for achieving synergy and competitive advantage. As compared to entering a market alone, forming a strategic alliance becomes a way to decrease the risk of market entry, research and development, international expansion, etc. (Sierra, 1995). Competition becomes more efficient and effective when both the partners leverage off each other's strengths, bringing synergy into the process that would be hard to achieve if attempting to enter a new market or industry Child et al. (1998).

OBJECTIVES OF THE STUDY

The main objective of the study is to understand the Strategic Alliances of Multi-National Companies in the present era and its plans in collaborating:

1. To trace the strategic alliance as a tool to harness the core competencies of strategic partners for strategic competitiveness.
2. To identify the motives of a firm to enter into strategic alliance.
3. To study the importance and benefits of Strategic alliance.

TYPES OF DATA SOURCES

Secondary Data: Main Source of Information

The access to the data and the information for analysis is obtained in documented form and the data is predominantly secondary in nature. The main sources of information are: (i) Records of Companies; (ii) Records of Income Tax Act, 1961 [Section 2(1A)]; (iii) Records of Industry; (iv) Books, journals, e-journals, periodicals and other published data and information.

Table 1
"STARBUCKS–A TATA ALLIANCE" (TATA STARBUCKS LTD)
DATA SHEET OF THE STRATEGIC ALLIANCE COMPANY

Year of Incorporation Commencement of Business	January, 2012 October, 2012
Head Office Registered Office	Starbucks coffee company– Seattle, Washington, US Tata Global Beverages Limited – Mumbai, Maharashtra, India Mumbai, Maharashtra
Project/Industry Founders Investors	Strategic alliance/Coffee Industry R K Krishna Kumar and Howard Schultz Starbucks coffee company– Seattle, Washington, US Tata Global Beverages Limited–Mumbai, Maharashtra, India
Key People	Sumi Ghosh, Howard Schultz, R K Krishna Kumar
Chief Executive Officer Vision Mission No of Employees Daily Visits Stores Alliance	Sumi Ghosh "*To build a company with soul"* "*To inspire and nurture the human spirit–one person, one cup and one neighborhood at a time."* About +1200 employees 10500 Customers 101 Tata Global Beverages Ltd. And Starbucks Corporation
Focus Offers Initial Challenges	Open Coffee outlets in all the cities in India Good Customer services and fixing prices and discounts as per Indian Standards Compete with domestic Coffee outlets like Café Day and International Coffee outlets like Barista
Building Trust Right Timing Helps Growth	11 A.M. to 11 P.M Customer Service Wi-Fi service Home Delivery Starbucks entry to India with the alliance of Tata group Initially started with first store at Mumbai's chatrapathi Shivaji International Airport and 2 stores at New Delhi Indira Gandhi International airport. And now 101 stores throughout India.
Statutory Dues	N.A.
Investment	$80 Million and additional $300 Million in 2015

Background

Tata Global Beverages Limited and Starbucks Coffee Company announced a strategic alliance between the second largest branded tea company and iconic international coffee brand in the world. The 50:50 joint venture, named TATA Starbucks Limited, owns and operates Starbucks cafés, branded as Starbucks Coffee "*A Tata Alliance*." The first store has opened at Mumbai and subsequently 2 stores are opened at New Delhi in India on October, 2012. Presently, it owns and operates 60 stores in all the major cities in India (Vrushali, 2011). The alliance is expected to be very fruitful to both the companies in the long run. The report seeks to strategically assess the viability of this strategic alliance by peeping into its myriads of dimensions (Ruchi and Joel, 2011).

About Starbucks

Since 1971, Starbucks Coffee Company has been committed to ethically sourcing and roasting the highest-quality "*Arabica"* coffee in the world. Today, with more than 17,000 stores

human connection and developing the sense of belonging. They believe in creating good neighbourhood and each store is nourished as a community (Ryan, 2008). Tata has made the cultural fit for Starbucks which will help in building core competencies of each other. (Tata has met all the stringent standards and conditions followed by Starbucks such as quality, soil, water, pest, waste and energy management, forest and biodiversity conservation to workers' welfare, wages and benefits, living conditions, health, safety, etc.).[1]

Starbucks is committed to a role of environmental leadership in all facets of their business. They strive to fulfil this mission by a commitment to:

1. Understanding of environmental issues and sharing information with their partners.
2. Developing innovative and flexible solutions to bring about change.
3. Striving to buy, sell and use environmentally friendly products.
4. Recognizing that financial responsibility is essential to their environmental future.
5. Instilling environmental responsibility as a corporate value.
6. Measuring and monitoring the progress for each project.
7. Encouraging all partners to share in their mission.

Competitive advantage of starbucks

1. Strong brand image.
2. Starbucks specializes in coffee and related beverages.
3. Starbucks is the largest coffee house company in the world.
4. They have loyal customers worldwide.

Marketing strategy of starbucks

1. Starbucks started a community website, My Starbucks Idea.
2. It's rare to find a Starbucks in a billboard, and space, newspaper or poster in places.
3. The company has went to great lengths to create a *"Community atmosphere*" among premium coffee lovers.
4. Starbucks operates primarily through alliances, joint ventures and licensing arrangements with consumer products business partners.

Competitive advantage of tata coffee

1. The largest integrated coffee plantation company in the world.
2. Its uniqueness lies in its ability to produce large quantities of estate specific, strain specific, special and premium coffee, while maintaining a strict consistency in quality.
3. It has a hand in every aspect of the coffee making process.
4. With the major coffee consumption markets being Arabica-centric, this lobby has been prevailing in international markets by Tata coffee.

About the deal

1. Starbucks made a strategic alliance with Tata coffee to start up its business in India.
2. Starbucks will explore setting up stores in the Tata group's retail outlets and hotels, besides sourcing and roasting coffee beans at Tata Coffee's Kodagu family.
3. This Agreement includes opening cafes, bean sourcing and roasting.
4. One of the hurdles that the two companies have to sort out is Starbucks' franchisee-led model.[2]

to Foreign Direct Investment in multi brand retail for up to 51% will generate more investments in India.

Economic factors

The factors like insufficient infrastructure, regulatory and foreign investment controls, system of government, the condition of key products for small-scale and medium scale industries, and deficit in budgetary policy are constraints to economic growth in India. Due to the new industrial policy taken in 1991 opened the Indian economy to foreign trade and investment. This liberalization policy reduced controls, devalued the currency and decreased customs duties. It almost abolished licensing regulations and controls on private investment, reduced tax rates, and ruined public sector monopolies. The Indian government's approval on Foreign Direct Investment up to 51% on retail industry made a boost up to foreign companies to invest in India. India being a major exporter of software and IT products and IT professionals, the IT industry shows the strong growth pattern. As the world is changing itself from industrial sector to an informational technology economy, India is to play a lead role in shaping the future of the globe.

Socio-cultural factors

The job opportunities increased drastically in India, due to liberalization of the economy and IT sector boom. This made the changes in the mind set of Indians by changing themselves from saving to spending. The India's youth inspired by various job opportunities and spending money lavishly. The youth approach is to spend money and enjoy life.

However, Indians are habituated with tea consumption. According to market research studies, Coffee consumption is more in the urban areas (71%) and lesser in the rural areas (29%). The south Indians largely prefer coffee. The north Indians are not fond of coffee, but drink coffee in various flavours as a matter of fashion statement. The consumption of filter coffee and instant coffee is approximately equal on the national level. But region-wise, Filter coffee is more popular in Tamil Nadu and other south Indian states and percentage of instant coffee is very high in North India.

Technological factors

The green coffee beans and tea leaves is bought from the Indian farmers in order to support the agricultural sector, save transportation charges, get subsidies and gain tax benefits. Indians like to have more cream in the coffee. Starbucks alliance with the Tata Coffee Ltd for sourcing and roasting Arabica Coffee will surely help both the companies in the long run. In India, skim milk option is not necessary as many Indians do not following dieting. Indians specially like to have ginger and black clove in their tea and coffee. Additionally, the outlets are enabled with Wi-Fi services as everyone is using smart phones, laptops at the café. Indians like to connect with the traditional and rich heritage as well as its coming together with modernity. This may be reflected in the stores' ambience. Starbucks outlets are fully furnishes and creates awareness on how coffee beans are sourced, roasted, brewed, etc and makes customers more loyal to have a cup of coffee in Starbucks coffee outlets.

The inventory management is to keep the store stocked with coffee beans at the same time the outlets has to take care not to overstock of beans as it loses its freshness. Based on the everyday visit of the customers to the outlet, the policy is formulated accordingly.

2. Expensive products: High price of coffee is felt as a barrier among the Indian customers. (Starbucks coffee products are priced at a very high and the income of Indians are lesser when compared to other foreign markets where Starbucks already exists. Now, Tata Starbucks has to rethink to offer coffee at locally competitive prices).
3. Coffee dominant business. (Starbucks has to diversify its business from coffee to providing other snacks and food items to face the competition from rivalries which have already diversified).
4. Certain rigid standards and policies at outlets. (Starbucks follow the similar business models and formulas, despite of culture and traditions of the any country they are operating in like no smoking policy, etc.).
5. There is no uniqueness and exclusivity from these two companies i.e., Starbucks and Tata coffee.

Opportunities

1. India is the second most populated country in the world. There is scope for Tata Starbucks to capture the market because of huge market.
2. The Middle Class with English speaking people is growing rapidly and the spending power of Indians is increasing.
3. The young population is increasing who shows more interest in visiting the cafes as a fashion statement. (Consumer of 20-45 years age group is emerging as the fastest increasing consumer group. As per the research, an average age of Indians is going to be 29 years by 2020.
4. Good and quality telecom infrastructure.
5. As Indians are habituated with Tea-based culture, this could be uses as an opportunity by Starbucks to offer tea-based drinks.
6. People prefer to have a cup of coffee outside home rather than tea outside home, specifically in the North-Eastern states of India. The southern states people like to consumer coffee. The North Indians are not generally coffee drinkers, but drink coffee as a fashion statement.
7. Tata coffee can increase its market share by providing the raw products to Global players who are in the Coffee outlets business. Cheap Labour, Fair availability of workforce (Quantity as well as skilled) and resources.
8. The expected growth rate of Coffee consumption in India is 6%, this can be used an opportunity to set up more outlets in many cities.
9. By this deal, Tata Coffee is able to lower the over dependence on the commodities market and shift to the branded Coffee retail market.
10. Brand extension: Starbucks and Tata coffee carries a good brand image in the international market. So, it can leverage it to extend its business by diversification and expansion of business while keeping brand image in consideration.

Threats

1. Indians are habituated with tea and have a tea-based culture. (The hot-beverage market of India is purely dominated by tea. As, India being a largest producer and consumer of tea in the world, its production is accounted for 29% and consumption is of 20%. Indians prefer to consume tea at least two times a day.
2. The domestic companies like Coffee Cafe Day that are home grown brands dominate the retail coffee market, followed by Barista coffee and Qwikys Coffee.
3. The standard of living of people and per capita income of Indians is low. The Coffee price of Tata Starbucks outlets is felt as a barrier for middle class income group to have a cup of coffee. So, Tata Starbucks has to reframe the pricing model as per the Indian standards and offer products at locally competitive prices.
4. The consumers are very conscious about their health. Due to increase in obesity, diabetes, Blood pressure, heart attacks, people prefer to go for health drinks. There is an opposition from many health groups worldwide on Starbucks that it sold high calorie and high fat products to its consumers.
5. Visiting coffee outlets and cafes are not a regular habit among most of the Indians. Instead they go occasionally.
6. Fast food chains like that of McDonalds, Dunkin Donuts, Burger King, etc., have already diversified their products and offering quality coffee to compete with Starbucks.