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Impact of Asian Culture on the Market Entry Strategies and new Product Acquisition of McDonalds and Starbucks in Indian and Chinese Market

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Abstract—*The main purpose of this paper is to study the impact of culture on the new product acquisition and market entry strategies of Western organizations in emerging market. The authors will contrast the market entry strategies of two reputed fast food giants Starbucks and McDonalds in emerging markets China and India. The economic power is shifting from West towards East. With the help of this paper, the authors want to check whether it is feasible to adopt any market entry strategy to enter in Asian market. The author will also see whether the same product and market strategies are successful in Asian market which provided success in Western market or not. In late nineties McDonalds and Starbucks entered in Indian and Chinese market. Both the companies preferred joint-venture market entry strategies to enter in Asian markets. They also changed their products and approach as per Asian market. This paper is a conceptual paper and it is based on case-study approach. The main concepts discussed in this paper are related to the core area of international business and marketing.*

Hofstede mentioned that there is big cultural difference between Asian and Western organizations based on its five cultural dimensions. Due to cultural differences between America and Asian countries both Starbucks and McDonalds have chosen joint-venture market entry strategies so the local partner can help them in understanding the external environment of those countries. Both the organization introduced new products exclusively for Indian and Chinese market. The authors found a research gap in previous literatures and case studies on these organizations. The previous authors also study the impact of culture on market entry of Starbucks and McDonalds in Asian market but there was no focus on the element of religion. In this research paper, the authors will also analyse how religious sentiments of Indians changed the product line of McDonalds.

Keywords*: Joint-Venture, McDonalds, Starbucks, China, India*

1. INTRODUCTION

The major impact of the economic globalization in 21st century is that many organizations have shifted their base from developed countries to developing countries. The foreign direct investments have been increased in Asian countries especially in China and India. The economic power is shifting from West towards East. In this research paper, the author will discuss the impact of Asian culture on market entry of two major fast food giants Starbucks and McDonalds. Both the companies also made a change in their products to settle themselves in Asian markets. In this research, the authors will discuss specifically about religion and how it affected McDonalds in India. Though market entry of both the giants contrast with each other in Asian market but still McDonalds face difficulties due to Hindu religion sentiments in India.

2. LITERATURE REVIEW

In the literature review portion, the authors will use the PESTLE analysis tool to study the external environment of both India and China. Hofstede cultural dimensions will be used to show the cultural differences between America, China and India. The authors will also discuss different market entry modes.

2.1 Pestle Analysis

Before entering a market, it is important to study the external environment of that market so that required changes can be adopted while entering in that market. Pestle is the marketing tool which provide detail information about the external environment of that country (Ho, 2014).

China

China is the most populous country of the world. The political environment of China is very much stringent in nature. The political system is stable in China. China's constitution declares that the country is ruled under the leadership of Communist Party of China (Datamonitor, 2015). The electoral system is pyramidal in China. The economy of China is growing at the rate of 10% since last 20-30 years (Das & N'Diaye, 2013). China, is the world's second-largest economy by nominal GDP and largest by purchasing power parity. China is one of the leading exporter and importer of world's goods. The socio-cultural values are very strong in China. Though English is major language of business around the world but Chinese people believe in their own language. Chinese culture is unique and a big number of tourists visit China every year. Chinese are much closer to their culture and system but the young generation of China is preferring Western products and services. The life standard of Chinese people is increasing but there is wide income gap between rich and poor in China (Anderson, Farcomeni, Pittau, & Zelli, 2016). The technological standard is improving in China. Chinese electronics and telecommunication industries are dominating around the world. The legal system in China is time-consuming but the rules and regulations are more stringent. China is leading contributor of green-house gases. China along with America is majorly responsible for global warming problem around the world.

India

Political environment is very much stable in India. India has democratic electoral system. The two major political parties in India are Indian National Congress and Bharatiya Janta Party (Thachil, 2014). The regional parties also play a major role during elections to form coalition. The economy of India is growing at good pace. In last twenty years, India is the major destination for foreign direct investment after China. According to International Monetary Fund, the Indian economy in 2017 worth US $2.45 trillion nominally as India is the 6^{th} largest economy by market exchange rates (IndianExpress, 2014). Indian GDP growth rate in past twenty years has been 5.8%. The socio-cultural analysis of India suggests that India is multicultural and multi-religious country. Approximately 80% population of India is Hindu and 14% are Muslims (Corbridge & Harriss, 2013). The standard of living and purchasing power of people is increasing. The population of India is much more influenced towards Western products. Majority of population in India is vegetarian. India has also developed technically in last thirty years. India is producing thousands of quality software engineers every year. The government is spending money on research and development activities. The legal environment is not encouraging in India. The legal process is very time consuming and it consist of multiple layers of courts. The legal system in India is very much affected by corruption.

Hofstede Model of Culture

Hofstede cultural dimension model is based on five dimensions- power distance, individuality, masculinity, long term-short term orientation and uncertainty avoidance (Sanders, 2014). In this part, we are comparing the culture of India, China and America.

Both McDonalds and Starbucks belong to America as they are the premier brands of that country. McDonalds entered in Indian market while Starbucks entered in Chinese market so it is important to study the cultural differences of both India and China with America.

Power distance- Power distance is the gap between seniors and juniors in the organization. Power Distance is defined as the extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally (Hofstede, 2011). The power distance is high in both India and China but it is low in American organizations.

Individualism/Collectivism- Individualism and collectivism defines the degree of interdependence a society maintains along with its members. America has high score for individuality while China has high score for collectivism. Chinese give too much value to their families, friends and social groups. Indians are moderate but still influences towards collectivist culture.

Long-term/Short-term orientation- Chinese are long-term oriented people. They take much time in developing trust and confidence on foreign companies. They are slow in decision making. Americans are short-term oriented people, they are fast in decision making and negotiations. Indians are moderate but they are marginal more influenced towards long-term orientation.

Masculinity/Femininity- Masculine values are competition, achievement and success while feminine values are caring for others and quality of life. All the three countries have high consideration for masculine values. India, China and America are racing with each other to become world superpower so competition, achievement and success is defining the countries success.

Uncertainty avoidance- Uncertainty avoidance is the extent to which the members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions that try to avoid these. All the three countries have low score for uncertainty avoidance. China is at lowest while India and USA are comparable with each other.

2.2 Types of Market Entry Modes

Exporting

The most traditional and common mode of entering the foreign market is exporting. Exporting can be through direct means or indirect means (Zahra, Ireland, & Hitt, 2000). Nowadays online exporting is very much common in nature also. In indirect exporting firm sells its product in the international market with the help of an intermediary who knows the domestic market. In direct exporting firm, itself sell its material in the foreign market and develop a smooth physical relationship with the customers. In the online exporting, the physical presence of the exporter is not required in the market. It can be done via effective usage of technology. The main advantage of exporting is low financial cost and time to understand the complexities of new market. The disadvantages of exporting is that it is vulnerable to tariff and non-tariff barriers.

Licensing

It is another mode of market entry in the foreign market. In this mode of entry, the domestic manufacturer leases the right to use its intellectual property i.e. technology, work methods, patents, copyrights, brand names, trademarks, etc. to a manufacturer in a foreign country for free (Blomstermo & Sharma, 2006). The main advantages of licensing are less capital requirement, reduces development cost and risk of establishing a foreign enterprise. The main disadvantages are limited market opportunities and dependency on licensee. The conflicts with licensee can affect business relations.

Franchising

Under franchising, an independent organization called the franchisee operated the business under the name of another company called franchisor. The franchisee is supposed to pay fees to the franchisor. In comparison to licensing there is more control of franchisor over the franchisee in this type of market entry. The main advantages of franchising are low financial risks, less tariff and non-tariff barriers restrictions on foreign investment. The major disadvantages of franchising are limited market opportunities and potential to create future competitor.

Mergers and Acquisitions

The merger is the combining of two or more companies generally by offering stockholders of one company securities in acquiring the company in exchange for the surrender of their stock (Hennart & Reddy, 1997).The acquisition is when one company completely takes over another company as the owner and has the full control over its operation. The major advantages of mergers and acquisitions is that they help in obtaining the control over the acquired firm such as factories and brand names, integrate the management of the firm into its overall international strategy. The disadvantages are cultural differences between the firms can cause failure in mergers and acquisitions. It requires heavy sum of money to enter mergers and acquisitions.

Joint Ventures

A joint venture is an entity formed between two or more parties to undertake economic activity together (Grant, 2016). The parties agree to create a new entity by both contributing equities and then they share in their revenues, expenses and control their expenses. The basic advantage of joint venture strategy is that it reduces the risk of a foreign partner because he can take benefit from local partner's knowledge, the costs have been shared and less political risks have involved. The disadvantage of joint ventures is that technology of both companies shared with each other and it can lead to conflict among the companies.

2.3 Entry Modes and Business Decisions

Internal factors which impact the market entry modes are firm size, international experience, technical capability and product characteristics. The first key factor is the firm size (Hernández & Nieto, 2015). The firm size defines which type of market entry strategy suits to that organization. The smaller firms have limited financial and human resource, so they often prefer licensing, franchising or exporting while the big firms opt for joint-ventures and acquisitions. The international experience of the firm in the foreign market also plays a key role in deciding the final market entry strategy. For example, the organizations from developed countries face difficulty when they first enter in Asian countries. The less international experience forces the organizations to opt for less risky and cost-effective market entry mode for entering the foreign market. The technical capability of the organization is the base for its joint-venture with the domestic organization.

External factors which impact the market entry modes and business decisions are cultural distance, market size, the risk associated with foreign country and legal barriers. Hofstede with the help of its five cultural dimensions proved that there is a big difference between Asian and Western countries. Certain times cultural differences impact the market entry choice of business. For example, Volkswagen & Suzuki alliance got fail within 12 months because of cultural mishap and issues about technology sharing. The types of government, barriers and risk factors also impact the business decisions related to the market entry in a particular market. For example, the organizations from European countries often prefer joint-ventures while entering in China because legal and political conditions are tough in China. The Chinese government has relaxed rules and regulations for domestic organizations.

3. ANALYSIS AND DISCUSSION

3.1 McDonalds entry in India

It was a challenging task for McDonalds to enter the Indian market in the late nineties. India is a country in which 80% population is Hindu and people usually don't prefer beef as part of their religious rituals (Jeon, Meiseberg, Dant, & Grünhagen, 2016; Brass, 2011). Indian economy was just liberalized that time when McDonalds' was trying to conquer India. Prior to 1990, Indian economy was protectionist and consumers were giving more weight to their products. The generation shift after the 1990s and political environment supporting FDIs make way for McDonalds in India. McDonalds entered the Indian market in 1996 by adopting joint-venture market entry strategy (Prahalad & Lieberthal, 2008). The joint venture was between Oak Brand III and 2 local partners- Hardcastle Restaurants Private Limited in Western India and Connaught Plaza Restaurants Private Limited in Northern India.

They key attractions for McDonalds in India during 1996 was big consumer market, the largest democracy, improving income level and social status of people which had an influence towards westernization (ICMR, 2011). McDonalds preferred joint-venture because it was a big brand in Europe and company has no such problem of costing and resources. They want to make a big name in India like European countries. The other reasons for adopting joint-venture strategy are mentioned below.

- McDonalds was completely new to the Indian taste and preferences, joint venture provided McDonalds an opportunity to test its feasibility in the Indian market.
- The risk was shared in the joint venture, and it also helped the company in understanding political complications and barriers.
- The joint venture also helped McDonalds to enter cultural and religious diversity in India as the company has done a joint venture with two separate partners in Western and Northern part of India.

Though McDonalds entered in India market with the help of joint venture but the life of McDonalds was never easy initially. The Western image of McDonalds' burger containing beef and pork was a dent in the Indian culture. Many political parties and institutions such as Bajrang Dal, Bharatiya Janta Party, and Shiv Sena threatened the entry of McDonalds in India. BJP also attacked certain branches of McDonalds in India on 4th May 2001 (IrishTimes, 2001). India supports a collectivistic culture in which family members sit together and socialize on the table of lunch unlike the individualistic culture of Europe. This was also a challenge for McDonalds. In short, McDonalds was facing a pressure of complete image changeover in India (Sameer & Kaur, 2012). McDonalds changed its Western approach in India. The company introduced McAloo Tikki burger the vegetarian community of India. The key strength of McDonalds was its adaptability and willingness to change as per Indian culture. The company tried to localize itself as per customers' needs and requirements. For example, Big Mac beef burger was the signature product of McDonalds in the Western market but in India, Chicken Maharaja Mac was the main product of the company. The company worked on its pricing strategy and products to increase its customer base. The marketing team of the company recognized that Indian youth could give them a major stake in the market which they were looking for, but their product and pricing were not appropriate for college students and children. McDonalds introduced McAloo Tikki which was prepared by mashed potatoes along with Indian spices at Rs. 20. The economy pricing and flavor of India Tikki in Western packaging attracted a mass number of youth for McDonalds in the Indian market.

3.1 Starbucks in China

As the entry of McDonalds was difficult in India, similarly the entry of Starbucks was not easy in Chinese market. Chinese market is much more reserve and tough in comparison to Indian market. Starbucks entered in Chinese market in 1999 (Huang, 2015). The conditions were not favourable as many Western coffee companies were failed in China. The local language and strict liking for Chinese products was creating a challenge for the company. Tea was the prime hot beverage for local Chinese people and people were not ready to accept coffee in place of tea (Qian & Xing, 2016). Starbucks approached Chinese market in different manner in comparison to other Western coffee companies (Rein, 2012).

- The company has shown a different thinking. They created a demand for coffee in that market. Starbucks took itself to the major street of coastal cities in China.
- Starbucks implemented a smart market entry strategy. The advertising of Starbucks was not a threat for tea in China. They have provided an exceptional experience to local Chinese.
- Starbucks approached Chinese market in different manner. Their approach was not like Western market. The company has provided comfortable sitting space to the customers where they can socialize with each other. The chic interior, comfortable lounge chairs and upbeat music was differentiating the company.
- Tea culture has impacted the market entry of Starbucks in China. The company introduced a new product which was green tea flavoured coffee to capture the attention of Chinese people.

Joint-venture and long-term commitment- Starbucks also adopted joint-venture market entry strategy to enter in complex Chinese market. In north, Starbucks entered a joint-venture with Beijing Mei Da coffee company (Rein, 2012). In east, Starbucks partnered with Taiwan based Uni-President. In South, company entered with Hongkong based Maxim Caterers. In East, they have entered with local partners. Starbucks looking for long-term commitment in Chinese market. As Chinese are long-term oriented people and they take time in trusting foreign brand. The company adopted joint-venture based approach because local partner helped the company in understanding the taste and preferences of locals. The government rules and restriction were also relaxed with local partners. Chinese market is not homogenous. The partners helped in understanding the complexity of Chinese market.

4. CONCLUSION

Based on overall discussion, it can be concluded that both companies have adopted joint-venture market entry strategy to enter in Asian markets. Though they were contrasting their approach but there was a subtle difference. Starbucks chosen difference local partners as per location because Chinese market was more heterogenous in comparison to India. The major hurdle for Starbucks was tea-culture of China but McDonalds was facing the religious aspect of Indian culture. McDonalds also entered through joint venture but still they were not welcomed in India. The new product acquisition which was McAloo Tikki Burger helped the company to set up its base in India. While new product acquisition in case of Starbucks (green tea flavoured coffee) helped in increasing the customer base of the company and getting more profit.

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