

# Question Paper

## International Marketing (MB3H1M) : October 2008

### Section A : Basic Concepts (30 Marks)

- This section consists of questions with serial number 1 - 30.
- Answer all questions.
- Each question carries one mark.
- Maximum time for answering Section A is 30 Minutes.

1. Since 1973, a “floating” exchange system has been the norm in most of the countries. A floating exchange system is good because [<Answer>](#)
- I. It allows governments to address their Balance of Payments (BoP) problems by having flexible exchange rates.
  - II. It allows governments to change the exchange value in tune with export policies.
  - III. The government needs to manage its Balance of Payments (BoP) situation.
- (a) Only (I) above
  - (b) Only (II) above
  - (c) Both (I) and (II) above
  - (d) Both (II) and (III) above
  - (e) All (I), (II) and (III) above.
2. Pricing decisions cannot be made in isolation because pricing affects other marketing decision variables and determines [<Answer>](#)
- I. The customer’s perception of value.
  - II. The level of motivation of intermediaries.
  - III. Promotional spending and strategy.
- (a) Only (I) above
  - (b) Only (II) above
  - (c) Both (I) and (II) above
  - (d) Both (II) and (III) above
  - (e) All (I), (II) and (III) above.
3. The sensitivity of firms’ cash flows to changes in exchange rates is called exposure. Which of the following is/are **true** with respect to translation exposure? [<Answer>](#)
- I. It arises on the basis of accounting for transactions between trading companies.
  - II. The holding company in a country needs to include the accounts of its subsidiary in its balance sheet.
  - III. There is exposure, when transactions are recorded at the historical rates.
  - IV. It involves a subjective projection of future cash flows.
- (a) Only (I) above
  - (b) Only (II) above
  - (c) Both (I) and (II) above
  - (d) Both (II) and (III) above
  - (e) All (I), (II), (III) and (IV) above.
4. If Hewlett Packard (HP) and Microsoft were to agree to partner together to purchase 70% of the largest computer manufacturer and distributor in Korea, it would be an example of which of the following entry mode? [<Answer>](#)
- (a) Portfolio investment
  - (b) Joint venture
  - (c) Mixed venture
  - (d) Franchising
  - (e) Licensing.
5. Adam Smith proposed the ‘Theory of Absolute Advantage’. Which of the following is/are the assumption(s) of this theory? [<Answer>](#)
- I. The transportation costs involved in selling a commodity in a country other than the one in which it is

produced are either non-existent or insignificant.

- II. Prices are comparable across countries.
- III. Two countries would trade even when one country has absolute advantage in all products or another country does not have absolute advantage in any products.

- (a) Only (I) above
- (b) Only (II) above
- (c) Both (I) and (II) above
- (d) Both (II) and (III) above
- (e) All (I), (II) and (III) above.

6. Investment banking is a banking activity specializing in the formation of capital. Which of the following is **not** an activity executed by an investment banker in International banking services? [<Answer>](#)

- (a) Project advisory
- (b) Financial restructuring
- (c) Mergers and acquisitions
- (d) Improvement in economy
- (e) Raising Finance.

7. International Monetary Fund (IMF) provides long-term financial assistance facility to the countries with a more protracted Balance of Payments (BoP) problem with roots in the structure of the economy is referred to as [<Answer>](#)

- (a) Extended fund facility
- (b) Supplemental reserve facility
- (c) Compensatory finance facility
- (d) Emergency finance facility
- (e) Low fund facility.

8. The product mix is the set of all the products that an organization offers to its customers. It has certain characteristic features like product width, length, depth and consistency. Which of the following is/are **true** with respect to these characteristics? [<Answer>](#)

- I. The width of the product mix is the total number of items in that mix.
- II. The length of the product mix is the total number of product lines a company carries.
- III. The depth of a product mix is the assortment of sizes, colors and variations offered for each product in the product line.
- IV. Product mix consistency refers to the closeness exhibited by the products lines in production requirements, distribution, end usage etc.

- (a) Only (I) above
- (b) Only (II) above
- (c) Both (III) and (IV) above
- (d) (II), (III) and (IV) above
- (e) All (I), (II), (III) and (IV) above.

9. The International Centre for Settlement of Investment Disputes (ICSID) provides facilities for the conciliation and arbitration of disputes between member countries and investors who are nationals of other member countries. Apart from this, Which of the following is/are the additional facility rules it administer, certain proceedings beyond the purview of the convention? [<Answer>](#)

- I. Conciliation and arbitration proceedings where either the state party or the Home State of the foreign national is not a member of ICSID.
- II. Where a dispute is not an investment dispute and relates to transactions that distinguish it from ordinary commercial transactions.
- III. ICSID also does certain “fact finding proceedings” for any state or foreign national, who may want an enquiry “to examine and report on facts”.

- (a) Only (I) above
- (b) Only (II) above
- (c) Both (I) and (II) above
- (d) Both (II) and (III) above
- (e) All (I), (II) and (III) above.

10. Ford advertises company's name prominently along with the products. Which branding strategy does this refer to? [<Answer>](#)

- (a) Company name and individual product name  
 (b) Separate family names for all products  
 (c) Blanket name for all products  
 (d) Individual brand names  
 (e) 'No-name' unbranded merchandise.
11. In which of the following international strategy, does the top management of the parent company take full control of the subsidiary with the help of sophisticated management information systems and corporate staff, who are specialists in the field? [<Answer>](#)
- (a) Coordinated federation  
 (b) Administrative control  
 (c) International mentality  
 (d) Centralized hub  
 (e) Operational control.
12. A newly introduced Intel microchip cost around \$1000 per chip. Only a few segments in the market can afford such expensive chips. These chips power the highest quality Personal Computers (PCs) and servers in the market, bought by the most eager customers. When the sales of this trendsetter segment start declining, and competitors make efforts to introduce competing products, the company reduces the price to make the chip affordable to the next segment: early adopters. The prices finally come down to \$200 per chip. The chip at this price is meant to serve the mass-market needs. At this price again, the chip is a revenue spinner. In this light, which of the following **best** describes the Intel's pricing strategy? [<Answer>](#)
- (a) Market penetration  
 (b) Market holding  
 (c) Market skimming  
 (d) Market development  
 (e) Product development.
13. Contract manufacturing is one of the low control / shared ownership modes used by companies to enter into international markets. Which of the following is/are the disadvantage(s) of contract manufacturing entry mode? [<Answer>](#)
- I. There is a potential danger that contract manufacturer may become a future competitor.  
 II. Low labor cost countries usually have low labor productivity.  
 III. The quality of the product cannot be assured.  
 IV. This mode of entry demands greater commitment of resources.
- (a) Only (I) above  
 (b) Only (II) above  
 (c) Both (I) and (II) above  
 (d) (I), (II) and (III) above  
 (e) All (I), (II), (III) and (IV) above.
14. Blue detergent is the market leader of detergents and is in the maturity stage of its life cycle. There are many competitors in the market that challenge Blue's leadership. With respect to maturity stage of product life cycle which of the following statements is **most** likely **true** about Blue's pricing? [<Answer>](#)
- (a) As a market leader, Blue does not need to worry about price  
 (b) Blue should not reduce the price in order to reap profits  
 (c) Blue must price its products lower than the other brands to maintain its leadership  
 (d) Blue can increase its price since it is in the maturity stage  
 (e) Blue should maintain a high price to maintain a high quality image.
15. Information sources in international market research can be classified into internal and external sources. Which of the following is **not** an internal information source? [<Answer>](#)
- (a) Sales reports  
 (b) Committee reports  
 (c) Inventory records  
 (d) Financial and management accounting records  
 (e) Data on Internet.
16. Information related to integrative networks like physical structures, retail and distribution networks, availability and costs associated with these networks is known as [<Answer>](#)

- (a) Political data
- (b) Foreign exchange data
- (c) Infrastructure data
- (d) Marketing data
- (e) Legal and regulatory data.

17. Primary data is generated for the first time by the researcher. It is not easy to obtain data from primary sources in international markets. Which of the following is/are the problem(s) faced by an international researcher while collecting primary data? [<Answer>](#)

- I. Researchers face problems in defining the sample.
- II. Researchers have difficulties in defining the objective of the research being conducted.
- III. Different countries have different languages so questionnaire has to be translated into the native language.
- IV. In many countries researchers do not find established marketing research institutions and may have to depend on temporary sources.

- (a) Only (I) above
- (b) Both (I) and (II) above
- (c) (I), (II) and (III) above
- (d) (I), (III) and (IV) above
- (e) All (I), (II), (III) and (IV) above.

18. Which of the following is **not true** with respect to the experience curve? [<Answer>](#)

- (a) It says that as the total accumulated experience of a firm in the industry increases, it incurs less costs for producing a product
- (b) When a firm increases production, its fixed costs do not change because an increase in production brings down cost per unit
- (c) Improving material and resource management helps achieve economies of scale in the long run
- (d) Improving supplier relationship helps companies achieve economies of scale in the long run
- (e) Customizing the products help companies achieve economies of scale in the long run.

19. The director of marketing department at HomeMade (which manufactures and sells home improvements (furnishings) like furniture, decoratives etc.) company has just completed demographic research on the total market for home improvement supplies. Which of the following demographic data would be his **best** choice for developing market segmentation strategy? [<Answer>](#)

- I. Income level data about home improvement buyers.
- II. Lifestyles of home improvement buyers.
- III. Home improvement usage patterns among buyers.
- IV. Values of home improvement buyers.

- (a) Only (I) above
- (b) Only (II) above
- (c) Both (I) and (II) above
- (d) (I), (II) and (III) above
- (e) All (I), (II), (III) and (IV) above.

20. Which of the following is **not** a characteristic of good online communities with regard to global markets? [<Answer>](#)

- (a) Management philosophy
- (b) Duration
- (c) Membership criteria
- (d) Shared context
- (e) Moderation.

21. After setting the criteria for the target market, global target market strategy has to be selected. Undifferentiated global marketing strategy is one of them. Which of the following is/are **true** with respect to undifferentiated global marketing strategy? [<Answer>](#)

- I. Marketers serve the market by developing a universal marketing mix strategy that serves the needs of most of the customers, ignoring the needs of a few.
- II. This strategy gives short-term cost savings.
- III. Usually, new firms with limited resources opt for this strategy.
- IV. It may not work in mature markets where the needs of the customers are more diverse.

- (a) Only (I) above  
 (b) Only (II) above  
 (c) (I), (II) and (IV) above  
 (d) (I), (II) and (III) above  
 (e) All (I), (II), (III) and (IV) above.
22. As organizations grow globally, they find it difficult to manage their widespread operations. Which of the following is/are **not true** with regard to formal control methods? [<Answer>](#)
- I. Companies adopt formal control methods for evaluation.  
 II. It is based on specific plans and targets that are to be achieved.  
 III. It does not use methods as budgeting or planning.  
 IV. It requires face-to-face communication between headquarters staff and subsidiaries staff.
- (a) Only (II) above  
 (b) Both (I) and (II) above  
 (c) Both (III) and (IV) above  
 (d) (I), (III) and (IV) above  
 (e) (II), (III) and (IV) above.
23. Akbar wanted to purchase a Mercedes-Benz car in most of his adult life. He did extensive research on different Mercedes-Benz car models. Finally, at the age of 50, he achieved the income level to be able to purchase one. The Mercedes is an example of a(n): [<Answer>](#)
- (a) Specialty product  
 (b) Consumer product  
 (c) Convenience product  
 (d) Business product  
 (e) Unsought product.
24. Transfer pricing is an issue of major concern for companies operating internationally. Which of the following is/are **true** with regard to transfer pricing? [<Answer>](#)
- I. It is also referred to as intra-company pricing.  
 II. It determines the success of the organization by influencing the performance of the subsidiary, the executive compensation, and the taxes paid.  
 III. The objective of transfer pricing (from the point of view of the firm) is to ensure subsidiary efficiency.
- (a) Only (I) above  
 (b) Only (II) above  
 (c) Both (I) and (II) above  
 (d) Both (II) and (III) above  
 (e) All (I), (II) and (III) above.
25. At the Sundae Sampler, customers place their orders, watch their ice-cream sundaes being prepared, and then quickly eat the sundaes in the store before the ice cream melts. This is an example of which of the following characteristic of services? [<Answer>](#)
- (a) Inseparability  
 (b) Intangibility  
 (c) Heterogeneity  
 (d) Perishability  
 (e) Dependency.
26. There are various constraints in the designing of international channels so that they fit the company's objectives. Which of the following is **not** a characteristic relating to customers constraint in distribution channels in different countries? [<Answer>](#)
- (a) Degree of standardization  
 (b) Income  
 (c) Shopping habits  
 (d) Geographical distribution  
 (e) Reaction to different selling methods.
27. A brand is a company's strategic asset. Which of the following is/are the aspect(s) that have to be taken into consideration while deciding a brand name for the global market? [<Answer>](#)

- I. The brand name should not have any negative connotation.
- II. It should differentiate the product from other similar products.
- III. The name must indicate the product's major benefits.
- IV. It must not be compatible with other products in the product line.

- (a) Only (I) above
- (b) Only (II) above
- (c) (I), (II) and (IV) above
- (d) (I), (II) and (III) above
- (e) All (I), (II), (III) and (IV) above.

28. Publicity is an important variable of the promotional mix. Which of the following is **not true** with respect to publicity? [<Answer>](#)

- (a) It is primarily informative
- (b) It does not identify the sponsor and mostly is free
- (c) It is more objective than an advertisement
- (d) Information provided as a part of publicity is repetitive
- (e) It is more subdued in tone compared to an advertisement.

29. Sony, a major electronic goods (TVs, walkman etc.) manufacturing and selling company, introduced 'walkman' in the market. Soon after it launched the product in the market, many other electronic goods manufacturing companies launched the similar products. (i.e. with similar trademark and design etc.). This form of brand piracy is an example of [<Answer>](#)

- (a) Counterfeiting
- (b) Passing off
- (c) Reverse engineering
- (d) Outright piracy
- (e) Absolute piracy.

30. The General Agreement on Trade and Services (GATS) is a voluntary agreement designed to facilitate trade in services. Which of the following service sectors are **not** covered by GATS? [<Answer>](#)

- (a) Education business
- (b) Construction and engineering
- (c) Distribution
- (d) Air transport
- (e) Financial.

## END OF SECTION A

### Section B : Caselets (50 Marks)

- This section consists of questions with serial number 1 – 7.
- Answer all questions.
- Marks are indicated against each question.
- Detailed explanations should form part of your answer.
- Do not spend more than 110 - 120 minutes on Section B.

#### Caselet 1

**Read the caselet carefully and answer the following questions:**

1. Which of the following ways of marketing is better for Levi Strauss & Company – developing a website to sell their jeans online and provide all fulfillment services or through retailers or a combination of both? Justify your answer. [<Answer>](#)  
( 6 marks)
2. Explain the various aspects that Levi has to consider while designing Internet strategy as an effective marketing tool to sell its jeans. [<Answer>](#)  
( 7 marks)
3. Levi is finding it increasingly hard to charge different prices in different markets. [<Answer>](#)  
( 7 marks)

Explain the necessity for Levi to maintain different prices for different markets.

Levi Strauss & Company approached a website development consultant to assist it in developing a website for Europe. To e-tail or not to e-tail is a question facing many traditional companies in today's rapidly evolving "New Economy." The answer is not the foregone conclusion it once was. By 2000 over 140 so-called dot-com companies had gone out of business. Even traditional retailers such as Wal-Mart, JCPenney, and others that rushed to embrace e-commerce and launch websites when the Internet first took off later withdrew and relaunched. Although experts insist business-to-consumer e-tailing is here to stay (and may one day prove profitable), some companies have played it more cautiously until Internet penetration attains critical mass and consumer behavior becomes easier to predict.

In the United States, Levi ran a six-month experiment of selling the 501 brand of jeans via its U.S. website and providing all the fulfillment services in-house. However, it closed the site when channel friction developed with retailers such as Macy's and JCPenney, who did not like Levi's Web competition.

Levi has adopted a "wait and see" approach to the Internet. It revamped all its websites, and in Europe it has concentrated on making the site more product focused. The company now wants to consider the possibility of a full-scale push into e-commerce in Europe on its relaunched website, [www.eu.levi.com](http://www.eu.levi.com).

The final decision to sell online has not been reached, but the jeans retailer does want to consider the best approach. It is also testing a setup for selling online in the United States through e-tailers such as [JCPenney.com](http://JCPenney.com) and [Macys.com](http://Macys.com). Levi hopes to create a foolproof e-commerce strategy, which could either be to go direct, sell through established e-tailers, or to combine the two approaches.

Levi has had problems maintaining sales. Some of the problems can be attributed to changes in market behavior. Young consumers, who regard Levi's as jeans for their parents or even grandparents, are buying more stylish jeans made by the Gap, Tommy Hilfiger, Polo Ralph Lauren, and a host of newcomers such as Mudd and JNCO. At the same time, lower-priced brands sold by Wal-Mart and Sears are eating into Levi's sales. JCPenney has built its Arizona brand into a \$1 billion business in less than ten years by promoting high style plus Penney's value.

European sales have also suffered another problem-parallel imports. Levi Strauss likes to assure its customers that its 501 jeans in Paris, France, are the same as in Paris, Texas. Well, not exactly the same; French Sols cost more than twice as much as American ones. The company is suing 24 European retailers, including Tesco, a British supermarket chain, for selling cheap Levi jeans imported from unofficial sources outside the European Union.

Companies such as Levi are finding it increasingly hard to charge different prices in different markets. EU legislation outlaws parallel imports of cheap branded goods, such as jeans or CDs, from outside the EU, although it isn't difficult to skirt the law. Sharp traders can easily buy products where they are cheap and resell them where they are dear. Since parallel trading is legal between countries within the EU's single market, differential pricing for Levi jeans among countries will have to be addressed because selling on the Internet makes it easy for someone in France to buy jeans in England if the price is less.

Levi is interested in what some consider the next big e-commerce wave: custom-built products for markets of one. The mass market "one size fits all" approach is a withering anachronism, and Levi is considering incorporating in its website the capacity to custom build and deliver jeans and Dockers in units of one.

For several years Levi has had a handful of brick-and-mortar stores that allow customers to create the jeans they want by picking from six colors, three basic models, five different leg openings, and two types of fly. The customer's waist, butt, and inseam are measured and a plain pair of test-drive jeans is tried on to make sure the fit is satisfactory before the order is punched into a Web based terminal linked to the stitching machines in the factory. Two to three weeks later the jeans arrive in the mail.

Levi is considering putting that capability on the Web. Customers would go to a



retail store, get measured, store the measurements on the Web, and then use those measurements when ordering via the Web. Whether you want slim-fit, baggy or engineered, flared or boot-cut, low-rise, waist or no waist, cotton, stretch cotton, or coated cotton, dry-stone, distressed, deconstructed, dirty, or over-dyed jeans, Levi can deliver. And perhaps shorten the turnaround time from two weeks to 48 hours.

At this time, Levi has not made a definite decision on whether to sell through websites and provide all fulfillment services, accept orders over the Internet and direct all sales to participating retail stores, or some combination.

**END OF  
CASELET  
1**

## Caselet 2

**Read the caselet carefully and answer the following questions:**

4. Videsh Sanchar Nigam Ltd. (VSNL), a government owned Indian telecom company became a part of the Tata Group. What efforts did Tata undertake to make VSNL a global leader in wholesale voice? [<Answer>](#)  
( 8 marks)
5. "Buying companies is easy enough, integrating operations and leveraging the projected synergies is an extremely difficult and challenging task." Explain. [<Answer>](#)  
( 7 marks)

Once upon a time, there was a government-owned Indian telecom company called Videsh Sanchar Nigam Ltd, (VSNL). Then, it became a part of the Tata Group on 13 February 2002. Five years later, it's still an Indian company, but it is the world's largest player in wholesale voice, carrying nearly 20 billion minutes of traffic annually, has operations in 30 countries, and is able to offer voice data and mobile value-added services in 240 countries and territories. Around 25 per cent of its employees are located overseas and nearly 60 per cent of its revenue comes from abroad, making VSNL India's first telecom MNC. VSNL managing director and CEO N. Srinath bagged Telecom Asia's 'CEO of the Year' award and VSNL was chosen as the world's best wholesale carrier at the World Communications Awards, London as well as the best wholesale carrier in Asia Pacific.

Amazing as it may be, it is not a result of a fairy godmother waving a magic wand. Behind the magic is good old elbow grease; long term group strategy, taking advantage of market opportunities, regulatory changes and technological breakthroughs, making the right decisions at the right time and – most important of all – the concerted and dedicated efforts of its people to succeed in the face of adversity. Customer focus and reinvention are the defining changes that have marked this makeover. VSNL's transformation from a sleepy PSU to an aggressively expanding global communications company holds several lessons for the new outward-bound India Inc.

Being part of the Tata Group has played a major role. Srinath explains, "Working under the umbrella of the Tata Group has been very beneficial. All our acquisitions have been made possible only with the active assistance of the group. We have an underlying set of beliefs, values and culture that sets us apart from other corporates. I am able to draw upon the resources of other group companies. I have TCS to help me with IT; I have TTSL to help me with domestic wireless networks."

When the Tata Group took over VSNL on 13 February 2002, it had a monopoly on international long distance voice in India – which accounted for nearly 90 per cent of its revenue – and was a leading Internet services provider (ISP) in India. But the ILD monopoly was to end on 1 April 2002, in less than two months. With its principal source of revenue under immediate threat, diversification and reinvention were a question of necessity, rather than an inspired stroke of genius.

The company had been dealing predominantly with telecom companies as a monopoly and therefore had limited customer and market focus. So one of the first tasks was to bring in sales and marketing experts from other Tata Group companies and elsewhere, who could build the marketing skills and machinery, brick by brick.



Beefing up the infrastructure in terms of strengthening the core processes followed. "We ran a special programme called 'Confluence' at the Tata Management Training Centre (TMTTC) for the top 40 officers of the senior management team," Srinath recalls. Simultaneously, the company launched a participative organisation restructuring exercise, first at the headquarters and then at the regional and branch offices, where the employees themselves took on part of the responsibility of identifying people for specific positions. The silver lining was the calibre of the people in VSNL; the skills of many of the technical people were among the best in the world and that made things easier.

The company had the reach, the connectivity, and the technical capability. It knew its customers and suppliers. But the monopoly was to end almost immediately. Besides, in any case, ILD prices, kept artificially high by monopoly economics and to cross-subsidise local call tariffs for so long, were falling fast. VSNL had to look beyond its existing businesses in dead earnest, and find new opportunities for its survival and growth. The company started looking for new businesses, such as National Long-distance (NLD), enterprise data and internet telephony services. Mobility was not an option as other companies in the Group were already in the mobile market.

VSNL acquired the business of Gemplex (US) in July 2003, DishnetDSL from Sterling Infotech for Rs.270 crore in March 2004, Tyco Global Network (TGN) in mid-2005 and, Canada-based Teleglobe for \$239 million in 2006. It immediately turned VSNL into the third-largest carrier of voice minutes in the world.

These acquisitions transformed VSNL. TGN gave VSNL phenomenal connectivity, almost unique in the world. Teleglobe brought a huge network that made VSNL's business truly global. As Chaukar points out, "It is reasonably easy to create hard assets, but it is very difficult to create soft assets. The acquired knowledge of people in say, 50 companies and 100 geographies, is very difficult to generate. It takes a long time to collect, and requires lots of verification, testing and correction. Getting it readymade is a massive advantage."

But the history of mergers and acquisitions (M&As) is not always a happy one. Buying companies is easy enough; integrating operations and leveraging the projected synergies is an extremely difficult and challenging task. And, when the M&As span different continents, language and culture are additional spanners in the works. But VSNL has had a smoother ride than most others, thanks to the atypical angle it approaches the issue. "We did not look at challenges as deterrents and never thought of them as insurmountable," Chaukar says, adding: "Problems are not something unexpected in an M&A. But overcoming them is what the fun and happiness in meeting a challenge and achievement orientation is all about."

The acquisitions have also enabled VSNL to build a significant presence in the enterprise business in India and arm it with the wherewithal to take the same services to the global market. Says Srinath, "VSNL has transformed itself from an international long distance voice company in India to a telecom multi-services MNC."

Fittingly, VSNL should close its fifth year with close to Rs.9,000 crore in revenue going by the 9-monthly reported performance, the highest for the company in its history. Turnover went down from about Rs.7,000 crore to about Rs.3,500 crore after VSNL lost its monopoly, but now, as a proud Srinath says, "We are getting back to the pre-privatisation revenue levels."

**END OF  
CASELET  
2**

### Caselet 3

**Read the caselet carefully and answer the following questions:**

6. Analyze the Samsung's brand building initiatives in the global consumer electronics market. <Answer> ( 8 marks)
7. Samsung made so many efforts to build global brand. Explain the advantages of ( 7 marks) <Answer>

creating global brands for the companies like Samsung.

Samsung was established in 1969 as the flagship company of Samsung Corporation. It was the third largest player in the Korean electronics market after Lucky Goldstar (LG) and Daewoo. Samsung achieved fast growth through exports, which constituted around 70% of its total production. Most of the exports were to the USA on Original Equipment Manufacturer (OEM) basis. It supplied components for high tech industries in the USA. In the early 1970s, Samsung decided to venture into the television market and in 1972 it started production of black & white television sets for the local market. After its success in the television market Samsung set up its home appliances plant in 1973. By 1974 it started manufacturing refrigerators and washing machines.

In 1993, as a first step in its globalization drive, Samsung acquired a new corporate identity. It changed its logo and that of the group. In the new logo, the words Samsung Electronics were written in white color on a blue color background to represent stability, reliability and warmth. The words Samsung Electronics were written in English so that they would be easy to read and remember worldwide. The logo was shaped elliptical representing a moving world - symbolizing advancement and change. The first and last letters 'S' and 'G,' broke out of oval shape partially in order to connect the interior with the exterior. According to company sources, this design represented the company's wish to connect itself with the world and serve society as a whole.

To change its brand image, Samsung decided to associate itself with global sport events. In 1998, when Seoul hosted the Olympics, Samsung became the official sponsor of the wireless technology to the games. This move helped it to boost its image worldwide.

Due to its brand building activities across the world, Samsung reported a net profit of 2.95 trillion won in 2001 on total revenues of 32.4 trillion won. In July 2001, Samsung entered into a marketing alliance with AOL Time Warner to work together on AOLTv set-top box with the TiVo recording service. In return, Samsung products would be promoted in AOL Time Warner's marketing initiatives. Due to this alliance, Samsung products were promoted in People, Entertainment Weekly and Sports Illustrated of AOL Time Warner's magazines.

In early 2003, Samsung announced that it would-concentrate on US and European markets, where its brand was considered weak in product categories other than mobile phone handsets. Kim Said, "Our brand is weaker in Europe and the U.S., but in cell phones we're pretty strong. In those regions we'll be even more focused. Wireless and digital TV are the two areas we'll focus on in Europe and the U. S."

Samsung emphasized on brand building when entering new markets. When entering India, one of the world's largest markets, Samsung realized that its products were unknown in Indian markets. In India, like elsewhere in the world, Japanese goods were considered to be of better quality than Korean goods. To project itself as a high technology company, Samsung undertook a two-month corporate campaign, which highlighted the company's strengths in semiconductors, colour picture tubes, colour televisions and mobile phone handsets.

In addition to strengthening the Samsung brand in specific markets, the company also launched global advertisement campaigns to enhance its brand image worldwide.

In 1997, Samsung launched its first corporate advertising campaign - Nobel Prize Series. This ad was aired in nine languages across Europe, the Middle East, South America and CIS countries. The advertisement showed a man (representing a Nobel Prize Laureate) passing from one scene to another. As the man passes through different scenes, Samsung products transform into more advanced models. According to company sources, the idea was to convey the message that Samsung uses Nobel Prize Laureates' ideas for making its products. Samsung also signed an agreement with the Nobel Prize foundation to sponsor the Nobel Prize Series program, worldwide. The program was developed by the Nobel Foundation. Sweden to spread achievements of the Nobel Prize Laureates.

Initially, Samsung's advertising activities were decentralized. The company employed various ad agencies to design campaigns for its products. However, in 1999, Kim forfeited Samsung's agreements with around 55 advertising firms and signed a \$400 million contract with a US based ad agency, Foote, Cone & Belding (FCB). FCB created global campaigns for the company (featuring models carrying the company's gadgets), which highlighted the superior technology of Samsung products.

In 1999, Samsung unveiled a new campaign in the US with a new slogan – 'Samsung DIGITall; Everyone's invited - on the eve of its 30<sup>th</sup> anniversary. Samsung redesigned its logo to convey its objective: making life filled with convenience, abundance and enjoyment through innovative digital products. The new slogan, Samsung DigitAll, expressed the company's aim of providing digital products 'For all generations, For all customers and For all products.'

In April 2001, Samsung launched its new brand campaign, which was created by True North Communications' FCB Worldwide. This campaign was aired in around 30 countries with a budget of \$400 million. As part of the brand campaign, the company advertised 30-second TV spots on various channels such as CNN, VH1, ESPN, TNT and NBC during NBA games. The first advertisement in the series - 'Anthem' - was set in U.K. The advertisement showed different Samsung products - flat screen TV monitor, MP3 Player, watch phone being used by people from different ethnic backgrounds. The voice over was: "There is a world where you see, hear and feel things like never before, where design awakens all your senses. This is the world of Samsung and everyone's invited." At the end of the commercial the company's tagline 'DigitAll, Everyone's invited' appeared. The 'DigitAll' campaign was launched across all countries where the company had a presence and across all product lines. The campaign involved the sponsorship of events at global and regional levels. Reportedly around 30 people from Samsung's Seoul and North America offices worked with FCB on the campaign.

In 2001, Samsung added the word 'WOW' to its marketing campaigns to show the admiration of consumers for its innovative but affordable products. It was reported that Samsung's 2001 global brand campaign increased consumer awareness about Samsung from 83.7% in 2000 to 91.2% in 2001, and in the US, brand awareness and preference for Samsung increased from 56.4% to 74.1% for the same period.

In April 2002, Samsung adopted Internet marketing to reach high-profile consumers. It concentrated on increasing brand awareness, web traffic, and give product information with every advertisement. It bought ad space on more than 50 websites such as Fortime.com, Forbes.com and BusinessWeek.com. At same time, Samsung continued to advertise in the print and television.

**END OF CASELET 3**

**END OF SECTION B**

### **Section C : Applied Theory (20 Marks)**

- This section consists of questions with serial number 8 - 9.
- Answer all questions.
- Marks are indicated against each question.
- Do not spend more than 25 -30 minutes on Section C.

8. The International Monetary Fund (IMF) was conceived of by members of the united nations at the Bretton Woods Conference, New Hampshire, U.S.A., in July 1944, and was established the following year. Explain the main operations performed by IMF. ( 10 marks) [<Answer>](#)
9. Before selecting a specific channel for distribution of products or services in international markets, a firm evaluates channel alternatives on the basis of various criteria. In this light, explain the criteria for evaluating channel ( 10 marks) [<Answer>](#)

alternatives.

**END OF SECTION C**

**END OF QUESTION PAPER**

# Suggested Answers

## International Marketing (MB3H1M) : October 2008

### Section A : Basic Concepts

Answer	Reason
1. C	A floating system is good because it allows governments to address their balance of payments problems by having flexible exchange rates. It also allows governments to change the exchange value in tune with export policies. In the fixed exchange rate system the government needs to manage its balance of payments (BoP) situation. <a href="#">&lt; TOP</a> <a href="#">≥</a>
2. E	Pricing decisions cannot be made in isolation because pricing affects other marketing decision variables and determines <a href="#">&lt; TOP</a> <a href="#">≥</a> <ul style="list-style-type: none"> <li>• The customer's perception of value.</li> <li>• The level of motivation of intermediaries.</li> <li>• Promotional spending and strategy.</li> </ul>
3. C	Translation exposure arises on the basis of accounting for transactions between trading companies. The holding company in a country needs to include the accounts of its subsidiary in its balance sheet. If transactions are to be recorded at the historical rates i.e. the rate at which assets were first acquired or transferred, there is no exposure. Economic exposure is difficult to assess as it involves a subjective projection of future cash flows. <a href="#">&lt; TOP</a> <a href="#">≥</a>
4. B	Hewlett Packard (HP) and Microsoft would be entering into a joint venture in their purchase of the Korean firm. A joint venture occurs when two or more companies share ownership of a direct investment. <a href="#">&lt; TOP</a> <a href="#">≥</a>
5. C	Absolute advantage theory assumes that the transportation costs involved in selling a commodity in a country other than the one in which it is produced are either non-existent or insignificant. Another assumption the theory makes is that prices are comparable across countries. According to the theory of comparative advantage two countries would trade even when one country has absolute advantage in all products or another country does not have absolute advantage in any products. <a href="#">&lt; TOP</a> <a href="#">≥</a>
6. D	Improvement in economy is one of the facilitating factors for International retailing. Raising finance, Project advisory, Financial restructuring and Mergers and Acquisitions all are activities performed by an investment banker in International banking. <a href="#">&lt; TOP</a> <a href="#">≥</a>
7. A	Extended fund facility is used by countries with a more protracted balance-of-payments problem with roots in the structure of the economy and hence is long term. <a href="#">&lt; TOP</a> <a href="#">≥</a>
8. C	The width of the product mix is the total number of product lines a company carries. The length of the product mix is the total number of items in that mix. <a href="#">&lt; TOP</a> <a href="#">≥</a>
9. E	The international centre for settlement of investment disputes (ICSID) has certain additional facility rules to administer certain proceedings which may fall outside the purview of the convention, namely: <a href="#">&lt; TOP</a> <a href="#">≥</a> <ul style="list-style-type: none"> <li>• Conciliation and arbitration proceedings where either the state party or the home state of the foreign national is not a member of ICSID.</li> <li>• Where a dispute is not an investment dispute and relates to transactions that distinguish it from ordinary commercial transactions.</li> <li>• ICSID also does certain "fact finding proceedings" for any state or foreign national, who may want an enquiry "to examine and report on facts".</li> </ul>
10A	Company name and individual product name: Ford adopts this branding strategy. It advertises company's name prominently along with the products. <a href="#">&lt; TOP</a> <a href="#">≥</a>
11.B	In administrative control strategy the top management of the parent company takes full control of the subsidiary with the help of sophisticated management information systems and corporate staff, who are specialists in the field. <a href="#">&lt; TOP</a> <a href="#">≥</a>
12.C	Market Skimming: Firms introduce their products in the market place by charging a <a href="#">&lt; TOP</a> <a href="#">≥</a>

- high price. They charge a high price for the uniqueness of their products. As the competition grows, they lower their price. This strategy is appropriate when the product is truly innovative. < TOP  
≥
- 13D Disadvantages of contract manufacturing entry mode < TOP  
≥
- There is a potential danger that contract manufacturer may become a future competitor.
  - Low labor cost countries usually have low labor productivity.
  - The quality of the product cannot be assured.
- 14C In the maturity stage, sales increase at a decreasing rate. Price competition intensifies, and profits decline. So, Blue must price its products lower than the other brands to maintain its leadership. < TOP  
≥
- 15E Data on Internet is an external information source in international market research. Remaining all are internal information sources. < TOP  
≥
- 16C Information related to integrative networks like physical structures, retail and distribution networks, availability, and costs associated with them is known as infrastructure data.
- 17D The problems faced by an international researcher while collecting data < TOP  
≥
- Researchers face problems in defining the sample.
  - Different countries have different languages so questionnaire has to be translated into the native language.
  - In many countries researchers do not find established marketing research institutions and may have to depend on temporary sources that may not be really reliable.
- 18E The experience curve suggests that as the total accumulated experience of a firm in the industry increases, it incurs less costs for producing a product. The experience curve helps a company reduce costs due to volume effects as well as learning effects. According to the volume effect, when a firm increases production, its fixed costs do not change because an increase in production brings down the cost per unit. According to the learning effect, improving material and resource management, supplier relationships, and standardizing products help a company achieve economies of scale in the long run. < TOP  
≥
- 19A Here, the only demographic variable is age. So (a) is the answer. < TOP  
≥
- 20A Online communities generally share the following characteristics: Shared context, membership criteria, size, duration, moderation, and outcomes. < TOP  
≥
- 21C Under undifferentiated global marketing strategy, marketers serve the market by developing a universal marketing mix strategy that serves the needs of most of the customers, ignoring the needs of a few. Through this strategy gives short-term cost savings, it may not work in mature markets where the needs of the customers are more diverse. New firms with limited resources opt for concentrated global marketing strategy. < TOP  
≥
- 22C Companies adopt formal control methods for evaluation. It is based on specific plans and targets that are to be achieved. Statements (I) and (II) are true regarding formal control methods. Statements (III) and (IV) are not true since informal control methods do not use objective methods such as budgeting or planning and also it requires face-to-face communication between headquarters staff and subsidiaries staff. < TOP  
≥
- 23A The fact that Akbar did not consider another brand shows that the car was a specialty product. He was aware of what he wanted and would not accept a substitute for this product. < TOP  
≥
- 24C Transfer pricing is an issue of major concern for companies operating internationally. The following are **true** with regard to transfer pricing < TOP  
≥
- Transfer pricing is also referred to as intracompany pricing.
  - Transfer pricing determines the success of the organization by influencing the performance of the subsidiary, the executive compensation, and the taxes paid.

	<ul style="list-style-type: none"> <li>• The objective of transfer pricing (from the point of view of the firm) is to ensure corporation-wide efficiency.</li> </ul>	
<b>25D</b>	Services cannot be stored for future consumption.	<a href="#">&lt; TOP</a> <a href="#">≥</a>
<b>26A</b>	Constraints relating to customers: <ul style="list-style-type: none"> <li>• The number of customers</li> <li>• Geographical distribution</li> <li>• Income</li> <li>• Shopping habits</li> <li>• Reaction to different methods</li> </ul>	<a href="#">&lt; TOP</a> <a href="#">≥</a>
<b>27D</b>	The following are the aspects that have to be taken into consideration while deciding on a brand name for the global market: <ul style="list-style-type: none"> <li>• The brand name should not have any negative connotation.</li> <li>• It should not differentiate the product from other similar products.</li> <li>• The name must indicate the product's major benefits.</li> <li>• It must be compatible with other products in the product line.</li> </ul>	<a href="#">&lt; TOP</a> <a href="#">≥</a>
<b>28D</b>	Information provided as a part of publicity is not repetitive.	<a href="#">&lt; TOP</a> <a href="#">≥</a>
<b>29B</b>	In passing of piracy, products are modified, and trade marks are adapted. The pirated product is similar in appearance, phonetic quality or meaning (of its name) to the original product.	<a href="#">&lt; TOP</a> <a href="#">≥</a>
<b>30D</b>	Air transport services excluded by GATS – These services are controlled by a country's air traffic rights are not covered by GATS.	<a href="#">&lt; TOP</a> <a href="#">≥</a>



## Section B : Caselets

1. In the United States, Levi ran a six-month experiment of selling the 501 brand of jeans via its [< TOP >](#) U.S. website and providing all the fulfillment services in-house. However, it closed the site when channel friction developed with retailers such as Macy's and JCPenney, who did not like Levi's Web competition.

Levi has adopted a "wait and see" approach to the Internet. It revamped all its websites, and in Europe it has concentrated on making the site more product focused. The company now wants to consider the possibility of a full-scale push into e-commerce in Europe on its relaunched website, [www.eu.levi.com](http://www.eu.levi.com).

The internet is a global network of many networks connecting millions and millions of computers together. Currently, almost 30 million computers around the globe are connected to the internet. Today the internet is an integral part of business, of our environment, and even of our personal lives. Some people in rural areas are unable to purchase goods online. For these type of people direct selling through retailers is beneficial. It is better to maintain both online and direct selling (through retailers). If it maintains both channel to sell jeans there is more chance to capture the wide market area.

Through internet marketing customer can order goods directly to manufactures and this ultimately reduce the channel length. If the channel length is very small the profit margin to the company is very high. This is exact opposite in case of good marketing through retailers. Here the profit margin is very less for companies.

Companies should not fully depend on either internet marketing or direct marketing (through retailers).

2. Companies are now incorporating Internet marketing strategies in their overall marketing plan [< TOP >](#) to be able to take advantage of the opportunities that e-business has to offer. While designing a strategy, Levi must consider that.

1. The Internet can be used to reduce marketing costs. It should not be viewed as just another advertising medium. It can help business by streamlining operations, reducing costs, forging customer relations, and generating revenues. E-business can create value for organizations if they continuously use new technology to improve upon their marketing system and if customer expectations are continuously met. The Internet can be used to build long-term relationships with customers.
2. The Internet can be integrated into an organization's marketing and communication plan and can be used to build brands. If it is used in combination with other distribution and media channels, it can contribute significantly in brand building.
3. Conventional marketing channel partners must be appreciated. With the Internet, it can directly reach the consumer. But it should not isolate other channel partners. It must try to use the Internet to build business for himself and for his distributors.
4. With the evolution of the Internet, the customer has become more knowledgeable. It must recognize the fact that most consumers can compare prices of products from various companies within minutes on the Internet. Therefore, it can either compete on price or convince the user of superior quality, but under all circumstances, it must aim to deliver what it promised.
5. To use the Internet potential to the optimum, organizational heads must understand and believe in its capability and the uses to which it can be put. Only then will they be able to creatively tap its potential. It is also important for them to identify the products and services and the facets of the organization that they want highlighted on the Internet.

3. Companies such as Levi are finding it increasingly hard to charge different prices in different [< TOP >](#) markets. EU legislation outlaws parallel imports of cheap branded goods, such as jeans or CDs, from outside the EU, although it isn't difficult to skirt the law. Sharp traders can easily buy products where they are cheap and resell them where they are dear. Since parallel trading is legal between countries within the EU's single market, differential pricing for Levi jeans among countries will have to be addressed because selling on the Internet makes it easy for someone in France to buy jeans in England if the price is less.

Pricing refers to the value determination process for a good or service, and encompasses the determination of interest rates for loans, charges for rentals, fee for services, and prices for goods. Pricing decisions are difficult to make even when a company operates only in a

domestic market, and the difficulty is still greater in international markets. Multiple currencies, trade barriers, additional cost considerations, and longer distribution channels make price determination more complex in international markets.

Globalization of business has put increased pressure on the pricing systems of companies which enter international markets. These companies have to adopt their pricing structures as they graduate from being purely domestic players to exporters, and then to overseas manufacturers. The earlier pricing structures used by them may no longer be appropriate in the complex international environment characterised by high competition, more global players, rapid changes in the technology, and high speed communication between markets.

Pricing decisions cannot be made in isolation because pricing affects other marketing decision variables and determines:

- The consumer's perception of value.
- The level of motivation of intermediaries.

Promotional spending and strategy.

#### **4. Efforts made by Tata Group to make VSNL a global leader in wholesale voice**

[< TOP >](#)

Once upon a time, there was a government-owned Indian telecom company called Videsh Sanchar Nigam Ltd (VSNL). Then, it became a part of the Tata Group. Five years later, it's still an Indian company, but it is the world's largest player in wholesale voice, carrying nearly 20 billion minutes of traffic annually, has operations in 30 countries, and is able to offer voice data and mobile value-added services in 240 countries and territories.

- VSNL after became one of the companies under Tata group it acquired so many firms both inside and outside the country. Tata group helped VSNL while acquiring the firms. Mergers and acquisitions are not a simple task. VSNL was a government-owned company and its operations were limited to India only. It did not acquire any firm before it was merged with Tata Group.
- VSNL, as a sleeping public sector unit it was not customer-oriented. Tata group changed the entire culture of VSNL and identified the customer focus and made VSNL a customer-oriented firm.
- Technology is one of the important aspects to provide better service to the customer with a lesser cost. With the help of Tata group VSNL adopted latest technologies to provide better services to the customers.
- With the help of Tata group VSNL identified more opportunities both inside and outside the country. VSNL utilized those opportunities and became a global player in wholesale voice.
- Tata group has so many firms under its corporate umbrella like TCS, TTSL etc. TCS helps VSNL with information technology, TTSL helps VSNL with domestic wireless network etc.
- Tata group encouraged long term group strategy and made VSNL to take right decisions at the right time.
- Beefing up the infrastructure in terms of strengthening the core processes followed. Tata ran a special programme called 'Confluence' at the Tata Management Training Centre (TMTTC) for the top 40 officers of the senior management team.
- Tata launched a participative organisation restructuring exercise, first at the headquarters and then at the regional and branch offices of VSNL, where the employees themselves took on part of the responsibility of identifying people for specific positions.
- With the active assistance of the Tata Group VSNL acquired the business of Gemplex (US) in July 2003, Dishnet DSL from Sterling Infotech for Rs 270 crore in March 2004, Tyco Global Network (TGN) in mid-2005 and, Canada-based Teleglobe for \$239 million in 2006. It immediately turned VSNL into the third-largest carrier of voice minutes in the world.

The acquisitions have also enabled VSNL to build a significant presence in the enterprise business in India and arm it with the wherewithal to take the same services to the global market.

5. Buying companies is easy enough; integrating operations and leveraging the projected synergies is an extremely difficult and challenging task. A merger can happen when two companies decide to combine into one entity or when one company buys another. An acquisition always involves the purchase of one company by another. The functions of synergy

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allow for the enhanced cost efficiency of a new entity made from two smaller ones - synergy is the logic behind mergers and acquisitions.

Merger would give a company the opportunity to expand by establishing their presence in a host country. By this companies able to adopt technology from the other business rather than spending the time and money to develop it themselves. In the long run, this would cut costs and improve productivity.

One major problem that may be incurred is cultural differences between the two businesses. This may lead to tension, conflict, and stresses between the organizations, namely its employees, lessening the chances of a smooth merger. Many times teams are designed to deal with any possible conflicts that may arise as a result of the differences in customs, values, and norms. Mergers can cause deep operational and psychological turmoil which can distract the people who have to make them work. Mergers can fail for many reasons including a lack of management foresight, the inability to overcome practical challenges and loss of revenue momentum from a neglect of day-to-day operations.

There will be good operating and market synergy between the buyer and seller, and the newly merged companies will understand the importance of sharing each others capital, markets, and technology.

6. In 1993, as a first step in its globalization drive, Samsung acquired a new corporate identity. It [< TOP >](#) changed its logo and that of the group. In the new logo, the words Samsung Electronics were written in white color on a blue color background to represent stability, reliability and warmth. The words Samsung Electronics were written in English so that they would be easy to read and remember worldwide.
  - In 1998, when Seoul hosted the Olympics, Samsung became the official sponsor of the wireless technology to the games. This move helped it boost its image worldwide.
  - When entering India Samsung realized that its products were unknown in Indian markets. To project itself as a high technology company, Samsung undertook a two-month corporate campaign, which highlighted the company's strengths in semiconductors, colour picture tubes, colour televisions and mobile phone handsets.
  - In 1997, Samsung launched its first corporate advertising campaign - Nobel Prize Series. This ad was aired in nine languages across Europe, the Middle East, South America and CIS countries. The advertisement showed a man (representing a Nobel Prize Laureate) passing from one scene to another. As the man passes through different scenes, Samsung products transform into more advanced models. According to company sources, the idea was to convey the message that Samsung uses Nobel
  - Samsung also signed an agreement with the Nobel Prize foundation to sponsor the Nobel Prize Series program, worldwide.
  - The company employed various ad agencies to design campaigns for its products.
  - In 1999, Kim forfeited Samsung's agreements with around 55 advertising firms and signed a \$400 million contract with a US based ad agency, Foote, Cone & Belding (FCB). FCB created global campaigns for the company (featuring models carrying the company's gadgets), which highlighted the superior technology of Samsung products.
  - In 1999, Samsung unveiled a new campaign in the US with a new slogan – '*Samsung DIGITall; Everyone's invited*' - on the eve of its 30<sup>th</sup> anniversary. Samsung redesigned its logo to convey its objective: making life filled with convenience, abundance and enjoyment through innovative digital products.
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  - In 2001, Samsung added the word 'WOW' to its marketing campaigns to show the admiration of consumers for its innovative but affordable products.
  - In April 2002, Samsung adopted Internet marketing to reach high-profile consumers. It concentrated on increasing brand awareness, web traffic, and give product information with every advertisement.

**Result of these initiatives:**

Due to its brand building activities across the world, Samsung reported a net profit of 2.95

trillion won in 2001 on total revenues of 32.4 trillion won. It was reported that Samsung's 2001 global brand campaign increased consumer awareness about Samsung from 83.7% in 2000 to 91.2% in 2001, and in the US, brand awareness and preference for Samsung increased from 56.4% to 74.1% for the same period. Now the brand name Samsung known to all most all people in the world.

7. A global brands offer significant advantages. One such advantage is economies of scale. Take [< TOP >](#) for example, creating an advertising campaign for Samsung. It is far less costly to create a single global advertising campaign than creating individual campaigns for different countries. It is far more convenient to develop programs such as packaging, a website, a promotion, or a sponsorship for a single campaign. Further, developing these programs under a single campaign is cost effective because expenses and investments are spread over multiple countries. The economies of scale (hat result from a single campaign are critical when the sponsorships are at global level such as (lie Olympics).

A single campaign also results in enhanced effectiveness as better resources are deployed to promote organizational goals. Samsung has so many ad agencies to do its advertising work.

Efficiencies also result due to cross-market exposure. Global brands get more exposure due to media coverage. Also global brands are easier to manage than a set of different national brands that hardly have any commonality. Often the main challenge for an international brand manager is to create clear, well-articulated brand identity, and then ensure that that it drives all brand-building activities. It is less difficult to manage a global brand. For example. Visa's "Worldwide acceptance" campaign proved to be easier to manage than dozens of country-specific campaigns.

The key to the creation of a global brand is creating a position that works in all markets.

Companies can also position their brands as the best in the category, or the upscale choice. This way they can cross the national boundaries easily.

### Section C: Applied Theory

8. In order, to achieve its purpose, the IMF performs three main operations [< TOP >](#)

- Surveillance
- Financial Assistance
- Technical Assistance

**Surveillance** involves the monitoring of economic and financial developments, and the provision of policy advice, aimed especially at crisis prevention. In today's global economy, when, the economic and financial policies of one country affect a lot of other countries, it becomes especially important to closely monitor economic developments and changes in the policies of countries worldwide. The IMF keeps a close watch on the exchange rates, monetary and fiscal policies of member countries. Surveillance also covers structural policies such as international trade labor market issues, power sector reforms, financial and institutional issues such as central bank independence, financial sector reforms, corporate governance, and policy transparency and accountability. This is done particularly in the wake of financial crises and in the context of member countries undergoing transitions from planned to market economies. Based on its surveillance, the IMF then assesses the risks and vulnerabilities to which the country may be exposed due to its changing policies.

**Financial Assistance** The IMF provides loans to countries facing balance of payments difficulties, to provide temporary financing in order to restore conditions for sustainable economic growth. IMF loans are not aimed at specific projects; however loans are provided for poverty reduction, for which certain conditions are laid out. Once, a country meets the conditions in order to get a loan, a "letter of intent" is drafted and presented before the Executive Board for approval. On approval, the loans are released in phased installments. The IMF has various loans or "facilities" to suit its varied member nations.

- Low income countries, aiming to remove poverty may borrow at concessional interest rates through the Poverty Reduction and Growth Facility (PRGF).
- To correct a short term balance of payment problem, a country may borrow from the Stand- By Arrangement (SBA).
- Extended Fund Facility (EFF) is used by countries with a more protracted balance-of-payments problem with roots in the structure of the economy and hence is long term.
- Supplemental Reserve Facility (SRF) is very short-term financing provided on a large scale. During the 1990s, some emerging market economies faced a sudden loss of

market confidence, leading to outflow of capital from the countries. The IMF, with its SRF facility stepped in to provide finance to these countries on a large scale. The borrowing countries have to return the loan in two to two and a half years.

- Compensatory Financing Facility (CFF) is to assist countries experiencing either a sudden shortfall in export earnings or an increase in the cost of cereal imports caused by fluctuating world commodity prices.
- Emergency assistance. The IMF provides emergency assistance to countries that have experienced a natural disaster or are emerging from conflict.

Each member nation maintains a certain "quota" of reserves, in the form of gold or its own currency with the IMF.

**Technical Assistance:** The IMF provides countries with technical assistance and training in its areas of expertise such as

- Fiscal Policies
- Monetary and Exchange Matters
- Legal Issues
- Statistical Data Collection and Analysis
- Training

The objective of IMF technical assistance, as described in its Articles of Agreement, "is to contribute to the development of the productive resources of member countries by enhancing the effectiveness of economic policy and financial policy". The IMF provides support to member nations through staff missions of limited/extended duration, training courses, seminars, workshops, and "on-line" advice and support from its headquarters in Washington, D.C. Since demand for technical assistance from IMF is more than what can be fulfilled; IMF gives priority in attending to low income countries first, and provides them assistance in their main policy areas like crisis prevention, debt reduction and poverty reduction. In March 2003, Sub-Saharan Africa was the biggest beneficiary of IMF technical assistance.

In addition to the above activities, the IMF also builds up a database of economic data, research and statistics; the motive is to understand the effect of policies better in order to be able to provide better assistance to member nations. It also publishes a number of bulletins, periodicals and survey reports making its research and surveys available to all.

## 9. Evaluating Channel Alternatives

Before selecting a specific channel for distribution of products or services in **international** markets, a firm evaluates **channel** alternatives on the basis of three criteria - economic, control and adaptation.

### Economic criteria

While evaluating channel alternatives, the first question a firm needs to ask is. which channel member can produce more sales? Although the company's sales force might be better equipped and trained to sell the company's products, it is possible that a specialized sales agency might be able to sell more. The reason can be the customers' willingness to deal with sales representatives dealing in several brands of the same product rather than a specialized sales representative dealing in a single brand. By giving commissions to specialized agencies, the company can increase sales.

The next question to be asked is what are the relative costs involved in selling different amounts through the two intermediaries?

The fixed costs incurred in using a sales agency are lower than those for developing a company's sales force. However, these costs go up as sales increase, owing to higher commissions paid out. From the graph, it is evident that selling costs are the same for both channels at the level ( $S_e$ ). Therefore, we can infer from the graph that for sales volume that is below  $S_e$ , it is better to use a sales agency and for sales volume above  $S_e$  it is better to use the company's sales force. In other words, companies should use an external sales force when the sales volume is lower.

### Control criteria

Usually, firms are not self-sufficient. They need to depend on the services of external agencies. However, the more the dependence, the less it can control strategic planning. Therefore, while selecting an intermediary, a company has to strike a balance between the need to control important functions and to get market share with external agencies' help

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≥

at a given expenditure level. Thus, control becomes a major issue while evaluating a channel alternative.

**Adaptive criteria**

The last criterion in evaluating channel alternatives is the adaptive nature of the relationship between manufacturer and distributor. There should be agreed commitment levels from both sides before business begins. If the channel member is committed, then he or she will try to maintain the relationship with the manufacturer. Channel members who operate in a turbulent atmosphere will try to structure the channel so that they can adapt to changes by altering channel strategy.

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