

# Question Paper

## International Management - II (MB3H1IB): January 2009

### 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. Talented people who possess knowledge, skills and ideas are among the scarce and intangible assets of the company. To retain such talented employees, firms operating in international markets have to offer [<Answer>](#)
- I. Maximum levels of hierarchy.
  - II. Organizational policies that show concern for the environment.
  - III. A system for measurement of employee satisfaction.
  - IV. An explicit two-way contract specifying the responsibilities of employees and employer.
- (a) Both (I) and (II) above  
(b) (I), (II) and (III) above  
(c) (I), (III) and (IV) above  
(d) (II), (III) and (IV) above  
(e) All (I), (II), (III) and (IV) above.
2. The guiding objective behind the International Monetary Fund (IMF) was to build a sound framework for economic development and cooperation between the member nations. In order to achieve its purpose, which of the following is/are the main operation(s) performed by IMF? [<Answer>](#)
- I. Surveillance.
  - II. Financial assistance.
  - III. Technical assistance.
  - IV. Human resource assistance.
- (a) Only (I) above  
(b) Both (I) and (II) above  
(c) (I), (II) and (III) above  
(d) (II), (III) and (IV) above  
(e) All (I), (II), (III) and (IV) above.
3. Many market research organizations undertake psychographic segmentation to study lifestyles, personalities, goals, motivations and values of people in various countries. Which of the following statements is **true** regarding traditional segment of psychographic segments? [<Answer>](#)
- (a) These people are highly motivated towards success and lead a hectic life  
(b) These people have already achieved some success and are on the way to achieve more  
(c) These people are rooted to the past and do not ever want to change  
(d) These people face constant financial and family pressure  
(e) These people try to manage their values and at the same time, are open to change.
4. Wholly owned subsidiaries can be established in a foreign country in two ways – cross-border acquisitions and greenfield operations. Which of the following statements are **true** regarding greenfield operations? [<Answer>](#)
- I. In this mode, firms start business from scratch in international markets.
  - II. This mode of entry faces both market risks as well as political risks.
  - III. This mode of entry offers firms the flexibility to choose their personnel.
  - IV. This mode of entry gives firms easy and quick access to the local markets.
- (a) Both (I) and (II) above  
(b) (I), (II) and (III) above  
(c) (I), (III) and (IV) above  
(d) (II), (III) and (IV) above  
(e) All (I), (II), (III) and (IV) above.

5. A company can gain competitive advantage by realizing location economies. Economies of scale can be achieved by locating [<Answer>](#)
- I. Manufacturing.
  - II. Distribution centers.
  - III. Customer service centers.
- (a) Only (I) above
  - (b) Both (I) and (II) above
  - (c) Both (I) and (III) above
  - (d) Both (II) and (III) above
  - (e) All (I), (II) and (III) above.
6. The decisions taken by the international sales and the marketing managers may be classified into strategic, operational or tactical categories. Which of the following is/are the strategic decision(s)? [<Answer>](#)
- I. Entry into new markets.
  - II. Product life cycles.
  - III. Distribution channels.
  - IV. Competitor tracking.
- (a) Only (I) above
  - (b) Both (I) and (II) above
  - (c) (I), (II) and (III) above
  - (d) (I), (II) and (IV) above
  - (e) All (I), (II), (III) and (IV) above.
7. Markets for financial institutions in the developed countries have matured and financial institutions are under increased pressure to diversify, explore new markets, use more technology or merge with other similar organizations. To survive, banks need to [<Answer>](#)
- I. Utilize their traditional infrastructure to the maximum.
  - II. Reduce costs drastically.
  - III. Improve service quality.
  - IV. Deal with the changing global situations.
- (a) Both (I) and (II) above
  - (b) (I), (II) and (III) above
  - (c) (I), (III) and (IV) above
  - (d) (II), (III) and (IV) above
  - (e) All (I), (II), (III) and (IV) above.
8. Which of the following refers to unconventional and creative attention grabbing direct advertising technique? [<Answer>](#)
- (a) Push advertisements
  - (b) Agent based forms of advertising
  - (c) Sponsorship
  - (d) Direct e-marketing
  - (e) Guerilla marketing.
9. After randomly choosing the beginning unit, every  $n^{\text{th}}$  unit of population is selected, where the fixed interval 'n' is obtained by dividing the population by the sample size. This type of sampling method refers to [<Answer>](#)
- (a) Simple random sampling
  - (b) Systematic sampling
  - (c) Stratified sampling
  - (d) Area sampling
  - (e) Convenience sampling.
10. Creation of brand in itself is not enough. The brand also should be protected from piracy through registrations. Which of the following statements is **true** regarding reverse engineering form of piracy? [<Answer>](#)
- (a) It means diluting the product quality and selling under the same name
  - (b) Products been modified and trademarks adapted
  - (c) It involves dismantling another firm's product to learn about its special features
  - (d) It refers to false products sold in the same form and same trademark as the original
  - (e) Same product been sold in another country under separate name.

11. Which of the following statements is/are **true** regarding most of the third world countries/markets? [<Answer>](#)
- I. These countries have a shortage of goods and services.
  - II. There is a pressing need to expand production in a wide range of areas in these countries.
  - III. The third world markets are saturated giving less scope for international firms to explore.
- (a) Only (I) above
  - (b) Both (I) and (II) above
  - (c) Both (I) and (III) above
  - (d) Both (II) and (III) above
  - (e) All (I), (II) and (III) above.
12. Rajasekhar G. Javalgi and Robert F. Wright developed a framework and a model for the pharmaceutical companies entering international markets. Which of the following is **not** a mode of entry according to their framework? [<Answer>](#)
- (a) Exporting
  - (b) Importing
  - (c) Licensing
  - (d) Joint ventures
  - (e) Establishing a subsidiary in the market.
13. Which of the following is explained as the number of characters that are assigned to objects, persons, states or events as per the established rules? [<Answer>](#)
- (a) Research plan
  - (b) Questionnaire
  - (c) Sample survey
  - (d) Measurement
  - (e) Data.
14. There are inherent advantages with a long planning horizon. Which of the following is/are the advantage(s) of long planning lead times that help Multi National Corporations (MNC's) improve their promotional operations in foreign markets? [<Answer>](#)
- I. It gives enough time to visit markets that need special attention.
  - II. It allows foreign advertising managers to internalize stated campaign objectives.
  - III. It is useful when a firm is going in for non-standardized campaigns.
  - IV. It allows manager to know the executives in their foreign affiliates.
- (a) Only (I) above
  - (b) Both (I) and (II) above
  - (c) (I), (II) and (III) above
  - (d) (II), (III) and (IV) above
  - (e) All (I), (II), (III) and (IV) above.
15. Which of the following is **not** an important characteristic of international marketing product decisions that need to be taken into consideration? [<Answer>](#)
- (a) Primary functional purpose
  - (b) Secondary purpose
  - (c) Durability and quality
  - (d) Method of operation
  - (e) Cost of the product.
16. Which of the following can be defined as “the act of evaluating and comparing the identified groups and then selecting one or more of them as the prospects with the highest potential”? [<Answer>](#)
- (a) Targeting
  - (b) Segmenting
  - (c) Positioning
  - (d) Prospecting
  - (e) Branding.

17. Countries differ in the way they maintain their currency value in the foreign exchange market. Based on the level of intervention, exchange rate regimes can be classified. Which of the following statements is **true** regarding 'Hard Peg'? [<Answer>](#)
- (a) The government fixes the exchange rate, called the parity rate and defends it
  - (b) Permanently fixed rate, where government has no plans to change it
  - (c) Rates are periodically adjusted
  - (d) High frequency pegging day-to-day dollar or week-to-week pegging
  - (e) Low frequency pegging month-to-month pegging or quarter-to-quarter pegging.
18. A decentralized structure is seen in most organizations. As a result it is difficult for firms to make country teams accept a global best practice quickly and voluntarily. In order to ensure that country teams adopt the best practices, an individual or a team is given responsibility for a global brand. Which of the following statements are **true** for providing responsibility to brand champion? [<Answer>](#)
- I. This is suitable for companies where the top executives have adequate brand knowledge and can formulate brand strategy.
  - II. He monitors the building and maintenance of the brand worldwide.
  - III. It is appropriate when the company's top managers consider brands their key assets.
  - IV. He creates a planning process or manages an existing process and then ensures that all country managers use a similar process.
- (a) Both (I) and (II) above
  - (b) Both (II) and (IV) above
  - (c) Both (III) and (IV) above
  - (d) (I), (II) and (III) above
  - (e) (I), (II) and (IV) above.
19. Which of the following refers to a multinational strategy, followed by the companies in setting up bases in some key locations throughout the world and manage each of them as independent firms? [<Answer>](#)
- (a) Multinational mentality
  - (b) Personal control
  - (c) Decentralized federation
  - (d) Co-ordinated federation
  - (e) Administrative control.
20. Which of the following is/are the common complaint(s) of managers working for global companies? [<Answer>](#)
- I. Distributors have no clue how to increase sales.
  - II. Distributors don't invest in business growth.
  - III. Distributors are too ambitious to dominate the marketplace.
  - IV. Distributors do not get adequate support from the company to increase sales.
- (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.
21. According to the international product life cycle theory, innovations are generally made in the richer, more developed countries. Which of the following are the reasons for innovations being largely confined to the capital rich countries? [<Answer>](#)
- I. The environment in these countries is conducive to research and development.
  - II. Consumers in these countries generally have high incomes and ready to try new products.
  - III. In the initial stage of international product cycle it is beneficial to have the production centers located close to the ultimate consumer.
  - IV. The cost of labor in these countries is relatively less encouraging the companies to produce innovative products.
- (a) Both (I) and (II) above
  - (b) (I), (II) and (III) above
  - (c) (I), (II) and (IV) above
  - (d) (II), (III) and (IV) above
  - (e) All (I), (II), (III) and (IV) above.

22. The institutional shareholders try to spread the message of Socially Responsible Investing (SRI) to the global investors. Which of the following is/are **true** regarding the phases of SRI? [<Answer>](#)
- I. Investors shield away from companies that were involved in businesses like gambling and weapons and tobacco manufacture.
  - II. Investors favored companies that took on the responsibility of conserving forests and wildlife.
  - III. Investors favor Multi National Corporations (MNC's) that engage in sustainable activities such as recycling and replacing of non-renewable fossil fuels with renewable fuels.
  - IV. Investors favor companies providing high returns to the shareholders even in any situations of financial crisis.
- (a) Only (I) above
  - (b) Both (I) and (II) above
  - (c) (I), (II) and (III) above
  - (d) (II), (III) and (IV) above
  - (e) All (I), (II), (III) and (IV) above.
23. When a company purchases a good from an associated company and sells that to another unrelated or independent company, that sales price is called as [<Answer>](#)
- (a) Comparable uncontrolled price
  - (b) Market based transfer
  - (c) Cost plus
  - (d) Transfer at cost
  - (e) Resale price.
24. There are various theories of international trade. Which of the following are the limitations of the theory of absolute advantage? [<Answer>](#)
- I. The country which has an absolute advantage in all products need not trade at all, while the country which does not have absolute advantage in any products will not be in a position to trade at all.
  - II. Countries should produce and export surpluses of goods in which they have absolute advantage and buy whatever else they need from other countries.
  - III. It 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.
  - IV. It assumes that the prices are comparable across countries.
- (a) Both (I) and (II) above
  - (b) (I), (II) and (III) above
  - (c) (I), (III) and (IV) above
  - (d) (II), (III) and (IV) above
  - (e) All (I), (II), (III) and (IV) above.
25. To provide banking services to their clients abroad, banks must have a presence in the foreign country. Which of the following is/are the way(s) undertaken by banks to be in foreign markets? [<Answer>](#)
- I. They may open their branches in foreign countries.
  - II. They may form agreements or have a stock interest in a foreign bank abroad.
  - III. They may set up a foreign department in their bank and operate through their foreign correspondent.
  - IV. They may introduce internet banking through which they can operate their functions.
- (a) Only (I) above
  - (b) Both (I) and (II) above
  - (c) (I), (II) and (III) above
  - (d) (II), (III) and (IV) above
  - (e) All (I), (II), (III) and (IV) above.
26. Which of the following arises on the basis of accounting for transactions between trading companies and where the holding company in a country needs to include the accounts of its subsidiary in its balance sheet? [<Answer>](#)
- (a) Futures contracts
  - (b) Forward contracts
  - (c) Economic exposure
  - (d) Transaction exposure
  - (e) Translation exposure.

27. According to Transparency International, corruption is the misuse of public power for private gain. Which of the following statements are **true** regarding 'grand corruption'? [<Answer>](#)
- I. It is the distortion of decision-making in matters of economic significance.
  - II. It is often domestic in nature and falls within jurisdiction.
  - III. It has both an economic and moral impact on the society.
  - IV. It is a common practice for the decision-making authority to seek contribution to government funds.
- (a) Both (I) and (II) above
  - (b) (I), (II) and (III) above
  - (c) (I), (III) and (IV) above
  - (d) (II), (III) and (IV) above
  - (e) All (I), (II), (III) and (IV) above.
28. The two important sources of data in domestic or international market research are primary and secondary sources. Which of the following statements is/are **true** regarding secondary data? [<Answer>](#)
- I. Secondary data is collected for a particular purpose.
  - II. Secondary data is easy to obtain.
  - III. Secondary data is not very costly.
  - IV. Secondary data is not always reliable.
- (a) Only (I) above
  - (b) Both (I) and (II) above
  - (c) (I), (II) and (III) above
  - (d) (II), (III) and (IV) above
  - (e) All (I), (II), (III) and (IV) above.
29. Which of the following are products that are consumed during production and delivery of the product but they do not become part of the final product? [<Answer>](#)
- (a) Component parts
  - (b) Business services
  - (c) Capital equipment
  - (d) Accessory equipment
  - (e) Consumable supplies.
30. Balance of Payments (BoP) is said to be favorable when receipts from foreigners exceed payments to them and unfavorable when payments exceed receipts. Disequilibrium is caused by random variations in trade and sometimes, fluctuations in production of primary goods such as agricultural goods. Which of the following are the types of disequilibrium caused in the BoP? [<Answer>](#)
- I. Cyclic disequilibrium.
  - II. Secular disequilibrium.
  - III. Seasonal disequilibrium.
  - IV. Structural disequilibrium.
- (a) Both (I) and (II) above
  - (b) (I), (II) and (III) above
  - (c) (I), (II) and (IV) above
  - (d) (II), (III) and (IV) above
  - (e) All (I), (II), (III) and (IV) above.

**END OF SECTION A**

## **International Management - II (MB3H1IB): January 2009**

### **Section B : Caselets (50 Marks)**

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| <ul style="list-style-type: none"><li>• This section consists of questions with serial number 1 – 7.</li><li>• Answer all questions.</li><li>• Marks are indicated against each question.</li><li>• Detailed explanations should form part of your answer.</li></ul> |
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- Do not spend more than 110 - 120 minutes on Section B.

## Caselet 1

Read the caselet carefully and answer the following questions:

1. With respect to the caselet, discuss the growth of Wal-Mart from a store in Rogers to become the biggest retail chain in the world. [<Answer>](#)  
(6 marks)
2. According to Green, Barclay, and Rayons, the competitive position, specifically the ability and competencies of a firm to realize its objectives in attaining or sustaining a competitive advantage is affected by the timing of entry of the firm. What are the various criteria on which the timing of entry in international markets depends? [<Answer>](#)  
(8 marks)
3. For the world's largest retailing company – Wal-Mart Inc (Wal-Mart), the German market was proving difficult to crack. By 2003, even after 5 years of entering Germany, Wal-Mart was making losses. Examine the various reasons for the failure of Wal-Mart in Germany. [<Answer>](#)  
(7 marks)

For the world's largest retailing company – Wal-Mart Inc (Wal-Mart), the German market was proving difficult to crack. By 2003, even after 5 years of entering Germany, Wal-Mart was making losses. Though Wal-Mart did not reveal these figures, analysts estimated losses of around \$200-300 million per annum in Germany, over the five-year period. According to analysts, the main reason for Wal-Mart's losses was its failure to understand German culture and the shopping habits of Germans.

Though Wal-Mart was famous the world over for its Every Day Low Pricing (EDLP), which turned it into the world's number one retailer, it could not make an impact in Europe's most price-sensitive market – Germany.

Wal-Mart also ran into series of problems with German regulatory authorities for its pricing strategies and faced considerable opposition from German suppliers to its centralized distribution system. It had problems with its German workers too. However, Wal-Mart was not the only retailer to do badly in Germany in the 1990s. German retailers too faced losses in the period because of the flat economy and rising unemployment.

Though Wal-Mart was confident that there would be a turnaround in its fortunes in the German market by late 2003, this opinion was not shared by most independent analysts.

In 1962, Sam Walton (Walton) and his brother opened the first Wal-Mart store in Rogers (Arkansas), USA. In the first year of its operations, the store registered sales of over \$1 million. Initially, the Waltons concentrated on opening stores in small towns and introduced innovative concepts such as self-service.

By 1967, Wal-Mart had 24 stores with sales of \$12.6 million. Encouraged by the early success of Wal-Mart, Sam Walton expanded Wal-Mart's operations to Oklahoma and Missouri in 1968. In the following year, Wal-Mart was incorporated as a company under the name Wal-Mart Stores Inc.

In 1970, Wal-Mart established its first distribution center in Bentonville, Arkansas. It floated its first public issue the same year. Wal-Mart continued to grow in the 1970s, benefiting from its highly automated distribution system, which reduced shipping costs and time, and its computerized inventory system, which speeded up the checkout and reordering of stocks.

In 1977, Wal-Mart acquired 16 Mohr-Value stores based in Michigan and Illinois. In 1978, it purchased the Hutcheson Shoe Company, and later set up pharmacy, auto service center, and jewelry divisions. By 1980, Wal-Mart had 276 stores with annual sales of \$1.4 billion. The number of stores increased to 640 with annual sales of \$4.5 billion and profits of over \$200 million by 1984. In the 1980s, strong customer demand in small towns drove the rapid growth of Wal-Mart.

Walton said, "When we arrived in these small towns offering low prices every day, customer satisfaction guaranteed, and hours that were realistic for the way people wanted to shop, we passed right by that old variety of store competition, with its 45% mark ups, limited selection and limited hours." In 1988, Walton appointed David

Glass (Glass) as CEO of Wal-Mart. Soon after taking over, Glass started Hypermart USA.

It was originally a joint venture with Cullum Companies (a Dallas-based supermarket chain). In the following year Wal-Mart bought out Cullum's stake in the venture. The Hypermart was a discount store/supermarket chain, which sprawled over 200,000 sq ft. It featured branch banks, fast food outlets, photo developers and playrooms for shoppers' children. This concept was later retooled as Wal-Mart's Supercenters.

Wal-Mart had two types of divisions – Retail divisions and Specialty divisions. Retail divisions were further classified into – Wal-Mart Stores, Sam's Clubs, Neighborhood Market, International and walmart.com. The specialty division was divided into – Tire & Lube Express, Wal-Mart Optical, Wal-Mart Pharmacy, Wal-Mart Vacations and Wal-Mart's Used Fixture Auctions.

Most American companies entering Europe started with the UK due to the similarities between the US and the UK in culture, language and legal environment. Wal-Mart, however, decided to enter Germany first. Analysts were critical of this decision as the German retailing industry was experiencing slow growth rates and retailers were indulging in price wars which eroded margins badly. Additionally, Germany had high labour costs, high real estate prices and a very inflexible business environment.

Wal-Mart expanded its presence into Germany through acquisitions. It acquired the 21-hypermarket stores of Wertkauf in 1997. The Wertkauf stores offered both food and general merchandise to the customers. Wal-Mart sources said that Wertkauf stores would provide the necessary footage in the German market. However, as Wertkauf covered only southwestern Germany, it failed to provide the required market penetration to Wal-Mart in Germany. In 1998, Wal-Mart acquired Interspar's 74 hypermarket stores to raise the total number of Wal-Mart stores in Germany to 95. With the acquisition of Interspar's stores, Wal-Mart became the fourth largest hypermarket retailer in Germany.

Soon after acquiring the stores, Wal-Mart hurried through with their renovation and put its brandname on them to make sure its EDLP message went across. But it was unable to cash in on its EDLP selling point, chiefly because of the strong competition from German retailers. Whenever Wal-Mart lowered its prices on commodities, German retailers such as Aldi, Lidl, Rewe and Edeka also lowered their prices to keep their customers, so Wal-Mart found it difficult to get a foothold.

Wal-Mart faced several problems on the legal front as well. It was accused of breaching various German laws. The company was accused of having violated Section (IV) (2) of 'Act against Restraints of Competition' – (Gesetz gegen Wettbewerbsbeschränkungen or GWB) and Section 335a of the 'Commercial Act' (Handelsgesetzbuch or HGB). Section (IV) (2) of GWB forbids companies 'with superior market power in relation to small and medium-sized competitors' from lowering their prices and engaging in price wars with small companies. Such large companies were allowed to lower prices only after providing justification for the lower prices.

Apart from the operational and regulatory problems, Wal-Mart also faced cultural problems in Germany. It found it difficult to integrate the two companies (Wertkauf and Interspar), which it had acquired. The companies had completely different work cultures; while Interspar had decentralized operations with independent regional units, Wertkauf was highly centralized with the head office making all decisions. Additionally, Wal-Mart found it difficult to integrate the two companies' cultures with its own.

Even after five years of entering the German market, Wal-Mart had not made a significant impact in the German retail industry. Wal-Mart reported losses over all the four years up to 2002 in its German operations. It was reported that between 1999-2002 Wal-Mart's sales declined by 5% on average. Increasing costs also pushed up losses for the company.

**END OF  
CASELET 1**

## Caselet 2

Read the caselet carefully and answer the following questions:

4. “The Sweden-based Inter IKEA Systems BV (IKEA) was ranked 42 by BusinessWeek magazine in its list of Top 100 global brands for the year 2005. In January 2005, IKEA was placed third in BrandChannel’s fourth annual Reader’s Choice Awards for the global brand with the most impact in 2004. According to the BrandChannel rankings, IKEA was the #1 brand in Europe and Africa.” In this regard, explain how IKEA built such a strong brand in the global market. (7 marks) [<Answer>](#)
5. IKEA’s target market was the global middle class which shared buying habits. Explain the importance of targeting in the international marketing. Also, discuss the criteria for targeting global markets. (7 marks) [<Answer>](#)

The Sweden-based Inter IKEA Systems BV (IKEA) was ranked 42 by BusinessWeek magazine in its list of Top 100 global brands for the year 2005. In January 2005, IKEA was placed third in BrandChannel’s fourth annual Reader’s Choice Awards for the global brand with the most impact in 2004. According to the BrandChannel rankings, IKEA was the #1 brand in Europe and Africa. IKEA was the world’s largest furniture retailer that specialized in stylish but inexpensive Scandinavian designed furniture. IKEA’s success was attributed to its vast experience in the furniture retail market, its product differentiation and cost leadership. The company sold its furniture in kits, to be assembled by the customers at home.

In addition to furniture, IKEA also sold utility items such as utensils, hooks, clips, stands, etc. IKEA’s founder Ingvar Kamprad (Kamprad) had built an international furniture chain of 226 stores in Europe, Africa, Asia and the US. For fiscal year 2004-05, the company generated revenues of US\$ 17.9 billion, a 15% increase over the previous fiscal year. IKEA held a market share of not more than 10% in the markets in which it operated. In spite of this, it had been successful in almost all countries, because of public awareness of the IKEA brand.

Kamprad established IKEA in 1943 at the age of seventeen. He came up with the name IKEA by combining the first letters of his name (Ingvar Kamprad), followed by the first letters of the farm and village he grew in (Elmtaryd and Agunnaryd). IKEA began in a shed that was just two meters square in size.

Kamprad started his business by buying pens, Christmas cards, matches, cigarette lighters, nylon stockings and other items in bulk. He sold these items to the residents of Smaland at a reasonable price, but still made healthy profits. To save more money, Kamprad would piggyback his packages on the trucks that delivered milk. IKEA soon started making money. In 1945, Kamprad started promoting business through mail order catalogues as conducting individual sales calls became impossible. Furniture was introduced in IKEA’s product portfolio in the year 1947. By 1951, the furniture sales had increased so much that Kamprad decided to discontinue all other products and concentrate solely on selling furniture that was classy and low priced at the same time.

In the same year, the first IKEA furniture catalogue was issued and the first IKEA furniture shop was opened in 1953 at Almhult in Sweden. The first IKEA store was opened at Almhult in 1958. The opening of the showroom was an important milestone in the growth of IKEA as customers could, for the first time, see and touch the furniture before giving an order.

By visiting the showroom, customers could review three dimensions of its products – function, quality and low price – before making their purchases. In 1956, IKEA launched its most successful product – Flat pack furniture. It was invented by accident when an IKEA employee Gillis Lundgren (Lundgren) realized that a bulky wooden table could fit into a car only when its legs were removed. He put this observation to work and thus was born furniture that could be easily dismantled and rearranged with the aid of accessories such as nails and screws. Lundgren subsequently went on to establish the design team at IKEA that created a bookshelf named Billy, and a sofa called Klippan, the two globally best-selling furniture pieces from IKEA.

This technology brought IKEA two distinct advantages: it made furniture easy to carry (for both the buyer and the company), and it also reduced overall costs as buyers could assemble the products at home using instructions provided by the company.

IKEA was known for its contemporary yet affordable furniture, even after twenty years of the exit of Kamprad. Though Kamprad had long ceded day to day involvement in the company's activities, his vision and thoughts were deeply rooted in IKEA's culture.

Kamprad's humble beginnings (he was the son of a farmer) had created a unique IKEA culture that was founded on respect for money and an innovative mindset. Kamprad was known for his frugal habits. He flew economy class, he would take the metro to work, drive a ten-year-old second-hand Volvo and avoid designer suits.

This attitude trickled down to the co-workers, who would ensure minimal wastage and cost cutting at every level. As a result, IKEA came up with products that were aesthetically designed and were still available at affordable prices. This aspect greatly enhanced the brand image of IKEA, which was perceived as a company that believed in social equality.

IKEA stores were usually located outside urban areas, isolated from other shops. This was done intentionally so that IKEA could create a complete shopping experience for customers.

The IKEA products were themselves beautifully crafted and appealing, and even their stores were so constructed as to enthrall shoppers. The blue-and-yellow buildings were generally 300,000 square feet in size and each store stocked about 7,000 items, from kitchen cabinets to candlesticks.

IKEA targeted middle class customers worldwide. IKEA made shopping easy for customers. For example, right at the entrance of the store, customers could drop their kids at the playroom which had many types of safe play equipment, and then shop on their own in a leisurely manner. The stores were constructed in the form of a circle, to allow shoppers to view all sections of the store.

According to IKEA, the company's target market was the global middle class which shared buying habits. IKEA's Billy bookcase, Lack side table and Ivar storage system were best-sellers worldwide. The customer spending pattern was also similar across countries. Despite these similarities, IKEA realized that to strengthen its presence in the global market, it was necessary to localize. For instance in China, IKEA produced 250,000 plastic placemats in 2005 to honor the year of rooster.

A big contributing factor in the growth of the IKEA brand was its ability to weave a story around itself. For instance, before the opening of its store at Atlanta, USA, in June 2005, IKEA invited locals to apply for the post of Ambassador of Kul ('Fun' in Swedish). The five participants had to write an essay on why they deserved US\$2,000 in gift vouchers.

IKEA's advertising campaigns were based on unique marketing conditions and cultural sensibilities of each country, which varied significantly across markets. For example, European advertisements, especially in the UK, were more straight-forward than those in North America, which were generally more witty. IKEA was present in some countries such as Canada, Australia and Germany for over twenty five years while in countries such as the US, Britain and Italy, it had been around for only a little more than a decade. Over the years, IKEA had worked with different advertising agencies to bring out some of the most creative and unconventional television spots across the globe. For these reasons, an IKEA account was considered a choice catch as it allowed the agency the freedom to explore some interesting and unexplored ideas.

**END OF  
CASELET 2**

### Caselet 3

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

6. With respect to the caselet, discuss the various strategies adopted by Tommy Hilfiger to grow as a one of the top international brand. [<Answer>](#) (7 marks)
7. Discuss the various pricing strategies that global companies implement to achieve their pricing objectives. [<Answer>](#) (8 marks)

Since the market is in the international orientation, the advertisers should keep in mind the differences that are distinct between and among the target market from different cultural backgrounds which may significantly affect the effectivity of the campaign. The fact is, there may be ideas that will not be applicable across the diverse target market population. Studies on the relationship of consumer behavior and their personal values and cultural orientation as well as their beliefs on certain principles, the dispositions they hold and side they take on political, gender and social problems and issues should be duly accorded.

Most successful international brands can clearly define their target consumer without a reference to nationality or ethnic background. Tommy Hilfiger is targeting a consumer that is international in nature and is cosmopolitan to an extent. It does not necessarily mean that they attract only the younger crowd. Many retail brands like Brooks Brother and Austin Reed attract consumer from an elder age group across countries for their classic and sophisticated fashion items. Tommy Hilfiger is engaged in principally one industry segment, the design, importation and distribution of men's sportswear and children's wear (Daily News Record, 2003). Accordingly, no information is being furnished herein or in the accompanying financial statements relating to industry segments of the company.

Tommy Hilfiger, through its subsidiaries, designs, sources and markets designer men's sportswear and boys wear, including woven shirts, knit shirts, pants, swimwear, sweaters, outerwear and athletic wear. These offerings are complemented by collections of men's tailored clothing, dress shirts, denim products, neckwear, socks, underwear, belts, small leather goods, sleepwear, robes, golf wear, foot wear, sunglasses, prescription eyewear, women's casual wear and men's and women's fragrances, among others, bearing the Tommy Hilfiger® trademark, which are produced and sold pursuant to certain licensing arrangements. Tommy Hilfiger is the company's principal designer and provides leadership and direction for all aspects of the design process. The company's sportswear is designed to combine classic American styling with unique details and fit to give time honored basics a fresh and updated look for customers who desire high quality, designer clothes at competitive prices (Daily News Record, 2003).

In addition to continuing to expand the in-store shop program, the company plans to grow by broadening its range of product offerings, both in-house and through licensing arrangements, and by expanding its channels of distribution. Through the expansion of its product lines, the company believes it will serve a wider variety of customer needs. The company has introduced new products, a women's fragrance pursuant to its license with Aramis, Inc., a division of Estee Lauder Companies, prescription eyewear with Liberty Optical, footwear with the Stride Rite Corporation and women's casual wear marketed under a license with Pepe Jeans London Corporation (Associated Press, 2003).

Wholesale distribution is centralized in a 360,000 square foot New Jersey facility to which all products are shipped. The facility is operated and principally staffed by an independent contractor who charges the company on the basis of the number of items processed, subject to a minimum annual fee. The company has the right, at any time during the contract period, to terminate the distribution agreement by making a specified payment. In addition, the company leases a 200,000 square foot facility in New Jersey for retail distribution. The company believes that these distribution facilities are adequate for the company's current level of sales, and provide the company with enough space and flexibility to support the continued growth of the company's business (Bryant, 2003).

In July 1991, the company was granted an exclusive license to sell the company's products in Canada. The term of the agreement is 10 years and is renewable at the

option of the licensee subject to specified volume limitations and other conditions. In addition, the company has granted an exclusive distributorship to an unaffiliated Panamanian company to distribute the company's products in Central America, Venezuela, Columbia, Chile, Ecuador and most of the nations of the Caribbean basin, and even to India. In May 1995, the company was again granted the license to distribute its products in Mexico for 3 years term and is renewable at the option of the licensee. On February 1, 1997, the company entered into an agreement with Pepe Jeans London Corporation to distribute the company's men and boy's sport wears (excluding jeans wear and jeans related apparel) throughout the European Market (Associated Press, 2003).

All pricing decisions are made at the Company's corporate headquarters. The Company's pricing strategy is designed to provide superior quality and value appeal by offering competitive prices on fashion from better national brands. The Company has effectively been able to generate sales from promotions with special pricing of limited duration. The Company's management information systems provide timely sales and gross margin reports that identify sales and gross margins by item and by store and provide management with the information and flexibility to adjust prices and inventory levels as necessary. Tommy Hilfiger products are available in the range of \$40-\$500 globally. Tommy Hilfiger products are mainly sold in the US market through leading retail chains such as Macy's. Tommy Hilfiger has a huge 20,000-sq ft retail space in some Macy's chains in the US (Bryant, 2003).

Most fashion pundits will agree that the secret to developing an upscale brand begins with creating a luxury-priced collection that sets the pricing, segmenting and targeting of the lower-priced labels below it. Many argue that by developing a mid-range street wear collection first, Tommy created a consumer perception of the brand as a more expensive street wear collection, but not necessarily a designer label. Tommy's strategy may have worked better by creating a black label luxury collection first, getting it into high-end retail stores, generating a strong designer positioning and creating a certain luxury feel. Once established, the company would have been well positioned to develop lower-tiered labels targeted to other audiences and retail stores. This was further compounded by Tommy's struggle with global trademark infringement and counterfeiting issues. These problems gave Hilfiger that "sold everywhere to everyone" mindset that tends to erode a brand over time (Associated Press, 2003).

**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. Explain the principles of the World Health Organization (WTO) which form the basis of the multilateral trading system. Also, list out the various benefits derived from the WTO.

[<Answer>](#)

**( 10 marks)**

9. 'Online communities are groups of people who come together on the Internet to share a common interest'. What are the different kinds of online communities? Also, explain the benefits of such communities for companies.

[<Answer>](#)

**( 10 marks)**

**END OF SECTION C**

**END OF QUESTION PAPER**

**Suggested Answers**  
**International Management - II (MB3H1IB): January 2009**  
**Section A : Basic Concepts**

- | <b>Answer</b> | <b>Reason</b>   |                               |
|---------------|---|-------------------------------|
| 1.            | <p>D Talented people who possess knowledge, skill and ideas are among the scarce and intangible assets of the company. To retain such talented employees, firms operating in international markets have to offer:</p> <ul style="list-style-type: none"><li>• Minimum levels of hierarchy.</li></ul> <p>Organizational policies that show concern for the environment.</p> <p>A system for measurement of employee satisfaction.</p> <p>An explicit two-way contract specifying the responsibilities of employees and employer.</p> <p>A supportive corporate culture with strong shared values.</p> <p>Incentives like profit sharing or ESPOs.</p> <p>Hence option (d) is the answer.</p> | <a href="#">&lt; TOP &gt;</a> |
| 2.            | <p>C In order to Achieve its purpose, the IMF performs the three main operation:</p> <ul style="list-style-type: none"><li>• Surveillance.</li></ul> <p>Financial assistance.</p> <p>Technical assistance.</p> <p>Hence option (c) is the answer.</p>   | <a href="#">&lt; TOP &gt;</a> |
| 3.            | <p>C <b>Strivers:</b> These people are highly motivated toward success and lead a hectic life<br/><b>Achievers:</b> These people have already achieved some success and are on the way to achieve more<br/><b>Traditionals:</b> These people are rooted to the past and do not ever want to change<br/><b>Pressured:</b> These people face constant financial and family pressure<br/><b>Adapters:</b> These people try to manage their values and at the same time, are open to change.</p>  | <a href="#">&lt; TOP &gt;</a> |
| 4.            | <p>B The following statements are <b>true</b> regarding greenfield operations:</p> <ul style="list-style-type: none"><li>• In this mode, firms start business in international markets from scratch.</li></ul> <p>This mode of entry faces both market risks as well political risks.</p> <p>This mode of entry offers firms the flexibility to choose their personnel.</p> <p>Whereas, acquisition helps the acquiring firm to have easy and quick access to the local markets.</p> <p>Hence option (b) is the answer.</p>   | <a href="#">&lt; TOP &gt;</a> |

5. E Economies of scale can be achieved by [< TOP >](#)
- Locating manufacturing.
- Distribution centers.
- Customer service centers.
- Hence option (e) is the answer.
6. B Strategic decisions include: [< TOP >](#)
- Entry into new markets.
- Product life cycles.
- Expansions of markets.
- New product development.
- Positioning of the product.
- Investment decisions. And
- Database development decisions.
- Distribution channels and competitor tracking decisions comes under operational and tactical category.
- Hence option (b) is the answer.
7. E Markets for financial institutions in the developed countries have matured and [< TOP >](#) financial institutions are under increased pressure to diversify, explore new markets etc. To survive banks need to utilize their traditional infrastructure to maximum, reduce costs drastically, improve service quality and deal with the changing global situation.
- Hence option (e) is the answer.
8. E Guerilla marketing refers to unconventional and creative attention grabbing direct [< TOP >](#) advertising techniques. Offline guerilla marketing has become highly popular with advertisers trying new and often shocking methods to grab the viewer's attention.
9. B Under systematic sampling method, after randomly choosing the beginning unit, [< TOP >](#) every nth unit of population is selected. The fixed interval 'n' is obtained by dividing the population by the sample size.
10. C Reverse engineering form of piracy: it involves dismantling another firm's product to [< TOP >](#) learn about its special features.
11. B Most third world countries/markets have shortage of goods and services. There is [< TOP >](#) pressing need to expand production in a wide range of areas in these countries. There is an untapped market which can be exploited by international firms.
- Hence option (b) is the answer.

12. B Rajasekhar G. Javalgi and Robert F. Wright developed a framework and a model for [<TOP>](#) the pharmaceutical companies entering international markets. In their framework they divided the entry strategies available for a pharma company into five. They are
- Exporting
- Mergers and acquisitions
- Licensing
- Joint ventures
- Establishing a subsidiary in the market
- Hence option (b) is the answer.
13. D Measurement is explained as the number of characters that are assigned to objects, [<TOP>](#) persons, states or events as per the established rules.
14. C There are inherent advantages with a long planning horizon are: [<TOP>](#)
- It gives enough time to visit markets that need special attention.
- It allows foreign advertising managers to internalize stated campaign objectives.
- It is useful when a firm is going in for non-standardized campaigns.
- Knowing the foreign executives is helpful to managers working with executives from other companies. Hence option (c) is the answer.
15. E International marketing product decisions need to take 5 important characteristics into [<TOP>](#) consideration:
- Primary functional purpose
- Secondary purpose
- Durability and quality
- Method of operation
- Maintenance.
- Hence option (e) is the answer.
16. A Targeting can be defined as “the act of evaluating and comparing the identified groups [<TOP>](#) and then selecting one or more of them as the prospect(s) with the highest potential.”
17. B *Hard Peg*: Permanently fixed rate, where government has no plans to change it. [<TOP>](#)
18. A **Brand champion**: This is approach suitable for companies where the top executives [<TOP>](#) have adequate brand knowledge and can formulate brand strategy. The brand champion holds the authority for brand stretching decisions. He monitors the building and maintenance of the brand world wide. The brand champion must be familiar with local contexts and managers working there, and identify best practices employed there so that they can be introduced elsewhere in the world.
19. A In multinational mentality strategy, MNCs set up bases in some key locations [<TOP>](#) throughout the world and manage each of them as independent firms.

20. B Some common complaints of managers working for global companies are: [< TOP >](#)
- Distributors have no clue how to increase sales.
- Distributors don't invest in business growth.
- Distributors are not ambitious enough.
- Distributors do not get adequate support from the company to increase sales, is a complaint of distributors.
- Hence option (b) is the answer.
21. B The reasons for innovations being largely confined to the capital rich countries are: [< TOP >](#)
- The environment in these countries is conducive to research and development.
- Consumers in these countries generally have high incomes and ready to try new products.
- It is beneficial, even essential, to have the production centers located close to the ultimate consumer.
- Capital rich countries generally have labor costs much higher than other countries. Therefore it is not a reason.
- Hence option (b) is the answer.
22. C The phases SRI has gone through three phases: [< TOP >](#)
- Investors shield away from companies that were involved in businesses like gambling and weapons and tobacco manufacture.
- Investors favored companies that took on the responsibility of conserving forests and wildlife.
- Investors favor MNC's that engage in sustaining activities such as recycling and replacing of non-renewable fossil fuels with renewable fuels.
- Investors favor companies providing high returns to the share holders even in any situations of financial crisis is not true regarding the SRI. Hence option (c) is the answer.
23. E When a company purchases a good from an associated company and sells that to another unrelated or independent company, that sales price is called as resale price. [< TOP >](#)
24. C The limitations of the theory of absolute advantage are: [< TOP >](#)
- The country which has an absolute advantage in all products need not trade at all, while the country which does not have absolute advantage in any products will not be in a position to trade at all.
- 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.
- The prices are comparable across countries.
- Countries should produce and export surpluses of goods in which they have absolute advantage and buy whatever else they need from other countries is not an limitation of this theory.
- Hence option (c) is the answer.

25. C To provide banking services to their clients abroad, a bank must have a presence in [< TOP >](#) the foreign country. This can be undertaken in four ways:
- They may open their branches in foreign countries.

They may form agreements or have a stock interest in a foreign bank abroad.

They may set up a foreign department in their bank and operate through their foreign correspondent.

A bank which does not even have a foreign department could route its foreign international financing through a foreign correspondent bank which has such facilities.

Hence option (c) is the answer.

26. E Translation exposure arises on the basis of accounting for transactions between [< TOP >](#) trading companies. The holding company in a country needs to include the accounts of its subsidiary in its balance sheet.

27. C **Grand corruption:** this refers to the distortion of decision making in matters of [< TOP >](#) economic significance. Senior officials, government ministers and heads of state are involved in such corrupt activities. It often takes place in the international level, thus falling in to the jurisdiction of more than one country. In some countries, It is a common practice for the decision-making authority to seek contribution to government funds. Grand corruption has both an economic and moral impact of the society.

28. D The following statements are true regarding secondary data: [< TOP >](#)
- Secondary data is not collected for a particular purpose.

Secondary data is easy to obtain.

Secondary data is not very costly.

Secondary data is not always reliable.

Hence option (d) is the answer.

29. E Consumable supplies are products that are consumed during production and delivery [< TOP >](#) of the product but they do not become part of the final product, e.g. paper, pencil, oils, and paints.

30. C Disequilibrium in the BoP can be of three types: [< TOP >](#)
- Cyclic disequilibrium.

Secular disequilibrium.

Structural disequilibrium.

Hence option (c) is the answer.

## Section B : Caselets

1. **First store:** In 1962, Sam Walton (Walton) and his brother opened the first Wal-Mart store in [<TOP>](#) Rogers (Arkansas), USA. In the first year of its operations, the store registered sales of over \$1 million. Initially, the Waltons concentrated on opening stores in small towns and introduced innovative concepts such as self-service.

**Expansion of stores:** By 1967, Wal-Mart had 24 stores with sales of \$12.6 million. Encouraged by the early success of Wal-Mart, Sam Walton expanded Wal-Mart's operations to Oklahoma and Missouri in 1968. In the following year, Wal-Mart was incorporated as a company under the name Wal-Mart Stores Inc.

**Distribution system:** In 1970, Wal-Mart established its first distribution center in Bentonville, Arkansas. It floated its first public issue the same year. Wal-Mart continued to grow in the 1970s, benefiting from its highly automated distribution system, which reduced shipping costs and time, and its computerized inventory system, which speeded up the checkout and reordering of stocks.

**Acquisition:** In 1977, Wal-Mart acquired 16 Mohr-Value stores based in Michigan and Illinois. In 1978, it purchased the Hutcheson Shoe Company, and later set up pharmacy, auto service center, and jewelry divisions. By 1980, Wal-Mart had 276 stores with annual sales of \$1.4 billion. The number of stores increased to 640 with annual sales of \$4.5 billion and profits of over \$200 million by 1984. In the 1980s, strong customer demand in small towns drove the rapid growth of Wal-Mart.

It was originally a joint venture with Cullum Companies (a Dallas-based supermarket chain). In the following year Wal-Mart bought out Cullum's stake in the venture. The Hypermart was a discount store/supermarket chain, which sprawled over 200,000 sq ft. It featured branch banks, fast food outlets, photo developers and playrooms for shoppers'children. This concept was later retooled as Wal-Mart's Supercenters.

**Segmentation:** Wal-Mart had two types of divisions - Retail divisions and Specialty divisions. Retail divisions were further classified into - Wal-Mart Stores, Sam's Clubs, Neighborhood Market, International and walmart.com. The specialty division was divided into - Tire & Lube Express, Wal-Mart Optical, Wal-Mart Pharmacy, Wal-Mart Vacations and Wal-Mart's Used Fixture Auctions.

2. **Timing Of Entry Into International Market** [<TOP>](#)

According to Green, Barclay, and Rayons, the competitive position, specifically the ability and competencies of a firm to realize its objectives in attaining or sustaining a competitive advantage is affected by the timing of entry of the firm. The timing of entry in international markets depends on the following:

### Level of Internationalization

Li and Sullivan define the level of internationalization as the "degree of involvement of a firm in the international markets". According to Chang, Shaver, et al, firms which have good exposure in international markets will enter new markets earlier. They leverage their experience and exposure and exploit new markets early. So, firms, which have greater level of international experience, enter new markets at an early stage.

### Size of the Firm

According to Chandler, Hymer, and Knickerbocker, the size of the firm determines its market power both in the domestic and international markets. Big firms can enter international markets early using their resources, and economies of scope and scale. They can take risk and go in for a high control entry mode. They also "invest heavily in building a strong market position". In markets where there are stiffer regulations, they opt for joint ventures. They easily gain access to suppliers and other scarce resources.

But small firms with small cash flows cannot commit high levels of resources and take risk. They enter foreign markets either through exporting/licensing/franchising. They do not make huge investments in the first place. Usually, they are late entrants.

### Economies of Scope

Firms, which offer a wide range of services or products, have a better chance to enter new markets. Such firms are better prepared and can handle uncertainties regarding the types of products that are required in the new markets. Firms which offer a wide range of products/services can develop "synergy" across products/services which make them efficient and maintain high quality at every stage of manufacturing and marketing. So, these firms take more risk and enter new markets at an early stage. Small firms may not be able to meet uncertainties in the foreign markets. So, they do not take a chance.

### **Availability of Information**

According to some researchers, the "firm's ability- to obtain the market signals and opportunities" is an important aspect that affects the actions of the firm. Availability of information is an important factor that affects the actions of the firm. For example, an industrial equipment-manufacturing firm in the Midwest of US foresaw the saturation of the domestic market and employed one of its team members to explore new markets. Subsequently, they entered international markets even before the home market was saturated. Though they experienced hardships in the beginning, soon they started earning profits. This deliberate trade-off strategy resulted in the increase of their international sales from 5% of total corporate revenue in 1965 to 50% by 1998.

### **3. Reasons for the failure of Wal-Mart in Germany:**

[< TOP >](#)

**Unsuitable market:** Most American companies entering Europe started with the UK due to the similarities between the US and the UK in culture, language and legal environment. Wal-Mart, however, decided to enter Germany first. Analysts were critical of this decision as the German retailing industry was experiencing slow growth rates and retailers were indulging in price wars which eroded margins badly. Additionally, Germany had high labor costs, high real estate prices and a very inflexible business environment.

**Entry strategy:** Wal-Mart expanded its presence into Germany through acquisitions. It acquired the 21-hypermarket stores of Wertkauf in 1997. The Wertkauf stores offered both food and general merchandise to the customers. Wal-Mart sources said that Wertkauf stores would provide the necessary footage in the German market. However, as Wertkauf covered only southwestern Germany, it failed to provide the required market penetration to Wal-Mart in Germany. In 1998, Wal-Mart acquired Interspar's 74 hypermarket stores to raise the total number of Wal-Mart stores in Germany to 95. With the acquisition of Interspar's stores, Wal-Mart became the fourth largest hypermarket retailer in Germany.

**Problems in Operating Environment:** Soon after acquiring the stores, Wal-Mart hurried through with their renovation and put its brand name on them to make sure its EDLP message went across. But it was unable to cash in on its EDLP selling point, chiefly because of the strong competition from German retailers. Whenever Wal-Mart lowered its prices on commodities, German retailers such as Aldi, Lidl, Rewe and Edeka also lowered their prices to keep their customers, so Wal-Mart found it difficult to get a foothold.

**Problems in regulatory environment:** Wal-Mart faced several problems on the legal front as well. It was accused of breaching various German laws. The company was accused of having violated Section (IV) (2) of 'Act against Restraints of Competition' - (Gesetz gegen Wettbewerbsbeschränkungen or GWB) and Section 335a of the 'Commercial Act' (Handelsgesetzbuch or HGB). Section (IV) (2) of GWB forbids companies 'with superior market power in relation to small and medium-sized competitors' from lowering their prices and engaging in price wars with small companies. Such large companies were allowed to lower prices only after providing justification for the lower prices.

**Cultural problems:** Apart from the operational and regulatory problems, Wal-Mart also faced cultural problems in Germany. It found it difficult to integrate the two companies (Wertkauf and Interspar), which it had acquired. The companies had completely different work cultures; while Interspar had decentralized operations with independent regional units, Wertkauf was highly centralized with the head office making all decisions. Additionally, Wal-Mart found it difficult to integrate the two companies' cultures with its own.

### **4. Company's Culture:** IKEA was known for its contemporary yet affordable furniture, even after twenty years of the exit of Kamprad. Though Kamprad had long ceded day to day involvement in the company's activities, his vision and thoughts were deeply rooted in IKEA's [< TOP >](#)

culture.

Kamprad's humble beginnings (he was the son of a farmer) had created a unique IKEA culture that was founded on respect for money and an innovative mindset. Kamprad was known for his frugal habits. He flew economy class, he would take the metro to work, drive a ten-year-old second-hand Volvo and avoid designer suits.

This attitude trickled down to the co-workers, who would ensure minimal wastage and cost cutting at every level. As a result, IKEA came up with products that were aesthetically designed and were still available at affordable prices. This aspect greatly enhanced the brand image of IKEA, which was perceived as a company that believed in social equality.

**Store Image:** IKEA stores were usually located outside urban areas, isolated from other shops. This was done intentionally so that IKEA could create a complete shopping experience for customers.

The IKEA products were themselves beautifully crafted and appealing, and even their stores were so constructed as to enthrall shoppers. The blue-and-yellow buildings were generally 300,000 square feet in size and each store stocked about 7,000 items, from kitchen cabinets to candlesticks.

IKEA targeted middle class customers worldwide. IKEA made shopping easy for customers. For example, right at the entrance of the store, customers could drop their kids at the playroom which had many types of safe play equipment, and then shop on their own in a leisurely manner. The stores were constructed in the form of a circle, to allow shoppers to view all sections of the store.

**Localization:** According to IKEA, the company's target market was the global middle class which shared buying habits. IKEA's Billy bookcase, Lack side table and Ivar storage system were best-sellers worldwide. The customer spending pattern was also similar across countries. Despite these similarities, IKEA realized that to strengthen its presence in the global market, it was necessary to localize. For instance in China, IKEA produced 250,000 plastic placemats in 2005 to honor the year of rooster.

A big contributing factor in the growth of the IKEA brand was its ability to weave a story around itself. For instance, before the opening of its store at Atlanta, USA, in June 2005, IKEA invited locals to apply for the post of Ambassador of Kul ('Fun' in Swedish). The five participants had to write an essay on why they deserved US\$2,000 in gift vouchers.

**Promotional strategies:** IKEA's advertising campaigns were based on unique marketing conditions and cultural sensibilities of each country, which varied significantly across markets. For example, European advertisements, especially in the UK, were more straight-forward than those in North America, which were generally more witty. IKEA was present in some countries such as Canada, Australia and Germany for over twenty five years while in countries such as the US, Britain and Italy, it had been around for only a little more than a decade.

Over the years, IKEA had worked with different advertising agencies to bring out some of the most creative and unconventional television spots across the globe. For these reasons, an IKEA account was considered a choice catch as it allowed the agency the freedom to explore some interesting and unexplored ideas.

5. Targeting is the process of selecting the highest potential customers with whom the organization wants to do business. It can also be described as the process of eliminating the undesirable market segments while choosing a few. After selecting the target markets, a suitable marketing mix is framed for those markets. This mix gives the organization the best returns while generating the maximum amount of value to the customers. [<TOP>](#)

So, global targeting can be explained as "identifying market segments throughout the world, targeting a few segments, and designing suitable marketing mix strategies for each of these segments. The process of targeting involves balanced view of company resources and capabilities."

#### **Criteria for Targeting**

The criteria for targeting are the same for domestic as well as for global markets. The three main criteria are:

Current size and growth potential, potential competition, and compatibility and feasibility.

#### **Current size and growth potential**

While targeting a segment, the first thing that a company looks into is whether the segment will give reasonable returns or not, if not now, at least in the future. One major advantage of

targeting the global market is that a company can profitably serve even a narrow segment in a single-country market with a standardized product.

### **Potential competition**

It is ideal not to enter a market segment where there is high potential competition. The 'level of competition and aggressiveness of the threat' should be considered from the point of view of current and potential competitors. If a company wants to enter a highly competitive market, it should check thoroughly beforehand whether there is proper availability of raw materials and whether the firm can establish vertical relationships in the market.<sup>15</sup> The company should also consider the performance of substitutes and their effect on the target market.

### **Compatibility and feasibility**

This is the last criterion that a company considers. If there is no tough competition in a particular segment or if the competitors do not pose great obstacles, a company might enter that segment. But, before doing so, it should also consider the laws and environmental restrictions of the segment. The restrictions on the advertisement for cigarettes have seriously affected the promotional flexibility of the tobacco companies.<sup>16</sup> The company should check whether its capabilities, resources, and long-term objectives match with those of the target segment.

- 6. Target:** Most successful international brands can clearly define their target consumer without a reference to nationality or ethnic background. Tommy Hilfiger is targeting a consumer that is international in nature and is cosmopolitan to an extent. It does not necessarily mean that they attract only the younger crowd. Many retail brands like Brooks Brother and Austin Reed attract consumer from an elder age group across countries for their classic and sophisticated fashion items. Tommy Hilfiger is engaged in principally one industry segment, the design, importation and distribution of men's sports wear and children's wear. Accordingly, no information is being furnished herein or in the accompanying financial statements relating to industry segments of the company. [<TOP>](#)

**Product:** Tommy Hilfiger, through its subsidiaries, designs, sources and markets designer men's sports wear and boys wear, including woven shirts, knit shirts, pants, swimwear, sweaters, outerwear and athletic wear. These offerings are complemented by collections of men's tailored clothing, dress shirts, denim products, neckwear, socks, underwear, belts, small leather goods, sleepwear, robes, golf wear, foot wear, sunglasses, prescription eyewear, women's casual wear and men's and women's fragrances, among others, bearing the Tommy Hilfiger ® trademark, which are produced and sold pursuant to certain licensing arrangements. Tommy Hilfiger is the company's principal designer and provides leadership and direction for all aspects of the design process. The company's sports wear is designed to combine classic American styling with unique details and fit to give time honored basics a fresh and updated look for customers who desire high quality, designer clothes at competitive prices.

**Market expansion:** In addition to continuing to expand the in-store shop program, the company plans to grow by broadening its range of product offerings, both in-house and through licensing arrangements, and by expanding its channels of distribution. Through the expansion of its product lines, the company believes it will serve a wider variety of customer needs. The company has introduced new products, a women's fragrance pursuant to its license with Aramis, Inc., a division of Estee Lauder Companies, prescription eyewear with Liberty Optical, footwear with the Stride Rite Corporation and women's casual wear marketed under a license with Pepe Jeans London Corporation (Associated Press, 2003).

**Distribution:** Wholesale distribution is centralized in a 360,000 square foot New Jersey facility to which all products are shipped. The facility is operated and principally staffed by an independent contractor who charges the company on the basis of the number of items processed, subject to a minimum annual fee. The company has the right, at any time during the contract period, to terminate the distribution agreement by making a specified payment. In addition, the company leases a 200,000 square foot facility in New Jersey for retail distribution. The company believes that these distribution facilities are adequate for the company's current level of sales, and provide the company with enough space and flexibility to support the continued growth of the company's business.

**Licensing:** In July 1991, the company was granted an exclusive license to sell the company's products in Canada. The term of the agreement is 10 years and is renewable at the option of the licensee subject to specified volume limitations and other conditions. In addition, the company has granted an exclusive distributorship to an unaffiliated Panamanian company to distribute the company's products in Central America, Venezuela, Columbia, Chile, Ecuador

and most of the nations of the Caribbean basin, and even to India. In May 1995, the company was again granted the license to distribute its products in Mexico for 3 years term and is renewable at the option of the licensee. On February 1, 1997, the company entered into an agreement with Pepe Jeans London Corporation to distribute the company's men and boy's sport wears (excluding jeans wear and jeans related apparel) throughout the European Market.

**Pricing:** All pricing decisions are made at the Company's corporate headquarters. The Company's pricing strategy is designed to provide superior quality and value appeal by offering competitive prices on fashion from better national brands. The Company has effectively been able to generate sales from promotions with special pricing of limited duration. The Company's management information systems provide timely sales and gross margin reports that identify sales and gross margins by item and by store and provide management with the information and flexibility to adjust prices and inventory levels as necessary. Tommy Hilfiger products are available in the range of \$40-\$500 globally. Tommy Hilfiger products are mainly sold in the US market through leading retail chains such as Macy's. Tommy Hilfiger has a huge 20,000-sq ft retail space in some Macy's chains in the US (Bryant, 2003).

## 7. Pricing Objectives

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Before setting the pricing objectives, a marketer should first decide his target market as well as the positioning strategies for his product or service. Once the target market is clear, it becomes easy for him to fix the price of the product. The pricing objectives should actually be in line with the company's overall objectives. The objective behind setting the price of a product or service may be to achieve maximum market share, or long-term sustainability in the market, and so on. If a company has multiple objectives, they should be consistent with one another.

### **Market skimming**

Some firms introduce their products in the marketplace by charging 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. Microwave cookers in the 1970s, portable phones in the 1980s, and digital cameras in the 1990s were introduced on the basis of this strategy.

In the initial stages, the product is targeted at trendsetters who are eager to experiment with the new products, and have the inclination and resources to experiment. Later, the firm targets early adopters. Then the firm concentrates on an early majority. After focusing on the early majority, the firm focuses on the late majority. Laggards are the last group to adopt the product when the product has almost reached the stage of maturity.

The basic principle of the market skimming strategy is to gain the maximum price from each segment mentioned above. As the ability of the segment to pay the price reaches saturation, the firm moves on to attract the next segment. To attract the next segment, the firm reduces the price to a certain extent.

### **Market penetration**

It is only a few products that can be called truly innovative products. Such products come into the market infrequently. Most of the times, products introduced are copies of existing products with slight modifications. The market skimming strategy does not work with this type of product. Firms try new approaches to attract customers, who have many similar products to choose from. They employ sales promotions, sponsorships, etc to attract customers. Firms resort to price cuts, and offer products below their competitors' prices to take away a large number of customers from their competitors.

The expectation in offering products at low prices is that once customers use the product, they will develop an interest in the product and would be ready to pay a price that is equal to the competitors' prices. Over time, customers may develop loyalty for the product and would be ready to pay a premium price. This strategy, known as penetration pricing strategy, is fraught with dangers. The much expected customer loyalty might never develop. Even when it develops, a new player might enter the market with lower prices and wean away customers. The success of a penetration pricing strategy depends upon the assumption that customers are well aware of the prices in the marketplace. But research conducted in many markets showed that customers have poor knowledge of prices. Hence, a firm may not gain market share just by offering products at a lower price.

### **Market holding**

Companies that want to retain their market share adopt this strategy. Such companies have to set their prices on the basis of the competitive situation in each market and the willingness of the customers to pay. Exchange rates influence the success or failure of a firm's ability to retain its market share. In the early 1990s, when the Japanese Yen rose in value vis-a-vis the US dollar, Japanese companies such as Nikon and Sharp abandoned their market holding strategies and increased their prices. A strong home currency makes exports expensive. Hence firms with a strong home currency may be forced to reduce prices thereby reducing their profit margins, or to resort to offshore manufacturing, licensing agreements to maintain their cost structure and retain their market share.

## Section C: Applied Theory

### 8. Principles of the WTO

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The WTO agreements are based on a few fundamental principles. These principles form the basis of the multilateral trading system.

#### **Trade without discrimination**

According to WTO agreements, no country can give special treatment to its trading partner. For example, a country cannot reduce the customs duty rate for products coming from one country without giving the same treatment to other WTO members. This principle is known as Most-Favoured-Nation treatment. This is the first article of GATT. This highlights the importance of this principle. The same principle should be followed in the case of foreign and domestic services, foreign and local trademarks, copyrights and patents.

There are however some exceptions to this principle. In rare cases, some WTO members can enter into free trade agreements among themselves and discriminate against the products coming from other member countries. Member countries also can give exclusive access (to their markets) to developing countries. They can also raise barriers against goods or services being imported traded from countries that are following unfair practices. But these exceptions are allowed only in rare cases and after thorough consideration.

Once the goods have entered the market, there should not be any discrimination between foreign goods and domestic goods.

Freer trade: gradually, through negotiation

Reducing trade barriers is one way to promote global trade. WTO is committed to reducing tariffs, import bans or quotas that determine the quantity of imports, and even red tapism. Exchange rate policies were also a subject of discussion at WTO.

Since the GATT was created in 1948, there have been 8 rounds of negotiations. The Doha development agenda, which is still underway, is a part of 9th round of negotiation. The earlier negotiations focused on reducing tariff rates (customs duties). As a result of this emphasis, the tariff rates in most industrialized countries have come down to below 4%. The negotiations in the 1980s and later included areas such as non-tariff barriers on goods, and new areas such as services and intellectual property. The Uruguay round (between 1986 and 1994) covered services, for the first time, in the negotiations. WTO recognizes the fact that liberalization is good, but it will not happen in a short time. It acknowledges the importance of "progressive liberalization," which will take time. It also agrees that different countries might need different time frames to open their economies. Developing countries thus have more time to comply with the obligations.

#### **Predictability: through binding agreements and transparency**

Stability and predictability in the economy encourages investment, which further increases the number of jobs. In countries which are economically stable consumption will be high compared to countries which are unstable. By ensuring that countries will not increase the trade barriers, WTO brings stability into the global economy. This stability and predictability offers a much clearer view of future opportunities and promotes growth.

When the member countries agree to liberalize their economies for trade, they are bound to the agreement. This means that member countries have to maintain ceilings on customs tariff rates laid on goods. In developed countries these rates are equal to agreed ceilings, most of the times. But developing countries often tax their imports at lower levels than agreed ceilings. This can create problems such as loss of trade for some countries. There is a way out under WTO. Under the WTO, such developing countries can negotiate with their trading partners and compensate for loss of trade, and fix their tax rates (on imports) at their desired level. One of the significant achievements of the Uruguay round was to increase the share of

trade done under these binding agreements. Tariffs on all agriculture products is based on binding agreements. This offers higher level of security for traders and investors.

WTO also adopts some other means to bring in predictability. It discourages import quotas, which can be a source of red tapism and unfair practices. WTO also encourages national governments to bring in openness and clarity into their policies and practices. Continuous monitoring of national trade policies through Trade Policy Review Mechanism<sup>1</sup> of WTO offers means to bring transparency both at the domestic and at the multilateral levels.

### **Promoting fair competition**

The WTO monitors the system of rules made to ensure open, fair, and undistorted competition. Through the rules of non-discrimination such as most favored nation, and national treatment it tries to establish fair conditions for trade. It discourages unfair practices like dumping<sup>2</sup> and subsidies which give undue advantage to exports from some countries. Issues such as subsidies and dumping are complex to understand and address. So, WTO employs clearly laid rules to differentiate what is fair from what is unfair, and what governments' response should be. The WTO agreements, aimed at promoting fair competition, encompass fields such as agriculture, intellectual property, and services.

### **Encouraging development and economic reforms**

Economic development is another concern of the WTO. It offers special assistance and trade concessions to developing countries for their economic well-being. Nearly three-fourths of WTO members are developing countries. Out of 146 members, 60 countries followed the liberalization programmes advocated by the WTO. These countries have been assertive and influential in the Uruguay round of negotiations. They have been more proactive in the ongoing round: the Doha development agenda.

After the Uruguay round of negotiations, these countries were willing to stick to most of the standards that were set for developed countries. But they demanded flexibility in implementing the provisions of WTO. WTO did allow transition periods for the "least-developed" of the members. The ministerial decision adopted at the end of Uruguay round exhorted that developed countries implement the free market access agreements they entered into as a part of WTO, immediately. It was also decided that the developed countries would provide technical support to developing countries in meeting their obligations.

### **Benefits of WTO**

The major benefits derived from the WTO are:

- Helps maintain peace

Life is easier with a system based on rules rather than on power

Lowers the cost of living

Broadens choice

Boosts incomes, employment

Protects government from narrow interests.

## **9. Different Kinds of Communities**

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There are many different kinds of communities with different characteristics. Before building a community a business must decide on the kind of community it wants to build. Some different kinds of communities are-

**Geographical communities:** In these communities, the common issue of interest between members is a physical place. For example, all those who are interested in India can come together on [www.India.com](http://www.India.com). Or all those people who are concerned about the Himalayas can share their views on [www.himalayas.com](http://www.himalayas.com). Similarly, there may be people who are fascinated by a particular monument and they can form a community with others interested. For example, people who are captivated by the Taj Mahal can interact with others and form a community based solely on Taj Mahal.

**Demographical communities:** These communities are based on common demographic features. For example, a highly popular community for teenage girls is [www.libragirl.com](http://www.libragirl.com) where they can discuss issues that concern teenage girls. Similarly, there are communities for

new parents, elders, second-generation children of NRIs, etc.

**Subject-oriented communities:** These communities are based on shared interests on a particular subject. For example, art lovers can become members of sites such as [www.artcafe.net](http://www.artcafe.net). Members can meet other artists on this site, know about new developments, products, museums, and art galleries, and can even manage their own web pages where they can display some of their work.

**Branch-oriented communities:** Many organizations can form communities on the Internet that are related to a particular branch. For example, [www.azfreight.com](http://www.azfreight.com) is a site for air cargo professionals and gives total business-to-business solutions and information regarding airfreight.

**Function-oriented communities:** These communities are based on common professional interests, such as a site for Chinese software professionals - [www.cspa.com](http://www.cspa.com) or a site for all medical professionals in UK — [www.doctors.net.uk](http://www.doctors.net.uk). On these sites, professionals of one industry can share their experiences and find solutions to their queries and problems.

### **Benefits of Communities for Companies**

An online community must serve the customer as well as the company. A customer is happy to be a part of an online business community because of the added value it creates for him. His queries get answered quickly, his problems regarding a product's performance are solved by the company, and he can share his positive and negative experiences with the company and with other customers as well.

Companies too derive some benefits by building online communities.

**It helps build intimacy with customers:** Companies use communities to learn more about their users. According to a survey, users spent an average of 25 minutes in an online community whereas they spent as little as 15 seconds on an HTML page. So a community increases the interaction time with the user. And the more the interaction with the user, the more information a company can gather about him.

**Online communities are a viable option:** Online communities are a viable investment for the company. Compared to a website, a community attracts more people. It may even attract advertisements of other companies and this reduces the community maintenance costs. For example, if a company hosts a guest lecture on its website, there will be few participants and the company will have to bear all the expenses itself. However, if it hosts the lecture in an online community, there will be many more participants and some other companies may also agree to sponsor or co-host the lecture.

Second, immense efforts go into making a company website interesting. Every time a user logs on to a company's website, he is looking for a new and improved experience. So companies have to regularly update their websites and use new strategies to keep their customers engaged.

A community on the other hand, refreshes itself naturally. Since visitors in a community keep changing frequently, new ideas and new plans develop on their own and a company has to use little effort to sustain the community. The interactivity of a community enhances a user's web experience and makes it more satisfying and fulfilling.

**It encourages a user to buy:** In a community, a user feels more comfortable discussing the advantages and disadvantages of a product. He is also easily influenced by the positive experiences of other customers. He also feels in direct touch with the company. Most importantly, he feels confident about his purchase decision when he realizes that there are many others who are equally interested in the company's products.

**Mass customization becomes easy:** Online communities make mass customization easy for companies. Since companies know more about their customers and their likes and dislikes, it becomes easy for them to design and sell products that will fulfill individual needs more effectively.

**It eliminates the middlemen:** Online communities help companies sell their products directly to the user. This eliminates the necessity of all middlemen in the sales process. For example, visitors to [www.indiatimes.com](http://www.indiatimes.com) can compare prices of various airline tickets, participate in airline ticket auctions, and avail of them at lower prices directly from the airlines. Visitors do not need to go to any travel agency for their air tickets.

It helps in advertising and promotions—Online communities provide advanced methods of communicating with prospective users. Companies can use 2-dimensional and 3-dimensional

interactive techniques to make attractive, real life representations of their products on the Net. They can also use animation and sound effects to display their products in a more attractive manner. Some companies have even used interactive games based on their products and services to familiarize the customer with their offerings. No other advertising media offers such an immense advertising opportunity to its marketers.

**Internal development:** Companies can also use communities to build internal communication systems and to increase interaction among employees. Most global companies have operations that are spread out in many countries. They can use internal communities for communication between various offices. Internal meetings can be held in online boardrooms; problems between two offices can be discussed in an interactive manner; and even online conferences can be arranged. This saves the company time and resources and helps to speed up the decision making process.

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