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MS-097

MANAGEMENT PROGRAMME

Term-End Examination

December, 2018

MS-097 : INTERNATIONAL BUSINESS

Time : 3 hours | *Maximum Marks : 100*
(Weightage : 70%)

Note :
(i) There are two Sections, A and B.
(ii) Answer any three questions from Section-A.
*(iii) **All** questions carry **equal** marks.*
*(iv) **Section - B** is **compulsory** and carries **40** marks.*

SECTION - A

1. (a) Analyse how international business volume is expected to grow with the process of globalisation.

(b) What are the strategic implications of globalisation ? Give examples.

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2. (a) How do cultural factors affect international business ? Discuss.

(b) "Appropriate strategies should be devised by managers to deal with cultural differences." Analyse the statement with relevant examples.

3. (a) Analyse how to select markets channels of distribution and prospective buyers.

(b) Discuss how one can become a successful international marketing manager.

4. Discuss in detail the opportunities and challenges related to e-business.

5. Write short notes on **any four** of the following :
   (a) Global Reporting Initiative (GRI)
   (b) Need for Strategic Alliances
   (c) International Logistics Outsourcing
   (d) Special Drawing Rights (SDRs)
   (e) Transition Economies

SECTION - B

6. Read the following case study and answer the questions given at the end :

Case Study : Coffee

	Low value	Downstream
Farming		
Distribution		
Food processing		
Brand development		
Marketing		
Distribution		
Selling		
	High value	Upstream

Within the food business we can distinguish between the 'downstream' business of agriculture where farmers struggle to maintain an income and the 'upstream' where the food manufacturers add value to their products by processing and constantly seeking to establish strong brands through ever more sophisticated marketing and product development. This modern form of food production is often referred to as 'agribusiness'.

Agribusiness involves a food chain whereby the food producers or farmers are often in fierce competition. This coupled with a low income elasticity of demand for food means that prices for food are low and as food production increases farm incomes decrease. On the other hand, upstream food is processed and branded by a relatively few food companies. These companies spend much money in developing new types of food products which are then vigorously marketed. These products are then sold and the structure of the food retailing industry is dominated by a few very large supermarket chains.

Let us relate this concept of agribusiness to the global coffee market. Approximately 2.5 billion cups of coffee are consumed in the world per day. (Much of this coffee is produced in countries far from where the coffee is eventually consumed.)

At the downstream end we have the farmers. 1% of the world's population are coffee farmers (60 million people) and they are spread all over the world but concentrated in the LDCs.

In this market there appears to be a paradox; at the upstream end we have the large coffee roasters and up-market coffee shops for which coffee is a very profitable business. At the downstream end.

The coffee market is failing. It is failing producers on small family farms for whom coffee used to make money. It is failing local exporters and entrepreneurs who are going to the wall in the face of fierce international competition. And it is failing governments that had encouraged coffee production to increase export earnings.

In order to track the supply chain for coffee, consider Ethiopia, where it is believed coffee was first discovered. Individual farmers grow and harvest the coffee beans and then take their coffee to the nearest village to sell to the trader. The trader is able to check prices of coffee twice a day in the markets in the capital city of Addis Ababa. Once the trader buys the coffee it is transported to the capital city where workers are paid less than £ 1 a day to sort the beans. The beans are then sold at auction to the large multinational roasters. As Ethiopia is a landlocked country, in order to export the beans they must first be transported by road or rail to the Red Sea port of Djibouti and then shipped onwards.

For coffee exports from Ethiopia to the UK this will involve a passage through the Suez Canal and then to Tilbury Docks and to warehouses in Kent. The coffee beans are then roasted and packed off to the consumer outlets. At the upstream end the coffee market is dominated by four coffee roasters, Kraft, Nestle, Procter & Gamble, and Sara Lee, each having coffee brands worth US $ 1 billion or more in annual sales. If we add in the German company, Tchibo, they buy almost half the world's coffee beans each year. While profits on the selling of coffee at the upstream end of the process are very high the incomes of many farmers are very low and in many cases are falling.

In the film *Black Gold,* released in 2006, the journey of Tadesse Meskela, the leader of a co-operative of 74,000 coffee farmers in Ethiopia, was tracked from the local markets to the global operations of the multinational corporations, commodity traders and the actions of trade ministers in the WTO.

How has his situation occurred ?

For advocates of globalization the market simply rewards those who add the greatest value in the upstream part of the supply chain.

The reason for the very low prices of coffee beans is that there is an oversupply and that many of the beans are of low quality. The logic of the market is that if farmers cannot get a return from their farming then they should seek to produce other things. Attempts to counteract the 'failures' of the market through 'Fair Trade' are worthy but essentially misguided. They can only ever help a select few farmers and in many ways make life worse for the majority as they do not get to sell their coffee at non-market high prices. Coffee companies counter claims of exploitation by arguing that they are simply trying to maximize shareholder value and that where they can, they seek to assist community development programmes and give financial assistance and encouragement and training to farmers to improve quality. In the long run if is up to governments to retrain those farmers who go out of business.

An alternative view looks at the structural problems at the downstream end of the value chain. There may be a lack of basic infrastructure such as roads or transport to local markets, or technical backup. Lack of credit or information about prices leaves farmers open to possible exploitation by money lenders or the ability of buyers to drive down prices. The logic of the market would be for such farmers to diversify out of coffee into something else, but this may require a long term readjustment which they cannot afford to achieve.

At the global level the coffee-market failure is also a manifestation of the problems of the simple belief in the principle of comparative advantage. Many countries have been persuaded by the international institutions to specialize in such agricultural products, leading to oversupply and the inability of the producers to capture the value that is indeed contained when the product is sold at the upstream end of the market.

In this view the only way for globalized coffee markets to work better is if they are no longer left to be free, but adopt structural reforms. In the case of the coffee market there have been calls for the International Coffee Organization to pressure roaster companies to pay farmers a 'fair' price (above their costs of production) and to work to increase the price to farmers by reducing supply and stocks of coffee on the market. This can partly be achieved through rules that ensure that basic quality standards are proposed by the International Coffee Organization and that roasters only buy such coffee. Funds will need to be found to help farmers diversify into other areas of production and these could come either out of a proportion of the profits generated by coffee or through aid from developed countries.

More radical voices accuse the coffee multinationals of abusing their monopoly positions to exploit the market. Since they have such large buying power the companies can drive down prices and force powerless peasants to sell their crops at low prices. Poor farmers do not have the collective strength to resist, neither do they have the information of what prices are being gained at points of sale in markets thousands of miles away. Even if they did it is not the green coffee beans that consumers want. They want to drink their high quality lattes in high quality surroundings and there is no prospect of farmers being able to get higher up the value chain. Recent attempts by Nestle in the UK and Procter & Gamble in the USA to introduce 'Fair Trade' brands are met by huge amounts of cynicism. These are seen as ways simply of competing with the existing Fair Trade brands and as a PR attempt to portray themselves as ethical when the vast majority of the coffee is still not 'fair'.

Questions :

(a) Why is it argued that the 'free market' in coffee is not fair ? Explain.

(b) Why do the coffee roasters have different market power than the farmers ?

(c) What opportunities does this global production chain give to the coffee roasters ?

(d) How effective do you think structural reforms as outlined would be in enabling this global market to be fairer to all ?